







Accounting: The Language of Business

Section 1: What Is Accounting?

Section Objectives

- 1-1 Define accounting.
- 1-2 Identify and discuss career opportunities in accounting.
- 1-3 Identify the users of financial information.

In running a business, you need answers to questions:

-  How much cash does the business have?
-  How much money do customers owe the business?
-  What is the cost of the merchandise sold?
-  What is the change in sales volume?
-  How much money is owed to suppliers?
-  What is the profit or loss?

QUESTION:

What is accounting?

ANSWER:

Accounting is the process by which financial information about a business is classified, recorded, summarized, interpreted, and communicated to owners, managers and other interested parties.

QUESTION:

What are financial statements?

ANSWER:

Financial statements are periodic reports of a firm's financial position and operating results.

Many jobs are available in the accounting profession. Some examples are:

Bookkeepers & Accounting Clerks



Financial Analysts



Financial Managers



Accountants generally work in one of these areas:

- Public accounting
- Managerial accounting
- Governmental accounting

Public accounting firms provide services such as:

- Auditing
- Tax accounting
- Management advisory services

QUESTION:

Who is a certified public accountant?

ANSWER:

A certified public accountant, or CPA, is an independent accountant who provides accounting services to the public for a fee.

QUESTION:

What is managerial accounting?

ANSWER:

Managerial accounting includes a wide range of work carried on by an accountant employed by a single business in industry.

Managerial Accounting, or private accounting, involves working for a single business to:

- Establish accounting policies
- Provide financial advice to management
- Manage the accounting system
- Prepare and interpret financial statements
- Prepare tax forms and do tax planning
- Prepare internal reports for management

QUESTION:

What is governmental accounting?

ANSWER:

Governmental accounting involves keeping financial records and preparing financial reports for a federal, state, or local governmental unit.

Governmental accounting involves keeping financial records and preparing financial reports as part of the staff of federal, state, or local governmental units, such as:

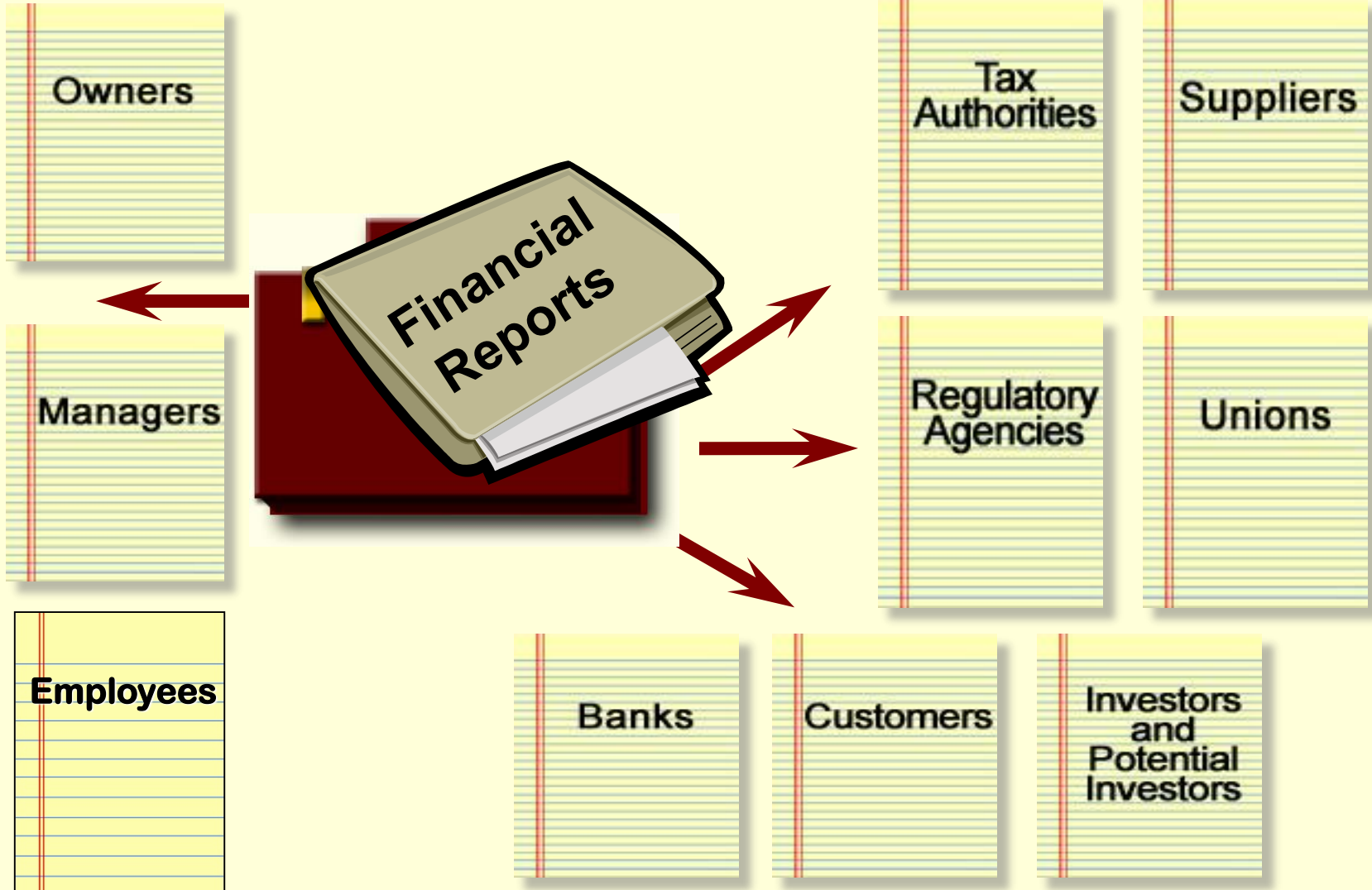
- Securities and Exchange Commission (SEC)
- Internal Revenue Service (IRS)
- Federal Bureau of Investigation (FBI)
- Homeland Security (DHS)

