

# LET'S LEARN!

## CHAPTER 1:

### INTRODUCTION TO ACCOUNTING





# WELCOME TO CHAPTER 1

At the end of this chapter, the students should be able to:

1. define accounting;
2. describe the nature of accounting;
3. explain the functions of accounting in business;
4. narrate the history or origin of accounting; and
5. cite specific examples in which accounting is used in making business decisions.

## INTRODUCTION

**ACCOUNTING IS, BROADLY SPEAKING, A SYSTEM THAT HELPS BUSINESSES TRACK EVENTS THAT AFFECT THEM. THIS PROCESS INVOLVES IDENTIFYING THE EVENTS THAT AFFECT A BUSINESS, RECORDING THESE EVENTS, AND COMMUNICATING THE SUMMARIZED RESULTS OF ALL EVENTS WITHIN A PARTICULAR PERIOD TO INTERESTED PARTIES.**

**ALMOST ALL COMPANIES ALLOT A SIGNIFICANT AMOUNT OF RESOURCES TO THE ACCOUNTING PROCESS SINCE IT AIDS THEM IN IMPROVING THEIR BUSINESS. FOR EXAMPLE, THE SALE OF TOYOTA CARS IS IDENTIFIED AS AN ECONOMIC EVENT THAT AFFECTS THE COMPANY. THE ACCOUNTANT WILL RECORD THIS TRANSACTION AND CONSOLIDATE ALL RECORDS BY THE END OF THE MONTH.**

# THE ACCOUNTING PROCESS

THE STARTING POINT OF THE ACCOUNTING PROCESS IS THE IDENTIFICATION OF ECONOMIC EVENTS RELEVANT TO A BUSINESS. EXAMPLES OF RELEVANT ECONOMIC EVENTS ARE THE SALE OF TOYOTA CARS (AS MENTIONED), PROVISION OF SERVICES BY A HOSPITAL, PAYMENT TO SUPPLIERS, AND PURCHASE OF EQUIPMENT FOR THE MANUFACTURING OF BENCH SHIRTS. TO BE IDENTIFIED AS A RELEVANT ECONOMIC EVENT, THERE SHOULD BE A TRANSFER OF THINGS WITH VALUE. NORMALLY, FOR THE PURCHASE OF EQUIPMENT, CASH OR MONEY IS EXCHANGED FOR THE EQUIPMENT. THE CASH AND EQUIPMENT BOTH HAVE VALUE MAKING THE PURCHASE A RELEVANT ECONOMIC EVENT. THIS ANALYSIS IS ALSO APPLICABLE TO THE OTHER EXAMPLES GIVEN.



## NATURE OF ACCOUNTING

### THE BASIC FEATURES OF ACCOUNTING ARE AS FOLLOWS:

1. Accounting is a process. A process is composed of multiple steps that lead to a common end goal. The enrollment process in your school may involve reservation of slots, filling out documents, attending school orientations, and payment of necessary fees. These steps all lead to you being enrolled in your school. Likewise, accounting is a process because it performs the functions of identifying, recording, and communicating economic events with the end goal of providing information to internal and external parties.

2. Accounting is an art. Art refers to a way of performing something. It entails creativity and skills to help us attain some objectives. Accounting is the art of recording, classifying, summarizing, and finalizing financial data. Accounting is a combination of techniques and its application requires applied skill and expertise. This is the reason why accounting can be considered as an art.  
(Accountingtheory.com)

3. Accounting deals with financial information and transactions. Accounting deals only with quantifiable financial transactions. These are the only events identified by the accountant, recorded in the books, and communicated to different parties. Non-financial transactions are not the focus of the accounting process. However, non-financial data may be used to interpret and better estimate some financial data.

