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Chapter 1 : Why are Accounting Ethics Important? - blog.quintoapp.com

The charge for using money over time, often associated with long-term loans; even if not specifically mentioned in the debt agreement, financial accounting rules require it to be computed and reported based on a reasonable rate.

Explain the importance of learning to understand financial accounting. List decisions that an individual might make about an organization. Differentiate between financial accounting and managerial accounting. Provide reasons for individuals to be interested in the financial accounting information supplied by their employers. This textbook professes to be an introduction to financial accounting. A logical place to begin such an exploration is to ask the obvious question: What is financial accounting? In simplest terms, financial accounting The communication of financial information about a business or other type of organization to external audiences in order to help them assess its financial health and prospects. Financial accounting provides the rules and structure for the conveyance of financial information about businesses and other organizations. At any point in time, some businesses are poised to prosper while others teeter on the verge of failure. Many people are seriously interested in evaluating the degree of success achieved by a particular organization as well as its prospects for the future. Financial accounting provides data that these individuals need and want. Every semester, most college students are enrolled in several courses as well as participate in numerous outside activities. Why should a student invest valuable time to learn the principles of financial accounting? Why should anyone be concerned with the information communicated about an organization? More concisely, what makes financial accounting important? Many possible benefits can be gained from acquiring a strong knowledge of financial accounting and the means by which information is communicated about an organization. In this book, justification for the serious study that is required to master the subject matter is simple and straightforward: Around the world, millions of individuals make critical judgments each day about the businesses and other organizations they encounter. Developing the ability to analyze financial information and then using that knowledge to arrive at sound decisions can be critically important. Whether an organization is as gigantic as Wal-Mart or as tiny as a local convenience store, a person could have many, varied reasons for making an assessment. As just a single example, a recent college graduate looking at full-time employment opportunities might want to determine the probability that Company A will have a brighter economic future than Company B. Although such decisions can never be correct percent of the time, knowledge of financial accounting and the information being communicated greatly increases the likelihood of success. Thus, the ultimate purpose of this book is to provide students with a rich understanding of the rules and nuances of financial accounting so they can evaluate available information and then make good choices about those organizations. In the world of business, most successful individuals have developed this talent and are able to use it to achieve their investing and career objectives. Knowledge of financial accounting assists individuals in making informed decisions about businesses and other organizations. What kinds of evaluations are typically made? For example, assume that a former studentâ€"one who recently graduated from collegeâ€"has been assigned the task of analyzing financial data provided by Company C. What real-life decisions could a person be facing where an understanding of financial accounting is beneficial? The number of possible judgments that an individual might need to make about a business or other organization is close to unlimited. However, many decisions deal with current financial health and the prospects for future success. In making assessments of available data, a working knowledge of financial accounting is invaluable. The more in-depth the understanding is of those principles, the more likely the person will be able to use the available information to arrive at the best possible choice. Common examples include the following: The college graduate might be employed by a bank to work in its corporate lending department. Company C is a local business that has applied to the bank for a large loan. The graduate has been asked by bank management to prepare an assessment of Company C to determine if it is likely to be financially healthy in the future so that it will be able to repay the money when due. A correct decision to lend the money eventually earns the bank profit because Company C the debtor will be required to pay an extra amount known as interest The charge for using money over time, often associated with long-term loans; even if not specifically mentioned in the debt agreement, U. GAAP requires it to be computed and reported based on a reasonable rate. Conversely, an incorrect analysis of the information could lead to a substantial loss if the loan is granted and Company C is unable to fulfill its obligation. Bank officials must weigh the potential for profit against the risk of loss. That is a daily challenge in virtually all businesses. Should a loan be made to this company? The college graduate might hold a job as a credit analyst for a manufacturing company that sells its products to retail stores. Company C is a relatively new retailer that wants to buy goods inventory for its stores on credit from this manufacturer. The former student must judge whether it is wise to permit Company C to buy goods now but wait until later to remit the money. If payments are received on a timely basis, the