

UGBS 205

Fundamentals of Accounting Methods

Week 1 – Introduction to Accounting



UNIVERSITY OF GHANA

College of Humanities

Business School

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Overview

- The economic history of an organization is essential for decision making. Accounting provides the means for recording/writing the economic history which has facilitated the dealings between business enterprises. Thus, it has been described as the common language of businesses. This session seeks to introduce students to the nature and purpose of accounting.



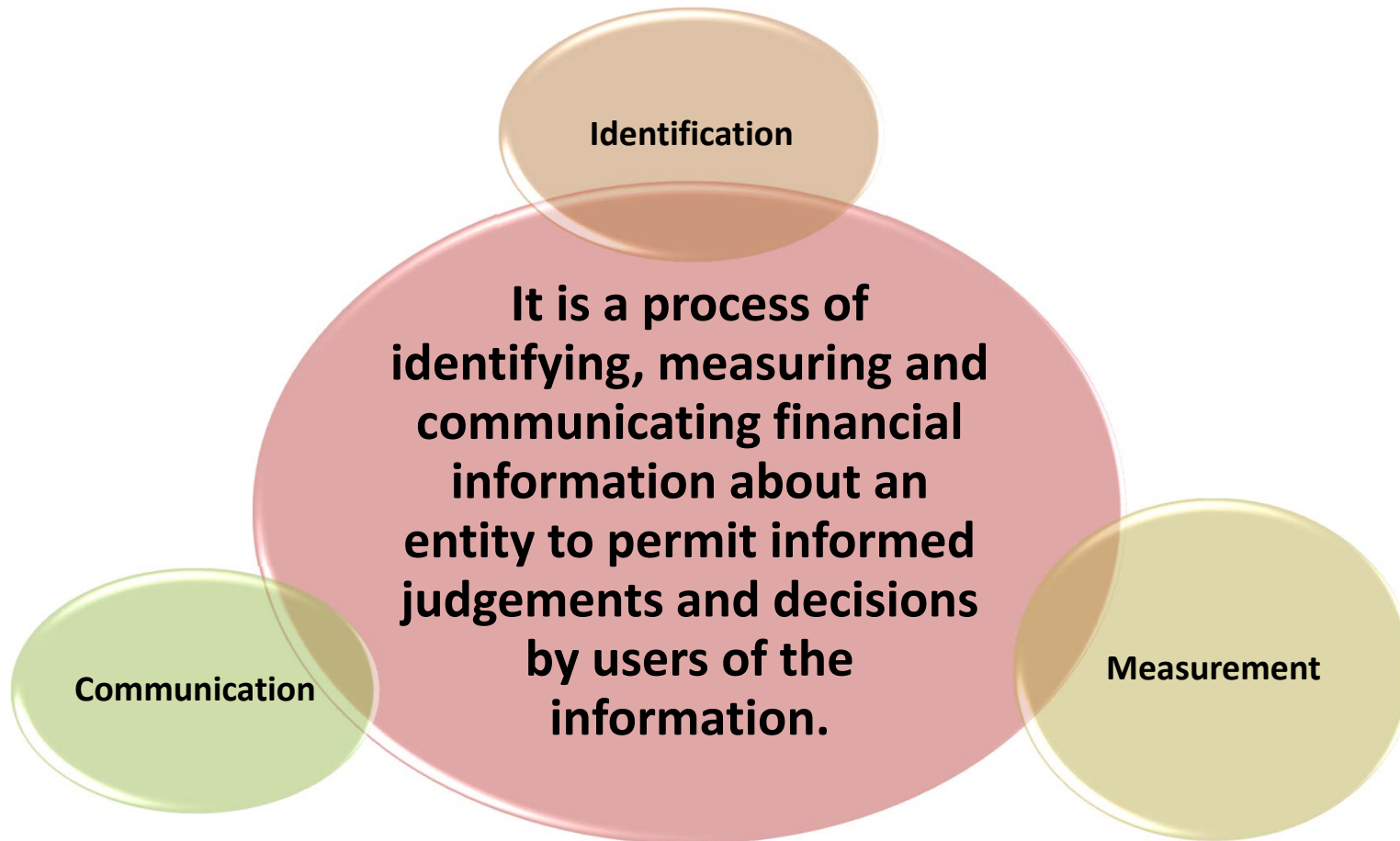
Learning Objectives

- At the end of this session, you should be able to
 - Define and explain the meaning and purpose of accounting
 - Understand the accounting process
 - Identify the sub-fields of accounting and the kind of accounting information they provide.
 - Explain the types of business organizations and identify their characteristics
 - Identify the users of accounting information and explain their informational needs
 - Explain the kinds of financial statements and their purpose(s)

