

Accounting and Accountants in Business

Module : M0 7100 Financial Accounting
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Executive Summary

Accounting can be defined diversely. It can be seen a complicated and difficult simple calculation, while it is the dynamic and never-ending art of finance. Namely, it depends on how relevant people find it out.

Nat West Bank plc has internal accountant and produces full final accounting reports such as profit & loss account, balance sheet and cash flow statement as well as director's report (ceo's report) and auditor's report. So, they perceive the needs and importance of accountant, and place on contribution of accountant as essential element for business. Accountants also analyse the reports and forecast for the future.

While, Oriental Supermarket produces basic accounts such as profit & loss account, balance sheet, but not cash flow statement. Even though they has external accountant, because their main concern is taxation, they do not see the full benefit of accounting. In addition, they have no stakeholders apart from government (Inland Revenue) and themself. So, they find that accounting is the necessity evil unlike Nat West Bank.

Recommendation for Oriental Supermarket include :

- 1, the appropriate perception and understanding of the need of accounting.
- 2, specialisation of the finance department.
- 3, recognition of competitor.
- 4, collecting previous financial accounts for forecast.

INTRODUCTION

According to the interviewees who we had words with, accounting is defined as a simple description of income and payment of business and as complicated procedure to reach right balance of business. As they define accounting respectively, **the definition of accounting can be various.**

Back in 1941, the Committee on Terminology of the American Institute of Accountants (now the AICPA) defined that accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof. While, it can be defined that accounting is a subject which develops faster than most textbooks can be written. The basic core is constantly modified as new events give rise to new opportunities. This never-ending process of change has been summarised that accounting is dynamic in nature. The words stay the same but they are applied in a context of changing social and economic values (Weetman, P., 1999).

Therefore, how to define accounting depends on how the relevant people find it out.

This report aims to find out what accounting information and records are produced, who produces and keep them and what role accountants play in real business. Furthermore, we are going to see the views of respondents about accounting information and accountant, and, additionally, the purpose of it and for whom those information and records are made.

The following is the preparation for this assignment:

The names of the organisation and the person we interviewed : the headington branch of Nat West Bank plc – Sean (customer service) the Oriental Supermarket - ???(assistant)

25/10/01

Sent the questionnaire (based on module booklet, 'Accounting Theory (Kam, V., 1986) and basic knowledge of us)

27/10/01

Interviewed Nat West bank

29/10/01

Interviewed Oriental Supermarket

The interviews were focused to find out the definition of accounting, the roles of accountant in their business and the procedure of producing financial reports. It was tape-recorded to efficient interview and summarised on the note.

THE RESULTS OF INVESTIGATION

At this stage, we are going to see what is happening in each of businesses in terms of accountancy.

1, NAT WEST BANK IN HEADINGTON SHOPS

Nat West Bank is registered as public limited company and whose parent company is the Royal Bank of Scotland which is located in Scotland.

As far as accounting information is concerned, **National Westminster Bank plc has slightly different accounting information from Oriental supermarket.** Compared with goods of a small retail shop such as Oriental Supermarket, the goods of Nat West Bank are services for customers, so they keep personal details

of their customers with how much their customers bring money into the bank and take money out of the bank (we will talk about the accounting information of sole trader later on).

Once all information is confidential, then it goes to their records books or computerised accounting programme to balance the records off every week and is kept by the accounting centre (the Royal Bank of Scotland). Every month, **they produce basically profit & loss account, balance sheet, cash flow statement and consolidated account to send them to their main headquarter.** Also, headquarter collects all data from their branches and produces annual final financial accounts, in order to file a copy of their accounts with Registrar of Company and a director's report and an auditors' report which are required by statute according to the Companies Acts 1985 and 1989 (Business Law by Sunderland University, 2001)

Through these accounting information and records, **the business can be assessed current financial status and be forecasted future policies of their business.** Moreover, **it is essential to attract stakeholders** (we are going to consider it later on)

All procedure is carried out by **internal accountant** of the bank who are employed by bank and **external accountant** from outside of the bank for annual report.

Those reports are kept by each stages, namely, the Headington branch keep their accounts and headquarter keep their accounts.

