Introduction to Accounting

B. Carter

Semester 1

Introduction to Accounting 120 is a course intended to provide essential understandings, economic framework, consumer skills and attitudes to successfully participate in a society influenced by financial and business decisions. Students will better manage personal finances, understand obligations of business owners and make informed decisions concerning life careers and choices. The intention of this course is to encourage students to further their education in post-secondary business studies.

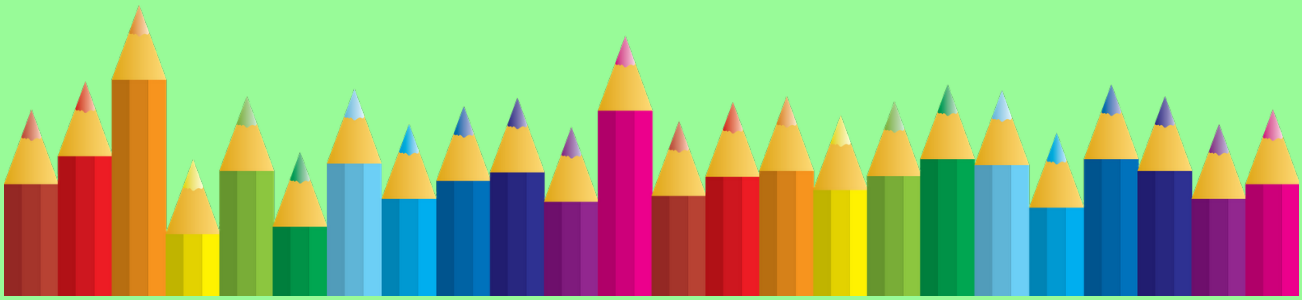
Materials Needed:

Textbook - Accounting 1 - 7th Edition
Binder
Calculator

Curriculum Outcomes:

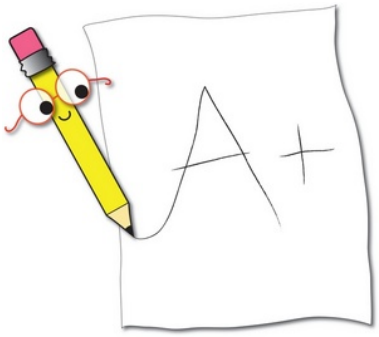
By the end of this course, students will be able to demonstrate an understanding of:

- The Necessity and Basic Activities of Accounting in Various Forms of Businesses
- Financial Position and the Preparation of a Simple Balance Sheet
- Changes in Financial Position and Their Effect on the Balance Sheet
- Debit and Credit Theory and Journalizing
- Owner's Equity, Income Statements & Report Form Balance Sheets
- Source Documents and Accounting for Sales Taxes
- Posting to the General Ledger
- Six-column Worksheet, the Preparation of a Classified Balance Sheet and Income Statement and how Financial Decisions are Based on These Documents
- Adjusting Entries, Closing Entries, Depreciation, the Extended Worksheet and the Preparation of a Post-closing Trial Balance



Evaluation:

Assignments	40%
Quizzes	20%
Tests	40%



What is accounting?

FIVE main activities involved in Accounting:

- gathering financial information
- preparing and collecting permanent records
- re-arranging, summarizing and classifying financial information
- preparing information reports & summaries
- establishing controls to promote accuracy and honesty among employees

Accounting—An Information System

By enabling financial information to be gathered and prepared, a good accounting system provides the answers to many questions. For example, owners and managers might seek answers to questions such as the following:

- Is the business earning enough profit?
- Are the selling prices of the products set at the right amount?
- How much does ABC Company owe the business?
- How much does the business owe to XYZ Company?
- What is the value of all of the goods for sale?
- Do any of the goods for sale need to be restocked?
- To whom was cheque No. 502 issued?
- How much does it cost to produce product X?
- How much did John Smith earn last year?
- Are our customers paying their bills on time?
- Do we have enough money to meet our needs?
- Can we finance a business expansion?

Other persons, companies, or organizations might seek answers to the following questions:

- Should I lend money to this business? (a banker)
- Should I buy into this business? (a potential investor)
- Should I sell this business? (an owner)
- Is the business operating efficiently? (an absentee owner)

Why study accounting?

