Chapter
1

Financial & Managerial Accounting

Lecture 01: Introduction to Accounting

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Information Age

We live in the information age- a time of communication, data, news and facts.

Access to and understanding of information affect how we live and the opportunities we have. To take advantage of the information, we need knowledge of the *information system*.

Information System

An information system is the collecting, processing, and communicating of information to decision makers.

Understanding and processing information is the core of information system.

Accounting, an Information System

Accounting is an information system that collects, processes and communicates *financial information* to interested users about an organization useful in making decisions.

Knowing The Numbers

"To be good at your business,
you have to know the numbers—cold."

- Harold S. Geneen

Financial Information

Financial information may include sales, expenses, taxes and any other figure of an *economic event*.

Economic Event

Economic event is an event which causes changes to the financial position of an organization.

Users Of Accounting Information

Interested parties are also called accounting information users. There are two broad categories of accounting information users:

- External Users
- Internal Users.

External Users & Their Need

External users are parties outside the reporting entity (i.e. business) who are interested in the accounting information.

They include investors, creditors, taxing authorities, customers etc.

External Users -Investors

Investors use accounting information to make buy, sell or keep decisions related to shares, bonds, etc.

External Users- Creditors

Creditors (suppliers, banks) utilize accounting information to make lending decisions.

External Users- Taxing Authorities

Taxing authorities (Internal Revenue Service) need accounting information to determine a company's tax liabilities.

External Users- Customers

Customers may need accounting information to decide which products and from which company to buy.

Internal Users & Their Need

Internal users are parties inside the reporting entity (i.e. company) who are interested in the accounting information.

Internal users are managers, owners and employees who actually work for the business.

Internal Users- Managers

A company's management uses accounting information to run the business.

Internal Users- Employees

Employees utilize accounting information to determine a company's profitability and profit sharing.

Types of Accounting

There are mainly two types of accounting:

