‘One way to cheat death is to become an accountant, it seems. The Norfolk accountancy firm W.R. Kewley announces on its websites that it was “originally established in 1982 with 2 partners, one of whom died in 1993. After a short break he re-established in 1997, offering a personal service throughout.”

He was, Feedback presumes, dead only for tax purposes.’

New Scientist, 1 April 2000, p. 96

Chapter 1
Introduction to Accounting

Learning Outcomes
After completing this chapter you should be able to:

✔ Explain the nature and importance of accounting.
✔ Outline the context which shapes accounting.
✔ Identify the main users of accounting and discuss their information needs.
✔ Distinguish between the different types of accountancy and accountant.

In a Nutshell

- Accounting is the provision of financial information to managers or owners so that they can make business decisions.
- Accounting measures, monitors and controls business activities.
- Financial accounting supplies financial information to external users.
- Management accounting serves the needs of managers.
- Users of accounting information include shareholders and managers.

- Accounting theory and practice are affected by history, country, technology and organisation.
- Auditing, bookkeeping, financial accounting, financial management, insolvency, management accounting, taxation and management consultancy are all branches of accountancy.
- Accountants may be members of professional bodies, such as the Institute of Chartered Accountants in England and Wales.
**Introduction**

The key to understanding business is to understand accounting. Accounting is central to the operation of modern business. Accounting enables businesses to keep track of their money. If businesses cannot make enough profit or generate enough cash they will go bankrupt. Often accounting is called the ‘language of business’. It provides a means of effective and understandable business communication. If you understand the language you will, therefore, understand business. However, like many languages, accounting needs to be learnt. The aim of this book is to teach the language of accounting.

**Nature of Accounting**

At its simplest, accounting is all about recording, preparing and interpreting business transactions. Accounting provides a key source of information about a business to those who need it, such as managers or owners. This information allows managers to monitor, plan and control the activities of a business. This enables managers to answer key questions such as:

- How much profit have we made?
- Have we enough cash to pay our employees’ wages?
- What level of dividends can we pay to our shareholders?
- Should we expand our product range?

---

**Pause for Thought 1.1**

**Some Accounting Questions**

You are thinking of manufacturing a new product, the superwhizzo. What are the main accounting questions you would ask?

The principal questions would relate to sales, costs and profit. They might be:

- What price are rival products selling at?
- How much raw material will I need? How much will it cost?
- How many hours will it take to make each superwhizzo and how much is labour per hour?
- How much will it cost to make the product in terms of items such as electricity?
- How should I recover general business costs such as business rates or the cost of machinery wearing out?
- How much profit should I aim to make on each superwhizzo?
In small businesses, managers and owners will often be the same people. However, in larger businesses, such as large companies, managers and owners will not be the same. Managers will run the companies on behalf of the owners. In such cases, accounting information serves a particularly useful role. Managers supply the owners with financial information in the form of a profit and loss account, a balance sheet and a cash flow statement. This enables the owners to see how well the business is performing. In companies, the owners of a business are called the shareholders.

Essentially, therefore, accounting is all about providing financial information to managers and owners so that they can make business decisions (see Definition 1.1). The formal definition (given below), although dating from 1966, has stood the test well as a comprehensive definition of accounting.

**Definition 1.1**

**Accounting**

**Working definition**

The provision of information to managers and owners so that they can make business decisions.

**Formal definition**

‘The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.’

*American Accounting Association (1966), Statement of Basic Accounting Theory, p. 1*

**Importance of Accounting**

Accounting is essential to the running of any business or organisation. Organisations as diverse as ICI, Barclays Bank and Manchester United football club all need to keep a close check on their finances.

At its simplest, money makes the world go round and accounting keeps track of the money. Businesses depend on cash and profit. If businesses do not make enough cash or earn enough profit, they will get into financial difficulties, perhaps even go bankrupt. Accounting provides the framework by which cash and profit can be monitored, planned and controlled.

Unless you can understand accounting, you will never understand business. This does not mean everybody has to be an expert accountant. However, it is necessary to know the language of accounting and to be able to interpret accounting numbers. In some respects, there is a similarity between learning to drive a car and learning about accounting. When you are learning to drive a car you do not need to be a car mechanic. However, you have to understand the car’s instruments, such as a speedometer or fuel gauge. Similarly, with accounting, you do not have to be a professional accountant. However, you do need to understand the basic terminology such as income, expenses, profit, assets, liabilities, capital, and cash flow.
Manchester United

What information might the board of directors of Manchester United find useful?