Reading List

- Read Chapter 1 of Recommended Text –
 - Chapter 1 of Marfo-Yiadom, Asante & Tackie (2015)
 - Chapter 1 of Wood, F. & Sangster, A. (2008). Frank Wood's Business Accounting 1. Volume 1. Pearson Education.
- Other Financial Accounting text books available to students

What is Accounting?



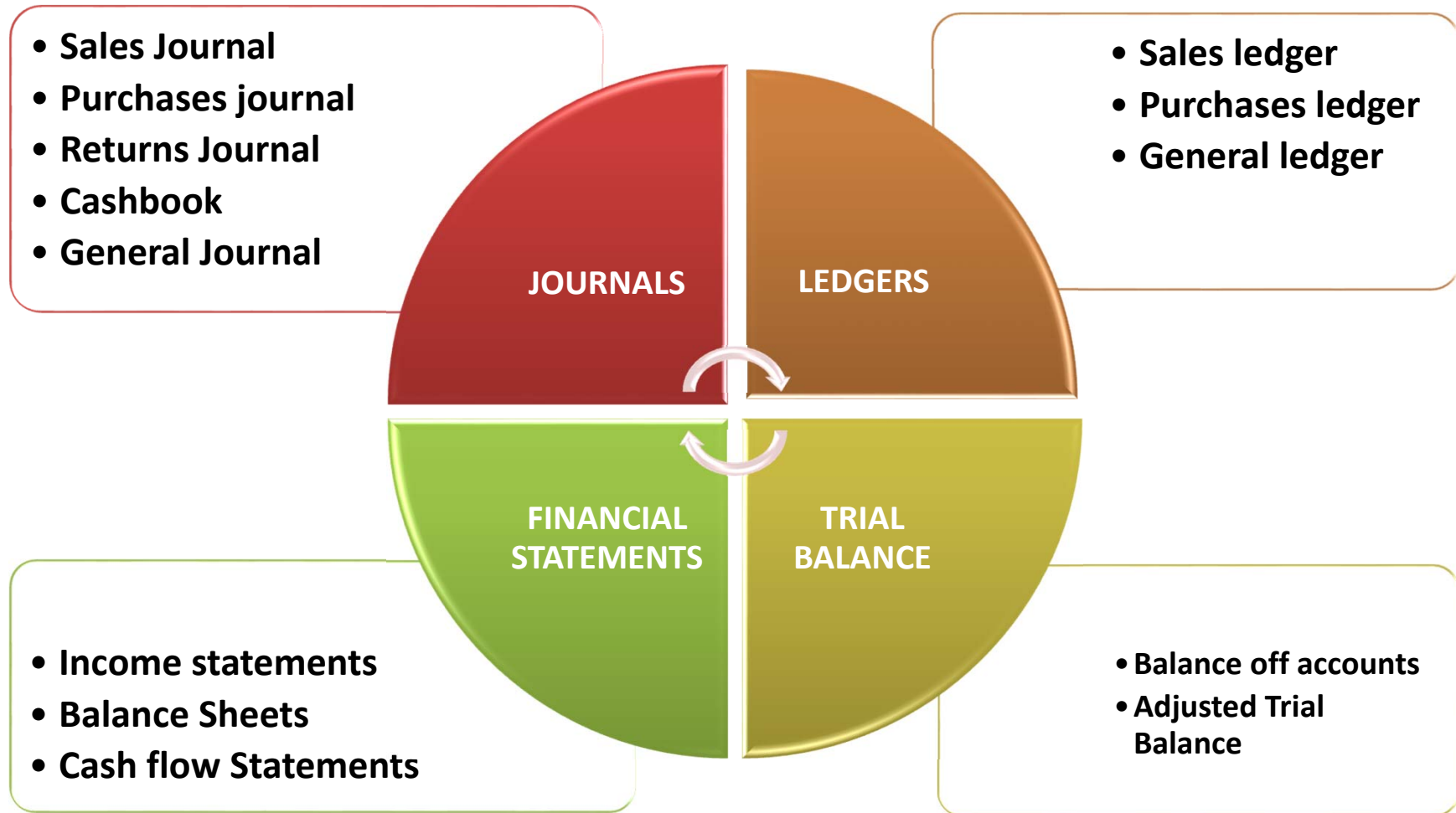
The Purpose of Accounting

To provide useful
financial
information about
economic entities
to decision makers

Bookkeeping and Accounting

- Bookkeeping is the process of recording daily transactions in a consistent way. It comprises of;
- Recording transactions
- Posting
- Producing invoice
- Maintaining ledgers

Accounting Process



Subfields of Accounting

Financial Accounting

- The field of accounting that serves external decision makers and is concerned with the preparation of financial statements.

Management Accounting

- Provision of information to people within the organization for decision making

Cost Accounting

- Deals with the collection and allocation and control of cost of production or service