- ***Financial Accounting***
- ***Managerial Accounting***

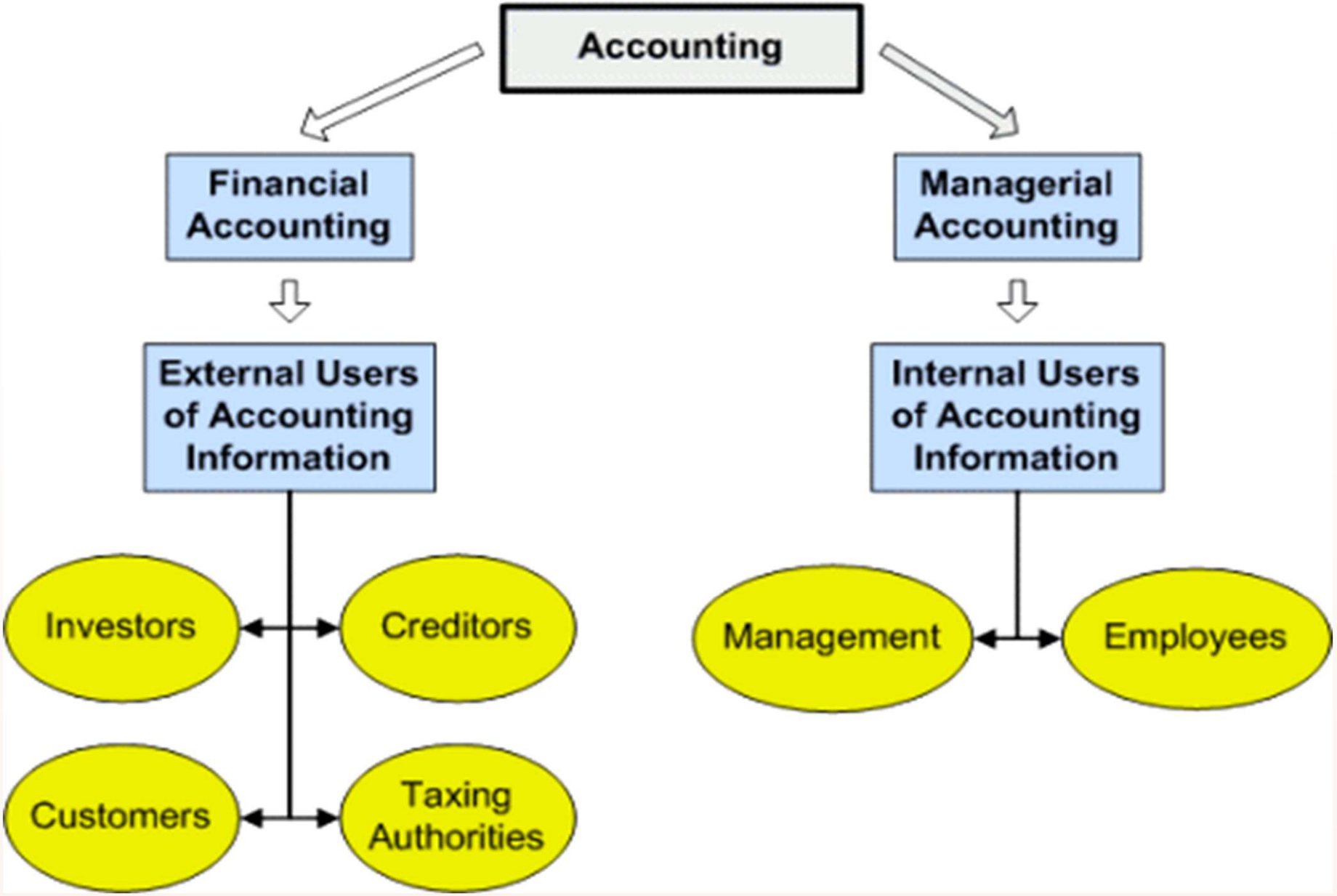
Financial Accounting

Financial accounting provides information that is designed to satisfy the needs of external users. Such reporting is usually done in the form of financial statements.

Managerial Accounting

Managerial accounting provides information that is useful in running a company by internal users. Such reporting is usually accomplished through custom designed reports.

Illustration



GAAP

The accounting profession has developed standers that are generally accepted and universally practiced. This common set of standers is called "Generally Accepted Accounting Principles" (GAAP).

These standers indicate how to report economic events.

GAAP- Money Measurement Principle



Money Measurement Principle

For an accounting record to be made it must be able to be expressed in monetary terms.

Only those economic events and transactions that can be monetized (stated in a monetary unit such as the BD Taka or U.S. Dollars) are recorded.

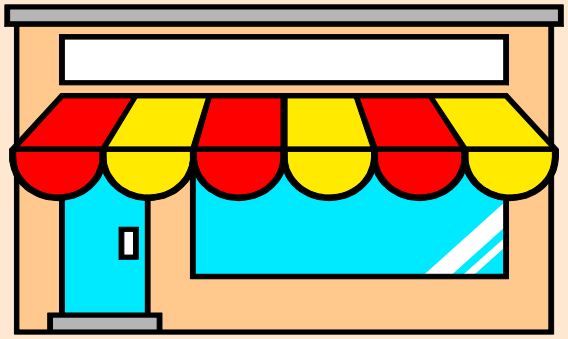
Organizations

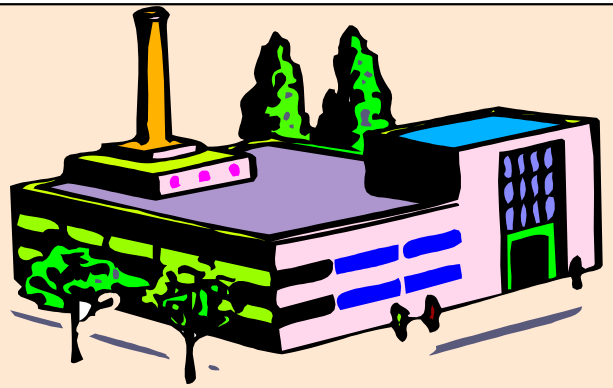
Organizations: A person or body of persons organized for some specific purpose.

