



مجموعة جامعة
الجميع الذكية
للتعليم القابضة

MIDOCEAN
UNIVERSITY
BY EVERYONE'S SMART UNIVERSITY

Training Course Fundamentals of Accounting for Non-Professionals

Lecture 1

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Objectives:

- **Understanding Accounting Basics:** Introduce participants to fundamental accounting concepts and their importance in the business context.
- **Understanding Financial Statements:** Explain basic financial statements such as the income statement and balance sheet and how to read and interpret them.
- **Introduction to the Balance Sheet:** Explain the importance of the balance sheet, how to prepare it, and its use in making financial decisions.
- **Accounts and Financial Records:** Teach participants how to examine accounts and ensure the accuracy of financial records.

The course material will be covered in four sessions, with each lecture lasting between sixty and ninety minutes.



Course Duration:

Introduction to Accounting

- **The History of Accounting.**
- **Definition and Importance of Accounting**
- **Users of accounting**
- **Types of Accounting: Financial and Managerial**
- **Principles and Assumptions of Accounting**



Course Outline:

Basic and Expanded Accounting Equations

- Understanding the Basic Equation
- Understanding the Expanded Accounting Equation
- Adjusting the accounting errors



Course Outline:

Accounts and recording pross

- **Recording pross (journaling and posting ledgers, trial balance)**
- **How to Inspect Accounts and Verify the Accuracy of Financial Records**



Course Outline:

Reports and Financial Statements

- **Understanding the Income Statement and its Importance**
- **Understanding the Statement of Changes in Equity and its Importance**
- **Understanding the Balance Sheet and its Importance**
- **Financial position analysis and financial performance evaluation.**
- **Types of Companies Based on the Nature of Business and Ownership.**



Course Outline:

The History of Accounting.

The Development and History of Accounting

Recording, analyzing, and presenting financial and economic data for people, businesses, and organizations are all part of the study of accounting. Accounting has a long history, originating in the need to manage and record resources and finances in prehistoric societies. We will go over the essential elements of accounting's past and its historical development in this conversation.

- Preliminary Stage prior to 1494 AD
- The Silver Age (AD 1494–1775)
- The Golden Age (1775 AD to Present)

The History of Accounting.

The Development and History of Accounting

Preliminary Stage prior to 1494 AD:

- Accounting was still in its infancy during this period. Recording basic financial transactions and important financial matters was the fundamental requirement. This was the first time that economic and financial data were being recorded.
- Basic accounting techniques were used to record financial transactions using paper, pens, and books. There were regional variations in laws and practices, and there were no unified accounting standards.

The History of Accounting.

The Development and History of Accounting

- The Silver Age (AD 1494–1775):
- saw important advancements in accounting during this time. One of the first works to address the concept of double-entry accounting is an accounting guide written by the Italian monk Luca Pacioli in 1494.
- The idea that all financial transactions have two outcomes—a debit and a credit—helped to improve accounting records' accuracy. Methods for calculating costs and creating financial accounting reports were created, and accounting grew more structured.
- The ability to examine financial data was strengthened by the accuracy and dependability of accounting records.

The History of Accounting.

The Development and History of Accounting

➤ The Golden Age (1775 AD to Present):

During this time, there was a significant industrial revolution in accounting. The development of technology played a major role in the substantial improvements in accounting techniques. When accounting processes began using computers, the speed and accuracy of financial report preparation increased. Emerging ideas included management accounting and the use of cloud computing and artificial intelligence to analyze financial data. To standardize accounting procedures worldwide, international accounting standards were created.



Definition and Importance of Accounting

What is accounting?

- **Accounting:** is a financial information system.
- **Accounting** is the financial information system that provides these insights. In short, to understand your organization, you have to know the numbers.
- **Accounting** is often called the language of businesses. A language is a means of social communication and involves a flow of information from one person to one or more other people.