Manchester United plc is both a football club and a thriving business. Indeed, the two go hand in hand. Playing success generates financial success, and financial success generates playing success. Key issues for Manchester United might be:

- How much in gate receipts will we get from our league matches, cup matches and European fixtures?
- How much can we afford to pay our players?
- How much cash have we available to buy rising new stars and how much will our fading old stars bring us?
- How much will we get from television rights and commercial sponsorship?
- How much do we need to finance new capital expenditure, such as building a new stadium?

Financial Accounting and Management Accounting

A basic distinction is between financial accounting and management accounting. Financial accounting is concerned with information on a business’s performance and is targeted primarily at those outside the business (such as shareholders). However, it is also used internally by managers. By contrast, management accounting is internal to a business and used solely by managers. A brief overview is provided in Figure 1.1.

Figure 1.1  Overview of Financial and Management Accounting

Financial Accounting

Financial accounting is the provision of financial information on a business’s recent financial performance targeted at external users, such as shareholders. However, internal users, such as management,
may also find it useful. It is required by law. Essentially, it is backward-looking, dealing with past events. Transactions are initially recorded using double-entry bookkeeping (see Chapter 3). Three major financial statements can then be prepared: the profit and loss account, the balance sheet and the cash flow statement (see Chapters 4–8). These are then interpreted using ratios (see Chapter 9) by users such as shareholders and analysts.

**Management Accounting**

By contrast, management accounting serves only the internal needs of the business. It is not required by law. However, all organisations generate some sort of management accounting: if they did not they would not survive long. Management accounting can be divided into cost accounting and decision making. In turn, cost accounting can be split into costing (Chapter 16) and planning and control: budgeting (Chapter 17) and standard costing (Chapter 18). Decision making is divided into short-term decisions (Chapter 19) and long-term decision making (Chapters 20–21). In Chapter 22 both short-term and long-term sources of finance are considered.

**Users of Accounts**

The users of accounting information may broadly be divided into insiders and outsiders (see Figure 1.2). The insiders are the management and the employees. However, employees are also outsiders in the sense that they often do not have direct access to the financial information.

![Figure 1.2 Main Users of Accounting Information](image)

The primary user groups are the management and shareholders. Shareholders or investors are often advised by professional financial analysts who work for stockbrokers or big city investment houses. These financial analysts help to determine the share prices of companies quoted on the stock exchange. However, sometimes, they are viewed with mistrust (see Real-Life Nugget 1.1 on the next page).

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**Soundbite 1.1**

**Investment Analysts**

‘I am not a professional security analyst. I would rather call myself an insecurity analyst.’

George Soros, Soros on Soros, Wiley (1995)

The influence of other users (or stakeholders) is growing in importance. Suppliers, customers and lenders have a closer relationship to the company than the government and tax authorities, or the public.

These users all need accounting information to help them make business decisions. Usually, the main information requirements concern a company’s profits, cash flow, assets and debt (see Figure 1.3).

Shareholders, for example, require information so that they can decide whether to buy, hold or sell their shares. The information needs of each group differ slightly and, indeed may conflict (see Pause for Thought 1.3).

<table>
<thead>
<tr>
<th>User Group</th>
<th>Information Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Users</strong></td>
<td>Information for costing, decision making, planning and control.</td>
</tr>
<tr>
<td>1. Management</td>
<td>Information about job security and for collective bargaining.</td>
</tr>
<tr>
<td>2. Employees</td>
<td></td>
</tr>
<tr>
<td><strong>External Users</strong></td>
<td>Information for buying and selling shares.</td>
</tr>
<tr>
<td>1. Shareholders and analyst advisers</td>
<td></td>
</tr>
<tr>
<td>2. Lenders</td>
<td>Information about assets and the company’s cash position.</td>
</tr>
<tr>
<td>3. Suppliers and other trade creditors</td>
<td></td>
</tr>
<tr>
<td>4. Customers</td>
<td>Information about assets and the company’s cash position.</td>
</tr>
<tr>
<td>5. Government and agencies such as tax authorities</td>
<td>Information about the long-term prospects and survival of the business.</td>
</tr>
<tr>
<td>6. Public (e.g., individual citizens, or organisations such as Greenpeace)</td>
<td>Information to enable governmental planning. Information primarily on profits to use as a basis for calculating tax. Information about the social and environmental impact of corporate activities.</td>
</tr>
</tbody>
</table>

Figure 1.3  User Information Requirements

Pause for Thought 1.3

Conflicting Interests of User Groups

Can you think of an example where the interests of users might actually conflict?
Pause for Thought 1.3 (continued)

A good example would be in the payment of dividends to shareholders. The higher the dividend, the less money is kept in the company to pay employees or suppliers.