Taxation

- Proper accounting for the incomes and expenditures of taxable entities

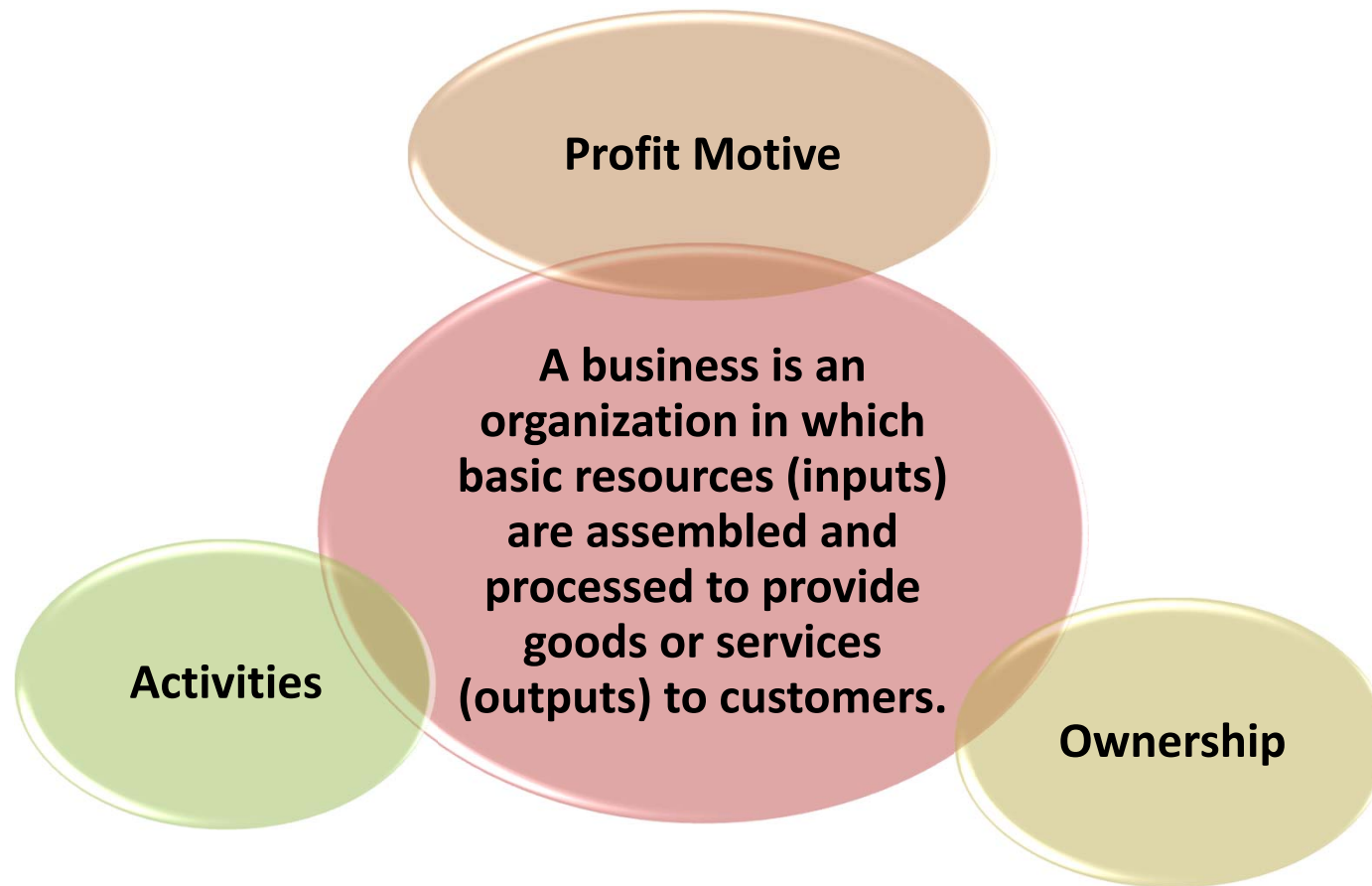
Auditing

- Giving independent assurance as to the true and fair view of financial reports.

Public Sector Accounting

- Identification of sources and uses of resources for government entities

Business Organizations



Types of Business – Profit Motive

Profit Oriented Organizations

- **Businesses set up with the sole aim of making profits.**

Governmental Organizations

- **Public sector entities set up to provide public goods and services.**

Non-Governmental Organizations

- **Organizations set up to achieve other objectives in society and not for profit**

Types of Business - Activities

Manufacturing Business

- Change basic inputs into goods that are sold to customers.

Merchandising Business

- Purchase goods from other businesses and sell to customers (either wholesaling or retailing).

Service Business

- Provide services rather than goods to customers.

Types of Business - Ownership

Sole Proprietorship

- Owned by a single individual.
- Least regulated – registration at the Registrar General Department