Definition and Importance of Accounting

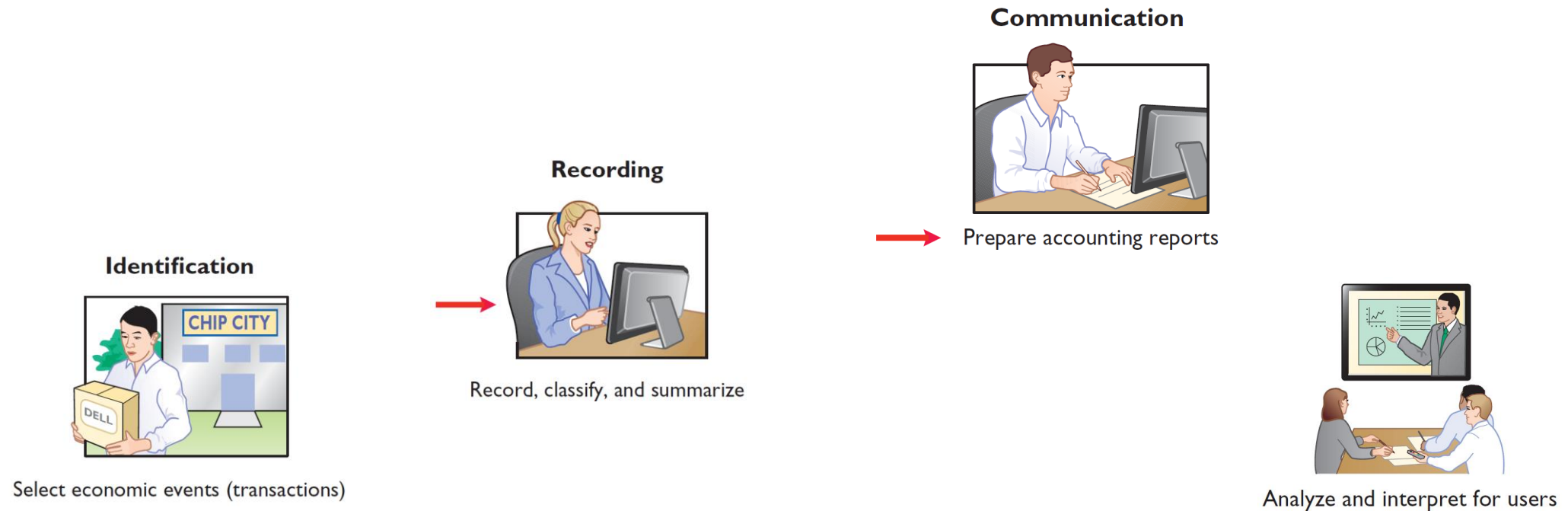
What is accounting?

Accounting consists of three basic activities—it

- identifies,
- records, and
- communicates

the economic events of an organization to interested users.

Definition and Importance of Accounting



Definition and Importance of Accounting

Identification

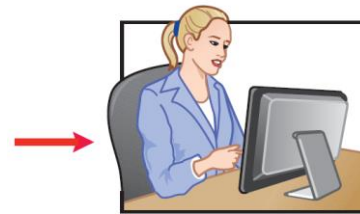


Select economic events (transactions)

To identify economic events, a company selects the economic events relevant to its business.

Definition and Importance of Accounting

Recording

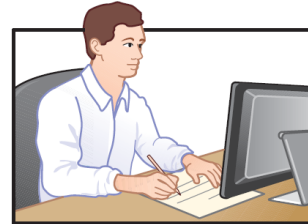


Record, classify, and summarize

records those events in order to provide a history of its financial activities. Recording consists of keeping a systematic, chronological diary of events, measured in dollars and cents.

Definition and Importance of Accounting

Communication



→ Prepare accounting reports

communicates the collected information to interested users by means of accounting reports. The most common of these reports are called financial statements.

Identify the users and uses of accounting.

Who Uses Accounting Data?

The information that a user of financial information needs depends upon the kinds of decisions the user makes.

There are two broad groups of users of financial information:

- internal users.
- external users.

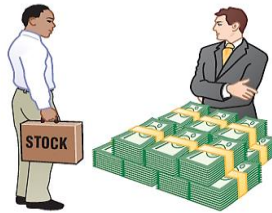
Identify the users and uses of accounting.

INTERNAL USERS



Human Resources

Can **General Motors** afford to give its employees pay raises this year?



Finance

Is cash sufficient to pay dividends to **Microsoft** stockholders?



Marketing

What price should **Apple** charge for an iPod to maximize the company's net income?



Snack chips Beverages

Management

Which **PepsiCo** product line is the most profitable? Should any product lines be eliminated?

Managerial accounting provides internal reports to help users make decisions about their companies.

Identify the users and uses of accounting.

INTERNAL USERS

Internal users of accounting information are those individuals inside a company who plan, organize, and run the business. These include marketing managers, production supervisors, finance directors, and company officers. In running a business, internal users must answer many important questions. To answer these and other questions, internal users need detailed information on a timely basis.

Managers must have financial data for planning and controlling the operations of the business entity and hence need answers to such questions as follows.

Identify the users and uses of accounting.

INTERNAL USERS

- How much profit is being earned?
- What products should be produced?
- What resources are available?
- What is the most efficient production process?
- How much does it cost to reduce carbon emissions from the production process?
- What will be the effect of increasing or decreasing selling prices?
- Will cash be available to pay debts as they fall due?
- What are the benefits of purchasing an asset as opposed to leasing it?

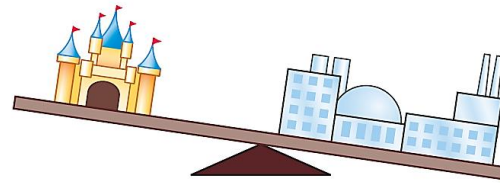
Identify the users and uses of accounting.

