

LCBB4001- ACCOUNTING FUNDAMENTALS

WEEK 1 SEMINAR GUIDANCE

ACCOUNTING REGULATION

1. Need for accounting regulation

- Ineffective free market.
- Quality of accounts – relevance and reliability for users
- Comparability
- Meeting user requirements where there is a conflict
- Guidance to preparers where there are alternative accounting treatments.

2. Disadvantages to imposing regulation

- Rules cannot cover every situation
- Economic consequences of some regulation e.g.
 - Research and development
 - Pensions
- Lengthy published reports which users do not understand
- Accounts are less useful if a company cannot present information in the most appropriate way for that business.
- Costs of compliance e.g. seeking advice, distributing longer reports etc.

3. Responsibility for setting regulation

- Requirements
 - Expertise
 - Speed
 - Objectivity
 - Understanding of commercial issues
- Alternatives
 - Preparers may set standards to improve profits or financial position
 - Accountancy firms may set standards to please clients
 - Government would be too slow and too much political influence
 - Academics might be out of touch with commercial reality.
Standards might be too theoretical.
- Solution is to have a mix of the above groups.

4. Compliance with regulation

- Audit report
- Review panel
- Stock Exchange de-listing
- Publicity
- Share price
- Attracting future investment, employees etc.