**4. ACCOUNTING IS A MEANS AND NOT AN END. AS MENTIONED EARLIER, ACCOUNTING IS A TOOL TO ACHIEVE SPECIFIC OBJECTIVES. IT IS NOT THE OBJECTIVE ITSELF. IMAGINE THAT YOU DREAM TO GO TO PARIS SOMEDAY, ACCOUNTING CAN BE THOUGHT OF AS THE PLANE THAT WILL BRING YOU TO YOUR DESTINATION.**

**5. ACCOUNTING IS AN INFORMATION SYSTEM. ACCOUNTING IS RECOGNIZED AND CHARACTERIZED AS A STOREHOUSE OF INFORMATION. AS A SERVICE FUNCTION, IT COLLECTS PROCESSES AND COMMUNICATES FINANCIAL INFORMATION OF ANY ENTITY. THIS DISCIPLINE OF KNOWLEDGE HAS BEEN EVOLVED OUT TO MEET THE NEED OF FINANCIAL INFORMATION REQUIRED BY DIFFERENT INTERESTED GROUPS.  
(ACCOUNTINGTHEORY.COM)**

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# Functions of Accounting

**THE FUNCTIONS OF ACCOUNTING IN BUSINESS CAN BE ATTRIBUTED TO THE THREE FUNDAMENTAL OBJECTIVES OF AN INFORMATION SYSTEM. AN INFORMATION SYSTEM IN ITSELF, ACCOUNTING PERFORMS THE FOLLOWING TASKS:**

- 1. TO FULFILL THE STEWARDSHIP FUNCTION OF THE MANAGEMENT (OR OWNERS);**
- 2. TO HELP INTERESTED USERS COME UP WITH INFORMED DECISIONS; AND**
- 3. TO SUPPORT DAILY OPERATIONS OF THE BUSINESS.**

**FROM THE FOREGOING DEFINITIONS, THE MAIN FUNCTIONS OF ACCOUNTING CAN BE SUMMARIZED AS FOLLOWS:**

**1. KEEPING SYSTEMATIC RECORD OF BUSINESS TRANSACTIONS**

**2. PROTECTING PROPERTIES OF THE BUSINESS**

**3. COMMUNICATING RESULTS TO VARIOUS PARTIES IN OR CONNECTED WITH THE BUSINESS**

**4. MEETING LEGAL REQUIREMENTS**



# HISTORY OF ACCOUNTING



**Res Gestae Divi  
Augusti**  
( The Deeds of the Divine  
Augustus )



**Puca Pacioli**  
The Father of modern  
accounting



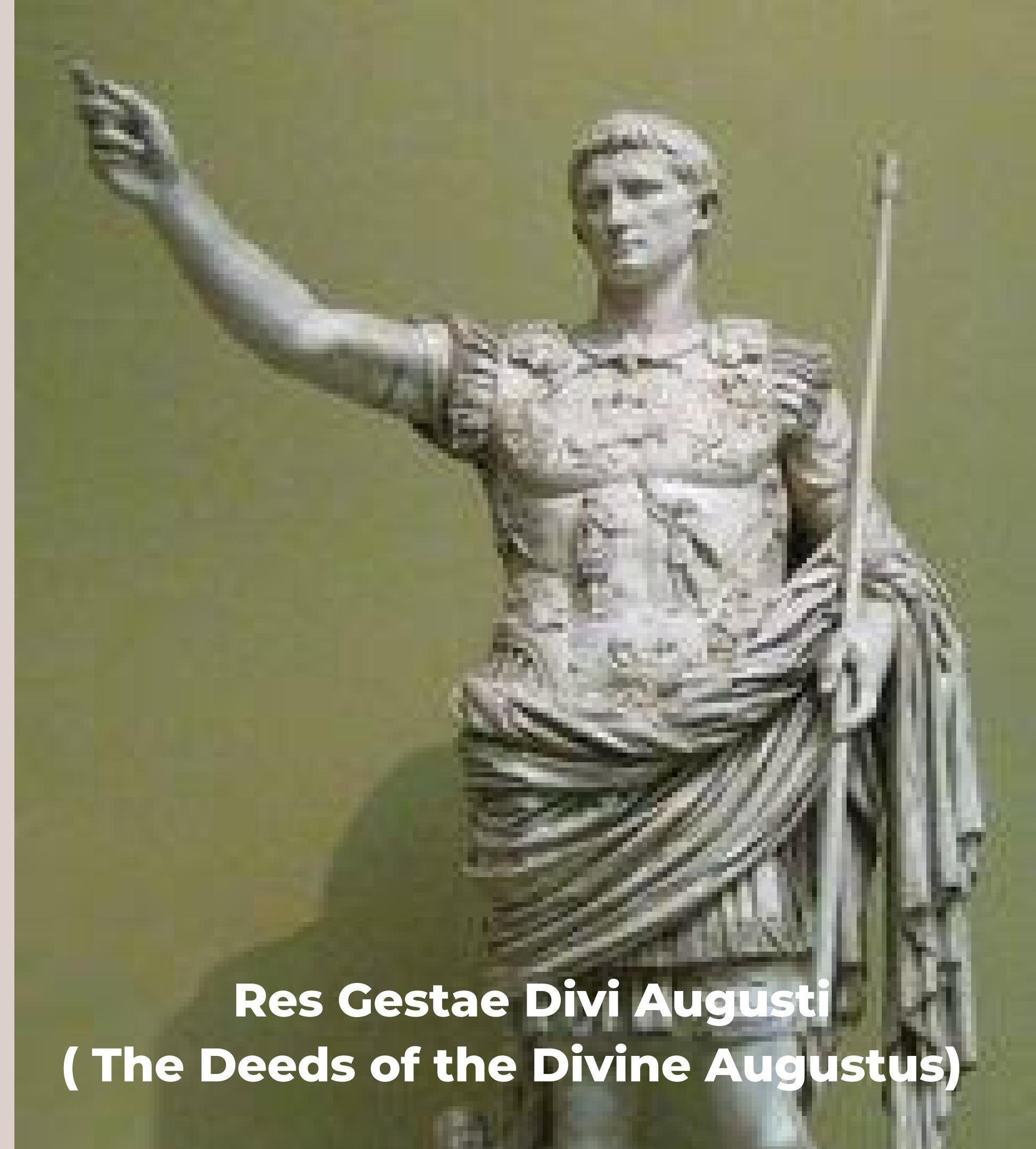
**Queen Victoria**  
The modern profession of the  
Chartered accountant