manufacturer will have found a new outlet for its merchandise. Profits will likely increase. Unfortunately, another possibility also exists. Company C could make expensive purchases but then be unable to make payment, creating significant losses for the manufacturer. Should credit be extended to this company? The college graduate might be employed by an investment firm that provides financial advice to its clients. The firm is presently considering whether to recommend acquisition of the ownership shares of Company C as a good investment strategy. The former student has been assigned to gather and evaluate relevant financial information as a basis for this decision. Conversely, if the prospects for Company C appear to be less bright, the value of these shares might be expected to drop possibly precipitously so that the investment firm should avoid suggesting the purchase of an ownership interest in Company C. Should shares of this company be recommended for acquisition? Success in lifeâ€”especially in businessâ€”frequently results from making appropriate decisions. Many economic choices, such as those described above, depend on the ability to understand and make use of the financial information that is produced and presented about an organization in accordance with the rules and principles underlying financial accounting. Exercise Link to multiple-choice question for practice purposes: A great number of possible decisions could be addressed in connection with an organization. Is an understanding of financial accounting relevant to all business decisions? What about the following? Should a business buy a building to serve as its new headquarters or rent a facility instead? What price should a data processing company charge customers for its services? Should advertisements to alert the public about a new product be carried on the Internet or on television? Organizational decisions such as these are extremely important for success. However, these examples are not made about the reporting organization. Rather, they are made within the organization in connection with some element of its operations. Accounting is then further subdivided into a financial accounting and b managerial accounting The communication of financial information within an organization so internal decisions can be made in an appropriate manner.. Tax accounting serves as another distinct branch of accounting. It is less focused on decision making and more on providing the information needed to comply with all government rules and regulations. Even in tax accounting, though, decision making is important as companies seek to take all possible legal actions to minimize tax payments. Financial accounting is the subject explored in this textbook. It focuses on conveying relevant data primarily to external parties so that decisions can be made about an organization such as Motorola or Starbucks as a whole. Thus, questions such as the following all fall within the discussion of financial accounting: Do we loan money to Company C? Do we sell on credit to Company C? Do we recommend that our clients buy the ownership shares of Company C? They relate to evaluating the financial health and prospects of Company C as a whole. Managerial accounting is the subject of other books and other courses. This second branch of accounting refers to the communication of information within an organization so that internal decisions such as whether to buy or rent a building can be made in an appropriate manner. Individuals studying an organization as a whole have different goals than do internal parties making operational decisions. Thus, many unique characteristics have developed in connection with each of these two branches of accounting. Financial accounting and managerial accounting have evolved independently over the decades to address the specific needs of the users being served and the decisions being made. This textbook is designed to explain those attributes that are fundamental to attaining a usable understanding of financial accounting. It is not that one of these areas of accounting is better, more useful, or more important than the other. Financial accounting and managerial accounting have simply been created to achieve different objectives. They both do their jobs well; they just do not have the same jobs. Financial accounting refers to the conveyance of information about an organization as a whole and is most frequently directed to assisting outside decision makers. Is there any reason for a person who is employed by a company to care about the financial accounting data reported about that organization? Why should an employee in the marketing or personnel department of Company C be interested in the financial information that it distributes? As indicated, financial accounting is designed to portray the overall financial condition and prospects of an organization. Every employee should be quite interested in assessing that information to judge future employment prospects. A company that is doing well will possibly award larger pay raises or perhaps significant end-of-year cash bonuses. A financially healthy organization can afford to hire new employees, buy additional equipment, or pursue major new initiatives. Conversely, when a company is struggling and prospects are dim, employees might anticipate layoffs, pay cuts, or reductions in resources. Thus, although financial accounting information is often directed to outside decision makers, employees should be vitally interested in the financial health of their own organization. No one wants to be clueless as to whether their employer is headed for prosperity or bankruptcy. In reality, employees are often the most avid readers of the financial accounting information distributed by their employers because the results can have such an immediate and direct impact on their jobs and, hence, their lives.

