Accounting - 2401

Chapter - 1 (Introduction to Accounting)

Topics:

① Definition of Accounting
② History and development of Accounting
③ Users of accounting Information
④ Accounting concepts and principles
⑤ Accounting Organizations
⑥ Types of Business organization
⑦ Accounting equation

Definition of Accounting:

- Accounting is an information system that measures business activities, processesors that information into reports and communicates the results to decision makers.
- For this reasons this is called 'language of business.'

- According to American Institute of certified public Accountants (AICPA):

Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and even which are in part at least of a financial character, and interpreting the result thereof.

According to American Accounting Association (AAA):

Accounting is the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information.

According to Accounting Principle Board (APB):

Accounting is a service activity. Its function is to Provide qualitative ~~function~~ information, Primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.

☐ So Accounting is —

- the art of recording, classifying and summarizing financial transactions and events.
- a service activity

History and development of accounting:

Luca pacioli who in 1494 first described the system of double entry bookkeeping. But it was pacioli who was the first to describe the system of debits and credits in journals and ledgers that is still the basis of today's accounting systems.

The rising public status of accountants helped to transform accounting into a profession, first in the united kingdom and then in the United states. In 1887, thirty-one accountants joined together to create the Americal Association of public accounts. The first standardized ~~test for~~ accountants was given a decade later, and the first CPA's were licensed in 1896.

Users of accounting information:

Users of accounting information fall into three catagories.

1. Internal managers who use the information for short term planning and controlling routine operations.
2. Internal managers who use the information for making nonroutine decisions.
3. External parties such as –
   - Investors
   - Lenders
   - Suppliers and other trade creditors
   - Customers
   - Government and their agencies
   - Taxing authorities
   - Public
   - Nonprofit organization

Branches of Accounting:

① Financial accounting : It focuses on the information needs for external user of an entity.

② Management accounting: Management accounting is Primarily concerned with the information used for internal management decisions making within the entity.

Accounting concepts and principles:

Assumptions:

1. Economic Entity 2. Going Concern 3. Monetary unit
4. Periodicity

Economic Entity: The assumption that the activity of a business enterprise can be kept separate and distinct from its owner and any other business unit.

Going concern: The business enterprise will have a long life.

Monetary unit: Money is the common denominator by which economic activity is conducted. monetary unit provides an appropriate basis for measurement and analysis.

Periodicity: The economic activities of an enterprise can be divided into artificial time periods.

Principle:
1. Historical cost
2. Revenue recognition
3. Matching
4. Full discloser

Historical cost: Existing GAAP requires that most assets and liabilities be accounted for and reported on the basis of acquisition price.

Revenue recognition: Revenue is generally recognized when realized or realizable and when earned.

Matching: Expenses are recognized when the work/service or the product actually makes its contribution to revenue.

Full discloser: Accounts follow the general practice of providing information that is of sufficient importance to influence the judgement and decisions of an informed user.

Constraints: 1. Cost benefit
2. Materiality
3. Industry practice
4. Conservatism

Cost benefit: Cost of using the information must be weighted against the benefits that can be derived from using the information.

Materiality: It provides a threshold or cutoff point that involved is one of relative size and importance.

Industry practice: Follow the general practices in the firm's industry, which sometimes requires departure from basic theory.

Conservation: When in doubt, choose the solution ~~that~~ will be at least likely to overstate net assets and net income.

Accounting organizations:

1. American institute of certified public accountants ~~(AEI~~ (AICPA)
2. Financial Accounting Standard Board (FASB)
3. Securities and exchange comission (SEC)
4. Institute of chartered accountants Bangladesh (ICAB)
5. Institute of cost and management accounting Bangladesh (ICMAB).

Types of business ~~orgina~~ organization :

1. Proprietorship 2. Partnership 3. Corporations

Proprietorship: It is a separate organization with a single owner. Most often the owner is also the manager. From an accounting view point, each proprietorship firm is an individual entity that is separate and distinct from the Proprietor.

Partnership: A partnership is a special form of organization that joins two or more individuals together as co-owners. From an accounting view point, each partnership firm is an individual entity that is separate from the personal activities of each partner.

Corporations: Corporations are organizations created by individual State laws. The ownership are identified as stockholders. By applying to the state for approval of company's articles of incorporation. when approved, the corporation becomes a legal entity, an artificial person that conducts its business completely apart from its owners.

Accounting equation: The most basic tool of the accountant is the accounting equation. This equation represents the assets of the business and the claims to those assets.

This relationship of assets, liabilities, and owners equity can be expressed.

Assets = Liabilities + owner's Equity

Assets: It is the economic resources of a business that are expected to be of benefit in the future.

1. cash, 2. Land, 3. Building, 4. Equipment, 5. Machine, 6. Furniture, 7. office supplies, 8. Accounts Receivable, 9. Notes Receivable, 10. Prepaid Expense.

Liabilities: They are 'outsider claims' which are economic obligations - debts - payable to outsiders. These outside parties are called creditors.

1. Accounts payable 2. Notes payable

Owner's equity or capital is 'insider claims' held by owners of the business. It is measured by subtracting liabilities from assets.

1. capital 2. Revenue 3. Expenses, 4. withdraw

Assets must be equal to the sum of liabilities and owner's equity.

The accounting equation applies to all economic entities regardless of size, nature of business, or form of business organization

- Increase in owner's equity – by owner's investments and revenue.
- Decrease in owner's equity – by owner's withdrawals and expenses.

Asset : Cash
Land
Building
Equipment
Machine
Furniture
office supplies
Accounts Receivable
Notes Receivable
Prepaid Expense

Liability : Accounts payable
Notice payable

Owner's equity: Capital
Revenue
Expenses
withdraw