Accounting Essentials

SUMMARY

- Key Accounting Terms
- Types of Business Organisations

INTRODUCTION

Discuss the questions:

1. What is the key source of information for preparation of financial statements?
2. What documents do accountants use to record transactions?
3. What are the key functions that accountants and bookkeepers perform?

READING 1: Key Accounting Terms

Financial Records
The work of an accountant is focused on financial records, also known as accounting records or business records. Financial records are formal documents that represent transactions of a company. Accountants are responsible for keeping or maintaining, preparing, examining, inspecting and interpreting a company's financial records.

Transaction
A transaction is any event that takes place in a business that affects financial position of a company. Transactions are recorded in the book of accounts, that is, journals or ledger.

Journal (Book of Original Entry)
Transactions are first recorded in journals. A journal is an accounting record where all transactions are originally entered.

Ledger (Book of Final Entry)
Once transactions have been posted in their appropriate journals, they are then recorded in a general ledger. A general ledger is a complete record of financial transactions of a company. It is a company's main accounting record.

Entry
A transaction must be recorded and have its written form. An entry is a written record of a transaction.

Account
To keep a company's financial data organised, transactions are classified into various accounts.

Chart of Accounts
It is a listing of all accounts used in the general ledger of an organisation. Depending on the size of a company and the complexity of its business operations, the chart of accounts may list as few as thirty accounts or as many as thousands. Within the chart of accounts, balance sheet accounts are listed first, followed by income statement accounts.

Double Entry Bookkeeping
Double-entry bookkeeping refers to a system in which each transaction is recorded in at least two accounts: one account is debited and the other account is credited. This complies with the basic rule in accounting which states that all debits must equal credits.

Debit and Credit Entries
In double entry bookkeeping, there is a debit and credit element to each transaction, which means that all accounting entries consist of a matching debit and credit entry. Consequently, each transaction needs to be recorded in an appropriate journal with a debit and credit entry for the same amount.

Accounting Practice
Accounting practice is a way in which accountants and auditors carry out their daily work. It is the day-to-day implementation of accounting policies.

Accounting Policies
Accounting policies are specific rules, principles and procedures used and consistently followed by a company or organisation to prepare and report its financial statements.

Fiscal year
A fiscal year is a twelve-month period that a company or organisation uses for accounting purposes and preparing financial statements. This period does not have to coincide with the calendar year.

READING COMPREHENSION 1

Answer the questions:

1. What tasks do accountants perform?
2. What is a chart of accounts?
3. How are transactions recorded under the double-entry bookkeeping system?
4. What are accounting policies?

SPEAKING 1

What accounting practices and policies does your company apply?

FOCUS ON VOCABULARY: Prepositions

Learning prepositions is difficult, because there is no logical way of deciding which preposition goes with a particular noun, verb or adjective. This is why these word combinations must be learnt by heart.

Match the words to the prepositions:

1. responsible	A. to
2. specialised	B. of
3. deal	C. for
4. in charge	D. on
5. entitled	E. from
6. comply	F. from
7. related	G. in
8. advise	H. with
9. exempt	I. with
10. subtracted	J. to

Use the combinations to make sentences:

Example: *He is **responsible for** preparing tax returns.*

LANGUAGE TASK: Bookkeepers Vs Accountants

Generally, bookkeepers and accountants perform different roles. Read the sentences below and decide whose role it is to:

1. _______________ record financial transactions.
2. _______________ be responsible for preparing tax returns.
3. _______________ analyse financial data.
4. _______________ maintain general ledgers.
5. _______________ prepare financial statements.
6. _______________ interpret financial data to the company management.

7. ______________ post journal entries.
8. ______________ produce invoices.
9. ______________ be in charge of establishing and monitoring control procedures.
10. ______________ post debits and credits.

FOCUS ON GRAMMAR: Present Simple Tense

Interview your partner to learn about the functions he/she generally performs in his/her job. Report the information to the class.