Another, more subtle, example is the interests of shareholders and analyst advisers. Shareholders own shares. However, they rely on the advice of analyst advisers such as stockbrokers. Their interests may superficially seem the same (e.g., selling underperforming shares and buying good performers). However, the analyst advisers live by the commission they make. It is in their interests to advise shareholders to buy and sell shares. Unfortunately, it costs money to buy and sell shares; therefore, this may not always be in the potential shareholders’ best interests.

Accounting Context

It is important to realise that accounting is more than just a mere technical subject. Although it is true that at the heart of accounting there are many techniques. For example, as we will see in Chapter 3, double-entry bookkeeping is essential when preparing financial statements. However, accounting is also determined by the context in which it operates. Accounting changes as society changes. Accounting in medieval England and accounting today, for example, are very different. Similarly, there are major differences between accounting in Germany and in the United Kingdom. We can see the importance of context, if we look briefly at the effect of history, country, technology, and organisation (see Figure 1.4).

History

Accounting is an integral part of human society. Early societies had accounting systems which although appearing primitive to us today, served their needs adequately. The Incas in South America, for example, used knotted ropes, called quipus, for accounting. In medieval England notched sticks called tally sticks were used to record transactions.

Pause for Thought 1.4

The Term ‘Accounting’

Why is accounting so called?

It is believed that accounting derives from the old thirteenth-century word aconter, to count. At its simplest, therefore, accounting means counting. This makes sense as the earliest accountants would have counted sheep or pigs!
Gradually, over time, human society became more sophisticated. A form of accounting called double-entry bookkeeping (every transaction is recorded twice) arose. Emerging from Italy in the fifteenth century, at the same time that Columbus discovered America, double-entry bookkeeping is now the standard way by which accounting transactions are recorded throughout the world.

**International Accounting**

Double-entry bookkeeping, the profit and loss account and the balance sheet are now routine in most major countries. The International Accounting Standards Board (IASB) is also making great efforts to harmonise the disclosure and measurement practices of listed companies worldwide. However, there is still great diversity in the broader context in which accounting is carried out. Accounting in the UK, for example, is very different from accounting in France despite the fact that both countries are members of the European Union. The UK prides itself on a flexible and self-regulated accounting system largely free of government control. By contrast, the French system is very standardised and largely government controlled. In general, as Soundbite 1.2 shows, accounting plays an important role globally.

There are also clear differences between the UK and the US. For example, in the UK, there are Companies Acts which applies to all UK companies whereas in the US only companies quoted on the stock exchange (i.e., listed companies) are subject to detailed and comprehensive Federal regulations. Unlisted companies are subject only to state regulations which vary from state to state.

**Technology**

A rapid change which has affected accounting is computerisation. Up until the advent of computers, accounting was done manually. This was labour-intensive work. Each transaction was entered into the books twice using double-entry bookkeeping. The accounts were then prepared by hand. Similarly, costing, budgeting and decision making were all carried out manually.

Today, most businesses use computers. However, they must be used with caution. For the computer, GIGO rules. If you put garbage in, you get garbage out. To avoid GIGO, one needs to understand accounting. In fact, computerisation probably makes it more, rather than less, important to understand the basics.

**Organisations**

The nature of accounting will vary from business to business. It will depend on the structure of the business and the nature of the business activity.

**Structure**

If we take the accounts of the three types of business enterprise with which this book deals, a sole trader’s accounts will normally be a lot simpler than those of either a partnership or a company. Sole traders generally run smaller, less complicated businesses (for example, a small butcher’s shop). Partnerships are multi-owned businesses typically larger in size than sole traders. The sole traders’ and partnerships’ accounts will normally be less complicated than company accounts as they are prepared for the benefit of active owner-managers rather than for owners who do not actually run the business.
**Nature of the Business**

Every organisation is different. Consequently, every organisation's accounts will differ in certain respects. For example, property companies will own predominantly more land and buildings than non-property companies. Manufacturing companies will have more stock than non-manufacturing companies.