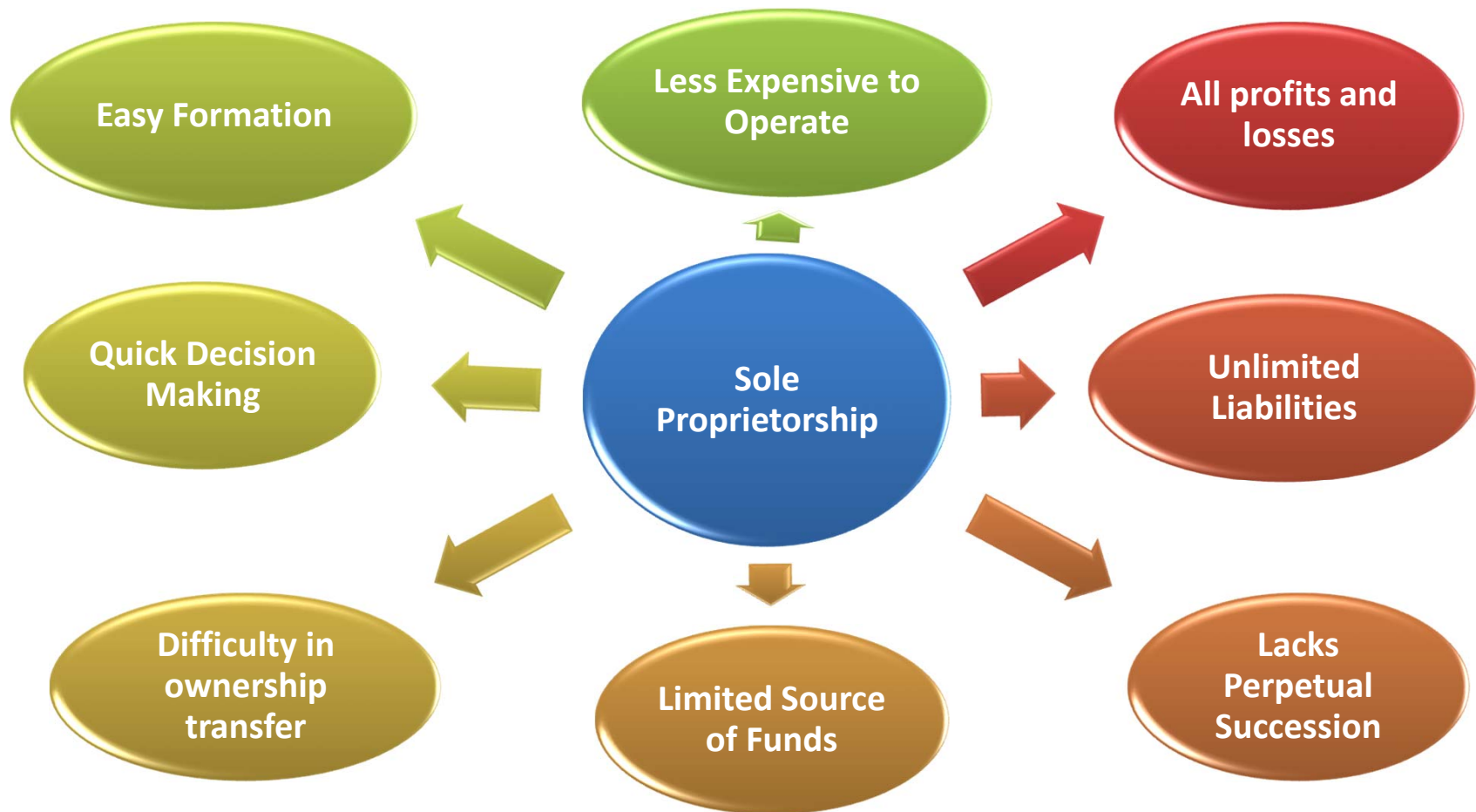
Partnership

- Formed by 2 or more individuals.
- Operate with partnership agreements (formal or informal).
- Regulated by the Private Incorporated Partnership Act (Act 152) of 1962
- Partners could be dormant or active partners.

