

Financial Accounting

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MGM611

Lecture 0



Chapter (1) Introduction to Financial Accounting

Learning outcomes

- LO 1** Identify the origins of Accounting.
- LO 2** Explain the different forms of business ownership.
- LO 3** State the main reasons for studying Accounting .
- LO 4** Describe Activities & different users of Accounting information.
- LO 5** Explain the GAAP & the role of standards-setters bodies.
- LO 6** Comparing Financial Accounting with Managerial Accounting.

The Origins of Accounting

The Origins of Accounting is generally attributed to the Italian mathematician “**Luka Pacioli**” in 1494.

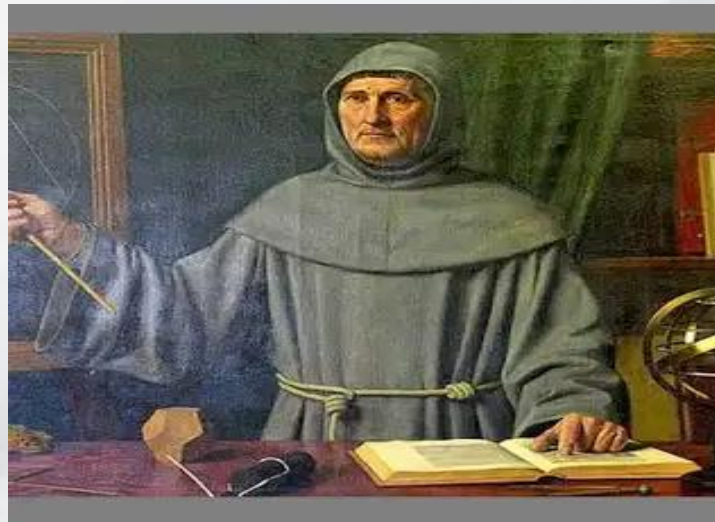
Luka developed the **Double entry system** which includes:



Debit



Borrower



Credit



lender

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**

Corporation

- Owned by **shareholders**
- Separate legal entity organized under state corporation law
- **Limited liability**

Why do we study Accounting ?

1. To Know the Business profit & loss.
2. To know the Business financial position.
3. To Know the changes in owner's capital.
4. To Know the business cash Position.



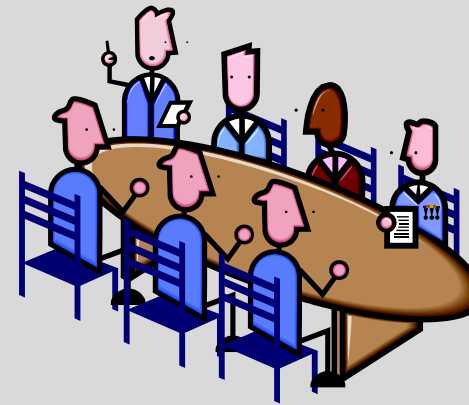
Users of Accounting Information

External Users



- Competitors
- Shareholders
- Tax Authorities
- External Auditors
- Lenders (Banks)

Internal Users

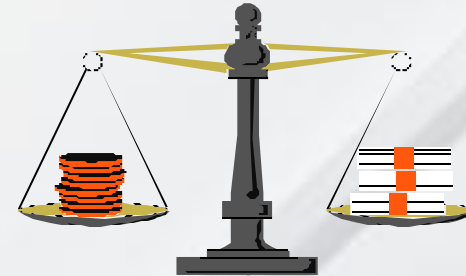


- Managers
- Employees
- Internal Auditors
- Budget Officers

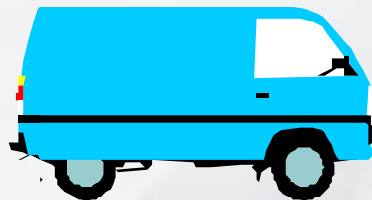
QUESTIONS ASKED BY **EXTERNAL** USERS



Is the company earning satisfactory income?



How does the company compare in size and profitability with its competitors?



Will the company be able to pay its debts as they come due?



What do we do if they catch us?

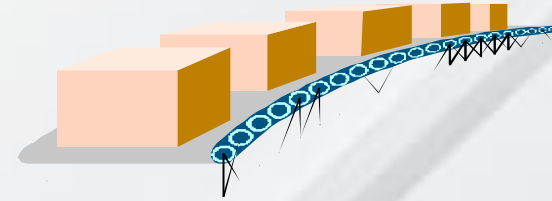
QUESTIONS ASKED BY **INTERNAL** USERS



Is cash sufficient to pay bills?