**IT IS BELIEVED THAT THE HISTORY OF ACCOUNTING IS THOUSANDS OF YEARS OLD AND CAN EVEN BE TRACED TO ANCIENT CIVILIZATIONS. A NUMBER OF HISTORY BOOKS SUGGEST THAT THE EARLY DEVELOPMENT OF ACCOUNTING CAN BE DATED BACK TO ANCIENT MESOPOTAMIA. DURING THOSE TIMES, PEOPLE FOLLOWED A SYSTEM OF WRITING AND COUNTING MONEY. THE DEVELOPMENT OF ACCOUNTING MAY BE RELATED TO THE TAXATION AND TRADING ACTIVITIES OF TEMPLES.**





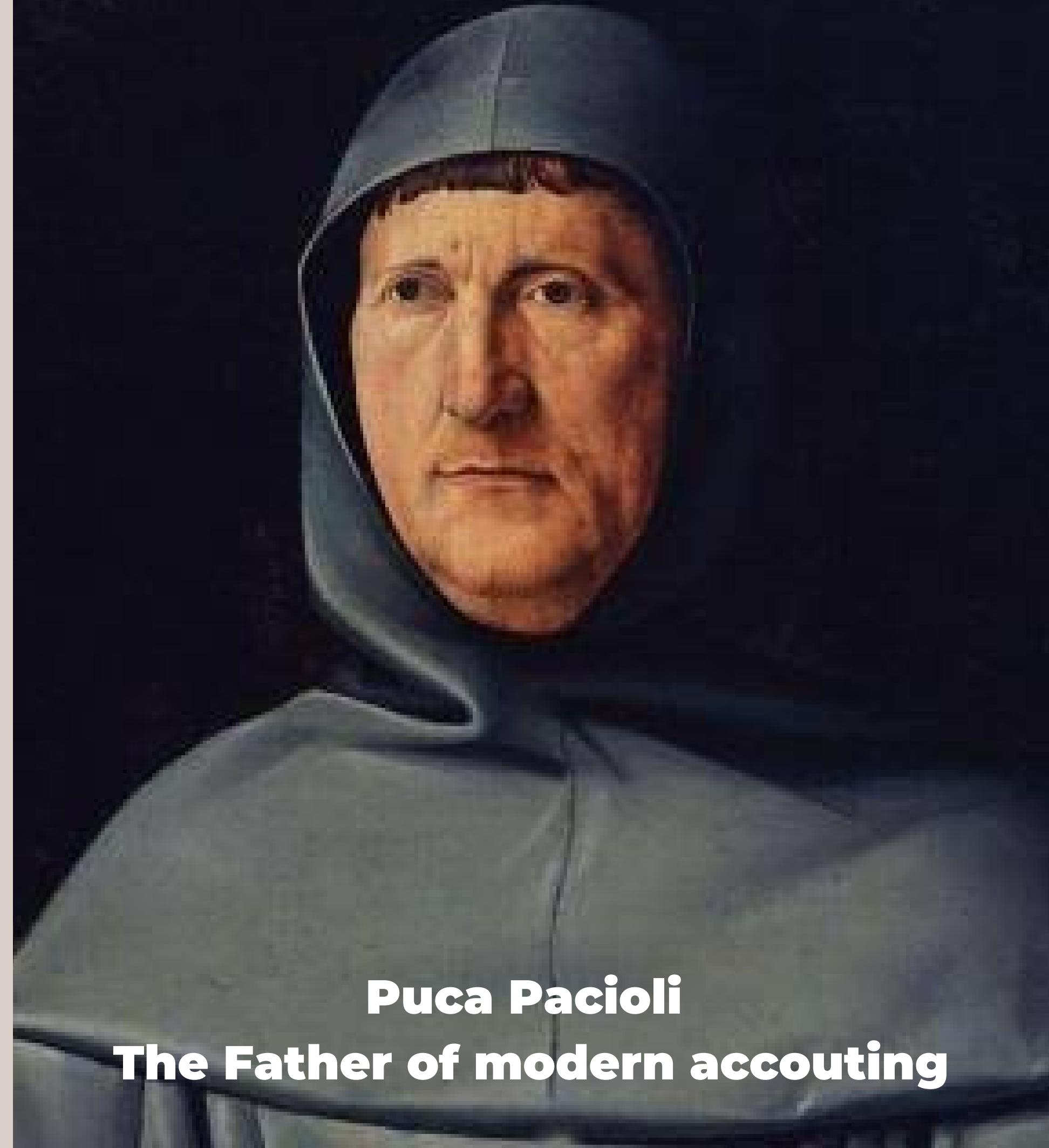
The reign of Emperor Augustus (63ac-14AD) provided more evidence about the development of accounting. The Roman government kept detailed financial information of the deeds of Emperor Augustus regarding the stewardship of Roman resources. This is evidenced by the *Res Gestae Divi Augusti* (The Deeds of the Divine Augustus). The Roman historians Suetonius and Cassius Dio recorded that in 23ac, Augustus prepared a rationarium (account) which listed public revenues, the amounts of cash in the aerarium (treasury), in the provincial fisci (tax officials), and in the hands of the publicani (public contractors); and that it included the names of the freedmen and slaves from whom a detailed account could be obtained. The closeness of this information to the executive authority of the emperor is attested by Tacitus' statement that it was written out by Augustus himself. (Oldroyd 1995)