Those are the main role of accountants in Nat West Bank. **As far as other role of accountant is concerned, in order to produce accurate and reliable accounts, accountants were described like audit by respondent.** Because they should be able to see what their business is strong or weak, in other words, they assess the status of business in terms of finance. What is more, accountants predict where the business is likely to go in the future and give some advices.

Therefore, the roles of accountants are important and essential

As far as stakeholders are concerned, financial reports are the ultimate resources to attract the interest of stakeholders. On the basis of Stakeholder interest and power map (Business Environment by Sunderland University, 2001., see figure 1), in order to satisfy **the government** which has less interest and high power in making decision, the bank should send their accounts. And **employees** have high interest and power such as Trading Union. So, the bank releases accounting reports for only employees. In order to satisfy **their customers,** the bank publishes general accounting report which the expertise is not required. Those are basically the stakeholders of Nat West Bank plc.

Finally, **the respondent found the characteristics of useful accounting information accurate and well analysed.** Otherwise, they may lose the interest of the stakeholder which has strong power in make decision. In addition, **it is placed on the contribution of the accountants that their business cannot stand without accountant.**

2, ORIENTAL SUPERMAKET

As mentioned above, Oriental Supermarket is sole trader. It is run by married couple and is registered under the name of the wife of respondent.

They records all their sales and purchases basically and produce sales ledger and purchases ledger and nominal ledger monthly. When they produce monthly financial accounts, they go to Nat West Bank, which has a computersied package to produce financial accounts, to balance off their accounts.

Annually **external accountant** comes and produces **basically profit & loss account, balance sheet but not cash flow statement.** Then they keep it for 3 years by regulation.

In producing annual financial accounts, external accountant put an emphasis on taxation which the business have to pay because **their main concerns are taxation**. What is more, **in order to understand how the business is going on and forecast how much profit is likely to get in the futrue, it is worth of producing it.**

In addition, they found that accountants do not play any other role apart from producing financial final accounts and giving some advices. Therefore, **they found that the role of accountants is the necessity evil**. Furthermore, it costs too much for small sole trader.

However, it should be accurate and well analysied and they need to know exactly how much they have to pay for the tax. Also, they are able to find what is going on their business and sort out the problems they have. **So, in terms of those contribution of accountant, they found accountant worth despite of high cost.**

As far as stakeholders are concerned, **all their concerns are government (Inland Revenue) for taxation and themselves** because they do not have any duty in terms of disclosure of financial accounts. All financial accounts are to know the amount of tax and whether they have run business well or not.

Finally, the fact that accounting information is useful is that it should be able to present the real business which means that **it is accurate and well analysied.**

CONCLUSION

In conclusion, **accounting can be described very differently**. As we can see above, according to the size and complexity of business, what the business produces for final accounts and how the business find the accountant are different as well as the purpose of the accounting.

However, **there are basically no difference between the accouts of small business and the one of large business**. All the principle of accounts are applied exactly the same.

RECOMMENDATION

At this stage, we are going to focus on Oriental Supermarket rather than Nat West Bank.

As far as the proedure and the method in producing are concerned, the Oriental Supermarket adapt the best way as much as they can. Because they produce **monthly and annual accounts**. Also, **computerised package** from Nat West Bank is used to produce monthly accounts. These are the strength of Oriental Business.

However, as far as the weakness is concerned, **they do not use full benefits of accounting information despite of hige costs** because of lack of the perception of the needs of accounting. Even though they are adviced annually by accountants, if they do not find it useful, it is more spending than the cost for accountant.

Therefore, it is recommended that **one of them specialise the accounting**. So, they may be able to use full advantages of accounting.

Futhermore, **they need to see the accounts of competitors**. For example, even if they are the only one chinese supermarket, in order to compete with 'hong kong' chinese take away, they need to regard them as competitor and cooperator.

Finallly, **collecting final accounts every year should be useful** to see the trends of their fianancial status. It may affect their marketing strategy.

Appendix

Figure 1. Stakeholder interest and power map

		Interest	
		Low	High
Power	Low	A Minimal Effort	B Keep informed
	High	C Keep satisfied	D Key players

(Business Environment 2001 by University of Sunderland)

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