**Can we afford to give employees pay raises
this year?**



**What is the cost of manufacturing
each unit of product?**



**Which product line is the most
profitable?**

Generally Accepted Accounting Principles

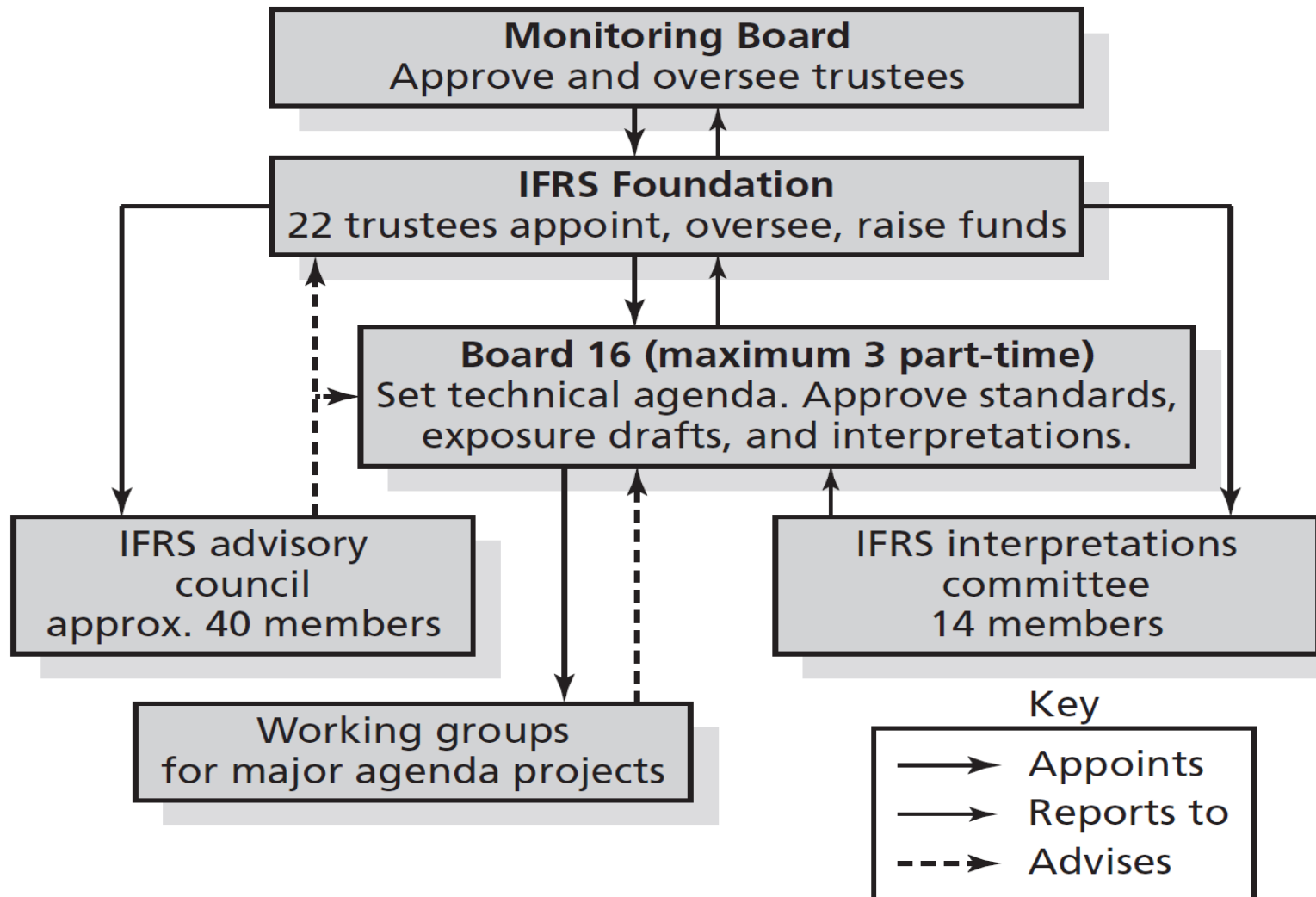
Standards that are generally accepted and universally practiced. These standards indicate how to report economic events.

Standard-setting bodies:

- **Financial Accounting Standards Board (FASB)**
- **International Accounting Standards Board (IASB)**



The Structure of the IASB



Comparing Financial and Managerial Accounting

Feature	Financial Accounting	Managerial Accounting
Primary Users	External users: shareholders, creditors, and regulators.	Internal users: officers and managers.
Frequency of Reports	Financial statements. Quarterly and annually.	Internal reports. As frequently as needed.
Purpose of Reports	Financial statements for General-purpose.	Decision Making
Focus/Emphasis	Past-Oriented	Future-Oriented
Verification Process	Audited by accountants According IFRS &US.GAAP.	No independent audits.

Required Textbook:

Financial Accounting IFRS Edition, by John Wiley & Sons, Inc.

Topics:

- Accounting cycle & Financial Statements.
- Investing and Financing Decisions.
- Operating Decisions and the Income Statement.
- Communicating and Interpreting Accounting Information.
- Cost of Goods Sold and Inventory.
- Property, Plant, and Equipment Natural Resources.
- Reporting and Interpreting Liabilities.
- Financial Statements Analysis

Module Learning Outcomes:

- **This course will enable the students to combine practice and theoretical knowledge of financial Accounting.**
- **The students of this course will be active learners and develop awareness of emerging trends in financial Accounting.**
- **The course will provide decision making skills to the students in the financial analysis context.**
- **The students of this course will have the ability to identify and analyze Financial Accounting problems and opportunities in real life situations.**



Thank You