It is clear from Figure 1.5 that the nature of sales varies from business to business. In some businesses, a service is provided (e.g., bank, football club, insurance company and plumber).

**Figure 1.5 Nature of Sales**

<table>
<thead>
<tr>
<th>Business</th>
<th>Nature of Main Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Interest received from customers</td>
</tr>
<tr>
<td>Football club</td>
<td>Gate receipts</td>
</tr>
<tr>
<td>Insurance company</td>
<td>Premiums received</td>
</tr>
<tr>
<td>Manufacturing company</td>
<td>Sales of goods to retailers</td>
</tr>
<tr>
<td>Plumber</td>
<td>Sales of services and other goods</td>
</tr>
<tr>
<td>Shop</td>
<td>Sales of goods to customers</td>
</tr>
</tbody>
</table>

The Company Camera 1.1 shows the sales (often termed turnover) of Manchester United plc, mainly gate receipts, television and merchandising, which are generated by entertaining its customers.

**The Company Camera 1.1**

**Sales or Turnover**

Turnover

Turnover, all of which arises from the Group's principal activity, can be analysed into its main components as follows:

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gate receipts and programme sales</td>
<td>36,626</td>
<td>41,908</td>
</tr>
<tr>
<td>Television</td>
<td>30,546</td>
<td>22,503</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>18,513</td>
<td>17,488</td>
</tr>
<tr>
<td>Conference and catering</td>
<td>6,698</td>
<td>7,189</td>
</tr>
<tr>
<td>Merchandising and other</td>
<td>23,622</td>
<td>21,586</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116,005</strong></td>
<td><strong>110,674</strong></td>
</tr>
</tbody>
</table>

Source: Manchester United plc, 2000 Annual Report, p. 35

In other businesses, the sale is more tangible as goods change hands (for example, manufacturing companies and shops).
Overall, within the UK economy, services are becoming relatively more important and manufacturing industry is declining. In particular, there is an increase in information technology and knowledge-based industries. This trend is set to continue.

**Types of Accountancy**

We need to distinguish between the types of accountancy and the types of accountant. Accountancy refers to the process, while accountant refers to the person. In other words, accountancy is what accountants do! In this book, we primarily focus on bookkeeping, financial accounting and management accounting. However, accountants perform other roles such as auditing, financial management, insolvency, taxation and management consultancy. All of these are briefly covered below.

**Auditing**

Auditing is carried out by teams of staff headed by qualified accountants who are independent of the business. Essentially, auditors check that the financial statements, prepared by management, give a true and fair view of the accounts. Auditing is normally associated with company accounts. However, the tax authorities or the bank may request an audit of the accounts of sole traders or partnerships. For companies, auditors issue an auditor’s report annually to shareholders. The Company Camera 1.2 (on the next page) provides an auditors’ report for Shell Transport and Trading Company plc. This is issued after a thorough examination by the auditors of the accounting records and systems of the company. Auditors charge management an audit fee. For example, KPMG, a firm of auditors, charged HSBC Holdings £17.2 million in 2001.

**Bookkeeping**

Bookkeeping is the preparation of the basic accounts (bookkeeping is dealt with in more depth in Chapter 3). It involves entering monetary transactions into the books of account. A trial balance is then extracted, and a profit and loss account and balance sheet are prepared. Nowadays, most companies use computer packages for the basic bookkeeping function which is often performed by non-qualified accountants.

**Financial Accounting**

Financial accounting is a wider term than bookkeeping. It deals with not only the mechanistic bookkeeping process, but the preparation and interpretation of the financial accounts. For companies, financial accounting also includes the preparation of the annual report (a document sent annually to shareholders, comprising both financial and non-financial information). In orientation, financial accounting is primarily outward-looking and aimed at providing information for external users. However, monthly financial accounts are often prepared and used internally within a business. Within a company, financial accounting is usually carried out by a company’s employees. Smaller businesses, such as sole traders, may use professionally-qualified independent accountants.
Report of the Independent Auditors

To the Members of the “Shell” Transport and Trading Company, p.l.c.

We have audited the Financial Statements which comprise the Profit and Loss Account, the Statement of Retained Profit, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Statement of Cash Flows and the related notes. We have also examined the amounts disclosed relating to the emoluments, share options and pensions benefits of the Directors which form part of the Remuneration Report.

