

Nature, Purpose, and Users of Accounting Information

Topic 1: Nature, Purpose, and Users of Accounting Information

1. Introduction & Learning Outcomes

Accounting is often referred to as the universal language of commerce. At the Accounting Technicians Diploma (ATD) level, understanding the foundational principles of bookkeeping and financial record management provides the skills needed to maintain clean ledgers, prepare payrolls, reconcile accounts, and support professional accountants.

Learning Outcomes

By the end of this study session, candidates should be able to:

1. Define accounting and distinguish bookkeeping from financial accounting.
 2. Identify internal and external users of accounting information and their specific information requirements.
 3. Explain the traditional stewardship role of accounting.
 4. Evaluate the fundamental qualitative characteristics (Relevance and Faithful Representation) and enhancing characteristics (Comparability, Verifiability, Timeliness, Understandability).
 5. Identify the statutory importance of accounting records for tax compliance with the Kenya Revenue Authority (KRA).
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2. Bookkeeping vs. Financial Accounting

BOOKKEEPING (Foundational)	FINANCIAL ACCOUNTING (Analytical)
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? - Collecting source documents	? ?
- Designing internal controls	?
? - Recording prime entry journals	? ??? ?
- Adjusting trial balances	?
? - Posting debits and credits	? ?

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- Drafting financial statements ?
- ? - Balancing ledger accounts ?
- Calculating financial ratios ?
- ? - Extracting the trial balance ? ?
- Tax computation & filing ?

Information

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- **Bookkeeping:** Focuses on mechanical data entry, record maintenance, and arithmetic accuracy.
- **Accounting:** Focuses on interpretation, presentation, compliance with accounting standards (IFRS for SMEs), and business decision support.

3. Users of Accounting Information

Stakeholders depend on financial statements to make informed economic decisions:

Stakeholder Category	Primary Objective	Specific Information Required
Business Owners / Partners	Profitability and return on capital.	Net profit margins, drawings limits, capital growth.
Management & Supervisors	Operational efficiency and control.	Departmental costs, inventory turnover, budget variances.
Commercial Banks & SACCOs	Creditworthiness and loan repayment.	Cash flow forecasts, liquidity ratios, collateral backing.
Trade Creditors (Suppliers)	Short-term debt repayment ability.	Current liquidity, working capital, trade payables turnover.
Kenya Revenue Authority (KRA)	Statutory tax assessment.	Taxable income, VAT calculations, payroll PAYE deductions.
Employees & Trade Unions	Job security and wage bargaining.	Organizational stability and profitability.

4. Qualitative Characteristics of Accounting Information

Under the IASB Conceptual Framework:

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1. Fundamental Characteristics:

- **Relevance:** Information must influence economic decisions by having predictive or confirmatory value.
- **Faithful Representation:** Financial numbers must be complete, neutral (unbiased), and free from material error.

2. Enhancing Characteristics:

- **Comparability:** Consistency in accounting policies allows comparison across years and between peer businesses.
 - **Verifiability:** Independent observers (e.g., auditors) reach the same consensus from the same records.
 - **Timeliness:** Information delivered quickly enough to influence decision-makers.
 - **Understandability:** Clear, structured presentation for users with reasonable business knowledge.
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5. Key Takeaways & Exam Summary

1. **Bookkeeping is Recording; Accounting is Interpreting:** Bookkeeping captures data; accounting transforms data into intelligence.
2. **Stewardship:** Management acts as a trustee of owners' assets and must account for every shilling.
3. **Accuracy is Essential:** Reliable financial statements are the prerequisite for statutory compliance and banking relationships.