

1 2 3 **Introduction to Accounting**

- A. Know the different business entities
- B. Know the basic accounting process
- C. Know the different users of accounting information

4 5 6 **Proprietorship or Sole Trader**

- When a person is operating a business alone as a sole trader
- He/she is entitled to all the profits the business makes, but will be responsible for any losses the business makes.

Test your understanding

- Name 1 business that you know of, that is a sole trader or a proprietorship

7 **Partnership**

- A partnership is a business in which two or more people work together as owners with a view to making profits.

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Test your understanding

- Name 1 business that you know of, that is a partnership.

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8 9 **Corporation or Limited Company**

- A limited company is a legal entity which has a separate identity from its shareholders, whose liability for the company's debts is limited.

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Test your understanding

- Name 1 business that you know of, that is a corporation or limited company

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10 11 **B. Know the basic accounting process**12 **Step 1: Analyze the transactions**

- The business entity has to identify financial and monetary transactions.

- Therefore, only those transactions that are monetary is recorded.

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Source: *WallStreetMojo*

13 **Step 2: Record the transactions in the journal**

- After identifying the transactions, the second step of the accounting process is to create the Journal entry for every accounting transaction.

14 **Step 3: Posting in the ledgers**

- After recording the transaction in the Journal, the individual accounts are then posted in the general ledger.
- This helps the owner/accountant to know the balance of each account individually.
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15 **Step 4: Prepare the trial balance**

- The trial balance of the company is prepared to check whether the debits are equal to the credits or not.
- Basically, trial balance's main purpose is to identify the errors, if any, made during the above process.
- Trial balance reflects all the balances of accounts at the given point of time.
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16 **Step 5: Prepare the financial statements**

- After all the above steps are completed, the financial statements of the company are prepared to know the:
 - actual financial position
 - profitability position, and the
 - cash flow position of the business

17 **Step 6: Analyze the financial reports**

- Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes.
- External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value.

18 Accounting Process - Conclusion

- Thus, the accounting process includes the steps that are to be followed for:
 - recording, classifying, summarizing, etc. the financial transaction of the business.
- The process:
 - starts with identifying the transaction and
 - ends mainly with the preparation of financial statements that are finally used and evaluated by the users of the business.

19 C. Know the different users of accounting information20 **21 Users of financial statements**

Investors (Owners)

- Investors will likely require financial statements to be provided
- Since they are the owners of the business and want to understand the performance of their investment.

22 Users of financial statements

Company Management

- The management team needs to understand the profitability, liquidity, and cash flows of the organization every month.
- This would enable them to make business, operational and financing decisions about the business.

23 Users of financial statements

Employees

- A company may elect to provide its financial statements to employees, along with a detailed explanation of what the documents contain.
- This can be used to increase the level of employee involvement in and understanding of the business.

24 Users of financial statements

Competitors

- Entities competing against a business will attempt to gain access to its financial statements, in order to evaluate its financial condition.
- The knowledge they gain could alter their competitive strategies.

25 Users of financial statements

Customers

- When a customer is considering which supplier to select for a major contract, it wants to review their financial statements first.
- This is to check the financial ability of a supplier to remain in business long enough to provide the goods or services mandated in the contract.

26 **Users of financial statements**

Lenders

- A bank lending money to an organization will require financial statements in order to estimate the ability of the borrower to pay back all loaned funds and related interest charges.

27 **Users of financial statements**

Suppliers

Suppliers will require financial statements in order to decide whether it is safe to extend credit to a company.

28 **Users of financial statements**

Investment Analysts

Outside analysts want to see financial statements in order to decide whether they should recommend the company's shares to their clients.

29 **Users of financial statements**

Governments

A government in whose jurisdiction a company is located will request financial statements in order to determine whether the business paid the appropriate amount of taxes.

30 **Users of financial statements**

Unions

A union needs the financial statements in order to evaluate the ability of a business to pay compensation and benefits to the union members that it represents.