Respective responsibilities of Directors and Auditors

The Directors’ responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors’ responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors’ report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors’ remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

We review whether the Corporate Governance statement reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company’s corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of the Company’s affairs at December 31, 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London, March 15, 2001

Source: Shell Transport and Trading plc, Annual Report, 2000, p. 6
Financial Management

An area of growing importance for accountants is financial management. Some aspects of financial management fall under the general heading of management accounting. Financial management, as its name suggests, is about managing the sources of finance of an organisation. It may, therefore, involve managing the working capital (i.e., short-term assets and liabilities) of a company or finding the cheapest form of borrowing. These topics are briefly examined in Chapter 22. There is often a separate department of a company called the financial management or treasury department.

Insolvency

One of the main reasons for the rise to prominence of professional accountants in the UK was to wind up failed businesses. This is still part of a professional accountant’s role. Professional accounting firms are often called in to manage the affairs of failed businesses, in particular to pay creditors who are owed money by the business.

Management Accounting

Management accounting covers the internal accounting of an organisation. There are several different areas of management accounting: costing (see Chapter 16), budgeting (see Chapter 17), standard costing (see Chapter 18), short-term decision making (see Chapter 19), strategic management accounting (see Chapter 20), capital investment appraisal (see Chapter 21), and management of working capital and sources of finance (Chapter 22). Essentially, these activities aim to monitor, control and plan the financial activities of organisations. Management uses such information for decisions such as determining a product’s selling price or setting the sales budget.

Taxation

Taxation is a complicated area. Professional accountants advise businesses on a whole range of tax issues. Much of this involves tax planning (i.e., minimising the amount of tax that organisations have to pay by taking full advantage of the often complex tax regulations). This tax avoidance which operates within the law should be distinguished from tax evasion which is illegal. Professional accountants may also help individuals with a scourge of modern life, the preparation of their annual income tax assessment.

Management Consultancy

Management consultancy is a lucrative source of income for accountants (see Real-Life Nugget 1.2 on the next page). However, as Soundbite 1.3 shows, management consultants are often viewed cynically. Management consultancy embraces a whole range of activities such as special efficiency audits, feasibility studies, and tax advice. Many professional accounting firms now make more money from management consultancy than from auditing. Examples of management consultancy are investigating the feasibility of a new football stadium or the costing of a local authority’s school meals proposals.

Soundbite 1.3

Management Consultancy

‘[Definition of management consulting] Telling a company what it should already know.’

The Economist (September 12, 1987)

Types of Accountant

There are several types of accountant. The most high-profile are those belonging to the six professionally qualified bodies. In addition to these six accountancy bodies, there are other accounting associations, the most important of which is probably the Association of Accounting Technicians.

Professionally Qualified Accountants

Chartered Accountants

There are six institutions of professionally qualified accountants currently operating in the UK (see Figure 1.6 on the next page). All jealously guard their independence and the many attempts to merge over the past few years have all failed (see Real-Life Nugget 1.3).

Real-Life Nugget 1.2

Management Consultancy

CONSULTING: A RICH SOURCE OF BUSINESS (£M)

<table>
<thead>
<tr>
<th>Audit/business advisory/tax</th>
<th>Consulting and other services</th>
<th>UK total fee income</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC*</td>
<td>977.3</td>
<td>611.8</td>
</tr>
<tr>
<td>KPMG</td>
<td>569.0</td>
<td>298.0</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>383.8</td>
<td>249.1</td>
</tr>
<tr>
<td>Deloitte &amp; Touche</td>
<td>291.4</td>
<td>271.8</td>
</tr>
<tr>
<td>Arthur Andersen*</td>
<td>356.4</td>
<td>108.6</td>
</tr>
</tbody>
</table>

* Figures based on Accountancy Age Top 50

Source: Accountancy Age, 24 February, 2000, p. 7

Real-Life Nugget 1.3

Professional Accountancy Bodies

There have been several attempts to persuade the UK’s accountancy bodies to merge over the past few years, all without much success. Six accountancy bodies is rather a lot and the government understandably gets exasperated from time to time by six (and sometimes seven) different responses to a consultation paper. But the bodies’ members have consistently refused merger initiatives, always citing differing training requirements as a major consideration – and not without justification.

