

General Introduction into Accounting

1. Definition of Accounting:

- The system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results.
- Accounting refers to the systematic and detailed recording of financial transactions of a business. There are many types, from accounting for small businesses, government, forensic, and management accounting, to accounting for corporations.
- Accounting is the systematic recordation of the financial transactions of a business. Such recordation can be split into three activities:
 - Setting up a system of record keeping
 - Tracking transactions within that system of record keeping
 - Aggregating the resulting information into a set of financial reports

These three aspects of accounting are broken down into more detail as follows:

- **Record keeping system:** The system of record keeping for accounting requires the use of a standard set of accounting policies and [procedures](#), as well as standardized forms. The record keeping system is commonly built around a commercially available, off-the-shelf accounting software package.
- **Transaction tracking:** A separate procedure is needed to collect information about each type of [business transaction](#). For example, separate systems are needed to process customer orders, bill customers, and collect cash from customers. Transaction tracking occupies the bulk of the time of the accountant.
- **Financial reporting:** Several [accounting frameworks](#), most notably [GAAP](#) and [IFRS](#), mandate a specific manner in which business transactions must be treated in the [accounting records](#) and aggregated into the [financial statements](#). The result is an [income statement](#), [balance sheet](#), [statement of cash flows](#), and supporting disclosures that describe the results of a [reporting period](#) and the [financial position](#) of the reporting entity at the end of that period.

In short, the meaning of accounting covers a broad range of activities, but can be aggregated into a data collection system, the ongoing collection of data into that system, and the reporting of information from that system.

2. How It Works

At the heart of *accounting* is the double-entry bookkeeping method. This involves making at least two recording entries for every transaction: a **debit** in one account and a **credit** in another account. The method helps prevent errors because the sum of the **debits** should equal the sum of the **credits**. The three major **financial statements** produced by accounting are the **income statement**, the **balance sheet**, and the **cash flow statement**.

Accounting can be done on a **cash basis** (cash accounting) or on an accrual basis (accrual accounting). Cash accounting records cash inflows and outflows in the period in which they occur. Accrual accounting records **income** and expenses in the period to which they are attributable rather than when cash payments come and go. For example, a check written in April for March's utilities would appear as a March expense under the accrual method and as an April expense under the cash method.

There are two general kinds of accounting: Financial accounting is the recording and communication of economic information in accordance with Generally Accepted Accounting Principles (**GAAP**) and is primarily for external users. Managerial accounting is the recording and communication of economic information that may or may not be in accordance with GAAP and is for internal users. Other accounting specialty areas exist, such as tax accounting, oil and gas accounting, or forensic accounting.

There are two kinds of users of accounting information: internal users and external users. Internal users are usually company managers who use accounting information to decide how to plan and control operations on a daily and long-term basis. External users are existing or potential investors, creditors, **analysts**, **financial advisers**, regulatory authorities, unions, and the general public. They use accounting information to make a myriad of decisions about whether to buy, hold, sell, lend, continue a relationship, or make an agreement.

The Financial Accounting Standards Board (**FASB**), the Securities and Exchange **Commission** (SEC), the **IRS**, and other regulatory bodies set accounting standards and requirements for accounting frequency and presentation.

3. Importance of Accounting

Accounting is tremendously important because it is the language of business, and it is at the root of making informed business decisions. Without accounting, managers would not know which products were successful, which business decisions were the right ones, and whether the company was earning **money**. It would not know how much to pay in **taxes**, whether to lease or buy an **asset**, or whether to merge with another company. In short, accounting doesn't just count the beans, it measures a company's success at meeting its goals and it helps investors understand how efficiently their economic resources are being used. This is why companies must be proficient in accounting in order to make good decisions.

It Helps in Evaluating the Performance of Business

Your financial records reflect the results of operations as well as the financial position of your small business or corporation. In other words, they help you understand what's going on with your business financially. Not only will clean and up to date records help you keep track of expenses, gross margin, and possible debt, but it will help you compare your current data with the previous accounting records and allocate your budget appropriately.

It helps in Decision making

To run a business you need data, records, reports, analysis, accurate information about assets, debts, liabilities, profits; and that is why Accounting is Importance for any business activities. The accounting information is very important for the management or the decision making the body of an organization.

Management cannot make the decision without reasonable information for backing it up. To make a decision, it has to be based on genuine facts and figures. For making a decision at every level of management, information is crucial.

Accounting is considered as Media of Communication

Accounting plays a vital role as a media in communicating various information from different departments, business, and management plan of actions to various departments.

For instance, in the modem age; accounting is regarded as the best media of communication in supplying information to management regarding purchase and stock, time of purchase, cost of purchase and sales price, etc.

Besides, the function of Accounting is to collect and provide information about the business to various interested parties.

It helps to create Budget

The preparation of various budgets is essential to run the business successfully. The historical information which is needed in the preparation of the budget is supplied by Accounting.

An efficient and honest accountant helps the management with valuable professional advice for the development of its business. In the modem age with the complexities of business management has also become complex.

In this aspect, the role of accounting is very important. The efficiency of management depends on the efficient use of accounting data and information. In the developed countries accountants are regarded as efficient and successful managers.

In the modem age, in big organizations accountants are included in the management committee. It can be said that Accounting and Management are interdependent. Accounting is an essential tool for management.

Accounting jargon

Accounting framework: الاطار المحاسبي

An accounting framework is a published set of criteria that is used to measure, recognize, present, and disclose the information appearing in an entity's financial statements. An organization's financial statements must have been constructed using a recognized framework, or else auditors will not issue a clean audit opinion for them.

The most commonly-used accounting frameworks are generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS). GAAP is used by entities in the United States, while IFRS is used in most other parts of the world. These two frameworks are designed to be broad-based and therefore applicable to most types of businesses.

Statement of cash flows: كشف حساب النقد

The statement of cash flows is one of the financial statements issued by a business, and describes the cash flows into and out of the organization. Its particular focus is on the types of activities that create and use cash, which are operations, investments, and financing.

Transactions: المعاملات

A transaction is a business event that has a monetary impact on an entity's financial statements, and is recorded as an entry in its accounting records. Examples of transactions are as follows: Paying a supplier for services rendered or goods delivered, Paying an employee for hours worked, and Receiving payment from a customer in exchange for goods or services delivered.

Financial reporting: التقرير المالي

Financial reporting is the financial results of an organization that are released to the public.

The balance sheet: الميزانية العامة

A balance sheet lays out the ending balances in a company's asset, liability, and equity accounts as of the date stated on the report. The balance sheet is commonly used for a great deal of financial analysis of a business' performance.