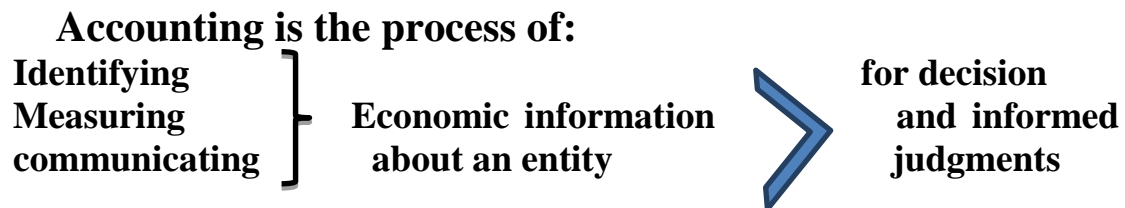


What is accounting

1- In a broad sense, accounting is the process of identifying measuring and communication information for the purpose of making decisions and informed judgments.

(Accounting frequently uses the term entity instead of organization because it is more inclusive).

This definition of accounting can be expressed schematically as flows.



2- Accounting consists of three basic activities – it identifies, records and communicates the economic events of an organizations to interested users.

3- Accounting: is an information and measurement system that Identifies records and communicates relevant, reliable and comparable information about an organization's business activities.

Users of accounting information

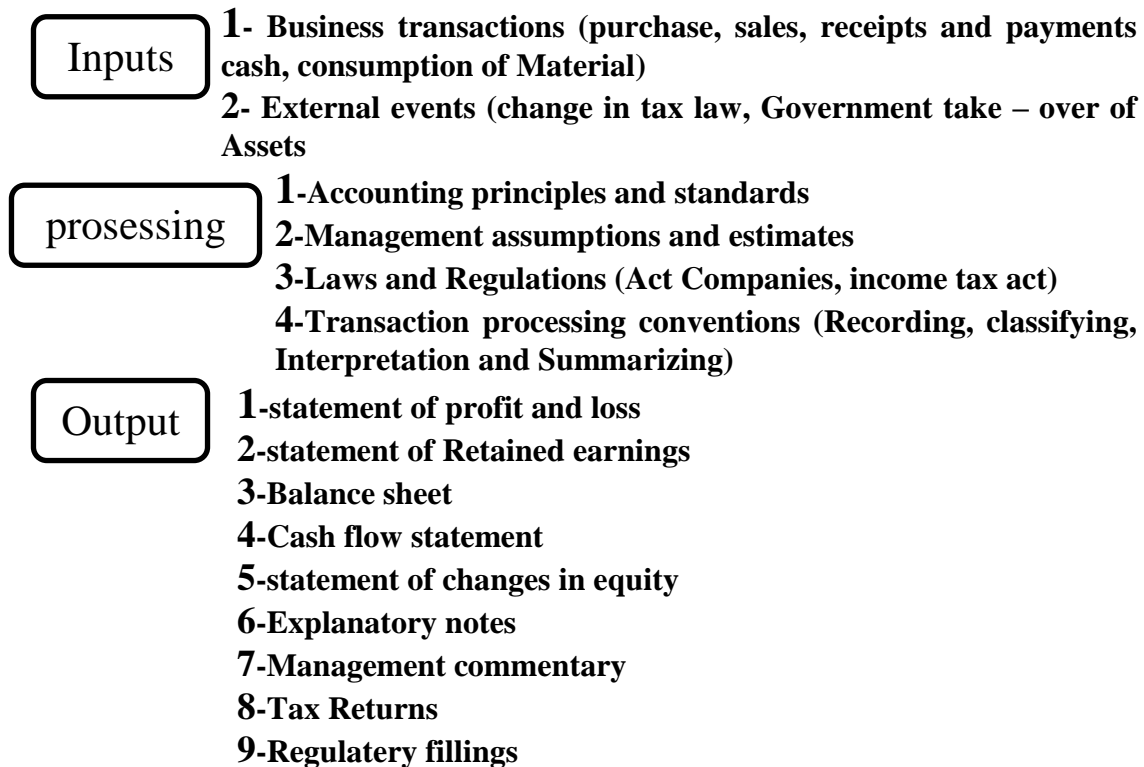
Accounting is often called the language of business because all organization setup an accounting information system to communicate data to help people make better; so there are two kinds of users:

