**LESSON ONE**

**VOCABULARY**

**Accounting**

**Society**

**Discipline**

**Accumulate**

**Interpret**

**Financial**

**Decisions**

**Traditional**

**Record**

**Classify**

**Summarize**

**Transaction**

**Bookkeeping**

**Decision making**

**Maintenance**

**Income**

**Audit**

**Efficient**

**Purpose**

**Business enterprise**

**Economic entity**

**READING**

**What Is Accounting?**

**A**ccounting is often called ‘the language of business.’ However, this phrase probably understates the cases, because the need to understand accounting and its uses is important to all segments of society.

Accounting is a discipline which accumulates, reports, and interprets financial information about the activities of an organization in order that intelligent decisions can be made about and for the organization. Simply stated, accounting is concerned with communicating financial information. A more traditional definition of accounting is:

“Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof.”

The first part of this definition- recording, classifying, and summarizing describes the bookkeeping aspects of accounting. Although bookkeeping is one aspect of accounting, ‘interpreting the results’ is of far greater importance.

The interpretation of financial information provides the basis for decision making. The decision-making aspect makes accounting an exciting discipline with national and international implications.

Accounting includes not only the maintenance of accounting records, but also the design of efficient accounting systems, the performance of audits, the development of forecasts, income tax work, and the interpretation of accounting information.

**The Purpose and Nature of Accounting**

The underlying purpose of accounting is to provide financial information for decision making about an economic entity. The economic entity we concentrate upon is a business enterprise.

Business executives and managers need the financial information provided by an accounting system to help them plan and control the activities of the business. Many businesses also compile non-financial information needed for decision making.

**LESSON TWO**

**VOCABULARY**

**Accounting principles**

**Financial statements**

**Useful**

**Investor**

**Creditor**

**Economist**

**Relevant**

**Reliable**

**Comparable**

**Understandable**

**Accountant**

**Properly**

**Assumption**

**Convention**

**Various**

**Satisfactory**

**Framework**

**Resource**

**Proprietorship**

**Partnership**

**Nonprofit**

**Identifiable**

**READING**

**Accounting principles**

The basic purpose of the financial statements is to provide information about a business entity information that will be useful in making economic decisions. Investors, managers, creditors, financial analysts, economists, and government policy makers all rely upon the financial analysts, statements and other accounting reports in making the decisions which shape our economy. Therefore it is of vital importance that the information contained in the financial statements possesses certain characteristics. The information should be:

1. relevant to the informational needs of the decision makers

2. as reliable as possible

3. comparable to the financial statements of prior periods and also to the statements of other companies.

4. understandable to the users of the financial statements.

we need a well-defined body of accounting principles or standards to guide accountants in preparing the financial statements which possess these characteristics .the users of the financial statements also must be familiar with these principles in order to interpret properly the information contained in these statements.

**Generally accepted accounting principles**

The principles which constitute the ground rules for financial reporting are called generally accepted accounting principles. Accounting principles may also be termed standards, assumptions, conventions, or concepts. The various terms used to describe accounting principles stem from the many efforts that have been made to develop a satisfactory framework of accounting theory.

**The accounting entity concept**

One of the basic principles of accounting is that information is compiled for a clearly defined accounting entity. An accounting entity is any economic unit which controls resources and engages in economic activities. an individual as a proprietorship, partnership, or corporation. Governmental agencies are accounting entities, are nonprofit clubs and organizations. An accounting entity may also be defined as an identifiable economic unit within a larger accounting entity.

**LESSON THREE**

**VOCABULARY**

**Audited financial statements**

**Annual**

**Corporation**

**Stockholder**

**Government regulator**

**Conformity**

**Independent**

**Investigation**

**Disclosure**

**Condensed**

**Decade**

**Accuracy**

**Fairness**

**Misleading**

**Diagnosis**

**Responsibility**

**Possibility**

**READING**

**Audited financial statements**

The annual financial statements of large corporations are used by great numbers of stockholders, creditors, government regulators, and members of the general public. What assurance do these people have that the information in these statements is reliable and presented in conformity with generally accepted accounting principle? The answer is that the annual financial statements of large corporations are audited by independent certified public accountants (CPAs).

An audit is a thorough investigation of every item, dollar amount, and disclosure which appears in the financial statements.(keep in mind that many ledger balances and other types of information are condensed in preparing the financial statements. consequently, only material items appear in the financial statements.) after completing the audit, the CPA s express their opinion as to the fairness of the financial statements. This opinion, called the auditor’s report, is published with the financial statements in the company’s annual report to its stockholders.

