

FASTER
**ICT – Financial and Accounting Seminars Targeting
European Regions**

WP3
**E-modules & Educational
Products**
Module 1

Emília Jakubíková (TUKE)

Module 1: General accounting

TOC I

- Definition of Accounting
- Accounting Assumptions and Principles
- Accounting Equation and Accounting Events
 - Accounting Equation
 - Accounting Events
- Accounting Books and Mechanisms
 - The T-account
 - The General Journal
 - The General Ledger
 - The Trial Balance

TOC II

- Accounting cycle
- Accounting for Fixed Assets
 - Acquisition of fixed assets
 - Depreciation of Fixed Assets
 - Disposal of fixed assets
- Accounting for Current Assets
- Accounting for Owners' Equity
- Accounting for Long-term liabilities

TOC III

- Accounting for Current liabilities
- Accounting for Expenses
- Accounting for Revenues

Aim of Module 1

- introducing the user to concepts of accounting
 - the accounting equation
 - the accounting events
 - the accounting books and mechanisms
 - the accounting cycle.
- to provide a brief analysis of accounting for
 - fixed assets, current assets
 - equity
 - long-term liabilities, short-term liabilities
 - revenues and expenses

Objectives of Module 1

- When completing this module the user will be able to:
 - Define accounting and its role in making informed decisions
 - Define financial position and performance,
 - State the accounting equation and show how it is affected by transactions
 - Record transactions to the general journal, post to the ledger and prepare trial balances
 - Practice basic accounting for fixed assets, current assets, equity, long-term liabilities, short-term liabilities, revenues and expenses

Definition of Accounting

- American Institute of Certified Public Accountants (AICPA): *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 result thereof.*
- The International Accounting Standards Committee (IASC): *Information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of potential users in making economic decisions.*

Definition of Accounting

- Covered branches:
 - Financial accounting
 - Management and cost accounting
 - Public sector accounting
 - Tax accounting
 - Auditing

Accounting Assumptions and Principles

- major accounting assumptions
 - The Economic Entity Assumption
 - The Monetary-Unit Assumption
 - Time Period Assumption
 - Going Concern Assumption
- principles
 - Full Disclosure Principle
 - Historical Cost Principle
 - Revenue Recognition Principle
 - Matching Principle

Accounting Assumptions and Principles

- principles
 - Materiality
 - Conservatism
 - Relevance
 - Reliability
 - Comparability
 - Understandability
 - Timeliness of accounting information

Accounting Equation and Accounting Events

- Accounting Equation
 - equality which exists between the resources owned by the enterprise and the claims against the enterprise in relation to those resources, or the sources of funds of the enterprise and their uses

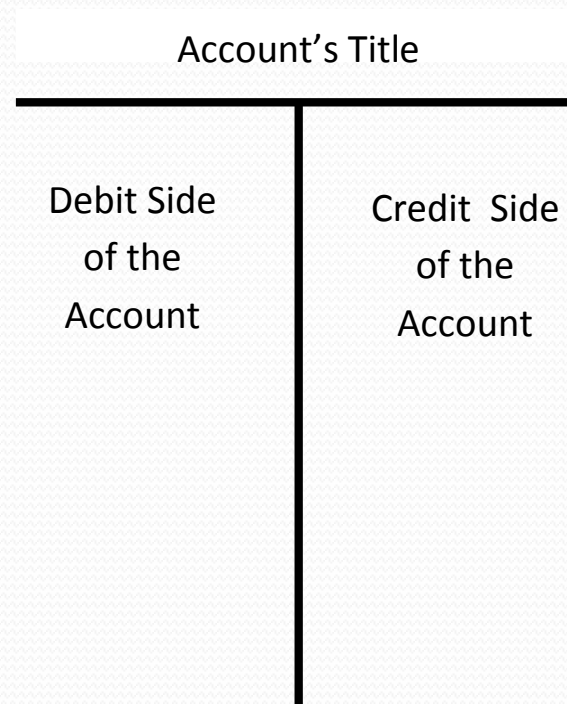
$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

Accounting Equation and Accounting Events

- Accounting Events
 - any economic event that satisfies three conditions:
 - it has already happened
 - it affects the financial position of the enterprise, i.e. the accounting equation and
 - it can be reliably recorded, i.e. it is expressed in monetary terms
 - affect the firm's asset structure and financial position, that is, they affect its accounting equation

Accounting Books and Mechanisms

- The T-account



Accounting Books and Mechanisms

- The General Journal

<i>Date</i>	<i>Account and description</i>	<i>Debits</i>	<i>Credits</i>
XX/XX/XX	Account Debited	xxx	
	Account Credited		xxx
	Xxxxxxxx		

- The General Ledger

- accounting mechanism used to sort and store balance sheet and income statement transactions

Accounting Books and Mechanisms

- The Trial Balance
 - a listing of the accounts in the general ledger along with each account's balance in the appropriate debit or credit column

Accounting cycle

- a series of activities in the accounting system whose purpose is to collect and process accounting data and to provide accounting information in the form of various financial statements
- Activities:
 - Identification of the accounting event and its transformation into accounting data.
 - Accounting data processing and their transformation in accounting information.

Accounting cycle

- Activities:
 - Recording of the accounting information in the journal through entries.
 - Posting of the journal entries to the ledger.
 - Preparation of a trial balance.
 - Adjustment of the accounts' balances to the physical stock taking and reconciliation records and preparation of an adjusted trial balance.
 - The closing of the accounts.
 - The preparation of the financial statements.

Accounting for Fixed Assets

- Fixed assets - non-current assets and they are often subdivided into four classes:
 - Land
 - Land improvements
 - Buildings
 - Equipment
- Accounting operations:
 - Acquisition
 - Depreciation
 - Disposal

Accounting for Current Assets

- Current assets
 - cash and other resources that the enterprise reasonably expects to use, sell, or collect within one year from the balance sheet date or during the enterprise's operating cycle, whichever is longer
 - Types:
 - Cash
 - Marketable securities
 - Receivables
 - Inventory
 - Prepaid expenses

Accounting for Owners' Equity

- the share capital, the reserves and the profit or loss carried forward
- necessary for the formation and activation of every economic unit
- important for the creditors of a firm, since it constitutes a guarantee for the satisfaction of their demands in case of the firm's liquidation

Accounting for Long-term liabilities

- Every obligation of a firm in monetary terms that is a result of a definite credit transaction and expires after the end of the next accounting period
- Characteristics:
 - The long endurance
 - The low risk for the debtor
 - Their usual embodiment in credit titles, such as bonds.
 - Constitute the external source of financing

Accounting for Current liabilities

- short-term liabilities
- created mainly because the company wants to finance its operating cycle
- categories:
 - liabilities to suppliers
 - liabilities from trade credits
 - bank loans, deferred income
 - accrued expenses and taxes

Accounting for Expenses

- measured by the cost of assets consumed or services used during an accounting period
- Types:
 - Operating expences
 - Non-operating expences

Accounting for Revenues

- characterize the monetary expression of the purchasing power that is gained, directly or indirectly, from an economic unit's operations and especially from the sale or exploitation of goods, services and rights
- subsidies and other relative items that are granted to the firm
- categories - deriving from sales, from subsidies, from ancillary activities and those deriving from financial activities of the firm

Thank you for attention