READING 2: Types of Business Organisations

Aspiring entrepreneurs starting their own business should carefully consider several factors before making the final decision on the type of business organisation they want to set up. What must be taken into account is the expense of forming and operating the organisation, tax considerations, management simplicity, the level of control over the organisation's affairs, the ability to raise capital and, most importantly, the extent of liability for the organisation's debts.

The extent of liability also serves as the basis for a broad classification of private sector business organisations, which are generally divided into two groups: unincorporated and incorporated entities. Unincorporated entities are those with no legal difference between the owner and the entity, while incorporated businesses are organisations that are separate legal entities from their owners.

Sole Proprietorship (Sole Trader)

For persons with limited resources and little experience in running a company, a sole proprietorship may be the best option. If you are a sole trader, you are self-employed and run your own business as an individual.

A sole proprietorship is an unincorporated business owned by one person who has a complete control over business affairs. This type of organisation is easy to establish and run, subject to very little governmental interference in its operations and not liable to corporate taxes. However, being an unincorporated entity also means that the owners are personally liable for all taxes and liabilities incurred by their business.

General and Limited Partnership

Some people might find a one-man business too much to handle and decide to form a partnership. There are two types of partnerships - general and limited. General partnership is a type of business where both partners share profits and liabilities equally. Limited partnership is a business organisation with both general and limited partners. General partners manage the business and assume legal debts and obligations, while limited partners are only liable for the entity's debts to the extent of their investment.

Private Limited Company
A private limited company is a type of incorporated entity that has shareholders with limited liability, while its shares are not offered to the general public. It is a separate legal entity from its owners, whose liability for a company's debts does not exceed the level of their investment.

Public Limited Company
Owners of a successful private limited company may decide to raise extra capital by offering shares to new investors and in that way transforming their organisation into a public limited company. This process is called 'going public' or 'floating the company'. A public limited company is a type of incorporated entity whose securities are traded on a stock exchange and can be bought and sold by anyone.

READING COMPREHENSION 2

Answer the questions:

1. What factors should be considered before establishing a business organisation?
2. What is the difference between unincorporated and incorporated entities?
3. What is the difference between a general and limited partnership?
4. Why might owners of private limited companies decide to go public?

SPEAKING 2

Discuss the advantages and disadvantages of different types of business organisations.

WRITING TASK

Define and illustrate the functions you perform in your company.

BRITISH AND AMERICAN ENGLISH	
UK	**US**
• private limited company (Ltd) • public limited company (Plc)	* limited liability company (corporation) * stock corporation (Inc)

* there are no direct equivalents

BUILDING UP A NEW VOCABULARY

1. Match the words to the definitions:

1. transaction	A. the book of final entry
2. journal	B. an accounting entry that results in either an increase in assets or a decrease in liabilities on a company's balance sheet
3. general ledger	C. a system of accounting in which every transaction has a corresponding positive and negative entry (debits and credits)
4. financial records	D. a business organisation that does not possess a separate legal identity from its owner(s)
5. debit entry	E. the book of original entry
6. credit entry	F. formal documents representing the transactions of a business, individual or other organisation
7. double entry bookkeeping	G. a business event that has a monetary impact on an entity's financial statements, and is recorded as an entry in its accounting records
8. liability	H. a business organisation viewed as a separate entity from its owners
9. unincorporated entity	I. legal responsibility for something
10. incorporated entity	J. an accounting entry that either increases a liability or decreases an asset on a company's balance sheet

UNIT 2 ESSENTIAL VOCABULARY

financial records	transactions	journal
ledger	entry	account
chart of accounts	double entry bookkeeping	debit entry
credit entry	accounting practice	accounting policy
fiscal year	entrepreneur	liability
unincorporated entity	incorporated entity	sole proprietorship
self-employed	be liable	general partnership
limited partnership	private limited company	public limited company
go public	stock exchange	securities