

Intro to Accounting

ACCOUNTING MAKES THE
WORLD GO ROUND!



Agenda

- Language of Business
- Mode of Communication
- GAAP
- Objectives of Businesses
- Users of F/S & Objectives of Users
- Intro to Accounting Ethics
- Disciplines within Accounting
- Various Global Accounting Designations
- Moving from Old GAAP to New GAAP



Language of Business



- The language of business is accounting, and if you don't understand the language, your chances of success are reduced.

Ross Johnson, Former CEO
RJR Nabisco

- Knowledge of accounting and finance usually leads to successful careers
- Accounting is essential to understand for employees & business owners



Mode of Communication

- An annual report is the biggest method of communicating how well a business is performing to the people inside and outside of that business
- Financial statements provide a complete financial picture of the business



Mode of Communication

- 4 Financial Statements:
 - Balance Sheet
 - Income Statement
 - Owner's Equity / Retained Earnings
 - Cash Flow
- F/S measure economic phenomena



Mode of Communication

- **Asset:** something that one owns that has future economic (\$\$) value
- **Liability:** something that one owes that has future economic (\$\$) value
- **Equity:**
 - one's net worth
 - Difference between assets & liabilities
 - $OE = Assets - Liabilities$



Why does GAAP exist?

- Every profession (medicine, law, education, accounting) has standards & a common understanding among their professionals
- Just like a doctor needs to know the human body, an accountant needs to know GAAP
- GAAP is a set of rules/principles on accounting
- GAAP is agreed to by all accountants and must be followed when performing accounting
- Old Canadian GAAP => New GAAP: IFRS and ASPE



Accounting Objectives of F/S

- Several objectives of the way accounting info is presented but the 3 most used are:
 - To increase Net Income
 - To decrease Net Income
 - To increase the value of Assets



Primary Users

1. Investors or potential investors
 - Someone who invests money in a business to make a profit
2. Creditors or potential creditors
 - Someone who lends money to a business to make income
3. The government (for taxes)
4. Employees (for salary increases, job growth)
5. The management (for bonuses)



Users & Objectives

Primary Users

1. Investors or potential investors
2. Creditors or potential creditors
3. The government (for taxes)
4. Employees (salaries)
5. The management (bonus)



Accountants' Objectives

1. To increase net income & assets
2. To increase net income & assets
3. To decrease net income
4. To increase net income
5. To increase net income



Intro to Accounting Ethics

- I. Competence: After becoming accountants, all accountants are expected to **maintain the required skill level** to perform their duties and serve their clients effectively.
- II. Confidentiality: Accountants often deal with **sensitive information** and their clients have to be able to **trust** them with this information.



Intro to Accounting Ethics

- III. Integrity: Accountants are expected to conduct themselves **honestly and do the right thing**.
- IV. Objectivity: Accountants must be able to view matters clearly and in a way that is **free from bias** and conflicts of interest.



Disciplines within Accounting

- **Financial Accounting**
 - Regular accounting that we use
- **Management Accounting**
 - The only user is management
 - Focuses on budgets and sales targets
- **Auditing**
 - To check if the accounting work done by another is correct
 - The study of auditing focuses on the process to audit
- **Taxation** (highly specialized area)
 - The only user is the government
 - Distinct rules under the Income Tax Act
- **Accounting Theory**
 - Philosophy of accounting
 - Changing rules/standards



Global Accounting Designations

Various Designations

- CA
- CGA
- CMA
- CPA
- ACCA
- CIMA
- CGMA
- CIA
- CBV

General Requirements

- University Degree
 - Major in Accounting or Accounting/Finance
- 3 – 5 years of approved work experience
- 3 – 4 final exams



Moving from Old GAAP to New GAAP

- Canada has adopted IFRS and ASPE from Jan 1, 2011
- IFRS is for public companies, ASPE is for private companies
- Old GAAP is more rules based, IFRS & ASPE are principles based
- IFRS & ASPE require more judgments from accountants
- B/S ➡ Statement of F/P
- I/S ➡ Statement of C/I
- O/E ➡ Statement of Changes in Equity
- Choice of cost principle OR FMV for all assets except in investments



Moving from Old GAAP to New GAAP

- Investments including real estate must use FMV every year
- Investments must be reported separately from other assets
- Users are assumed to have reasonable understanding of business, economics, & accounting
- Recognition of long-term assets
 - Complete approach VS component approach
 - Must choose 1 approach for all assets



3 Sources of Accounting

1. Canadian Accounting Standards (GAAP)
 - The Accounting Handbook
 - Part I: IFRS
 - Part II: ASPE
 - Part III: Not-for-Profits
 - Part IV: Pension Plans
 - Part V: Old GAAP



3 Sources of Accounting

2. Canadian Auditing Standards (GAAS)
 - The Assurance Handbook
 - CAS
 - IAS
3. Income Tax Act