(1) Internal user: (Management, Employees)

(2) External user: (Investors / shareholders, Creditors/ supplies, Customers, Government, Lenders, others)

users	Queries / concerns
<u>External :-</u> Investors , shareholder Analysis ---	<ul style="list-style-type: none"> - Should I buy, hold or sell the company shares? - Will the investment yield good? - Dividends Regularly? - Is the enterprise in which I have
Lenders	<ul style="list-style-type: none"> - Invested or thinking of investing, performing well? - Are there Governance problem in the company? - Can my borrower pay the principle and interest on time?
Customers	<ul style="list-style-type: none"> - What should be the security and interest rate to a loan - Is my supplier a reliable and competitive source - Can I count on my supplier to provide spare parts for equipment
Suppliers, trade financiers	<ul style="list-style-type: none"> - Dose my supplier have the financial Resource to honor it's warranty obligations - Will my customer be a major source of business - Can may customer pay for its purchases on times - Can borrower repay on time
<u>Internal user</u> Managers	<p>How is my business performing relative to my competitors</p> <ul style="list-style-type: none"> - Which projects should I invest in? - Do the financial reports communicate my firms true value
Employees , trade unions Other	<ul style="list-style-type: none"> - Will it be profitable for me to buy out my business - How much increase in wages and bonus can my employer offered - Can my employer continue to be in business - Can my employer honor its future - Obligations for pension , health , and other

Flowchart of Accounting as system



The types of Accounting

There are several types of Accounting that range from Auditing to preparation of tax returns

- (1) Financial Accounting
- (2) Public Accounting
- (3) Government Accounting
- (4) Forensic Accounting
- (5) Management Accounting
- (6) Tax Accounting
- (7) Internal Auditing
- (8) International Accounting

Financial Accounting

This field concerned with the aggregation of financial information into external reports. Financial Accounting requires detailed knowledge of the Accounting framework as generally accepted Accounting principle (GAAP) .

Or International financial reporting standards (IFRS)

Public Accounting

This field investigates the financial statements and supporting Accounting systems of client companies, to provide assurance that the financial statements assembled by clients fairly present their financial results and position.

Government accounting

This field uses a unique accounting frame work to create and manage funds, from which cash is disbursed to pay for a number expenditure related to the provision of services by a government entity.

Forensic Accounting

This field involves the reconstruction of financial information when a complete set of financial records is not available. This skill set can be used to reconstruct the records of a destroyed business, to reconstruct fraudulent records, to convert cash – basic accounting records to accrual basis..

Management Accounting

This field is:

- (1) Concerned with the process of accumulating accounting information for internal operational reporting. it included cost accounting and target accounting.
- (2) Concerned with the process of economic and financial information to plan and control many of the activities of the entity and to support the management decision – making process.

Tax Accounting

- (1) This field is concerned with the proper compliance with tax regulations, tax fillings, and tax planning to reduce a ccompany tax burden in the future.
- (2) this field is concerned with the preparation of income tax return is a specialized field within Accounting To a great extent, tax returns are based on financial accounting information . However the information often is adjusted or reorganized to conform to income tax reporting requirement.

Internal Auditing

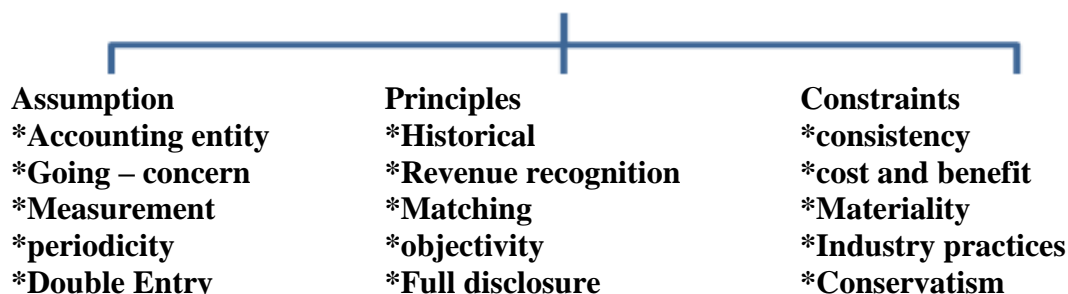
This field is concerned with examination of company's systems and transactions to sport control weaknesses, fraud waste, and mismanagement and the reporting of these findings to management.

