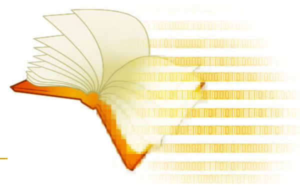


Introduction to

Accounting

Introduction

- Accounting - a process of identifying, recording, summarizing, and reporting economic information to decision makers in the form of financial statements
- Financial accounting - focuses on the specific needs of decision makers external to the organization, such as stockholders, suppliers, banks, and government agencies

The Nature of Accounting

- The accounting system is a series of steps performed to analyze, record, quantify, accumulate, summarize, classify, report, and interpret economic events and their effects on an organization and to prepare the financial statements.

The Nature of Accounting…

- Accounting systems are designed to meet the needs of the decision makers who use the financial information.
- Every business maintains some type of accounting system.
  - These accounting systems may be very complex or very simple, but the real value of any accounting system lies in the information that the system provides.

The Purpose of Accounting

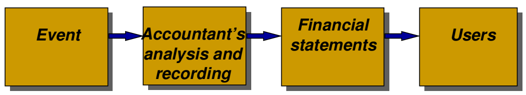
- Provide information for stakeholders – customers, shareholders, suppliers, etc.
- Provides the opportunity for the business to monitor its own activities
- Provides transparency to enable the firm to attract investment
- Reduces the chance for fraud – not 100% successful!!

Accounting as an Aid to Decision Making

- Accounting information is useful to anyone who makes decisions that have economic results.
  - Managers want to know if a new product will be profitable.
  - Owners want to know which employees are productive.
  - Investors want to know if a company is a good investment.
  - Legislators want to know how a proposed law will affect budgets.
  - Creditors want to know if they should extend credit, how much to extend, and for how long.

Accounting as an Aid to Decision Making…

- Accounting helps in decision making by showing where and when money has been spent, by evaluating performance, and by showing the implications of choosing one plan instead of another.
- Fundamental relationships in the decision-making process:



Financial and Management Accounting

- The major distinction between financial and management accounting is the users of the information.
  - Financial accounting serves external users such as investors, creditors, and suppliers.
  - Management accounting serves internal users, such as top executives, management, and administrators within organizations.

Objectives of Financial Reporting

- Provide information useful to economic decision makers
- Allow decision makers to predict businesses' future cash flows (and cash flows they will receive from these businesses)
- Provide information concerning businesses' assets and liabilities and related transactions and events

Financial Reporting …

- The primary questions about an organization's success that decision makers want to know are:

What is the financial picture of the organization on a given day?

How well did the organization do during a given period?

Financial and Management Accounting

- Accountants answer these primary questions with three major financial statements.
  - Balance sheet – A financial snapshot of a company at one point in time
  - Income statement – shows performance over a given period
  - Statement of cash flows – shows performance over a given period

Financial and Management Accounting…

- Annual report - a document prepared by management and distributed to current and potential investors to inform them about the company's past performance and future prospects
  - The annual report is one of the most common sources of financial information used by investors and managers.

Financial and Management Accounting…

- The annual report usually includes:
  - A letter from corporate management
  - A discussion and analysis by management of recent economic events
  - Footnotes that explain many elements of the financial statements in more detail
  - The report of the independent auditors
  - A statement of management’s responsibility for preparation of the financial statements
  - Other corporate information

Financial and Management Accounting…

- In many cases, annual reports take a long time to produce and are not widely available to people who want them.
  - The Internet allows companies to have a Web site where they provide direct access to the annual report.

What Is Accounting and Who Uses Accounting Information?

- **Accounting Information System**

(**AIS**) is an organized means by which financial information is identified, measured, recorded and retained for use in accounting statements and management reports

ORACLE

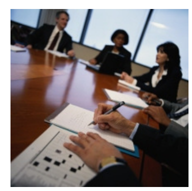
PeopleSoft.

