

Accounting

Introduction

Accounting pertains to the process of recording and summarizing transactions of any organization, profit or non profit, business or not, which is used to create financial record of the organization that shows its assets, liabilities and results of its operations. Bookkeeping which is commonly interchanged with Accounting is just the practice of recording business transactions, and simply forms part and parcel of the Accounting process. Understanding Accounting requires knowing its basic principles, which should be strictly followed in preparing financial data (A. N. Mosich, 1982). First of is the Business-entity concept stipulates that the business is separate entity from its owners. Hence, personal assets of the owners must not be included in the business records and vice versa. Second is the Going-concern concept, which simply adverts to the continuing or perpetuating operations of a business, thereby allowing assets to be recorded at cost despite changing in their market value. The Cost concept further specifies that recording must be on cost or how much for instance a property was bought. However, while the business runs in a continuum, the Time-period concept allows business operations to be divided in time periods e.g. month, quarter or year for purposes of recording and reporting. The Matching principle states that income should be matched with the appropriate expenses that were used to arrive at such income. Finally, the Consistency concept requires uniformity of procedures used in the accounting process to allow comparative analysis. Any changes in the procedures should be reflected in the financial statements.

Accounting is a key element in the management of any organization. It practically reports the status of the business. Often, accounting data is used to gauge performance of the organization or the managers or as a basis for management decision making particularly in the area of problem solving e.g. lease or purchase, directing e.g. investment, among others and for tracking and monitoring the overall financial health of the organization or business. Accounting data or financial information may be used by different people with different interest for different purposes, four standard types of accounting systems were established. The purposes of these accounting systems are for internal planning and control of the business, for policy decision making and developing strategic goals and long term objectives and reporting to stockholders, potential investors, researchers as well as government regulatory bodies e.g. IRS.

Accounting Systems

The 4 types of Accounting Systems are: Financial accounting which is the standard accounting used to provide information about an organization's performance. Legal and GAAP guidelines are provided in the recording process. Tax accounting is principally based on IRS regulations. Its objective is apparently is to ensure that the organization is paying what is due or what it owes to Uncle Sam in the form of taxes. Cost Accounting accentuates on the cost of doing business. It focuses on activities involved in production, the service process, the departmental units within an organization as well as other resources. Management or Managerial Accounting as the name implies is principally for the internal use of the management of the business specifically for planning, monitoring and decision making. Unlike other accounting systems, Managerial accounting looks more at the future for planning and as such, is integrated with other disciplines. (Warren,

C.S. and et al, 2004). Management functions included planning, e.g. budgeting; organizing and directing like when adopting new production schemes e.g. JIT inventory systems; implementing plans and decision making such as a choice of to make, lease or purchase a product, selecting distribution channels, raw materials and process as well as acquiring assets e.g. property.

Accounting Personnel

Because Accounting is vital in any organization, it is often integrated in the over all structure of an organization. Even in simple organizations such as a class organization or an adhoc group that is planning to hold a party, there is always a treasurer or auditor that handles the financial aspect of the activities of the group i.e. from generating money or raising funds, budgeting, spending, and making necessary record to show where did their money go and to check whether they have achieved their objectives.

Among the personnel who are involved formally and directly in the accounting process of an organization are the President, who make the decision of management in terms of where the organization will go and uses the accounting information as basis. The budget officer prepares the financial allotments of organization. The accounting officer and staff principally record the transactions of the organizations and prepares the financial statements. The auditor counterchecks the recording of the accounting department to see if it followed the guidelines prescribed by law and GAAP. Other more specialized accounting functions maybe included in the accounting department such as the payroll officer or sometimes called controller, who handles the salaries or personnel. The accounts receivables officer takes care of recording those with whom the organization

can receive payment. Corollary to which is the account payable officer who handles the payments to persons with the organization has debts. On the other hand, the treasurer handles all assets of the organization. Often, a CFO or Chief Financial Officer of or organization oversees all the financial related operations of the business and reports directly to the CEO or Chief Executive Officer.

Accounting Process

The first step in the accounting cycle is the collection and analysis of data from transactions and events. (Jacquet, J.L., 1992) The sales for instance of an organization is an input to the accounting system so as the payments made by the organizations . These business transactions are reflected in documents such as receipts, sales invoices, and checks among others. After collecting and analyzing the transaction, information is entered in the general journal (Journalize transactions). For a typical sale transaction for instance, the following is recorded, debit Cash 60, credit Sales 60. Notice that a single transaction affects at least two accounts. An account is a short description of the business transaction. In the foregoing, cash of \$60 was received for sale of an item worth \$60 as well. An organization usually has a chart of accounts which it uses to maintain the accounting records.

Entries in the general journal entries are then posted to the general ledger. This book is arranged by account. For instance all sales transactions are placed under the account “sales. Depending on the time period e.g. daily, weekly or monthly, the accumulated total value of sales is summed to reflect the total sales for that particular time period. After the posting of all accounts, all debit and credit entries must be equal and so there is

a need to prepare an unadjusted trial balance. Debit entries are placed at the left while credit entries are at the right. Under normal circumstances, assets and expenses have debit balances while liabilities and owners equity naturally have credit balances. The trial balance is used to test if debit entries equal credit entries as recorded in the general ledger. Any inequalities must be resolved first before going to the next step. To bring accounts in their appropriate balances, adjustments of accounts is done next. This is especially needed in accrual accounting wherein revenue and expense are only recorded when earned and incurred. After making the necessary adjustments, adjustments will now be made on the trial balance. This includes adjustments made on the revenues and expenses as well as liabilities, assets and owner's equity or capital. The adjusted trial balance will then be the basis for the preparation of financial statements. There are typically three financial statements that are prepared namely: the balance sheet, which reports the financial condition of the company by showing assets, liabilities and net equity at a given time; the Income statement reports the results of operations of the company. It shows whether the company has generated income or losses. The Cash flow statement shows the where the cash of the company comes and goes. Another statement, which is usually prepared in big companies, shows the retained earnings of an organization over a period.

To prevent revenues and expenses to get mixed with revenues and expenses of another period, considering that business is a going concern requires the closing of the accounts. Closing accounts transfers the income and loss to the owner's equity. The revenue and expenses are closed to have zero balances in preparation for the next accounting period. Once close, a post closing trial balance is optionally prepared in order to check if revenue

and expenses were closed properly and to again test if the debit and credit balances are equal.

The closing trial balance simply means that the next transactions will be included for the next accounting period reporting. Proceeding or new transactions are recorded viz. journalized the posted and thus the cycle of accounting goes on.

REFERENCES

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