International Accounting

This field is concerned with international aspects of Accounting , including such matters as Accounting principles and reporting practices in different countries and their classification ; Patters of Accounting development ; international and regional harmonization ,foreign currency translation ,foreign exchange risk ,international comparisons of consolidation Accounting and inflation Accounting ,accounting in developing countries ; Accounting in communist countries ; performance evaluation of foreign subsidiaries .

Generally Accepted Accounting principles (GAAP)

The Accounting profession has developed standards that are generally accepted and universally practiced .this common set of standards is called general accepted accounting principles (GAAP):-



Assumption:

1- Accounting entity

Entity concept as the name indicated, the accountant keeps all of the business transactions of a sole proprietorship separate from the business owner's personal transactions. For legal purposes, a sole proprietor ship and its owner are considered to be one entity, but for accounting purposes they are considered to be two separate entities.

2- Going – concern:

Meaning that the business is going to be operated for non-predefined period, in other words there is no ending data for business life.

3- Measurement unit assumption

Meaning that the business should have one money unit to record its transaction, for example IRAQI Dinar (ID).

4- Time periodicity assumption

This accounting principle assume that it is possible to report the complex and going activities of a business in relatively short distinct time intervals such as the five month ended May 31,2012 or the 5 weeks ended May 1,2012 ,the shorter the time internal the more likely the need for the accountant to estimate amounts relevant that period . For example the property tax bill is received on December 15 of each year on the income statement for the year ended 31,2011 the amount is known .but you're the income statement for the three months ended march 31,2012 the amount was not known and an estimate had to be used . It is imperative that the time interval (or period of time) be known in the heading of each income statement, statement of stockholder's equity – and statement of cash flow. Labeling one of these financial statements with "December 31" is December 31, 2011 for the year ended December 31, 2011.

5-Double Entry

Meaning double aspect .All business transactions are recorded as having the debit aspect and the credit aspect.

Principles

1- Historical cost

It is states that assets should be recorded at their cost

2- Revenue recognition

The idea that we should only take account of revenues and expenses when the associated each flow has happened ,or at least become reasonably certain. However this is not always easy to apply in practice and the idea has recently been developed into the broader area of revenue recognition.

3- Matching

When preparing the income statement revenue and profit are matched with the associated costs and expenses incurred in earning them (known as accruals or matching).This means that revenues and expenses are recognized when they are incurred rather than when the related cash is received or paid. A sale will thus be accounted for when the contract is agreed, and not when the goods or service are paid for.

4- Objectivity

Means that accounting information is supported by independent unbiased evidence.. It demands more than a person's opinion. Information is not reliable if is based only on what a preparer thinks might be true. A prepare can be two optimistic or pessimistic .The objectivity principle is intended to make financial statement useful by ensuring they report reliable and verifiable information.

5- Full disclosure

The account should be prepared in such a manner that all material information should be disclosed there in.

Constraints

1- Consistency

Accounting practices and methods should remain that means not changed over a period of time so we can compared the profit of business .we cannot do this only when the accounting principle are the same.

2- Cost and benefit

Sometimes called benefit – cost analyses (BCA), is a systematic approach to estimating the strengths and weaknesses of alternatives that satisfy transactions , activities or function requirement for a business , it is technique that is used to determine options that provide the best approach for the adoption and practice in terms of benefit in labor , time and cost saving , etc.

3- Materiality

Is the threshold above which missing or incorrect information in financial statement is considered to have an impact on the decision making of users. Materiality is sometimes construed in terms of net impact on reported profits or the percentage or ID change in a specific line item in the financial statement.

