

ACCOUNTING BASICS

1.1 Definitions of Accounting

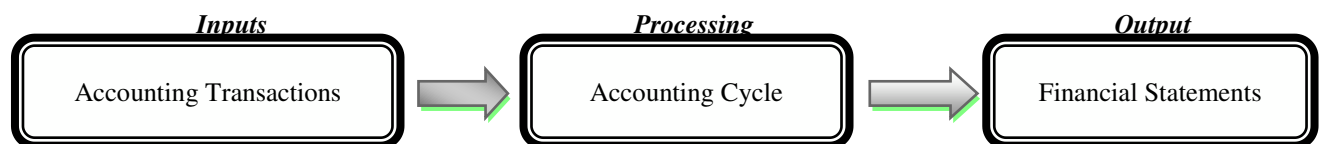
- Accounting is the language of the business
- Language is a way to communicate ideas or information, so in this way accounting is considered a way or path in business studies in order to communicate different aspects of business financial matters
- For instance, a manager says that his/her organization gain profit, so all respondents are easily understand that his organization get some thing in the form of money/value. In this example the word profit is a term of business language.

Def According to American Institute of Certified Public Accountants (AICPA), *Accounting is an 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.*

Def Accounting Principles Board (APB) defined Accounting in the following words. *Accounting is a services activity. Its function is to provide quantitative information primarily financial in nature, about economic entities that is intended to be useful in making economic decisions in making reasoned choices among alternative courses of action.*

Def American Accounting Association 1966 (AAA) defines accounting *as the process of identifying, measuring, and communicating economic information to permit informed judgment and decisions by the use of information.*

FOCUS In other context, *it is systematic process of recording, classifying and summarizing economic event in terms of money in order to facilitate economic decision makers.* So in this point of view this subject is a sequence of different steps in order to produce information which facilitate in the way of business decisions.



1.2 Forms of Accounting

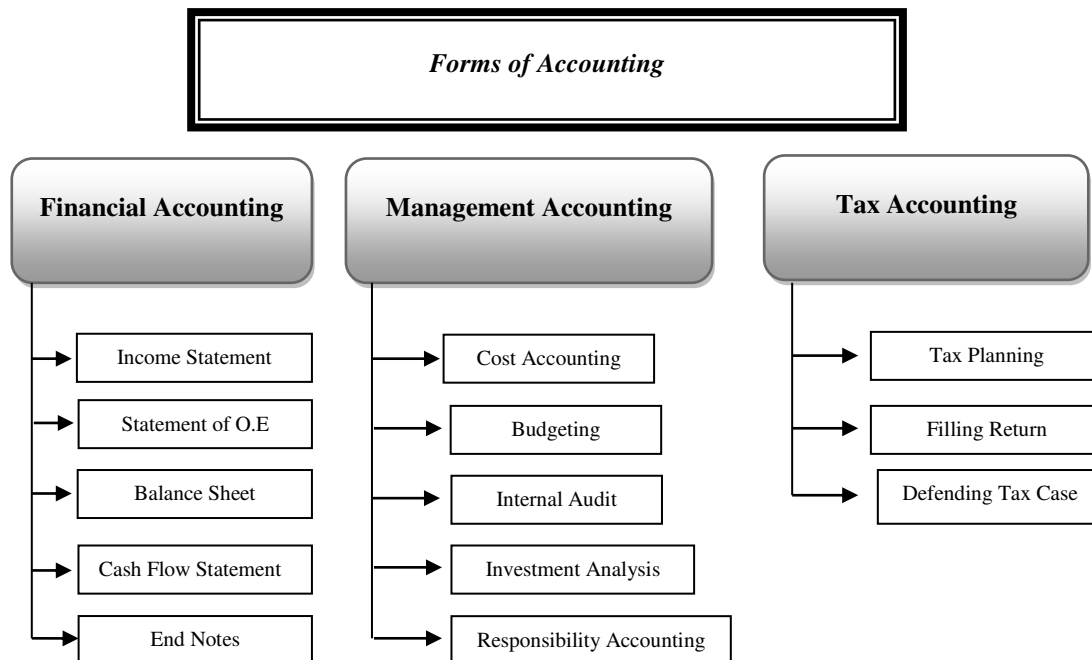
- Just as there are many types of economic decisions, there are many types of accounting information
- Financial Accounting, Management Accounting and Tax accounting often are describing three types of accounting information that are widely used business decisions

1.2.1 Financial Accounting

- ❖ Financial Accounting refers to information describing the financial resources, obligations and activities of an economic entity
- ❖ It is the maintenance of daily record of all financial transactions in such manner that it would help in the preparation financial statements
- ❖ Financial Accounting information is designed primarily to assist investors and creditors
- ❖ Accounting information also used for preparation of income tax return
- ❖ Financial Accounting information is used for so many purposes that it often is called “General-Purpose Accounting
- ❖ End results of Financial Accounting are financial statements

