Department of Accounting and Finance

First lesson For First year Master of Accounting and Auditing Students

30 Easy-to-learn English Terms for Accounting

1. Assets

Definition: Everything a company owns, including cash, accounts receivable (money a company is going to receive, see below), property and goods.
Example:
*The company's **assets** were easy to calculate, but it was difficult to quantify the value of the employees' expertise.*

2. Liabilities

Definition: Everything that a company owes to others, like loans and mortgages.
Example:
***Liabilities** are recorded on the right side of the balance sheet, while assets are listed on the left.*

3. Balance Sheet

Definition: A document that records a company's assets and liabilities at a certain moment in time. If we're talking about a public company, it also shows the shareholders' equity (how much the shareholders own).
The balance sheet is based on the accounting equation:
assets = liabilities + owner's equity
The balance sheet is important for potential investors because they can see how the company is doing.
Example:
*We studied the **balance sheet** carefully to see if the assets exceeded the liabilities and shareholders' equity.*

4. Debit

Definition: An entry that shows what a company spends. Debits are recorded on the left side of an account.
Example:
*She recorded the purchase of the new laptops as a **debit** entry.*

5. Credit
Definition: An entry that shows how much money a company receives. Credits are recorded on the right side of accounts.
Example:
*She realized that the total debits didn't equal the total **credits**, so she had to check each entry all over again.*

6. Double Entry
Definition: An accounting system in which each transaction is recorded as both a credit and a debit, an asset and a liability.
Example:
***Double entry** bookkeeping gives you a better perspective than single entry bookkeeping because it helps you make sure each transaction is accurately recorded.*

7. Net
Definition: An amount of money that is left after taxes have been paid.
Example:
*She couldn't tell me her **net** salary because she didn't know all the taxes she was paying; moreover, salaries are not transparent in her company.*

8. Gross
Definition: An amount of money before taxes are deducted.
Example:
*Her **gross** income exceeded his, but they still couldn't afford to get the house they'd been dreaming about for such a long time.*

9. Profit
Definition: The money a business is left with after deducting all the expenses.
Example:
*In order to decide if the company was worth investing in, they wanted to look at the **profit** it had been making over the previous year.*

10. Revenue
Definition: The total amount of money a company receives from the services or products it sells. The revenue is higher than the profit, because in order to calculate the profit, you need to first see the costs of doing business.
Example:
*Our company has experienced a decrease in **revenue** due to the financial crisis.*

11. Capital
Definition: Cash and funds, but also machinery and tangible assets that can contribute to earning more money, like computers, company vehicles,

etc. Intangible assets like expertise or reputation are not considered to be capital.
Example:
*He couldn't start a business because he didn't have enough **capital**, so he decided to work as a freelancer for the time being.*

12. Cash Flow
Definition: Money coming in (inflows) and going out (outflows) of a company.
Example:
*They had a **cash flow** problem because only a small percentage of their customers decided to use early settlement discounts, which meant that they had very high financing costs.*

13. Payroll
Definition: A list of all a company's employees and their salaries. The word ***payroll*** also refers to the total amount of money paid by a company to its employees.
Example:
*They have a lot of employees on their **payroll**, so they employ quite a few **payroll** accountants to calculate employee earnings.*

14. Accounts Payable
Definition: Money that a company owes to other parties—companies or people—called creditors. Accounts payable are considered liabilities.
Example:
*All of the **accounts payable** need to be cleared before we can invest in new software.*

15. Accounts Receivable
Definition: Money that a company has to receive for products or services bought by customers or clients.
Example:
*You can calculate the **accounts receivable** by adding up all the invoices the company generated.*

16. Appreciation

Definition: The increase in the value of a company's assets. Appreciation can be the result of an increase in demand for a product or service. The verb form is ***to appreciate***.
Example:
*Although their balance sheet didn't look very promising, the company seemed worth investing in because of an anticipated **appreciation** in the value of their product.*

17. Depreciation

Definition: The decrease in the value of products or services a company offers. Depreciation can be due to a high supply of similar products or services offered by competitors. The verb form is ***to depreciate***.
Example:
Because the company had almost no competitors just a year ago, nobody would have thought that their products would ***depreciate*** *so much.*

