Tutorial 1 – Answers

(1a) D
(1b) B
(1c) D
(1d) A
(1e) B
(1f) C
(1g) C
(1h) B
(1i) B
(1j) A

(2)

User Group	Information needs
Current (and future) investors	They need to assess the financial performance of the organisation to understand the level of risk and the returns provided by their investment. Key information requirements: ability to generate cash, level of profitability, and dividends.
Lenders	They need information on the ability of the organisation to repay loans and any interest. Key information: profitability, ability to manage working capital (liquidity), current level of borrowing, value of assets.
Customers	Customers that are dependent on the organisation for significant levels of business or are considering placing long term contracts will need to know whether it will stay in business or not. Key information requirements: ability to generate cash, and profitability.

Suppliers (and trade creditors)	They will want to know whether the organisation will stay in business and whether they will be paid. Key information requirements: ability to generate cash, and profitability.
Investors	They will be interested in the track record of the company & if it is worth investing in the company, i.e. value adding to his/her investment. Key info requirements: EPS, dividend payout ratio.
Tax authority(e.g. IRB)	It provides the basis that enables calculation of amount due from the entity. Key info requirements: profit/loss, expenses items.

(3)

Financial Accounting	**Management Accounting**
- designed to provide information on business's recent financial performance and is target at external users such as shareholders. - However, the information is also often used by managers.	- it is much more internally focused - it is used solely by managers
- operates within a regulatory framework set out by accounting standards and the Companies Act.	- no such framework for management accounting
- the main work is preparing financial statements such as balance sheet and profit and loss account (income statement)	- uses a wider range of techniques for planning, control and performance, and for decision-making.
- based upon double-entry bookkeeping	- not based upon double-entry bookkeeping
- looks backwards	- forward-looking
- the end product is a standardised set of financial statements.	- it is very varied: its output depends on the needs of its users.

(4) In accounting, business entity & the owner are separated. This means that when recording transactions we are only concerned with how the business is affected. E.g. if owner introduces capital, we are not concerned with the souce of the capital, & apart from increasing owner's capital balance, we do not record how the owner is affected by the transaction.

(5a) <u>Balance sheet</u>

A list of all assets and liability owned by a business entity at a particular date. It also reflects the financial position of the business at a particular point of time.

(5b) <u>Income statement</u>

It is a record of income generated and expenditure incurred over a given period (e.g. monthly, quarterly, half yearly, annually, 18 months). It shows whether the business has had more income than expenditure (profit) or vice versa (loss).