4- Industry practices

State that the nature of certain industries and their practices can require the departure of traditional accounting theory. In other words some industries have practices unlike any other that require specialized accounting or reporting. The industry practice constraint allows these industries to go outside of traditional accounting principle as long as it is infrequent and justifiable

5- Conservatism

It is a safe to anticipate losses than to anticipate profits. The reason is that. If losses are anticipated and if losses do not materialize, no harm is done to the business, But if profit are anticipated and they do not materialize, much harm is done to the business.

Classification of Accounts

Accounts are classified into three:

1- Personal accounts

Personal accounts are defined by personal names including all types of economic entities such as firms , corporations, company other

1. Ali's account A/C
2. Basra university A/C
3. Customers of credit sales (debtors)
4. Suppliers of credit purchases (creditors)

2- Impersonal accounts: These accounts divided into:

A- Real accounts

are an assets accounts either tangible and intangible assets

Ex.: Cash, Building, Land, plant, Inventory

B- Nominal accounts

Nominal accounts are the accounts of revenue gains, profit, Expenses, losses, at the end of period accounting nominal accounts are closed in final accounts.

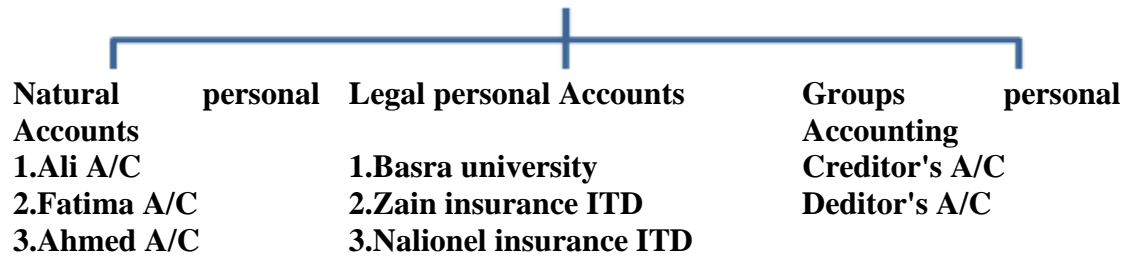
Trading account, profit and loss account or income statement

ex.: sales A/C

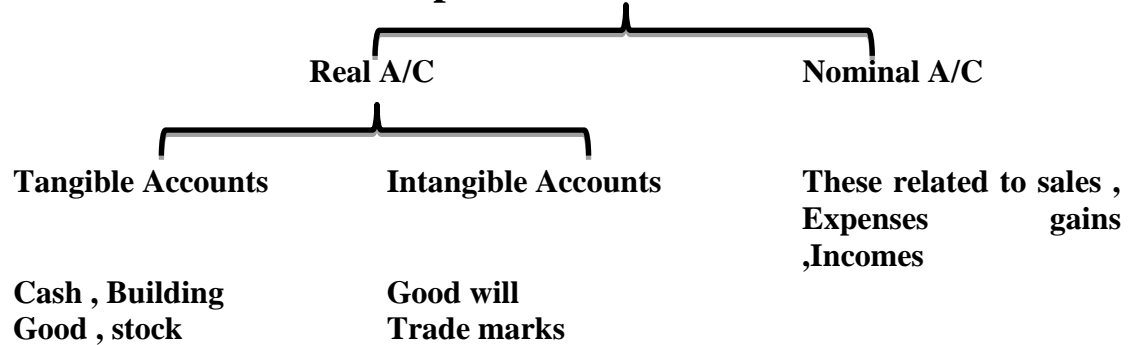
Purchases A/C

Rent A/C

Personal Accounts



Impersonal Account



Rules for journalization

Personal A/C

Debit → Receiver

Credit → Giver

Ext.: purchased good at ID500 from Ali

In this transaction Ali is giver → Credited in the book

Real A/C

Debit what comes in

Credit what goes out

ext.: when good are sold out

Credit sales A/C as the good are going out

When Building is purchased

Debit the building A/C as it comes into the business

Nominal A/C

Debit Expenses and losses

Credit incomes and gains

Ext.: paid ID 1000 as Rent

Debit → Expenses (Rent)

Received ID 1000 as interest

Credit → income

