Lesson Two

The Role and Responsibilities of an Accountant

Aims

The aims of this lesson are to enable you to:

- describe the responsibilities of the accountant within business
- explain the role of the accountant in developing and overseeing accounting information systems to provide reliable and relevant information for both financial and management purposes
- compare the differences between financial accounting and management accounting, explaining the purpose of each

Context

This lesson will provide you with essential introductory information. The next lesson will develop this lesson's discussion.

Reading for this lesson: *David Cox, Accounting for AQA: AS and A Level Year 1*, pages 2 – 4, 10 – 11, 241 – 242.

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The Purpose of Accounting

Further reading may be found in David Cox, *Accounting for AQA: AS and A-level Year 1*, pp. 2-4.

Accounting is an integral part of business and may sometimes be a compulsory aspect of business. But what exactly is accounting and its purpose in business?

'Accounting refers to the **recording**, **collating** and **communication** of business data of a monetary nature'.

Quinn, M. (2011) Brilliant Accounting

This definition explains firstly that business data of a monetary nature will be **recorded**; every transaction that occurs within the business will be recorded somewhere.

Secondly, that similar data will be **collated** and grouped together; for example, the sales figures are collated to produce a monthly sales figure.

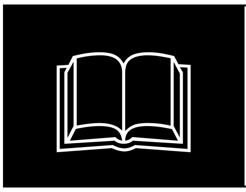
Thirdly, that accounting information will be **communicated**; for example, information may be communicated to the stakeholders and decision-makers of the business.

Different types of information will be communicated through the accounting process, such as how the business is performing and whether the business is making a profit or a loss. This information is communicated through a financial statement called The Income Statement (which was previously known as the Profit and Loss Account). Another type of information that is communicated is about what a business is worth, which is communicated through the Statement of Financial Position (which was previously known as the Balance Sheet).

There are many different users of accounting information:

- The **Owner/s** of the business – to see how the business is performing and whether the business is making a profit.
- A potential **Investor** – to assess the assets, liabilities, profits and future plans of the business.
- **Banks** – if the business wants to borrow money, the bank will want to see existing liabilities and assess the ability to repay.

- **Suppliers** – to assess if they want to provide credit to your business as a Creditor.
- **Tax authorities** – to calculate how much tax the business owes on their profits.



Further reading may be found in David Cox, *Accounting for AQA: AS and A-level Year 1*, pp. 10 - 11.

The Responsibilities of an Accountant

It is the responsibility of the Accountant to record, collate and communicate business information to its users. The Accountant must develop and oversee accounting information systems in order to provide reliable and relevant information for both financial and management purposes.

Reliability and relevance are two of the qualitative characteristics of accounting information.

Qualitative Characteristics

The Accountant must produce information which is **RELEVANT**; the information must be relevant to the needs of the user.

Information must be **RELIABLE** and must show a true and fair view of the business; there should be no bias and information must not be misleading.

Information must be **UNDERSTANDABLE**; information must be presented clearly and must be understandable to the user of the information.

Information must be **COMPARABLE**; it should be possible to compare information across other accounting periods and with other businesses in order to analyse performance and financial position.

Additional Responsibilities of an Accountant

As well as being responsible for recording, collating and communicating information and ensuring that information is reliable, relevant, understandable and comparable, an Accountant is also responsible for overseeing the work of bookkeepers and ledger clerks.

The roles of a bookkeeper and a ledger clerk both involve inputting transactions and checking for errors within the information. The main difference between both roles is that usually a ledger clerk is solely responsible for one area or one ledger whereas a bookkeeper has a broader responsibility. An Accountant is responsible for overseeing their work to ensure that all information is reliable, relevant, comparable and understandable.

In some cases, a bookkeeper and a ledger clerk may enter all transactions into the Day Books and Ledgers and then the Accountant will use that information to continue the accounting process and produce the financial statements. Therefore, it is very important for an Accountant to oversee the work of a bookkeeper or ledger clerk to check that the information they are subsequently using is accurate.

Activity 1	
	It is the responsibility of the Accountant to ensure that all information is reliable, relevant, comparable and understandable. Explain what the impact and consequences would be if information was not reliable, relevant, comparable or understandable.

Financial Accounting vs. Management Accounting

Further reading may be found in David Cox, *Accounting for AQA: AS and A-level Year 1*, p. 241.

There are two main branches of accounting: Financial Accounting and Management Accounting.