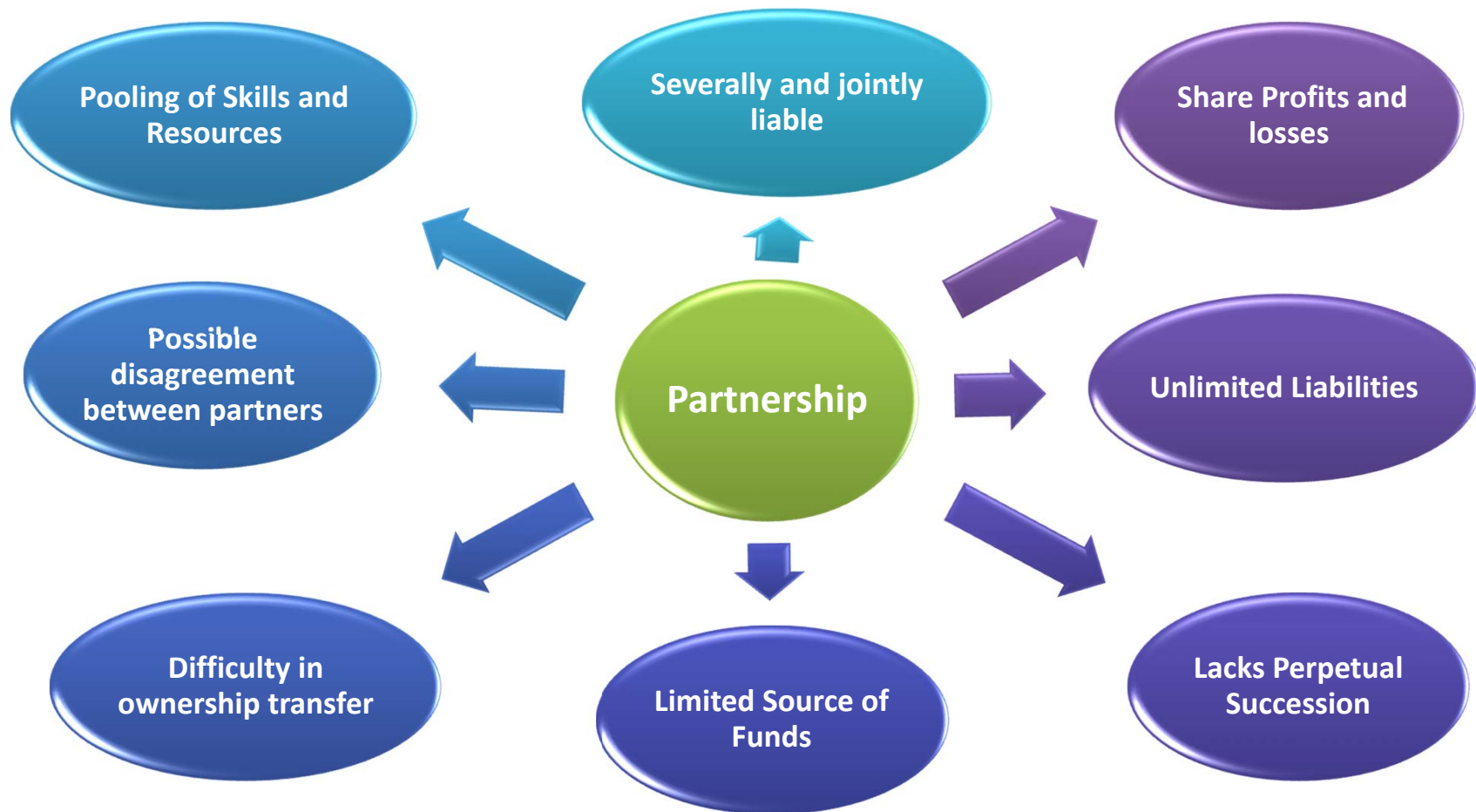
Company

- Owned by one or more persons (shareholders).
- Regulated by Companies Code and other statutes.
- Formation requires at least 2 directors.
- Public or private
- Limited (by shares or guarantee) or unlimited