Organizations can be classified as either business or nonbusiness.

- Business Organizations is one or more individuals selling products or services for profit.
- Nonbusiness Organizations serves us in ways not always measured by profit.

GAAP- Business Entity Concept



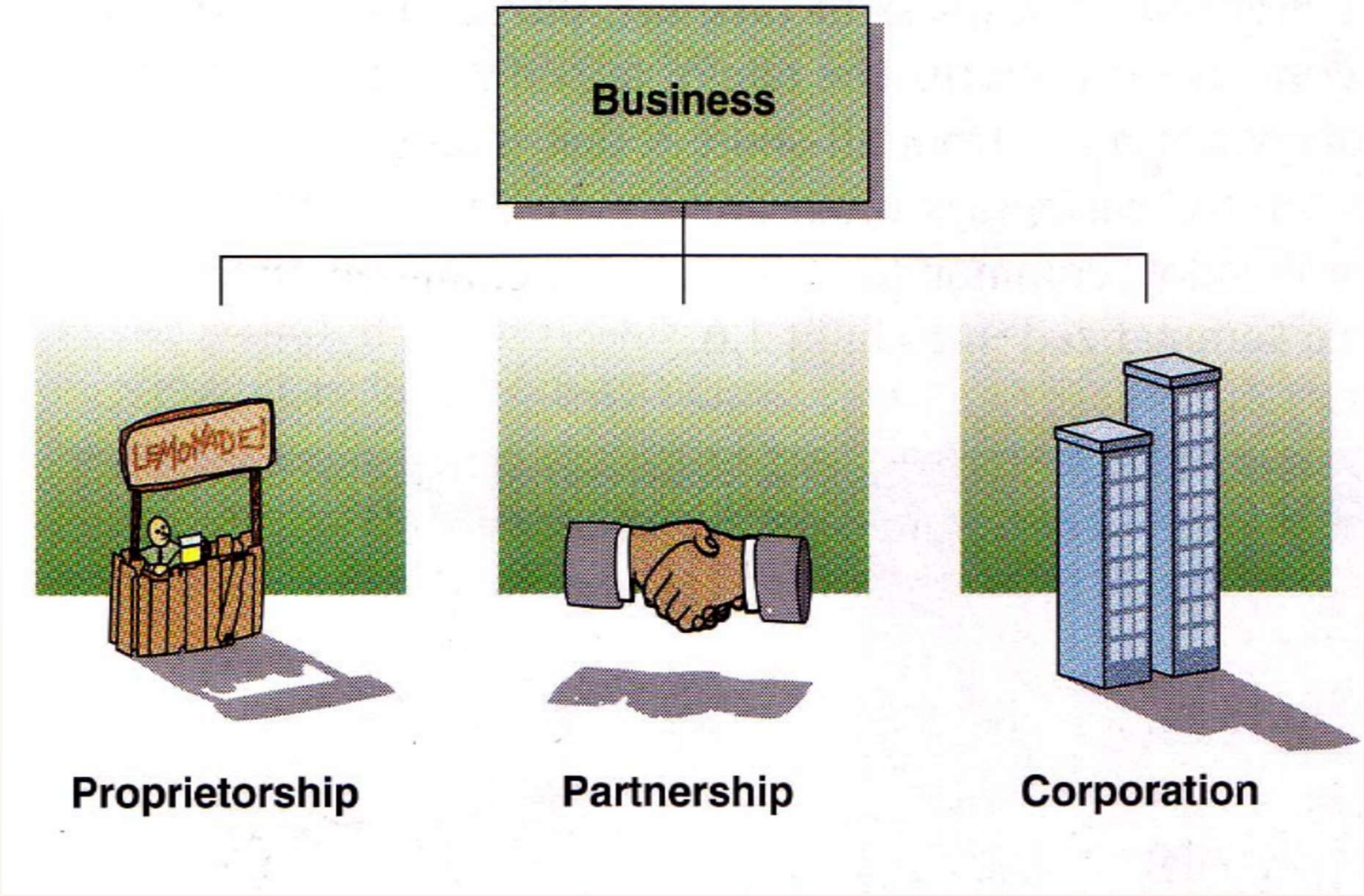


Business Entity Concept

A business entity is separate from the personal affairs of its owner.

Accounts are kept for entities and not the people who own or run the company. Even in proprietorships and partnerships, the accounts for the business must be kept separate from those of the owner(s).

