



Competency 1.0 – Analyses Accounting and its need.

Competency Level 1.2 – Analyses the changes and trends in Accounting based on changes in accounting environmental factors.

The environment that has an influence on the accounting process of a business is the “accounting environment.”

Accounting environment can be classified into 5 environmental factors such as,

1. Economic and political environment
2. Technical and professional environment
3. Legal Environment
4. Social and cultural environment
5. Technological environment

- The variables such as taxation policy of the government, price levels, exchange rates, interest rates, state of the money market and capital market are considered under the economic and political environment. Accounting standards, techniques in accounting and professional accounting bodies are taken under the “Technical and Professional Environment”. Legal environment is consisted with the partnership ordinance, companies act and etc.
- Personal life style patterns, habits and attitudes of customers, population and etc. are taken under the “Social and cultural environment”. The variables of technological environment are the computer technology, use of modern technical equipments and communication technology.

Assessment

State whether each of the following situation is related with which environmental factor; economic and political, social and cultural, technical and professional, legal or technological environment.

Situation	Environmental Factor
1. When the oil prices are increased by the government transportation expenses of the business is increased.

2. Instead of the coins and notes QR code charging system is applied by the taxies and three-wheelers.
3. Increases in tea exporters' income due to the increase in exchange rate.
4. A new financial reporting standard is introduced by the Institute of Chartered Accountants of Sri Lanka (ICASL).
5. As many computers have an interest on SELF mobile phones, phone producers are producing more such phones.
6. The government has decided that each financial institution should submit the monthly financial statements to the Central Bank.
7. The income of the tele communication companies has been increased as students used to use internet.
8. Many business firms are accounting softwares as it is easy and efficient.