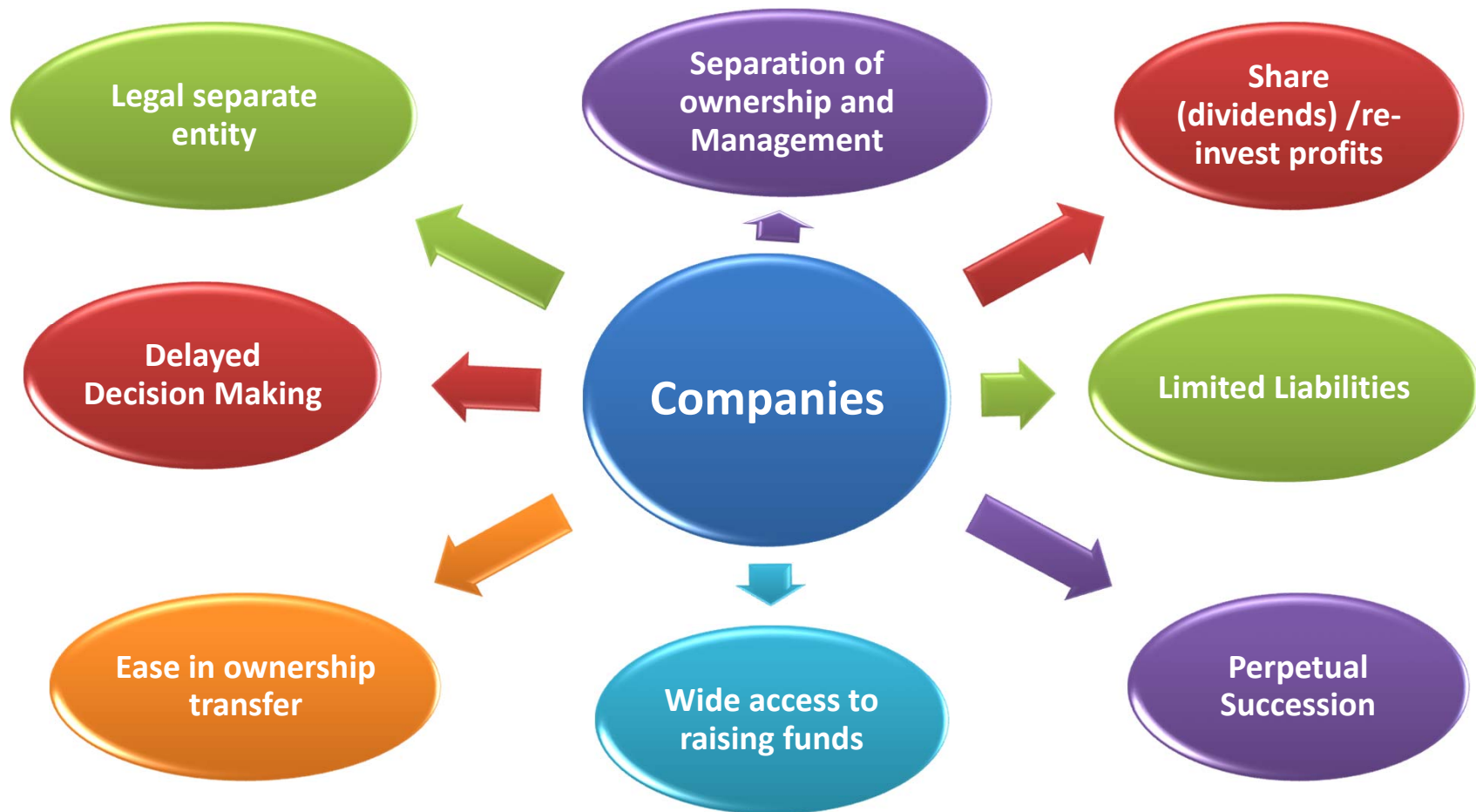
Characteristics of Sole Proprietor



Characteristics of Partnership



Characteristics of Companies



Why Businesses Need Accounting Information

Sole Proprietorship

- tax collecting purposes.
- lending purposes.
- Business valuation purposes.

Partnership

- Fairness in sharing of partnership profits.
- Tax purposes
- Lending / financing purposes
- The purpose of admitting other partners into the partnership.

Companies

Users of Accounting Information

Internal Users

**For example:
Management,
employees.**

External Users

**Direct Interest – For
example: owners,
creditors,
customers**

**Indirect interest –
For example:
government, public,
trade unions.**

Informational Needs of Users

Shareholders / Investors

- Investment Decisions
- Assess the future profitability and risk of the company; cash generating abilities of the company; the stewardship of management

Management

- Operating and strategic decisions such as Financing the entity; Investing resources of entity; Managing employees etc.

Employees

- The stability and profitability of the company
- The ability of the company to provide remuneration, working conditions, retirement benefits , pensions and job security

Informational Needs of Users

Creditors / Lenders

- Assess the company's ability to pay periodic interest and principal amount; risk of default and its consequences; future prospects for investing and lending decisions; company's need for additional financing.

Government / Regulatory Agencies

- Exercise of their supervisory functions.
- Reveal trends in the economy
- Check and determines entities' tax liabilities

