

Accounting

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Objectives

Define accounting

Explain the history, nature, & function of accounting

Appreciate the importance of accounting

Accounting

The art of recording, classifying, summarizing in a significant manner & in terms of money, transactions & events, w/c are in part, at least, of financial character & interpreting the results thereof. (American Institute of Certified Public Accountants)

Why an art?

“the language of business”

Why Science?

Accounting principles

History

Merchants used recording
Luca Pacioli-father of Accounting, a Franciscan friar on 15th century.
Book- *Summa de Arithmetica*, a modern way of recording business transactions.

Board of accountancy- the body authorized by law to make rules & regulations involving CPA profession.

Flow of Acctg. Information

Users of Accounting

Owner

Management

Investors

Creditors

Employees

Government

Four Functions of Accounting

1. Recording or Bookkeeping- business transactions are recorded systematically & chronologically.

2 Kinds:

Single-entry bookkeeping
- shows only the debit or credit.

Double-entry bookkeeping
- has debit & credit.

2. Classifying- sorted as assets, liabilities, capital, revenue, & expense accounts.

3. Summarizing- are summarize thru financial statements.

4. Interpreting- to learn if the business gains or not.

Fields of Accounting

1. Public Accounting- render by a CPA

Auditing- by carefully examine & test the accuracy of the reports.
Management advisory services- includes the design, installation, & improvement of the firm's general acctg system.
Tax services- for filing of income tax returns.

2. Private Accounting- done in private enterprises.

A. Gen. acctg- recording transactions & preparing financial reports for the users of accounting.

B. Cost Acctg- controlling cost in producing a product or service.

C. Budgeting- involves planning for future operation.

d. Internal auditing- **check the records prepared in each department or branch.**

C. Research & Education- lecturers, faculty, students.

International Accounting- for multinational corporations dealing w/ international trade.

Business Organizations

According to Ownership

Single/Sole Proprietorship

Partnership-

Corporation- organized by the operation of law.

Cooperatives

II. Nature of Business

A. Service concern

B. Merchandising- buying & selling goods

C. Manufacturing

Business as an Accounting Entity

The business is distinct & separate from its owners

Branches of Accounting

FINANCIAL ACCOUNTING- a systematic method of recording transactions of any business according to the accounting principles. It is the original form of the accounting process. The main purpose of financial accounting is to calculate the profit or loss of a business during a period.

2. Management Accounting

provides information to management for better administration of the business. It helps in making important decisions and controlling of various activities of the business with the help of various Management Information

Systems such as Budgets, Projected Cash Flow and Fund Flow Statements, Variance Analysis reports, Cost-Volume-Profit Analysis reports, Break-Even-Point calculation, etc.

3. Cost Accounting

deals with evaluating the cost of a product or service offered. It calculates the cost by considering all factors that contribute to the production of the output, both manufacturing and administrative factors. It helps the management in fixing the prices and controlling the cost of production. It also pin points any wastages, leakages and defects during manufacturing and marketing processes.

4. Auditing

Auditor inspects & certifies the accounts for accuracy, & internal audit by the company.

5. Tax Accounting

include preparation and filing of various tax returns and dealing with their legal implications. Tax accountants aid in minimizing tax payments and also help financial accountants in preparing financials for tax reporting to various authorities.

6. Government Accounting

It is done for Central Government (National Government) and State Government budget allocations and utilization. Keeping records ensures proper and efficient utilization of the various budget allocations and safety of public funds.

7. Forensic Accounting

also known as legal accounting enables calculating damages or settling disputes in legal matters. Investigations are done and calculations are carried out to evaluate the damages accurately. **Accounting Concepts & Principles Guidelines** on how accountants measure process, & communicate financial information to the users of accounting information **Generally Accepted Accounting Principles**

Relevant

Reliable

Comparable

Accounting Period

The length of time that covers the business transaction being reported upon. It can be monthly, quarterly, semi-annually, or annually.

Calendar year- a period of twelve months starting January 1 to December 31.

Fiscal Year- any succession of twelve months starting with any month except January and December.

Activity

Identify the form of Business

Hotels

Restaurants

Shoe factory

Textile mills

Barber shop

News Stand

Department Store

Medical Clinic

Poultry Supply Store

Appliance Store

5 Major Accounts

Assets

Liabilities

Income

Capital

Expenses

Terminologies

1. Assets- are property or rights owned by the business.

Current assets- cash & other assets that are easily converted into cash.