1.2.2 Management Accounting

- ✓ Management Accounting is meant specifically to assist the management in its operational and strategic planning
- ✓ This objective is achieved through preparation periodic reports about product, activities, departments and individuals
- ✓ Cost Accounting and Responsibility Accounting are the two significant parts of management accounting
- ✓ The most important role of Management Accounting is to set targets in the form of budget or standards, measure the actual performance and then make variance
- ✓ It is specific purpose accounting



1.2.3 Tax Accounting

- ❖ The financial statements are prepared according to the general accepted accounting principles (GAAP), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and/or prevailing rules of country
- ❖ Since these rules and regulation allow flexibility in the accounting treatment of different items, some of them may not be acceptable to tax authorities
- ❖ Taxable profit must be calculated according to the tax laws of country, based on information provided by the financial statements
- ❖ The preparation of tax returns has therefore become a specialized field. Every enterprise would like to minimize tax return. This required tax planning

1.3 Users of Financial Information

- ✓ Accounting is the information system that identifies, records, and communicates the economic events of an organization to interested users
- ✓ Accounting information is needed by two sets of parties, which are internal and external
- ✓ Internal users are associated with management of the organization
- ✓ The external users consist of several explicit groups which are outside the organization and has interest (financial and non-financial) in an organization

1.3.1 Internal Users

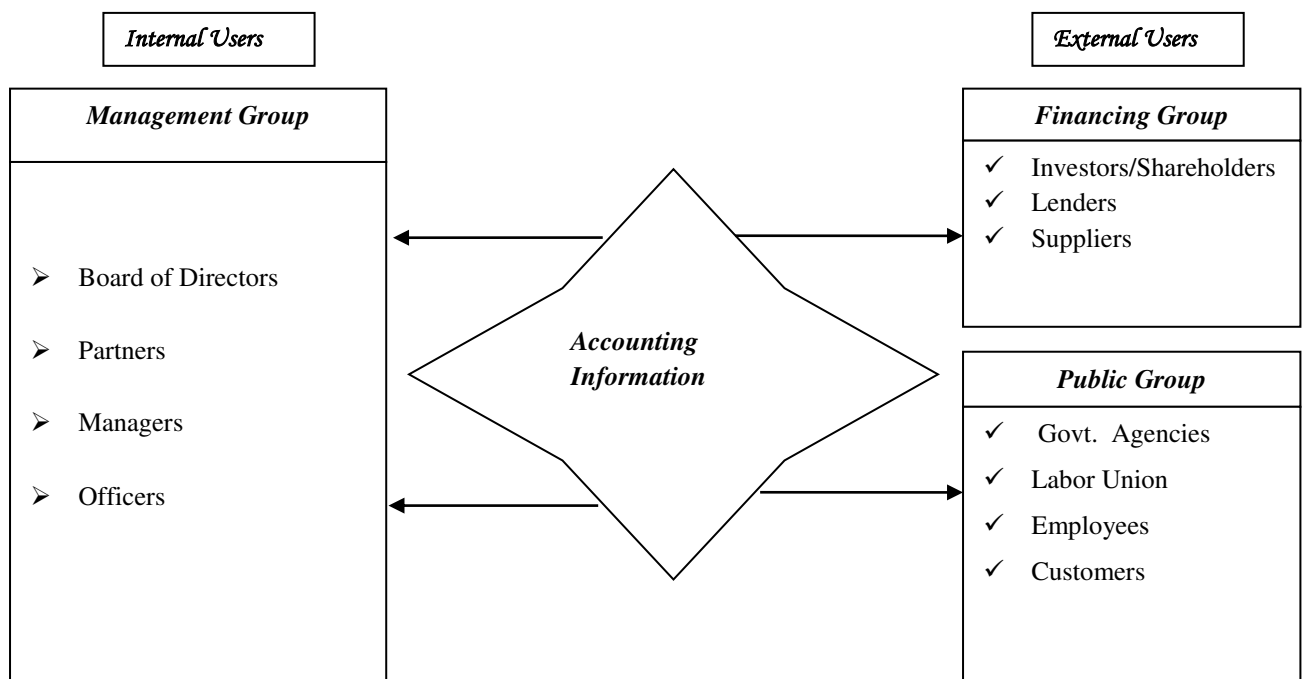
Internal users of accounting are parties who have directly connected with a company

- Internal users require financial statements to make important business decisions that affect its continued operations
- Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures
- Financial accounting as well as management accounting use for internal purpose