18. Overhead

Definition: All the expenses a company needs to pay for, like the costs of advertising, labor, bills and taxes.
Example:
Their ***overhead*** *expenses were so high that they had been making very little profit, so they decided to cut back on marketing.*

19. Accounting Period

Definition: The time period over which financial statements are produced, usually a year.
Example:
The ***accounting period*** *the investors were interested in was longer than a financial year because they wanted to get the big picture of the company's profitability.*

20. Financial Statements

Definition: Documents that show the financial situation of a company. They include the balance sheet (showing assets, liabilities and shareholders' equity, see above), the income statement (showing revenues and expenses) and statement of cash flows (showing cash flow fluctuations in a certain accounting period).
Example:
The accountants were all busy working on the ***financial statements*** *as the company was planning to refinance its loans.*

21. Share

Definition: A unit of ownership in a company. The person or organization who owns shares (the shareholder, see below) is entitled to dividends (usually cash), but they also share the responsibility if there are losses.
Example:
He decided to invest in ***shares*** *of a very profitable company instead of considering a savings account, because he was sure he could make money fast and he enjoyed taking risks.*

22. Shareholder

Definition: A person or organization (company or any other institution) that owns shares in a company. Shareholders are, in a way, the owners of a company. If the company is doing well, the value of the shares goes up. If, on the contrary, the company is not profitable, the value of its shares decreases.
Example:
*Because he was a **shareholder** in the company, he had to attend annual General Meetings in order to keep up with the latest news and to vote for new members of the Board of Directors.*

23. Owner's Equity

Definition: A part of a company's assets that the owner has. It's calculated as assets minus liabilities.
Example:
*Unfortunately, in his company's case, the **owner's equity** didn't amount to much: they had a lot of liabilities and not enough assets.*

24. Auditor

Definition: A person whose job is to evaluate accounting records in order to make sure they have been done properly and to check if the company is being run efficiently.
Example:
*When the **auditors** asked for additional information about the financial statements, our accountants complied without delay.*

25. Bookkeeper
Definition: A person whose job is to record daily transactions, issue invoices and complete payrolls. Bookkeepers are usually supervised by accountants. Bookkeepers are required to have less experience than accountants and don't need a degree in accounting.
Example:
*She was training to become an accountant, but in the meantime she had a part-time job as a **bookkeeper**.*

26. Chartered Accountant

Definition: An accountant who has a certain amount of experience and who has passed certain exams that qualify them to be a member of an

institution, such as the Institute of Chartered Accountants in the UK. In the US a similar title is that of Certified Public Accountant (CPA).
Example:
*She's been studying to become a **chartered accountant** for a few years now, but she just couldn't manage to pass the final exam.*

27. Creative Accounting

Definition: An accounting practice that tries to present an improved image of a company's financial situation by highlighting mainly the aspects that are favorable. Creative accounting is considered to be legal, but is often seen as unethical.
Example:
*As soon as our potential investor realized we had done some **creative accounting**, they decided to hire an auditor.*

28. Income Tax

Definition: Money that individuals and companies owe to the government, based on the income they make.
Example:
*She was a sole proprietor and she hired an accountant to file her **income tax** return every year.*

29. Value Added Tax (VAT)

Definition: A tax that consumers pay on most products and services, except most food and drugs. Not all countries have a VAT system. In the US, most states have something similar, called a sales tax.
Example:
*The bookkeeper had to calculate the **Value Added Tax** in order to issue the invoice.*

30. Return on Investment (ROI)

Definition: The profitability ratio of a certain investment. The return on investment is calculated as the benefit gained from the investment divided by the cost of the investment.
Example:
*As their **return on investment** hit the lowest point in the last 5 years, they decided to stop investing in our company.*

Third lesson For First year Master of Accounting and Auditing Students

Importance of Auditing and Accounting in business

Accounts and auditing are two processes that are vital for every business in today's landscape. Here are the basics you need to know about accounting and auditing such as what they mean and why each is so significant for your business.

What is accounting?