Cash on hand- coins, currencies, check, & other equivalent.

2. Cash in bank- money deposited in the bank

3. Notes receivable- claims of the business from anyone evidenced by a note.

4. Marketable securities- example: stocks

5. Interest receivable- interest earned from customers

6. Accrued interest income- interest income that has been passed due.

7. Accounts receivable- sales rendered on account.

8. Estimated uncollectible account- also called allowance for bad debts.

9. Advances- advance payment to employees.

10. Merchandise Inventory- goods unsold at the end of the accounting period.

11. Prepaid expenses- also called unused supplies. An expenses paid in advance.

12. Tools- ex. Pliers, hammer, etc.

NON- CURRENT ASSET

land- space owned by the business

Building

Furniture & fixtures- ex. Tables, chairs, cabinets

4. Delivery equipment- ex. Van, truck, motor cycle, etc.

5. Accumulated depreciation- a contra-asset account that is deductible from a particular fixed-asset.

6. Intangible asset- ex. Goodwill, patents, etc.

7. PPE

Liabilities

Accounts payable- an obligation that arise from the purchase of goods or services on account.

Notes payable- payable within a year. An obligation bearing a promissory note.

Interest payable- an interest due.

Taxes payable

5. Salaries payable- unpaid salary

Long-term liabilities- an obligation that is payable beyond one year.

1. Mortgage payable- an obligation secured on real estate.

- Capital/ Owner's Equity

— Refers to the vested interest of the owner in the business. The difference between the assets & liabilities.

— Owner's drawing- the cash withdrawal made by the owner

— Income & expense summary- a temporary account opened at the end of the accounting period to absorb the income & expense account.

Income- earnings of the business.

Service income- derived from service rendered.

Fees- professional fees

Legal fee- from legal services

Sales- derived from the sales of goods.

Commission income

Other income

Expenses

Taxes & licenses- payment to government for business operations. Ex. Mayor's permit

Salaries expense- the cost of service rendered by the employees.

Supplies expense- the cost of office items.

Delivery expense- cost of transportation

5.Bad debts- a portion of accounts receivable that cannot be collected.

6. Depreciation expense- the cost of the fixed-asset w/c has been charged to income during the period.

7. Insurance expense- the insurance premium paid by the business.

8. Rent expense- the space occupied by the business

9. Interest Expense- the amount charged for the use of money.

10. Advertising expense- promotional expenses in selling the products.

11. Utilities expense- the cost of light & water used in the business.

12. Repairs & maintenance

13. Salesmen salary

14. Cost of sales or cost of goods sold- the purchase price

Activity: identify the 5 major accounts

Bad debts

Depreciation

Accounts receivable

Withholding tax

Merchandise inventory

Accrued interest income

Reyes, drawing

Allowance for bad debts

Sales

Furniture & fixtures

Government Agencies & Professional Bodies

DTI- facilitates registration of sole proprietorship businesses & regulates consumer commodity transactions.

BIR- Collection of taxes from the public

SEC- audits financial statements of the organizations, regulates issuance of shares & bonds to the public, facilitates registration of partnership & corporation.

Cont'

BSP- regulates bank operations, sets monetary policy & related functions.

PSE- monitors securities transactions of companies listed in the stock exchange.

COA- audits government related transactions

BOA (Board of Accountancy)- administers board exam for CPA

Cont'

PRC- issues licenses to successful examinees in the board exams.

PICPA (Phil. Institute of Certified Public Accountants)- professional organization of accountants in the Philippines.

Municipal hall/ City Hall- issues business permits & collects real property taxes.

Financial Statements

Shows the result of the recording of the business transactions & are expressed in terms of assets, liabilities, equity, income, & expenses.

4 Components

1. Statement of Financial Position (Balance Sheet)- presents the financial condition of the business through its assets, liabilities, & capital.

2. Statement of Profit or Loss (Income Statement)

The financial performance of the business thru its income & expenses.

3. Statement of Changes in Equity- changes in capital due to additional investments, withdrawals, net income, or net loss.

4. Statement of Cash Flows

The cash inflows & the cash outflows of the business thru its operating, investing, & financing

Transactions

The data recorded in the accounting book. The economic activities of the firm.

Example: Mr. Tan invested cash P100 000 for laundry shop business.