QuickBooks

LAWSON™

SAP

Users of Accounting Information



- Business Managers
- Employees and Unions
- Investors and Creditors
- Tax Authorities
- Government Regulatory Agencies

Forms of

Business

Organizations

Types of Ownership

- Three basic forms of ownership:
  - Sole proprietorships
  - Partnerships
  - Company

Types of Ownership…

1. Sole Proprietorship

- A separate organization with a ***single*** owner
- Tend to be small retail establishments and individual professional or service business
- The sole proprietorship is an individual entity that is separate and distinct from the personal activities of the owner.

Types of Ownership

2. Partnership

- An organization that joins two or more individuals who act as co-owners
- Dentists, doctors, attorneys, and accountants tend to conduct their activities as partnerships.
- The partnership is an individual entity that is separate and distinct from the personal activities of each of the partners.

Types of Ownership

3. Company

- An "artificial entity" created under state laws
- Company have limited liability – company creditors have claims against company assets only.
  - Individual investors are at risk only up to the amount they have invested in the company. Creditors cannot hold investors liable for the company's debts.

Types of Ownership

Company..

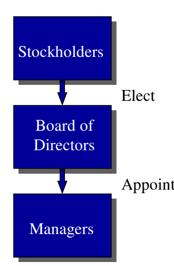
- Owners are called shareholders or stockholders.
- Publicly owned vs. privately owned corporations
  - Public - Shares in the ownership are sold to the public on a stock exchange; the company can have many thousands of shareholders.
  - Private - Shares in the ownership are owned by families, small groups of shareholders, or a single shareholder and are not sold to the public.

Stockholders and the Board of Directors

- In the corporate form of business, management activities and ownership activities are kept separate.
- The board of directors is the link between the owners (stockholders) and the actual managers.
  - The board has the responsibility to ensure that management acts in the interests of the stockholders.

Stockholders and the Board of Directors…

- The relationship among owners, managers, and the board of directors:



Stockholders and the Board of Directors…

- The board of directors is elected by the stockholders.
- Management is appointed by the board of directors
- Therefore, the interests of both the stockholders and management are usually represented on the board of directors.

Primary Objective of a Business

Primary Objective of a Business

- The management of every business have two primary objectives:
  - Earn a profit – The difference from revenue and expenses
  - Stay solvent – having sufficient funds to pay debts as they fall due.

Profit = Revenue - Expenses

If
Expenses > Revenue
then it's a **Lost**

Other Objective of a Business

- Providing jobs
- Protecting the environment
- Creating new and improved product
- Providing quality goods and services for less cost

A Business

- A business is a ***collection of resources*** committed by an individual or group with the expectation of increasing the value of their investment.
- A business is directed towards the **reasonable profit** or **returns** on its resources.

A Business…

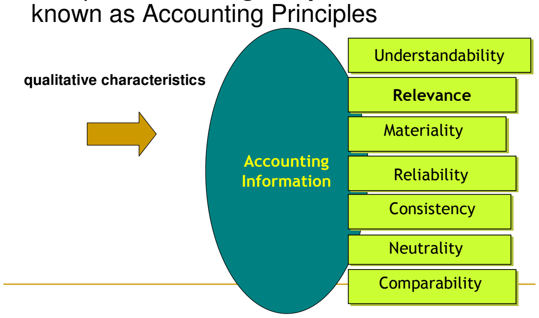
- **Solvent** - A business entity that have sufficient fund to pay their debts on time
- **Insolvent** - A business entity that unable to meet its financial obligations
- **Accounting** helps the management to guide the firm profitability or solvent as well as making sound business decision

Basic Principles of

Accounting

Basic Principles of Accounting

- The **qualitative characteristics** and accepted norms of **good practices** are known as Accounting Principles



Basic Principles of Accounting…

- The Accounting Entity Principle – distinguishes each organizations from its owners and considering as individual business entity.
- The Historical Cost Principle – assets (resources) recorded at their actual costs or the price paid to purchase them.
- The Going Concern Principle – d assumed that the business entity will continue to operate I n the near future
- The Accounting Period Principle indefinite life can be assumed for most accounting entities, but the year has been adopted as the primary reporting period.
- The Matching Principle requires the matching against revenues of all the expenses incurred in earning the revenues during a specific time.