Forms of Business Organizations



Single Proprietorship

A ***proprietorship*** is owned by one individual.

Advantages

- Ease in organizing
- Low cost of organizing



Disadvantage

- Limited source of financial resources
- Unlimited liability

Partnership

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



Advantages

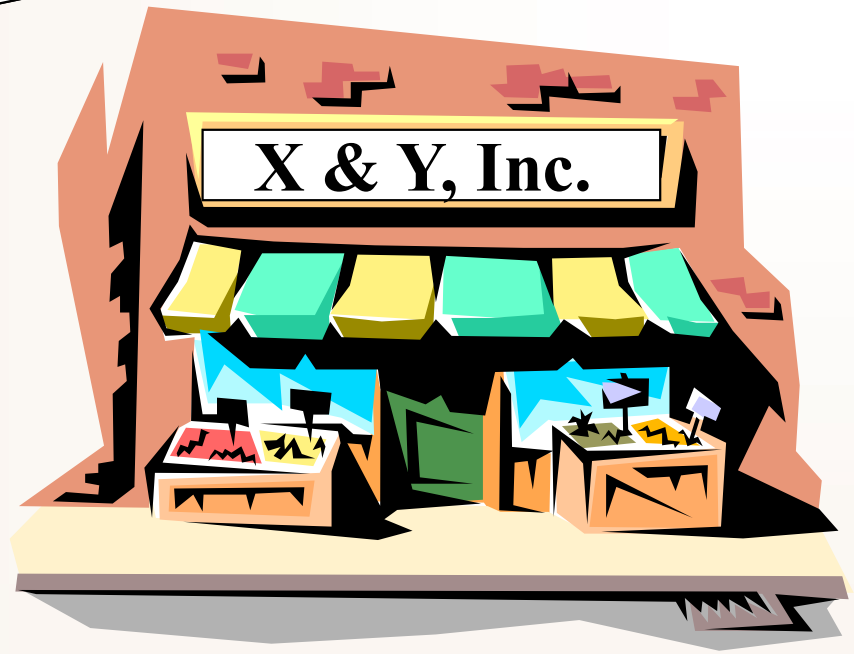
- More financial resources than a proprietorship.
- Additional management skills.

Disadvantage

- Unlimited liability.

Corporation

A ***corporation*** is organized under state law as a separate legal entity.