Accounting on the Job:

- Anyone interested in taking business
- Organization/Clerical skills

Accounting in Daily Life:

- Personal business/banking affairs
- Personal budgets
- Preparing an income tax return

Owning Your Own Business:

- Banking
- Who owes the business (Customers)
- Who does the business owe (Suppliers)

Accounting as a Profession:

- Requires several years of study and practice
- CA, CMA, CGA

Local Businesses

1. "THE" WALMART - Merchandising
2. O'DONAGHUE'S - Merchandising
3. PIZZA DELIGHT - Merchandising
4. HEADMASTERS - Service
5. MIRAMICHI DENTAL CLINIC - Service
6. SUBWAY - Merchandising
7. EMPIRE THEATRES - Merchandising
8. MORRIS WHOLESALE - Merchandising
9. NISSAN - Manufacturing
10. SPCA - Non-Profit

1.3 Characteristics of Business

Types of Business

Businesses form the economic framework upon which our society is built. Generally, a business involves *the manufacture and/or sale of goods or services in order to earn a profit.*

Most businesses fall within one of the following four main categories:

1. The Service Business

A **service business** sells a service to the public; it does not make or sell a product as its main activity. Examples of a service business are a hairdressing salon, a music recording studio, a dental clinic, and so on.

2. The Merchandising Business

A **merchandising business** buys goods and resells them at a higher price for a profit. Examples of a merchandising business are a clothing store, a computer store, or a supermarket.

(Note: Sometimes a service business sells some products; for example, a hairdressing salon will carry a line of shampoos. However, the sale of shampoos is only a sideline, not the main business, which is the service of hairdressing. Similarly, a merchandising business, such as a clothing store, may provide some services, such as repairs and alterations. Such services are only add-ons to the main business of selling goods.)

3. The Manufacturing or Producing Business

A **manufacturing business** buys raw materials, converts them into a new product, and sells these products to earn a profit. Examples of a manufacturing business are an auto maker, a paper mill, or a steel plant. Another type of business, closely related to manufacturing, is the **producing business**. A farm, for example, produces milk, grain, and other foods. Other activities of producing businesses include oil extraction, mining, forestry, and fishing.

4. The Non-Profit Organization

A **non-profit organization** may carry on activities to meet social needs and not for a financial profit. Examples of these organizations are a church, a service club (such as the Rotary Club), an organization (such as the Canadian Cancer Society), or a recreational club (such as a community hockey league). These types of organizations hope that their work will provide a social benefit. They are required to keep accounting records, especially if they receive funds or a tax-deductible status from the government.

Forms of Business Ownership

There are three main forms of business ownership. If you take a walk down any commercial street, you can see examples of each one, like the following:

1. You might notice a sign that reads "J. Wouk, Carpenter." This sign indicates that J. Wouk is in business for himself. He may work alone or others may work for him. This type of business is known as a **sole proprietorship**. The owner is a sole proprietor.
2. You might come across a sign that reads "Dewey, Chatum, and Howe, Accountants." This sign suggests that three persons share in the ownership and operation of an accounting business. A business of this type, involving more than one owner, is known as a **partnership**.
3. You might find a sign that reads "Red River Homes Ltd." This sign tells you that Red River Homes Ltd. is a limited company or a corporation. A **limited company** or **corporation** is a special form of business that is considered a type of legal person or legal entity. A corporation is owned by shareholders and it has its own separate existence with separate rights and obligations. Almost all large business operations are corporations, and some have several thousand shareholders.

THREE forms of business ownership:

Sole Proprietorship

Pro
- all control
- decisions
- scheduling
- vacation
- all profits

Con
- lawsuits
- risky
- responsibilities

Partnership

Pro
- shared risk
- shared responsibilities

Con
- shared profits
- conflict
- less control

Corporation

Pro
- large profits
- lawsuits

Con
- little say in decisions
- job security

Categories of Accounting Work

Accounting can be divided into three categories.

1. Routine Daily Activities

These activities occur in the same way nearly every day of the year. They include processing bills, preparing cheques, daily banking, recording transactions, preparing business papers, and so on.

