

# **ACCT 100 – Chapter 1**

## **Accounting – The Language of Business**

Johnson

### **The purpose of this handout is to summarize key concepts in Chapter 1.**

Welcome to Introduction to Accounting! Successful completion of this course will require a great amount of discipline and effort on your part. In return, you will gain a very solid understanding of accounting.

All textbooks start out with the following sentence. “Accounting is the language of business.” Your new textbook is no exception. Accounting is all about providing INFORMATION to the people that need it. Specifically, accounting is a process of:

- Recording
- Classifying
- Summarizing
- Interpreting
- Communicating

economic data to owners and other parties who need financial data. We will become familiar with all of these processes as we progress through the chapters.

If you started a business, or managed a business for someone else, would you want to know if the business “made money”? Would you want to know where the money was spent? Would you be interested in what your cash balance was at the end of the month? Would you want to know what the business owned, and what it owed to others?

Hopefully, you answered “Of course!” to all these questions. These are just some of the questions accountants can answer for you. The purpose of this course is to teach you some of the procedures and rules accountants follow in order to get the information to answer such questions. Even if you don’t plan on becoming an accountant, the understanding and interpretation of accounting information WILL be a necessity for you in any kind of business related position. That’s why all business majors must take several semesters of accounting courses.

### **WHAT DO ACCOUNTANTS PROVIDE BUSINESS?**

Accountants provide financial information to various parties so they can make business decisions.

### **WHAT TYPES OF INFORMATION?**

- Whether or not the business is profitable.
- What items the business owns (assets).
- How much the business owes other people (liabilities).
- What was spent on certain costs (expenses).

- How much is owed for income taxes.
- How the future of the business may look (budgeting).

## **WHO RECEIVES THIS INFORMATION?**

- Owners of the business: sole proprietorship (one owner); partnership (more than one owner); corporation (stockholders, where ownership is evidenced by owning shares of stock). In all cases, the firm's financial records are kept separate from those of the owner(s).
- Managers.
- Creditors (lenders, vendors).
- Governmental agencies (for example, the Internal Revenue Service--IRS).

### **Accounting Rules**

Can accountants make their own rules up as they go along? No—the type of accounting we will study, financial accounting, has rules called generally accepted accounting principles (GAAP). These rules are set by a group of seven individuals known as the Financial Accounting Standards Board (FASB), with input from other accountants and the business community. This group issues Statements of Financial Accounting Standards which help make up the body of GAAP that we will be following in this and all other accounting courses.

Corporations whose stock is publicly-traded (may be bought and sold in the stock market) are also subject to the rules of the Securities and Exchange Commission (SEC), a federal government agency. The SEC requires publicly-traded companies to an independent firm of Certified Public Accountants (CPAs) review their accounting records and issue reports on those annually. This type of review is called a financial statement audit.

In this course, we will study GAAP as it applies to small, sole proprietorships in both the service industry and the merchandising industry. Accounting for manufacturers is more complex and is covered in a later course.

### **Careers in Accounting**

Accountants usually work in one of three industries:

1. **Public accounting.** These are firms that offer tax, audit and management advisory services to individuals and businesses. Most who work in public accounting become Certified Public Accountants (CPAs). Most states now require a bachelor's degree plus 30 additional hours of education to qualify as a CPA. The CPA candidate also must pass a two-day exam, and work in public accounting for one or two years, depending on the state.
2. **Managerial (“private”) accounting.** Accountants who work in private accounting are employed by a business firm.
3. **Governmental and Not-for-Profit firms.** These companies also employ accountants, who follow a different GAAP than do private business firms.

The level of compensation and duties of accountants vary greatly depending on their experience and education. Pages 5-6 of our text provide more details on career opportunities in accounting. Also, there is a short video on my website that you can watch that will give you some insight into some pretty exciting careers.