Accounting is the process of recording, organizing, and analyzing the financial transactions of a business. The analysis is based on reports that are generated using the financial transactions as the foundation. Accounting is a step ahead of bookkeeping because it is much more than simply organizing all the business financial data into proper groups as per standards. Today, accounting is done with the help of accounting software as TallyPrime that enables automation and complex calculations to take place. Accounting can be done on a cash or accrual basis depending on your business.
There are many types of accounting. Financial accounting includes the generation of finacial statements that reveal the health of your company. This is used by auditors, investors, and lenders to determine how profitable your business is. Managerial accounting deals with the generation of statements that are used by your business to be used to make changes to processes. Cost accounting involves evaluating and studying costs in-depth to make decisions accordingly. Tax accounting ensures proper filing of tax returns. Credit accounting is ensuring that sufficient cash remains in the business even if the business has liabilities and debt.

What is auditing?

Auditing is the thorough verification process that involves examination and analysis of a process, product, or system of a business. The major purpose of auditing is to ensure compliance by a business. Audits can be to check performance, compliance, and they can also be for the purpose of follow-up. There are three different types of auditing; process audit, product audit, and system audit. A process audit examines processes and ensures they are working according to standards. A product audit analyses the product or service to ensure it is working as per the requirements. A system audit is when a system is evaluated for its effectiveness and efficiency.

An audit can be first-party, second-party, or third party. In a first-party audit, the audit is performed in the business and the evaluation occurs whereby its procedures are compared to those of external standards. In a second-party audit, an external audit takes place. This is generally done with the help of a contract. In a third-party audit, an audit organization that has no connection to the business performs the auditing process. The entire auditing process depends on the type of audit, the individual or people performing the audit, and the nature of the audit.

Why do we need accounting?

Accounting is key for making informed and smart decisions about your business. If you haven't invested in accounting software, you are at risk of wrong record keeping which can crumble your business in no time. Accounting is essential because it forms the basis of your business. With accounting, you know about your revenue, profits, expenses, and losses. It enables you to reach your goals in a systematic manner because you know exactly where the money is going. Accounting lets you make last-minute decisions with ease.

Accounting should be a priority of every business owner because of how valuable it is. It ensures you are paying taxes on time and you are paying exactly what you owe; nothing more and nothing less. It allows you to pay your employees on time. Accounting enables you to get access to insightful reports that give you detailed overviews of any part of your business. Accounting ensures you are not in trouble because of your debts and allows you to keep track of your debt-related information. It also helps you attract investors and get a loan when you need it.

Why do we need auditing?

Auditing is necessary because it gives you an unbiased overview of your business. This can act as a fundamental step to ensure you know what you are lacking or where things aren't as per standards. It enables you to make decisions for the betterment of your business. Auditing often weeds out errors that may exist in your processes. You can only make changes when you know the problems that exist. With auditing, this becomes possible and so you know the errors that exist and you can then focus on the solutions to ensure your business is working as it should without problems. Auditing ensures transparency as well.

External auditing enables your business to look more credible to outsiders and helps ensure a positive public image. If you plan on selling your business in the future then it becomes easier for you because the auditing process has already been done. External auditing can also improve your credit rating. This can attract the right type of attention from investors and your bank. This holds true when you regularly perform auditing of your business processes. Auditing helps you cement your relationships with suppliers and clients as they often require auditing to proceed further especially in the beginning.

Key differences between accounting and auditing

Accounting and auditing are two important processes that every business must think about. Here are the key differences between the two processes.