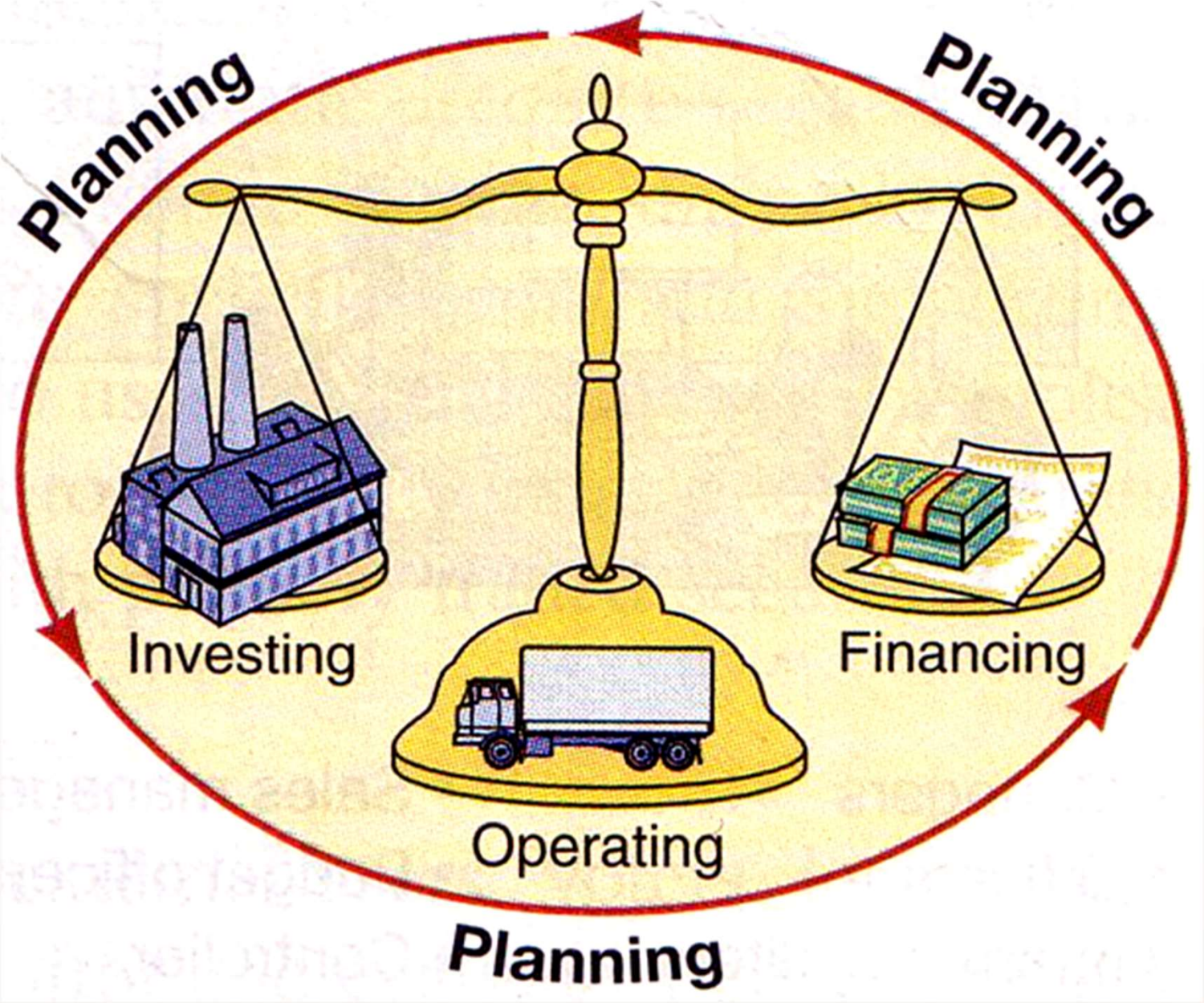
Advantage

- The ability to obtain large amounts of resources by issuing shares.
- Limited liability.

Disadvantage

- Double taxation.