Objective 1-3

Identify the users of financial information

Inside The Business

Outside The Business



Suppliers



Use financial information to:

- **Assess the firm's ability to pay its bills**
- **Set a credit limit for the firm**

Banks



Use financial information to:

- Decide whether to make a loan
- Determine the terms of the loan

Tax Authorities

Use financial information to determine the tax base for:

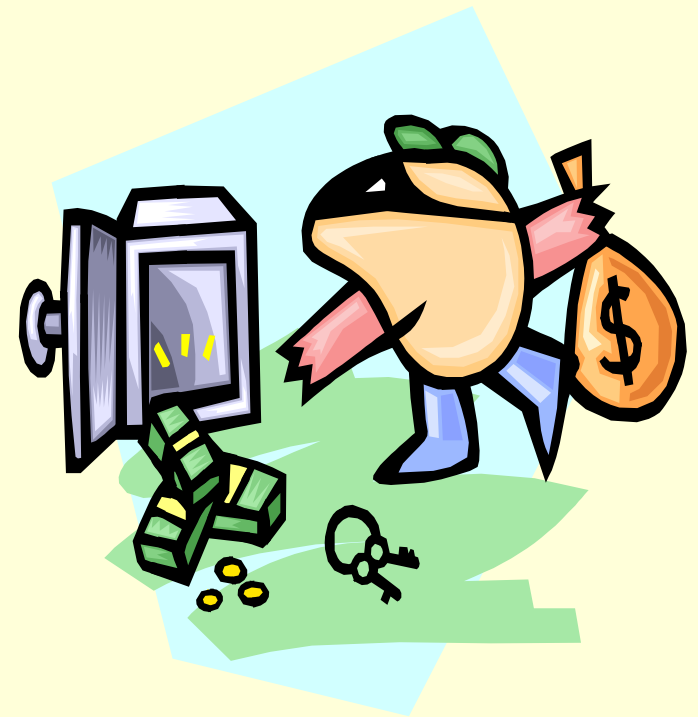
- **Income taxes**
- **Sales taxes**
- **Property taxes**

Regulatory Agencies and Investors

- **The Securities and Exchange Commission (SEC) is the federal agency that oversees the financial information of public corporations.**
- **Public corporations are those whose stock is traded on stock exchanges and over-the-counter markets.**

Sarbanes-Oxley Act

- The Act led to a major change in the regulatory environment.
- The Act was designed as a regulatory crackdown on corporate fraud and corruption.



Customers

Use financial information to:

- Determine the economic health of the business
- Determine the likelihood that the firm will remain in business to provide parts, service, and support

Employees and Unions

Use financial information to:

- **Negotiate wages and benefits**
- **Monitor profitability of profit-sharing plans**

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Section 2: Business and Accounting

Section Objectives

- 1-4 Compare and contrast the three types of business entities.**

- 1-5 Describe the process used to develop generally accepted accounting principles.**

Three major legal forms of a business entity:

Partnership



Sole Proprietorship

Corporation



QUESTION:

What is a sole proprietorship?