**Certified public accountants**

Over many decades, audited financial statements have developed an excellent track record of reliability. Note, however, that CPAs do not guarantee the accuracy of the financial statements; “fairness” in this context, means that the financial statements are not misleading. However, just as a physician may make an error in the diagnosis of a particular patient, there is always a possibility that an auditor’s opinion may be in error. The primary responsibility for the reliability of the financial statements rests with the management of the issuing company, not with the independent CPAs.

**LESSON FOUR**

**VOCABULARY**

**Partnerships**

**Individuals**

**Profit**

**Separate**

**Unlimited**

**Withdrawal**

**Mutual**

**Agreement**

**Completion**

**Bankruptcy**

**Rights**

**Distributional percentages**

**Admission**

**Dissolution**

**Capital balance**

**Obligation**

**Debts**

**Sufficient**

**Remain**

**Novation**

**READING**

**Partnerships**

**A**ccording to the uniform partnership act, a partnership is defined as an association of two more individuals who carry on as co-owners a business for profit. In general, accounting for a partnership follows the same rules as for a sole proprietorship with the exception that there are separate drawing and capital accounts for each partner. Partnerships are quite often formed in order to bring together different skills or talents, and to bring together necessary capital in order to operate an enterprise. The major characteristics of the partnership form of business are summarized below.

**Limited life.** A partnership, unlike a corporation, does not have an unlimited life. A partnership may come to an end by the withdrawal or death of any member of the business, mutual agreement between the partners, and completion of the goal foe which partnership was formed, bankruptcy, or court order.

**Ease of formation.** Unlike a corporation, a partnership can be formed without any formal proceedings. Although not necessary, a formal partnership agreement spelling out the rights and responsibilities of all the partner is recommended. In cases where the written agreement is silent, the uniform partnership act governs. As a minimum. The partnership agreement should cover the initial capital contributions by each member, withdrawal of funds, distributional percentages of profit and losses, admission of new partners withdrawal of partners, and the accounting for the eventual dissolution of the business.

**Ownership of property.** The property contributed to the partnership by a given partner and the property purchased by the partnership become jointly owned by the partners. No partner owns any particular piece of partnership property. Each partner’s interest in partnership property is based on his or her proportionate capital balance.

**Unlimited liability.** Unlike the corporate form of business, in a partnership each individual member is held personally liable for all the debts of the firm. Partnership obligations can satisfied not only with partnership assets but also with the personal holdings of each partner .however , a newly admitted partner may or may not elect to assume the debts of the partnership existing prior to his or her admission. When a partner withdraws from the firm he or she should give sufficient notice to the public. If the person does not, he or she may be held liable for all partnership liabilities incurred after withdraw. those partners who retire or withdraw continue to remain liable for partnership obligation existing at the time of withdrawal unless a novation exists. A novation is a creditor’s consent to release a given partner’s liability for partnership debt.

**LESSON FIVE**

**VOCABULARY**

**Liquidation**

**Terminate**

**Expiration**

**Contract**

**Violation**

**Improper**

**Fiscal year**

**Revenue**

**Expense**

**Transfer**

**Summary**

**Separately**

**Gains and losses**

**Apportionment**

**Convert**

**Discharge**

**Frequently**

**Determinable**

**READING**

**Partnerships: liquidation**

There are many reasons why the existence of a partnership may terminate some of them are:

1. Expiration of partnership contract

2. Agreement by partners to end their association

3. Death of a partner

4. Violation of partnership contract by a partner

5. Improper assignment of interest in the partnership

6. Bankruptcy of a partner

**S**ome of these events are rooted in occurrences over which a particular partner may have some degree of control. Others are not under the influence of a particular partner of group of partners.

This section will be concerned with the complete termination of a partnership business. there are situations where a partnership may be terminated in a technical sense while the business is continued by some or all of the partners. This type of situation has been discussed before, and is not included here.

Even when a partnership business terminates prior to the end of its fiscal year, all revenue, cost ,and expense accounts should be transferred to the regular income and expenses summary account with the resultant net income or net loss distributed to the partners .any gains and losses during the winding-up process are usually summarized separately, but they are nevertheless distributed to the partners .the sharing of such gains and losses is in the regular ratio unless the partners have provided for some other method of apportionment.

**Realization and liquidation**

In a narrow sense, realization is the process of converting assets to cash, and liquidation is the process of discharging liabilities. However, the entire procedure of realization and liquidation is frequently referred to simply as liquidation.

When a business is dissolved, the assets are converted to cash and the creditors are paid .before any assets are distributed to partners, however, all gains and losses during the realization period should be divided among the partners.

If for some reason an outside creditor cannot be paid but the amount due is determinable, it is generally satisfactory to reserve such an amount of cash and pay partners those moneys to which they would in any event be entitled.