Source: ‘Big Five Pressure Gets Results’, Elizabeth Mackay, Accountancy Age, 9 March, 2000, p. 18
There are three institutes of chartered accountants: the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants in Ireland (ICAI), and the Institute of Chartered Accountants of Scotland (ICAS). The largest of these three is the ICAEW. Its members were once mainly financial accountants and auditors, but now take part in a whole range of activities. Many leave the professional partnerships with which they train to join business organisations. In fact, qualifying as a chartered accountant is often seen as a route into a business career.

Association of Chartered Certified Accountants (ACCA)
The ACCA’s members are not so easy to pigeonhole as the other professionally qualified accountants. They work both in public practice as auditors and as financial accountants. They also have an enormous number of overseas students. Many certified accountants train for their qualification in industry and never work in public practices.

Chartered Institute of Management Accountants (CIMA)
This is an important body whose members generally train and work in industry. They are found in almost every industry, ranging, for example, from coal mining to computing. They mainly perform the management accounting function.

Chartered Institute of Public Finance and Accountancy (CIPFA)
This institute is smaller than the ICAEW, ACCA or CIMA. It is also much more specialised with its members typically working in the public sector or the newly privatised industries, such as Railtrack. CIPFA members perform a wide range of financial activities within these organisations, such as budgeting in local government.

<table>
<thead>
<tr>
<th>Body</th>
<th>Main Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institute of Chartered Accountants in England and Wales (ICAEW)</td>
<td>Generally auditing, financial accounting, management consultancy, insolvency and tax advice. However, many work in industry.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants in Ireland (ICAI)</td>
<td>Similar to ICAEW.</td>
</tr>
<tr>
<td>Institute of Chartered Accountants of Scotland (ICAS)</td>
<td>Similar to ICAEW.</td>
</tr>
<tr>
<td>Association of Chartered Certified Accountants (ACCA)</td>
<td>Auditing, financial accounting, insolvency, management consultancy, and tax advice. Many train or work in industry.</td>
</tr>
<tr>
<td>Chartered Institute of Management Accountants (CIMA)</td>
<td>Management accounting.</td>
</tr>
<tr>
<td>Chartered Institute of Public Finance and Accounting (CIPFA)</td>
<td>Accounting within the public sector and privatised industries.</td>
</tr>
</tbody>
</table>
Second-Tier Bodies

The main second-tier body in the UK is the Association of Accounting Technicians. This body was set up by the major professional accountancy bodies. Accounting technicians help professional accountants, often doing the more routine bookkeeping and costing activities. Many accounting technicians go on to qualify as professional accountants.

The different accountancy bodies, therefore, all perform different functions. Some work in companies, some in professional accountancy practices, some in the public sector. This diversity is highlighted in an original way in Real-Life Nugget 1.4.

Conclusion

Accounting is a key business activity. It provides information about a business so that managers or owners (for example, shareholders) can make business decisions. Accounting provides the framework by which cash and profit can be monitored and controlled. A basic distinction is between financial accounting (accounting targeted primarily at those outside the business, but also useful to managers) and management accounting (providing information solely to managers).

Accounting changes as society changes. In particular, it is contingent upon history, country, technology and the nature and type of the organisation. There are at least eight groups which use accounting information, the main ones being managers and shareholders. These user groups require information about, amongst other things, profits, cash flow, assets and debts. There are several types of accountancy and accountant. The types of accountancy include auditing, bookkeeping, financial accounting, financial management, insolvency, management accounting, taxation and management consultancy. The six UK professional accountancy bodies are the Chartered Association of Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, and the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Ireland and the Institute of Chartered Accountants of Scotland.

Real-Life Nugget 1.4

A Sideways Look at the Accounting Profession

Thus, to take parallels from the Christian church, we have:

- the lay priest: the accountant working for a company;
- the mendicant priest: the professional accountant in a partnership;
- the monastic priest: the banker, who, while not strictly an accountant, serves much the same ends in a separate and semi-isolated unit;
- the father confessor: the auditing accountant to whom everything is (officially) revealed, and who then grants absolution.

Discussion Questions

Questions with numbers in blue have answers at the back of the book.

Q1 What is the importance, if any, of accounting?

Q2 Can you think of three business decisions for which managers would need accounting information?

Q3 What do you consider to be the main differences between financial and management accounting?

Q4 Discuss the idea that as society changes so does accounting.

Q5 ‘Managers should only supply financial information to the ‘current’ shareholders of companies, no other user groups have any rights at all to information, particularly not the general public or government.’ Discuss.