2. Periodic Accounting Activities

These activities occur at regular intervals. Payroll cheques might be prepared once a week, once every two weeks, once every four weeks, or monthly. Bank accounts are checked every month. Financial reports are prepared each month and every year. Sales taxes, collected by the business for governments, are sent to those governments on a periodic schedule. Also, an income tax return is prepared every year, as required by government regulation.

3. Miscellaneous Activities

Some accounting activities cannot be predicted. For example, if an accounting employee resigns, the position must be filled quickly. The senior accountant may prepare an advertisement, conduct interviews, and make selections of new staff. A bank manager may call expressing concern over the size of the bank loan, and a visit to the bank to discuss the matter may become necessary. A salesperson may call about a new machine that she claims will reduce office costs. Time may be taken to see a demonstration of the equipment. In addition, professional accountants take part in meetings and activities sponsored by their associations.

The Accounting Cycle

Accounting is thought of as occurring in cycles. Accounting activities are performed in relation to equal periods of time known as **fiscal periods**. The usual length for a fiscal period is one year. The **accounting cycle** can be thought of as the recurring set of accounting procedures carried out during each fiscal period. These accounting activities are repeated, period after period. Figure 1.1 (on the next page) shows the recurring nature of accounting activity.

The accounting cycle really consists of two separate cycles. Figure 1.1 shows these with an inner and an outer ring. If an accounting software program is used, steps 2 and 3 occur at virtually the same time, and the statements referenced in step 4 can occur as needed.

The activities on the inner ring normally occur once a year and are based on data provided by the activities of the outer ring.

It should be understood, however, that each cycle is built upon the cumulative results of previous cycles. The business does not have a fresh start each fiscal period. You will become familiar with the terms in the diagram as you learn more about the accounting cycle throughout this course.