1.3.2 External Users

External users of accounting are potential investors, customers, banks, government agencies and other parties who are outside the business but need financial information about the business for a diverse number of reasons

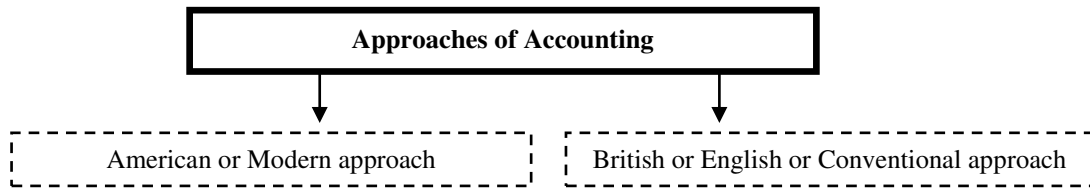
- Prospective investors make use of financial statements to assess the viability of investing in a business
- Financial institutions (banks and other lending companies) use financial information to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debenture) to finance expansion and other significant expenditures
- Government entities (Tax Authorities) need financial statements to ascertain the accuracy of taxes and other duties declared and paid by a company
- Media and the general public are also interested in financial statements for a variety of reasons



1.4 Purpose of Accounting

- The purpose of accounting is to provide the information that is needed for sound economic decision making
- The main purpose of financial accounting is to prepare financial statements that provide information about organization
- Financial accounting is performed according to GAAP in America and IAS/IFRS in rest of countries with in the laws and rules of particular country

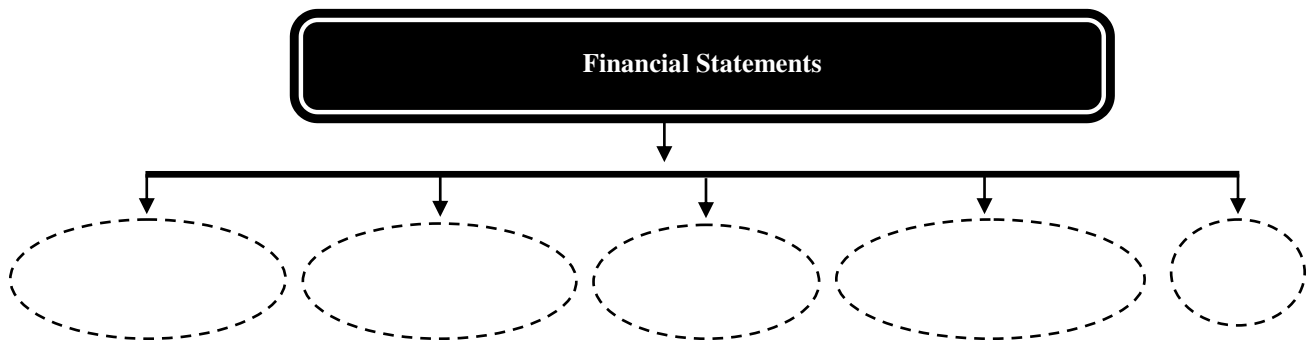
1.5 Approaches of Accounting



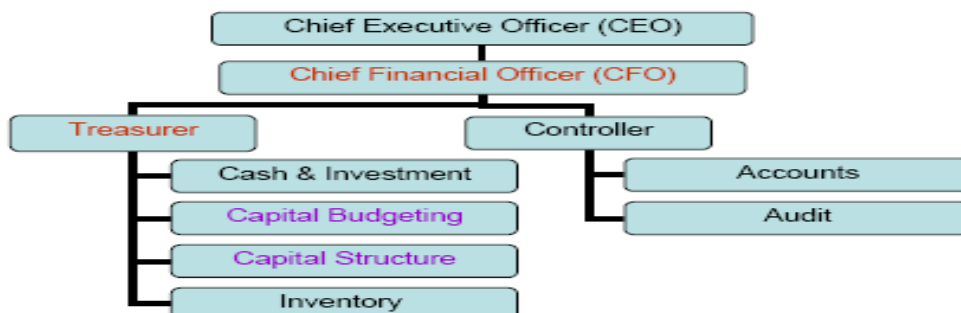
American Approach	British Approach
Account Receivables	Sundry Debtors or Debtors, Book Debts
Account Payable	Sundry Creditors or Creditors
Inventory	Stock
Owner's Equity	Capital
Assets = Equities	Equities = Assets
Assets = Liabilities + Owner's Equity	Owner's Equity + Liabilities = Assets
Shareholder	Stockholder
Payable	Outstanding
Note Payable	Bill Payable
Check	Cheque
Note Receivable	Bill Receivable

1.6 Financial Statements

End results of financial accounting are financial statements



1.7 Organizational Structure



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