Financial Accounting

Financial Accounting involves the standard practice of recording, collating and communicating information of a monetary nature, as previously discussed. Financial accounting is concerned with measuring and monitoring business performance.

Financial statements are produced periodically as a result of this process so that users of the financial statements can either assess performance within a Profit and Loss Account or determine what the business is worth through a Balance Sheet.

Precise information is required for the creation of the financial statements which are then available both inside and outside of the business. Furthermore, financial accounting must adhere to specific accounting standards, or rules.

A Financial Accountant is usually sort-out by the business to complete their accounts.

Management Accounting

Management accounting is concerned with internal processes, assessing specific problems which involve predicting or forecasting future events or determining budgets.

Management accounting is concerned with internal decision-making, strategic planning and control of the business. A Management Accountant is usually employed by the business itself.

No standards are required to be followed within management accounting as information is required internally only.

Further reading may be found in David Cox, *Accounting for AQA: AS and A-level Year 1*, pp. 242.

Financial Accounting	Management Accounting
Mainly produces accounting information for people EXTERNAL to the business.	Produces accounting information for INTERNAL business decisions.
A business may seek the services of a Financial Accountant who may	A Management Accountant may be employed by the business itself.
Uses precise data.	May use predicted or estimated data.
Uses historic data, such as total sales revenue from last year.	Many use estimated figures for the future, preparing future plans and budgets.
The accounting information provides an overview of the whole business within financial statements.	The accounting information may be specific to an area of the business, such as a sales forecast.
Financial statements are produced as the end of an accounting period, such as yearly.	Management accounting will produce reports more often and when required so that management decisions may be made.
Must comply with accounting standards.	No accounting standards required to be complied with as the information is for internal decision-making use.

Activity 2

Compare the benefits and limitations of being a Financial Accountant with the benefits and limitations of being a Management Accountant.

Self-Assessment Test (Lesson Two)

1. The purpose of accounting is to 'record, collate and communicate' information of a monetary nature. Define what is meant by:

   A. recording information

   B. collating information

   C. communicating information.

2. Name as many categories of likely users of accounting information as you can.

3. Accounting information must be reliable, relevant, comparable and understandable. Describe what is meant by:

   A. reliable information

   B. relevant information

   C. comparable information

   D. understandable information.

4. What are the roles of a Bookkeeper and the Ledger Clerk?

5. Describe the role of a Financial Accountant.

6. Describe the role of a Management Accountant.

Suggested Answers to Activities

Activity 1

Providing information that is reliable, relevant, comparable and understandable ensures that a true and fair view of the business is provided. If a true and fair view of the business was not provided, the business may either look as though they are performing better and are worth more or the business may look as though as though they are performing worse than they actually are and are worth less than in reality. This may impact their chances of acquiring finance from a bank, for example, or they may pay too little or too high taxes. If the information was deliberately falsified, then criminal proceedings may be brought forward for suspected fraud.

Furthermore, information that is not understandable or comparable may impact potential shareholders who may fail to invest due to not understanding the information and through not being able to compare the information with previous years or different businesses.

Activity 2

A Financial Accountant must follow a set of accounting standards and they are tied to a lot of 'red-tape'. They produce information for external users of the business. A Management Accountant does not have set external standards to follow and may have some flexibility, answering to the managers or owners of the business. They produce information for internal users of the business.

A Financial Accountant uses specific, historical data whereas a Management Accountant uses future estimates which may be more difficult to get right. Furthermore, a Financial Accountant produces financial statements at the end of the period for numerous businesses whereas a Management Accountant may produce regular reports on specific aspects of one business, as and when the managers or owners desire.

Suggested Answers to Self-Assessment Test

1. (a) Recording information – every transaction that goes into or out of the business must be recorded.
   (b) Collating – information is grouped together accordingly.
   (c) Communicated – information is effectively communicated to user.

2. User – owners, investors, suppliers, banks, tax authorities.

3. (a) Reliable information – information must contain no bias.
   (b) Relevant information – information which is relevant to the needs of the user.
   (c) Comparable information – information should be comparable across the year periods or with other similar businesses.
   (d) Understandable information – information which is clear and presented well.

4. A Bookkeeper and Ledger Clerk both input transactions and check for errors. A Ledger Clerk may only look after one area of the account (one Ledger) whereas a Bookkeeper may look after several areas.

5. A Financial Accountant – produces financial statements with historic data to provide an overview of the performance and worth of the business.

6. A Management Accountant – provides forecasts and predictions using estimated figures, aiming to provide a solution to a problem for the management.