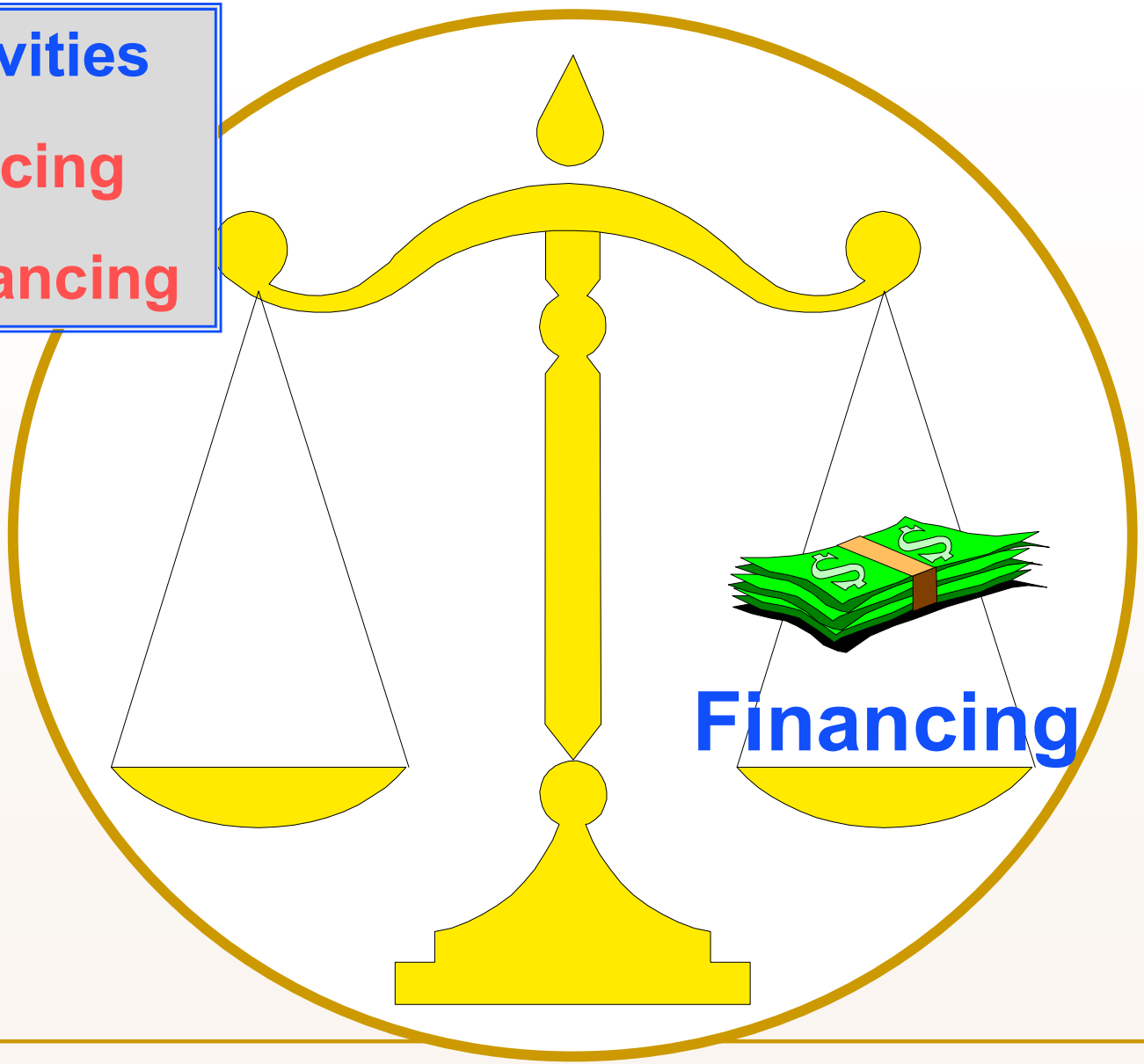
Activities in Business Organizations



Financing activities

Financing activities

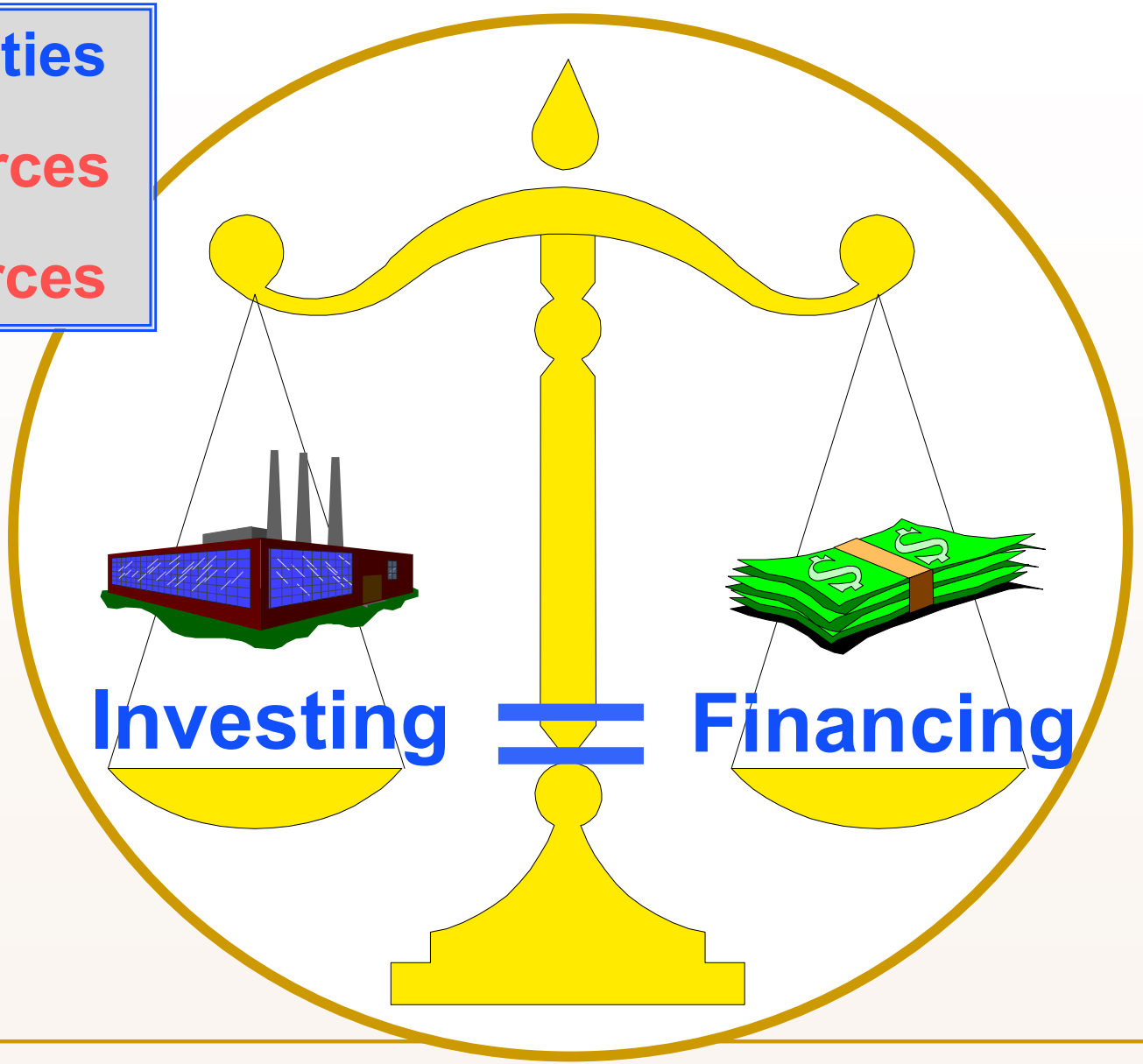
- Owner financing
- Nonowner financing



Investing activities

Investing activities

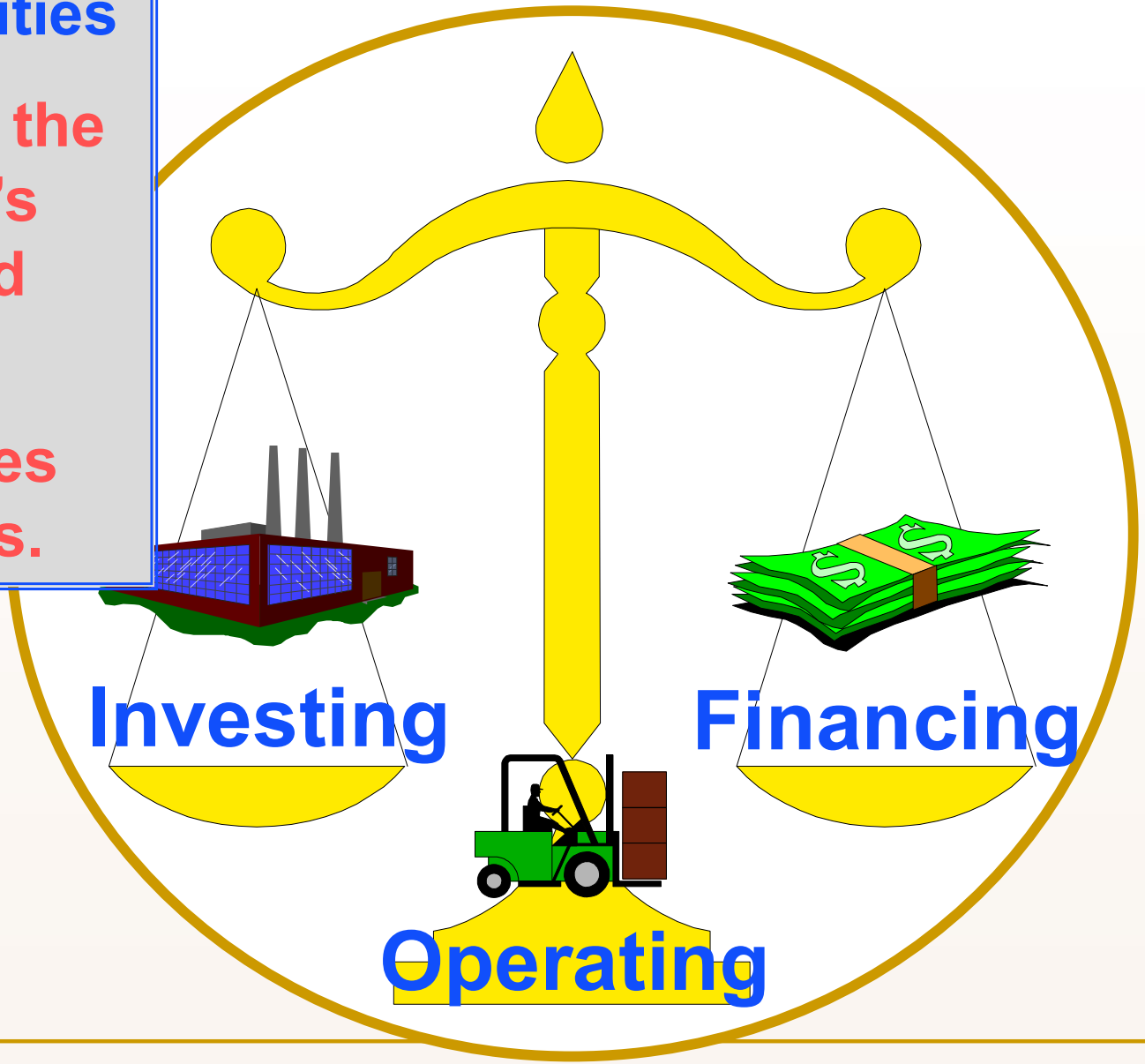
- **Buying resources**
- **Selling resources**



Operating activities

Operating activities

- Aim at selling the organization's products and services.
- Result in sales and expenses.



Types of Business

- Service companies
  - *Provide services for a fee.*
- Merchandising companies
  - *Purchase goods that are ready for sale and then resell them to customers.*
- Manufacturing companies
  - *Buy materials, convert them into products, and then sell the products to other companies or to final customers.*

End of Lecture 01

thank you all…