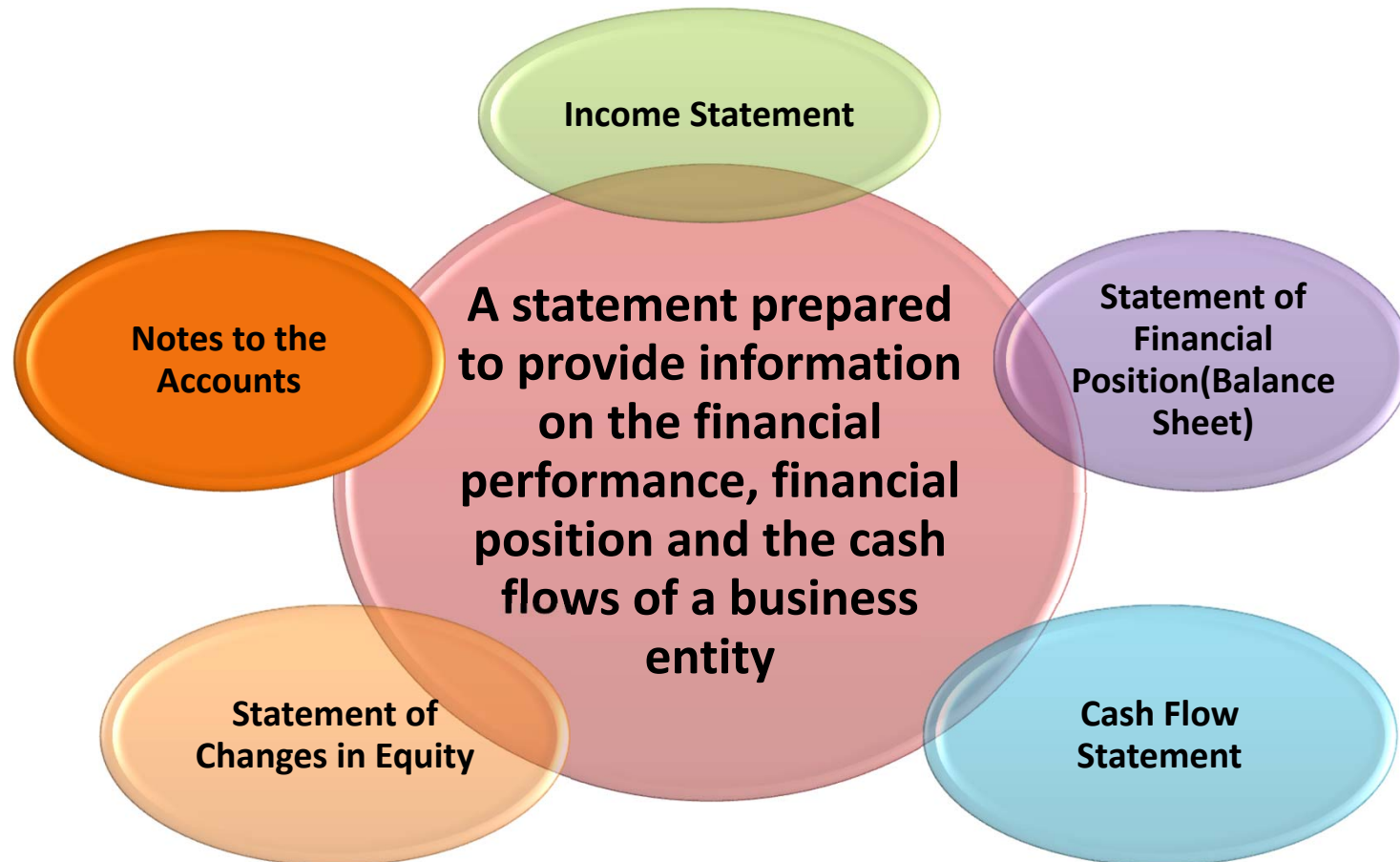
Suppliers

- Determine creditworthiness of companies and in establishing credit terms

Customers

- Evaluate staying power of their suppliers and supplier relationships, price, product details and conditions of sale

Financial Statements



Financial Statements

Statement of Financial Position

- Shows the financial position of an entity at a point in time.
- It is a position statement.
- It summarizes the assets, liabilities and owners equity of an entity at a particular point in time

Income Statement

- Shows the financial performance of an entity over a period of time.
- It is a periodic statement.
- It summarizes the revenue (income) and (expenses) expenditure of an entity over time.

Cash Flow Statement

- Shows the actual cash inflows and outflows of an entity at a point in time.

Financial Statements

Statement of Changes in Equity

- Shows the change in owners equity over an accounting period
 - Net profit or loss during the period attributable to shareholders
 - Increase or decrease in share capital reserves
 - Dividend payments to shareholders
 - Gains and losses recognized directly in equity etc...

Notes to the Accounts

- Notes provide supplemental information about the financial condition of a company.
- Three types . . .
 - Description of accounting rules and policies adopted and applied.
 - Presentation of additional detail about an item on the financial statements.
 - Provision of additional information about an item not on the financial statements.

End of Session Questions

- Distinguish between the following
 - Cost Accounting and Management Accounting
 - Bookkeeping and Accounting
- What are the information needs of the following accounting information users:
 - Financial Analysts
 - Auditors
 - Public