Accounting	Auditing
Accounting deals with recording, storing, and organizing financial transactions of a business in a way that is easy to retrieve later when required. Accounting is performed by accountants or with the help of an accounting software tool like TallyPrime.	Auditing is a process that involves ensuring that the data provided is true and there are zero discrepancies. Auditing unveils any errors and problems that exist at present and allows for rectification of those issues. Auditing is performed by auditors.
The purpose of accounting is to ensure you are aware of your financial standing and you are on top of your financial information. Accounting ensures you know how profitable your business is, how much debt you have, and what revenue you are earning.	The purpose of auditing is to ensure the accuracy of the data provided and to ensure it matches with that of what it should be. Auditing, whether done internally or externally, ensures transparency and integrity.
Accounting helps you to understand your business performance based on some metrics. It gives you the tools you need to compare your current performance with your past performance so that improvements can be made.	Auditing helps you understand the efficiency of your business processes and whether they are aligned as per the requirements. If there is any issue with the way your processes are working at the moment, then you need to change them so they meet the standard.
Accounting is an activity that is performed daily. With an accounting software solution like TallyPrime, automation ensures every financial transaction is recorded and interpreted correctly when required.	Auditing is not done every single day like accounting. Auditing is done periodically. In some cases, businesses can get external audits monthly while others prefer yearly. Quarterly audits are also performed in certain businesses.
Accounting is not limited to financial transactions because you can derive important information about your business through it. Accounting or a lack of it can directly impact your business outcomes and can cause issues with auditing.	Auditing is also done on your financial statements to ensure they are up to par and they meet the standards. Having proper financial statements allows for easy auditing because you have all the necessary information about your business in one place.
Accounting is an internal process because a business needs to either hire an accountant perform accounting or use accounting software. The results of accounting, which are the financial statements, can be shared with people outside the company such as stakeholders and so on.	Auditing can be an internal or external process. The functions are the same whether done internally or externally. However, external auditing inculcates more faith in your business as processes and systems are checked by people who are not directly associated with your business.

Department of Accounting and Finance

Second lesson For First year Master of Accounting and Auditing Students

Important Auditing Vocabulary and Key Terms

Every profession has its own lexicon. To communicate with your audit peers and supervisors, you must know key auditing phrases. Knowing these buzzwords is also helpful if you're a business owner, because auditors sometimes forget to switch from audit-geek talk to regular language when speaking with you.

- **Audit evidence:** Facts gathered during the audit procedures that provide a reasonable basis for forming an opinion regarding the financial statements under audit.

- **Audit risk:** The risk of forming an inappropriate opinion on the financial statements under audit.

- **Control risk:** The risk that a company's internal controls won't detect or prevent mistakes.

- **Due professional care:** Taking the time to gather reasonable audit evidence to support the fact that the financial statements are free of material misstatement.

- **Generally accepted accounting principles (GAAP):** Standard U.S. accounting guidelines for reporting financial statement transactions.

- **Generally accepted auditing standards (GAAS):** Standard U.S. auditing guidelines for planning, conducting, and reporting on audits.

- **Going concern:** The expectation that a business will remain operating for at least another 12 months.

- **Independence:** Having an arm’s-length relationship — meaning no special or close relationship — with the client under audit.
- **Inherent risk:** The likelihood of arriving at an inaccurate audit conclusion based on the nature of the client’s business.
- **Internal controls:** The operating standards a client uses to prevent or uncover mistakes.
- **Management assertions:** Representations the managers of a company make on the financial statements.
- **Materiality:** The importance placed on an area of financial reporting based on its overall significance.
- **Objectivity:** The ability to evaluate client records with no preconceived notions or prejudices.
- **Professional skepticism:** Approaching an audit with a questioning mind-set.
- **Sampling:** Selecting a small but pertinent and representative number of records to represent the entire population of records.

Fourth Lesson For First year Master Degree of Accounting and Auditing Students

THE FUTURE OF AUDIT .

What the Future of Audit Means for Accounting Educators

The audit field is rapidly evolving. Changes such as the emergence of continuous auditing, data analytics, Big Data, and integration of information technology require auditors to have new approaches and to become proficient in information technologies and analytical methods.

“In the past, businesses were run from the financial statements,” said Miklos A. Vasarhelyi, Ph.D., professor of accounting and director of the Continuous Auditing & Reporting Laboratory at Rutgers University. “Today, businesses are run differently, based on hundreds of linked transactions happening at once.” As a result, the role of the auditor is shifting: auditors are now able to identify and verify larger amounts of data than they once were and perform audits on a continuous basis as opposed to a periodic one.

These changes to the audit field have many educators wondering whether, and to what degree, it makes sense to teach advanced auditing and IT-based auditing to undergraduates. Though more employers are now using continuous auditing and data analytics in audit, faculty question whether the subject is too advanced for undergraduates. They also worry about having the time to fit more material into an already full audit curriculum.