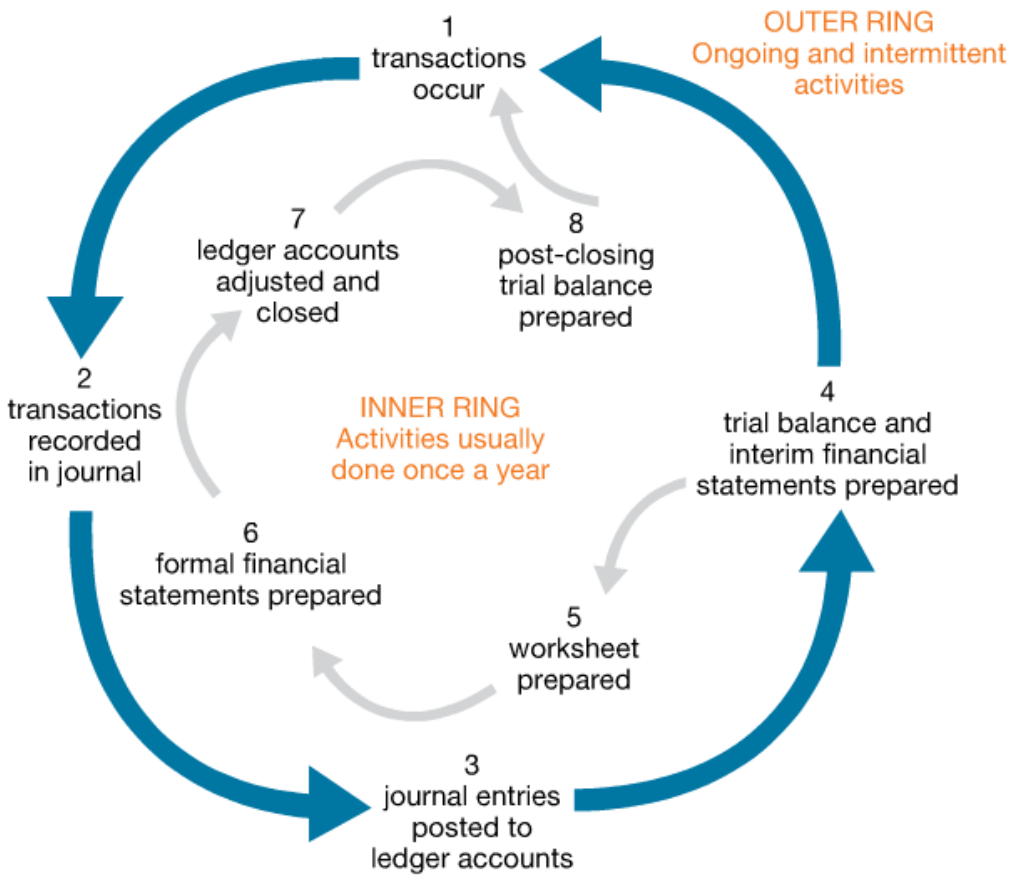


Figure 1.1
The accounting cycle

Professional Accounting Organizations

To be a fully qualified accountant, you must complete the course prescribed by one of the three Canadian professional accounting organizations.

Canadian Institute of Chartered Accountants
Members' professional designation: CA (Chartered Accountant)

Certified General Accountants Association of Canada
Members' professional designation: CGA (Certified General Accountant)

Society of Management Accountants of Canada
Members' professional designation: CMA (Certified Management Accountant)

Each of these national associations has provincial associations working within provincial requirements. The members of all three of these organizations are highly respected professional accountants.

Training To Be a Professional Accountant

To qualify as a professional accountant, you will need further education after secondary school. Plan on approximately seven years of post-secondary study and work. This is because the CA, CGA, and CMA organizations require their applicants to acquire a university degree and to complete two to three years of specialized courses and work experience. Each program has different entry and course options, so you should check each organization's website for current requirements.

The CGA program includes a broad range of finance and accounting courses. The CGA association provides distance education, which allows students to remain employed while studying to earn course credits towards their professional designations. Work experience forms an important part of the CGA program. To qualify for a CGA designation, applicants must have at least 36 months of related work experience. Twenty-four of these months must include work at senior levels of accounting. Many CGA students find work in banks and other financial institutions.

Members of the Society of Management Accountants place their emphasis on management accounting. After obtaining their undergraduate degrees, CMA students enrol in the CMA Strategic Leadership program and complete 24 months of practical experience at the same time. CMA graduates assume management positions in business and industry rather than in public practice. CMAs are regarded as experts in cost accounting and management accounting and are often employed in manufacturing businesses.

The Canadian Institute of Chartered Accountants represents the longest-standing body in the accounting profession and is highly regarded, due in part to its publication of the *CICA Handbook*. The *CICA Handbook* has traditionally published accounting rules and standards that are accepted by all accountants in Canada—CAs, CGAs, and CMAs alike.

Students hoping to become CAs first obtain an undergraduate degree from a CICA-approved post-secondary institute. Practical experience in public accounting for 36 months must be acquired at an accounting firm that has received a training designation from CICA. At the end of the program, students must pass the CICA's Uniform Final Exam (UFE), which is a demanding three-day national exam. Once qualified, CAs are especially well prepared to become auditors or public accountants; however, they may choose careers in any area of accounting.

Roles in Accounting

Many people confuse accounting and bookkeeping. Accounting and bookkeeping are different, although each is essential to the successful operation of a business. The terms bookkeeper and accounting clerk describe the same job, but accounting clerk is the more popular designation.

The Accounting Clerk

The work of an **accounting clerk** or **bookkeeper** is clerical in nature and for the most part it is concerned with routine matters, often called **bookkeeping**. Some of the jobs of an accounting clerk are

1. ensuring that transactions are properly recorded and that the necessary supporting documents are present and correct
2. recording the accounting entries in the books of account and balancing the ledger as necessary
3. making the payroll calculations and preparing the payroll cheques and other payroll records
4. carrying out all necessary banking transactions

The work of an **accountant**, on the other hand, is broader in scope and requires more education and experience. A professional accountant is usually responsible for maintaining the entire accounting system. Some of the things an accountant is concerned with are:

1. developing a strategy to ensure that correct data are entered into the accounting system
2. ensuring that generally accepted accounting standards are met
3. interpreting the data produced by the accounting system
4. preparing reports based on the data output of the system
5. participating in management meetings and assisting in making business decisions
6. supervising the work of all accounting employees

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