**Res Gestae Divi Augusti  
( The Deeds of the Divine Augustus)**



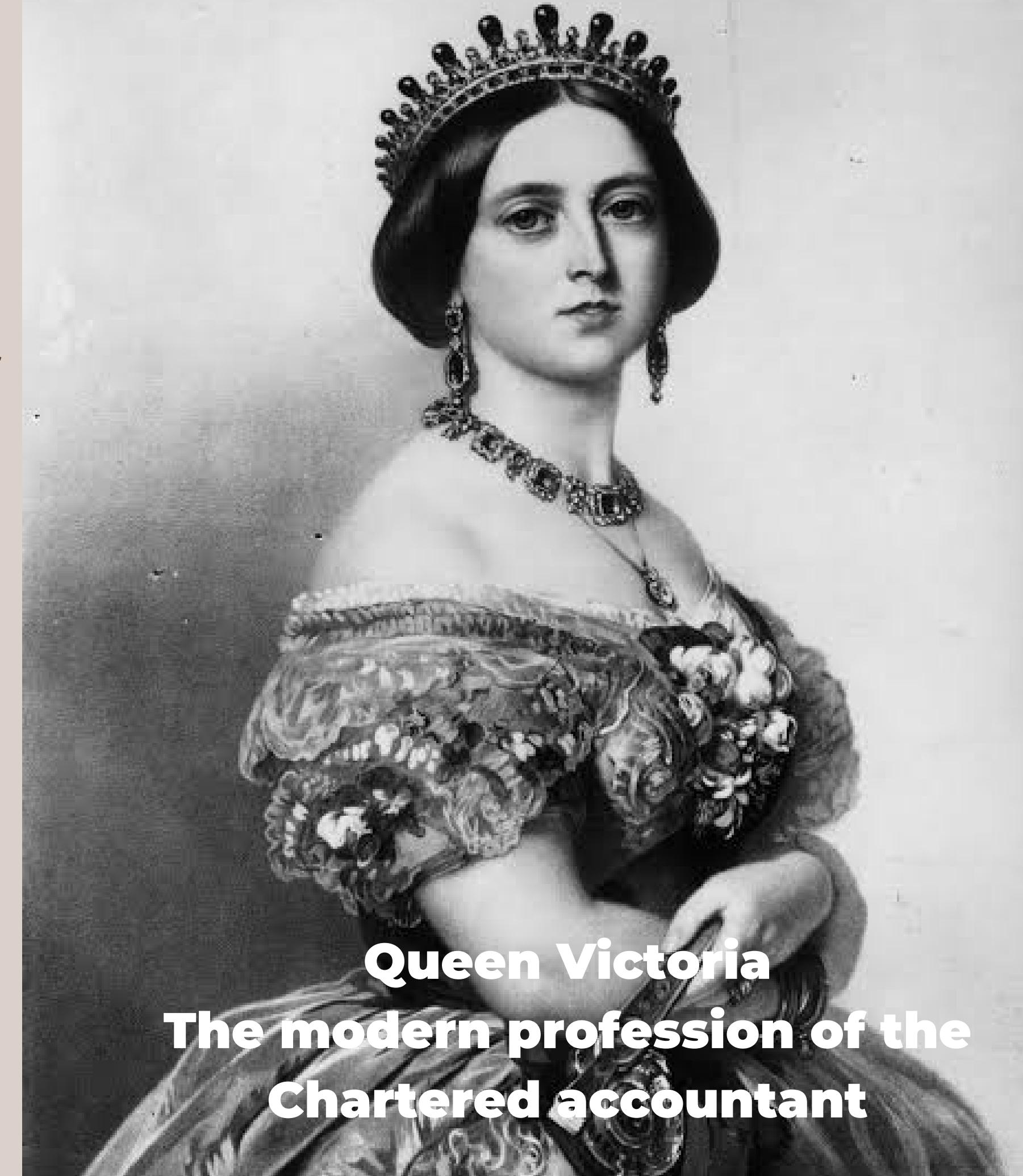
Many consider the dissemination of the double-entry bookkeeping of Luca Pacioli in the fourteenth century Italy is the most important event in accounting history. In fact, Luca Pacioli is acknowledged as the father of modern accounting because of this. The double-entry bookkeeping system is defined as any bookkeeping system that has a debit and a credit for each transaction. Luca Pacioli's *Summa de Arithmetica, Geometri, Proportioni et Proportionalita* (Review of Arithmetic, Geometry, Ratio, and Proportion) is the first book printed with a treatise on bookkeeping. The double-entry bookkeeping system is the system being used to this very day. (Sangster et al. 2007)



**Puca Pacioli**  
**The Father of modern accouting**



The modern profession of the chartered accountant originated in Scotland in the nineteenth century when Queen Victoria granted a royal charter to the Institute of Accountants in Glasgow. At present times, accounting standards are already available to guide accountants in their practice of the profession. Some of these standards include the PFRS (Philippine Financial Reporting Standard) and the PAS (Philippine Accounting Standards).





# CHAPTER SUMMARY

- **Accounting is a system that identifies, records, and communicates relevant economic events to interested users.**
- **Nature of accounting:** Accounting is a process; an art; deals with financial information and transactions; a means, not an end; and an information system.
- **Functions of accounting in business:** Keeping systematic record of business transact protecting properties of the business; communicating the results to various parti interested in or connected in the business; and meeting legal requirements
- **History of accounting:** From its early development in Mesopotamia to the modern accounting system used in the present day.



# THANK YOU