ANSWER:

A sole proprietorship is a business entity owned by one person who is legally responsible for the debts and taxes of the business.

	Sole Proprietorship	Partnership	Corporation
Ownership	1 owner		
Life	Ends when owner: <ul style="list-style-type: none"> • is unable to carry on, • dies, or • closes the firm 		
Responsibility for business debts if firm is unable to pay	Owner		

QUESTION:

What is a partnership?

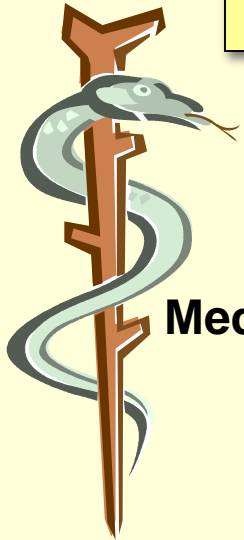
ANSWER:

A partnership is a business entity owned by two or more people who are legally responsible for the debts and taxes of the business.

	Sole Proprietorship	Partnership	Corporation
Ownership	1 owner	2 or more owners	
Life	Ends when owner: <ul style="list-style-type: none"> • is unable to carry on, • dies, or • closes the firm 	Ends when partner(s): <ul style="list-style-type: none"> • withdraws, • dies, or • closes the firm 	
Responsibility for business debts if firm is unable to pay	Owner	Partners individually and jointly	

Typical partnerships

Professional services such as:



Medical Practices

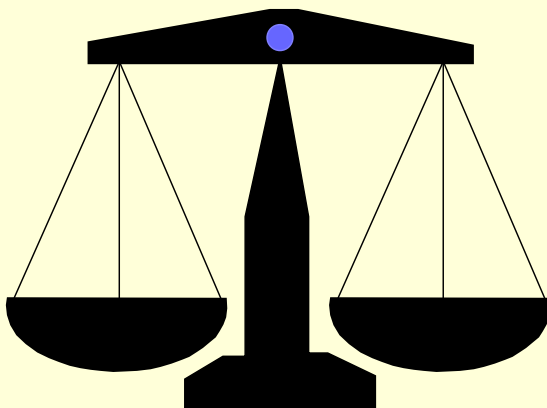
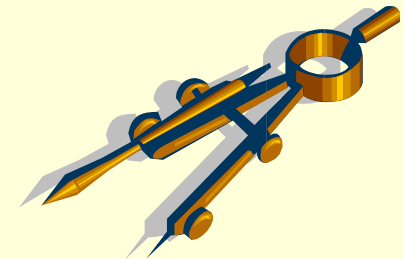
Accounting Firms



Dental Practices



Architectural Firms



Law Firms

Partners must agree upon:

- Amount each partner will contribute to the business.
- Percentage of ownership of each partner.
- Share of profits of each partner.
- Duties each partner will perform.
- Debts - the responsibility each partner has for the partnership's debts.

QUESTION:

What is a corporation?

ANSWER:

A corporation is a publicly or privately owned business entity that is separate from its owners and has a legal right to own property and do business in its own name; stockholders are not responsible for the debts or taxes of the business.

	Sole Proprietorship	Partnership	Corporation
Ownership	1 owner	2 or more	Can be one or thousands
Life	Ends when owner: <ul style="list-style-type: none"> • is unable to carry on, • dies, or • closes the firm 	Ends when partner(s): <ul style="list-style-type: none"> • dies, • close the firm • withdraws 	Continues indefinitely; ends when: <ul style="list-style-type: none"> • business goes bankrupt • stockholders vote to liquidate
Responsibility for business debts if firm is unable to pay	Owner	Partners individually and jointly	Stockholders can lose only the amount invested

QUESTION:

What is stock?

ANSWER:

Stock is issued in the form of stock certificates, and represents the ownership of the corporation.

Important Distinction

For **accounting** purposes, all forms of business entities are considered separate entities.

However, the corporation is the only form of business that is a separate **legal** entity.

QUESTION:

What is the separate entity assumption?

ANSWER:

The separate entity assumption is the concept of keeping a firm's financial records separate from the owner's personal financial records.

Describe the process used to develop generally accepted accounting principles

Objective 1-5

QUESTION:

What are generally accepted accounting principles (GAAP)?

ANSWER:

Generally accepted accounting principles (GAAP) are accounting standards developed and applied by professional accountants.

QUESTION:

What is an auditor's report?

ANSWER:

An auditor's report accompanies an independent accountant's audit or review of a firm's financial statements.

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for using

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