Chapter 1

Introduction to Accounting
Describe the purpose of accounting
The Purpose of Accounting

To provide:

- Financial information about the current operations and financial condition of a business to individuals and organizations
Who Are the Users of Accounting Information?

- Owners
- Managers
- Creditors
- Government Agencies
Describe the accounting process.
The Accounting Process

Accounting is a system of:

• Gathering financial information about a business and reporting this information to users
Step One

Looking at events that have taken place and thinking about how they affect the business.
Step Two

Entering financial information about events into the accounting system.
Step Three

CLASSIFYING

Sorting and grouping similar items together rather than merely keeping a simple, diary-like record of numerous events.
Step Four

SUMMARIZING

The aggregation of many similar events to provide information that is easy to understand.
Step Five

REPORTING

Telling the results. Use of numbered tables in accounting is common.
Step Six

Interpreting

Deciding the meaning and importance of the information in various reports.
Define GAAP and describe the process used by FASB to develop these principles.
GAAP

- Generally Accepted Accounting Principles (GAAP)
- Developed by the Financial Accounting Standards Board (FASB)
- Procedures and guidelines to be followed in the accounting and reporting process
Process Used by FASB to Develop GAAP

- Identify an accounting issue
- Place on the agenda
- Research an issue
- Issue a discussion memorandum
- Hold public hearings
- Issue an exposure draft
- Issue a Statement Of Financial Accounting Standards (SFAS)
Define three types of business ownership structures.
Three Types of Ownership Structures

• Sole proprietorship

• Partnership

• Corporation
Sole Proprietorship

- One owner
- Owner assumes all risk
- Owner makes all decisions
Partnership

- Two or more partners
- Partners share risks
- Partners may disagree on how to run the business
Corporation

- Stockholders

- Stockholders have limited risk

- Stockholders may have little influence on business decisions
Classify different types of businesses by activities.
Types of Businesses

- Service business
- Merchandising business
- Manufacturing business
Service Business

A business that provides a service.

- Travel Agency
- Physician
- Computer Consultant
Merchandising Business

A business that buys a product from another business to sell to customers.

- Department Store
- Pharmacy
- Jewelry Store
A business that makes a product to sell.

Automobile Manufacturer

Furniture Maker

Toy Factory
Identify career opportunities in accounting.
Career Opportunities in Accounting

- Accounting clerk
- Bookkeeper
- Para-accountant
- Accountant
Accounting Clerk

- Record, sort, and file accounting information

- Often specialize in one area (such as cash, payroll, accounts receivable, accounts payable, inventory, or purchases)

- Usually have at least one year of accounting education
Bookkeepers

• Supervise the work of accounting clerks

• Help with daily accounting work

• Summarize accounting information

• Help managers and owners interpret accounting information

• Usually have one to two years of accounting education and experience as an accounting clerk
Para-Accountants

- Provide many accounting, auditing, or tax services under the direct supervision of an accountant
- Have two years of accounting education or significant accounting and bookkeeping experience
Accountants

• Design the accounting information system
• Focus on analyzing and interpreting information
• Look for important trends in the data
• Study the impact of alternative decisions
• Enter the field with a college degree in accounting
Accounting Careers

- Public accounting
- Private accounting
- Governmental and not-for-profit accounting
Public Accounting

• Offer services to the public

• CPA (Certified Public Accountant)

• Auditing, Taxation, Management Advisory Services
Private Accounting

- Employees of private businesses
- Controller
- Accounting Information Systems; Financial, Cost, and Tax Accounting; Budgeting; and Internal Auditing
- CMA (Certified Managerial Accountant)
- CIA (Certified Internal Auditor)
Governmental and Not-for-Profit Accounting

- Work in **all** levels of government
- Also employed by universities, hospitals, charities, etc.
- Gather and report financial information