

Introduction to Financial Accounting

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Performance Objectives

- Define Accounting
- Explain the importance of Accounting
- Advantages of Accounting
- Outputs of Accounting Process
- Concepts underlying the Financial statements
- Users of Financial statements
- Generally Accepted Accounting Principles

Objective 1

- Define *accounting*

“The process of analysing, classifying, and summarising and interpreting business transactions in financial or monetary terms”.

“Often called the language of business”.

“Sometimes mistakenly called bookkeeping”.

- Transaction
 - An event that has a direct effect on the operation of an economic unit, is expressed in terms of money, and is recorded.
- Economic unit
 - Includes both business enterprises and not-for-profit entities
 - Examples
 - Sole proprietorship
 - Corporation
 - College
 - Government agency
 - Church or other religious institution
 - Club
 - Commonly used terms
 - Firm
 - Company

There are three types of business organizations



- » Proprietorship
- » Partnership
- » Corporation

A
proprietorship
is owned by one
individual.

- Advantages
- Easy in organizing
- Low cost of organizing



Disadvantage
Limited source of
financial resources
Unlimited liability

A *partnership* is owned by two or more individuals.

- Advantages
- More financial resources than a proprietorship.
- Additional management skills.



Disadvantage

- Unlimited liability.

A **corporation** is organized under state or federal statutes as a separate legal entity.



- Advantage
- The ability to obtain large amounts of resources by issuing stocks.

Disadvantage
Double taxation.

Accountant

- A person who keeps the financial history of the transactions of an economic unit in written form
- Sometimes mistakenly called a bookkeeper

The Difference Between Bookkeeping and Accounting

– Bookkeeping

- Systematic recording of business transactions in financial terms

– Accounting

- A higher level of work that involves creating the accounting system, auditing the accounting system, or creating official reports

– No exact line where one ends and the other begins

Objective 2

Explain the importance of accounting information

- Accounting information helps people make better business decisions
- Accounting provides an understanding of the scope, functions, and policies of an organization
- Accounting is the language of business

Users of Accounting Information

- Owners
- Managers
- Creditors
- Government agencies

Owners

- Owners have invested their money or goods in a business organization
- Owners desire information regarding the company's:
 - Earnings
 - Prospects for future earnings
 - Ability to pay its debts

Managers

- Must know the language of business so that they can manage the economic unit
- Use or create accounting information in order to:
 - Prepare financial reports
 - Understand reports and budgets
 - Express future plans in financial terms
 - Evaluate performance in meeting goals

Creditors

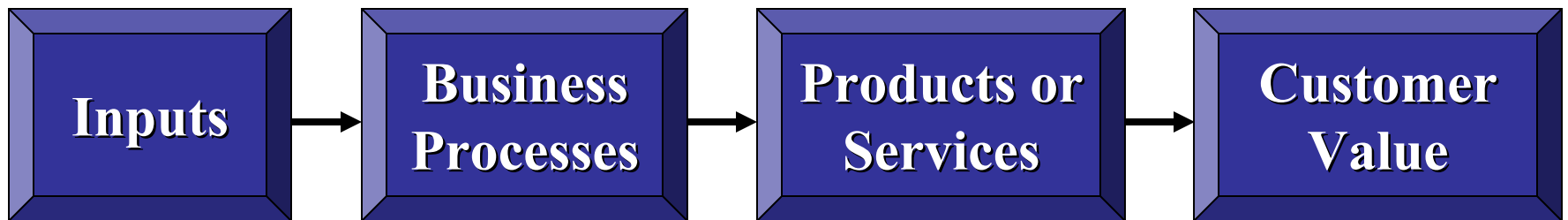
- Lend money or extend credit to the company
- Look at accounting information to assess the company's ability to pay its debts
- Examples of creditors:
 - Banks
 - Suppliers
 - Lending institutions

Government Agencies

- Taxing authorities verify information submitted by companies concerning a variety of taxes
 - Income taxes
 - Sales taxes
- Public utilities must provide financial information to regulatory agencies

Value Chain of a Business

A value chain is the way a business adds value for its customers by processing inputs into product or service.



Business Stakeholders

A business stakeholder is a person or entity having an interest in the economic performance of the business.

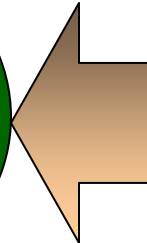
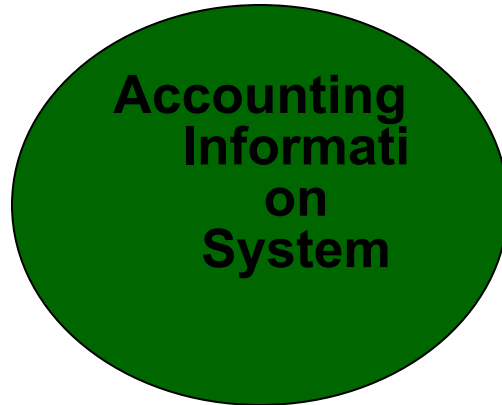
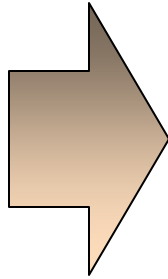
The Process of Providing Information



The Process of Providing Information

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Record economic data about business activities and events.



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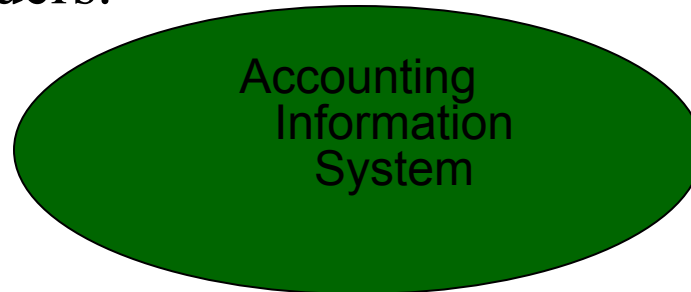
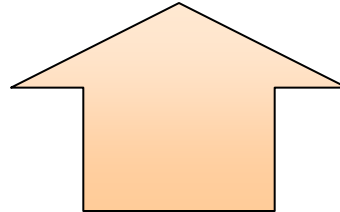
Design the accounting information system to meet stakeholders' needs.

The Process of Providing Information



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Prepare accounting reports for stakeholders.



GAAP

- Generally accepted accounting principles
- The rules or guidelines used for carrying out the accounting process
- Who creates the rules?
 - Voters → Congress → SEC → FASB → GAAP

- The ***business entity concept*** limits the economic data in the accounting system to data related directly to the activities of the business

The ***cost concept*** is the basis for entering the exchange price, or cost of an acquisition in the accounting records

The ***objectivity concept*** requires that the accounting records and reports be based upon objective evidence.

The ***unit-of-measure concept*** requires that economic data be recorded in dollars