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Chapter 2 : Business Accounting - Table of Contents

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January 2, by Brittani Sponaugle Why is accounting so important? An important part of any business or organization is, arguably, the money that comes in and the money that goes out. The accounting department typically monitors this closely by recording transactions, analyzing transaction patterns and dealing with things like payroll and taxes. Overall, the accounting department can determine the health and efficiency of a business, and increase profitability just by studying this information. Learn a practical approach to all you need to know about accounting. Types of Accounting In businesses there are typically two methods of accounting, cash basis and accrual. For smaller businesses, cash basis accounting is usually what is used. It acknowledges and records financial transactions when cash physically moves between involved parties. The transaction, or intent to pay still exists. The accrual method tracks all commitments to pay or to be paid when the commitment is made, regardless if actual funds were transferred. This method is typically used for larger businesses. Why does accounting matter? Try and imagine your local grocery store sans an accounting department. At first glance, you may be thinking that they could get by because all the transactions are recorded in the registers and through other electronic means. What about all the inventory? What about the employees pay checks? What about federal, state and city taxes? What about cash flow patterns? Tracking business performance Every bit of money that comes and goes from a business needs to be tracked and accounted for. By adequately recording this information and then studying it, accountants can determine the longevity of a business, financial forecasts and the overall business performance. Are you paying your clients on time? Could you find better deals on some of your products? Is there money being wasted on a third party when the tasks could be done in house for cheaper? It takes a lot of time and effort understand the basic cash flow and how to improve functionality and efficiency. Management Accounting So we know that tracking business performance is crucial to the health of your business, but how do we do it? Management accounting includes putting together cash flow statements, accounts payable, accounts received, budgets and expense reports. There is no real rule as to what reports you need to create or use to manage your business. If you have a considerable amount of customers who owe you money like a payday loan business you are obviously going to want to have very well-designed account received reports. Knowing this information can help you tremendously as you move forward with business decisions. Are you a small business? This small business accounting course is for you. Types of Reports Here are just a few of the reports you might want to consider involving in your every day, weekly or monthly accounting routine. Cash flow daily, weekly, monthly, quarterly, annually Budgets and cash plans Accounts Receivable who owes you money Accounts Payable who you owe money to Income Statements and balance sheets Owner equity statements Debtors and creditors statements Accounting software There are plenty of accounting programs to choose from that can help you accomplish all of these tasks and then some. This is the heart of your business and shying away from learning how it operates can be detrimental to your success and future. Here are a few to get you started:

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Chapter 3 : Why Is Financial Accounting Important?

Chapter 1 What Is Financial Accounting, and Why Is It Important? End-of-Chapter Exercises 41 TRUE OR FALSE 1. ____ Financial accounting information is generated primarily to help with decisions made inside a business or by some other organization.

Why are Accounting Ethics Important? The discussion of accounting ethics has declined in recent years as the Enron and WorldCom debacles have receded from memory. Furthermore, the perceived excesses and criticism of the Wall Street crowd during the financial crisis has further pushed something as unglamorous as accounting ethics out of the public eye. Recent events have, if anything, reinforced the need for the practitioners of accounting to act in an ethical manner and fairly portray the financial performance of the entities they work for. These people contribute to pensions, work for companies, actively invest, or are in some other way a stakeholder in a company somewhere. In a broad definition like that pretty much every individual is in some way impacted by the decisions and actions an accountant makes. This is not said to glorify the importance of the profession but more to underline the importance of these individuals applying high ethical standards to their work. These accounting guidelines frame the way in which transactions and balances are assessed and reported. There can be many reasons why accountants can act in unethical manners. Typically most reasons somehow tie back to a financial one as the pay out, through stock price or something as direct as steal cash, can be substantial. Many of the accounting scandals of the past, i. WorldCom and Enron, saw individuals gain vast sums of money through the application of unethical accounting practices. Additionally, many companies under pressure to deliver results or avoid a loss can apply poor accounting ethics to their decision making. In a sense this is financial also, but more in a capacity to avoid the company being penalized by the market or individuals losing their jobs. Who regulates Accounting Ethics? With such a small group of individuals being required to operate ethically, who makes sure this is being done? Most national accounting bodies form their own ethics committees that are responsible for establishing ethical guidelines and enforcing those guidelines. In America the American Institute of Certified Public Accountants has an ethics committee that sets these standards at a national level, in participation with the state level institutes. Enforcement is also performed by these bodies and can see accountants suspended or stripped of their accounting designation for unethical behaviour. For many accountants that, aside from personal values, is the main disincentive to committing an unethical act as the loss of their designation means the loss of their jobs and ability to work. Enforcement is also performed by various legal bodies as well as the SEC, which has punished accountants and accounting firms for various unethical behaviours. Many are critical of this arrangement as it leaves the management and guidance of ethical accounting in the hands of the accountants themselves. That said this is countered by the argument that those involved in the profession have a vested interested in maintaining the professions public image and reputation. So while accounting ethics may sound boring and abstract it is something that has an impact the lives of most people. While no one is going to provide accolades for the daily ethical decisions made, we all see the impact of when unethical decisions are made and can see how the lives and savings of people can be impacted. By Jeffrey Glen Copyrighted

Chapter 4 : Importance of Accounting: Basic Financial Concepts To Know

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