What should accounting programs be doing to prepare students for changes in the auditing field? Three prominent faculty members in the world of advanced audit weigh in.

What employers require

Changes in client technology, increased regulatory scrutiny, and the limited time frame auditors now have to sign off have put pressure on firms to be more efficient. That’s why many public accounting firms now use some form of continuous auditing. Many CPA firms are training their professionals on advanced auditing techniques, and the largest firms have invested a significant amount of training time and money in this area.

The use of data analytics in audits is still in its early stages, said Helen Brown-Liburd, CPA, Ph.D., associate professor of accounting and information systems at Rutgers. However, she believes that, in the near future, firms will need to incorporate more technology and the use of data analytics to maintain audit quality. “With Big Data, it’s not efficient to audit using old audit approaches anymore,” she said.

But what does this mean for accounting graduates? Ryan A. Teeter, Ph.D., clinical assistant professor of accounting at the University of Pittsburgh, noted that accounting graduates may not always be the ones hired to perform data analysis. Large CPA firms are more likely to recruit freshmen and sophomores from STEM majors for that role, he said, “to become their in-house data scientists and assist accountants and advisers out in the field.”

What firms need from auditors is the ability to understand both accounting and technical concepts, Teeter said. “Big Four firms have three types of roles: accountants/auditors working with clients, data scientists with specialized skills to analyze and manipulate data and look for correlations, and intermediaries/translators between the other two with both an accounting and IT background,” he said. “Our focus should be on the third category.”

IT knowledge may be especially important to students who seek careers in business and industry, Brown-Liburd and Teeter both said. Internal auditors, Brown-Liburd said, are not bound by external auditing standards and can therefore be more progressive in using advanced auditing techniques.

What do undergrads need to know?

Accounting curricula have yet to catch up with changes in the audit field. “Although there is an awareness that something has to change, no one is exactly sure how to do it,” Teeter said.

The extent to which universities have begun to teach advanced auditing methods varies. For example, at Teeter’s employer, the core accounting degree program includes a course in accounting information systems. But, like most universities, it does not offer an advanced course.

Part of the reason curricula have yet to change is that IT in audit is still so new. In Vasarhelyi’s experience, educators have not yet learned enough about the new audit trends to make curricula changes.

Course materials for teaching this subject matter also have yet to be developed. Brown-Liburd noted that “the textbooks are slow to develop integrative audit projects and interesting case studies that students can work on using the tools.” She uses case studies to get her students comfortable with the use of advanced audit software (ACL, Idea) and how to extract data from simulated client databases to use as audit evidence.

Then there’s the fact that faculty already have so much content to teach. “The university, in theory, is where these ideas and philosophies could start,” said Teeter. “But the challenge is that the undergraduate program must cover all the [traditional] areas so that students are reasonably well-prepared for work at an accounting firm.”

In fact, though having some knowledge of data analytics and continuous auditing would be helpful to undergraduates, advanced auditing may be a subject better suited to graduate study. In Vasarhelyi’s opinion, the current CPA exam content is good for what accountants need for their first two years of work. But he recommended that staff continue to acquire long-term learning in areas such as information technology, analytical methods, and expert systems, as they become managers and partners.

Helping audit students become conversant with IT

What, then, should undergraduates be learning about IT? Brown-Liburd tells her students that, at a minimum, they should take IT electives and advanced accounting information systems courses that expose them to advanced technology. She also encourages them to minor in IT, as she believes it is very important for students to understand general and application controls in an IT environment. (Certain courses, though, such as audit analytics or machine learning, may be available only at the graduate level.)

Teeter uses his undergraduate accounting information systems course to expose students to a number of tools they may use later. For example, he said, his students “develop flowcharts using Lucidchart, create financial statements using queries in Access and PivotTables in Excel, compute financial ratios using XBRLAnalyst, perform comparative financial statement analysis using Contexxia, complete a simulation of a company’s operating cycle in SAP, and analyze transactions and controls for anomalies using IDEA.”

Reference: *Maria L.Murphy* ***CPA*** *, is a Wilmington, N.C.-based freelance writer.*