EXTERNAL USERS



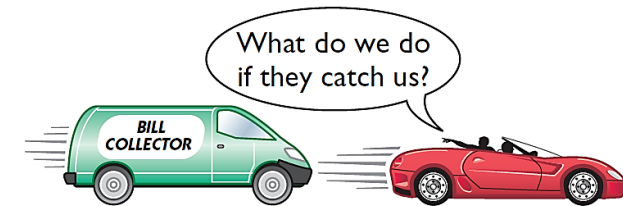
Investors

Is **General Electric** earning satisfactory income?



Investors

How does **Disney** compare in size and profitability with **Time Warner**?



Creditors

Will **United Airlines** be able to pay its debts as they come due?

Financial accounting provides economic and financial information for investors, creditors, and other external users.

Identify the users and uses of accounting.

EXTERNAL USERS

External decision makers such as resource providers (creditors and investors), recipients of goods and services (customers) and reviewers and overseers of business entities (employers, unions, government agencies) need accounting information for making decisions concerning granting credit, investing, purchasing goods and services, and complying with tax laws and other regulatory requirements. Questions raised by external users include the following.

Identify the users and uses of accounting.

EXTERNAL USERS

- Should I invest money in this business?
- Am I likely to be paid my wages?
- Will the business be able to repay money lent to it?
- What are the company's earnings prospects?
- Is the business financially sound?

Generally Accepted Accounting Principles

Different users
need financial
information



Financial Statements

- ◆ Balance Sheet
- ◆ Income Statement
- ◆ Statement of Owner's Equity
- ◆ Statement of Cash Flows
- ◆ Note Disclosure



The accounting profession
has developed standards
that are generally accepted
and universally practiced.



**Generally Accepted
Accounting Principles
(GAAP)**

Generally Accepted Accounting Principles

Generally Accepted Accounting Principles (GAAP) – Standards that are generally accepted and universally practiced. These standards indicate how to report economic events.

Standard-setting bodies:

- ▶ **Financial Accounting Standards Board (FASB)**
- ▶ **International Accounting Standards Board (IASB)**
- ▶ **International Financial Reporting standards (IFRS)**

Measurement Principles

HISTORICAL COST PRINCIPLE (or cost principle) dictates that companies record assets at their cost.

For example, if the Company purchases land for \$150,000, the company initially reports it in its accounting records at \$150,000. But what does company do if, by the end of the next year, the land has increased in value to \$180,000? Under the cost principle it continues to report the land at \$150,000.

FAIR VALUE PRINCIPLE states that assets and liabilities should be reported at fair value (the price received to sell an asset or settle a liability).

Main assumptions of accounting.

Assumptions

- Assumptions provide a foundation for the accounting process.
- Two main assumptions are the **monetary unit assumption** and the **economic entity assumption**.

Main assumptions of accounting.

MONETARY UNIT ASSUMPTION

requires that companies include in the accounting records only transaction data that can be expressed in terms of money.

- **The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in money terms. This assumption enables accounting to quantify (measure) economic events.**
- **The monetary unit assumption is vital to applying the cost principle.**

Forms of Business Ownership

Proprietorship

- A business owned by one person is generally a proprietorship.
- The owner is often the manager/operator of the business. Small service-type businesses (plumbing companies, beauty salons, and auto repair shops), farms, and small retail stores (antique shops, clothing stores, and used-book stores) are often proprietorships.
- Usually only a relatively small amount of money (capital) is necessary to start in business as a proprietorship. The owner (proprietor) receives any profits, suffers any losses, and is personally liable for all debts of the business. There is no legal distinction between the business as an economic unit and the owner, but the accounting records of the business activities are kept separate from the personal records and activities of the owner.

Forms of Business Ownership

Partnership

- A business owned by two or more persons associated as partners is a partnership. In most respects a partnership is like a proprietorship except that more than one owner is involved. Typically a partnership agreement (written or oral) sets forth such terms as initial investment, duties of each partner, division of net income (or net loss), and settlement to be made upon death or withdrawal of a partner. Each partner generally has unlimited personal liability for the debts of the partnership. Like a proprietorship, for accounting purposes the partnership transactions must be kept separate from the personal activities of the partners.
- Partnerships are often used to organize retail and service-type businesses, including professional practices (lawyers, doctors, architects, and certified public accountants).

Forms of Business Ownership

Corporation

- A business organized as a separate legal entity under state corporation law and having ownership divided into transferable shares of stock is a corporation.
- The holders of the shares (stockholders) enjoy limited liability; that is, they are not personally liable for the debts of the corporate entity. Stockholders may transfer all or part of their ownership shares to other investors at any time (i.e., sell their shares).
- The ease with which ownership can change adds to the attractiveness of investing in a corporation. Because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.

Forms of Business Ownership

Proprietorship

- ◆ Owned by one person
- ◆ Owner is often manager/operator
- ◆ Owner receives any profits, suffers any losses, and is personally liable for all debts

Partnership

- ◆ Owned by two or more persons
- ◆ Often retail and service-type businesses
- ◆ Generally unlimited personal liability
- ◆ Partnership agreement

Corporation

- ◆ Ownership divided into shares of stock
- ◆ Separate legal entity organized under state corporation law
- ◆ Limited liability



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Thank You

