

زبان تخصصی

سری کتاب‌های کمک آموزشی کارشناسی ارشد

مجموعه حسابداری

مؤلفان:

پیمان جهانی

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سخن ناشر

«ن والقلم و ما یسطرون»

کلمه نزد خدا بود و خدا آن را با قلم بر ما نازل کرد.

به پاس تشکر از چنین موهبت الهی، موسسه ماهان درصدد برآمده است تا در راستای انتقال دانش و مفاهیم با کمک اساتید مجرب و مجموعه کتب آموزشی خود برای شما داوطلبان ادامه تحصیل در مقطع کارشناسی ارشد گام موثری بردارد. امید است تلاش‌های خدمتگزاران شما در این موسسه پایه‌گذار گام‌های بلند فردای شما باشد.

مجموعه کتاب‌های کمک آموزشی ماهان به‌منظور استفاده داوطلبان کنکور کارشناسی ارشد سراسری و آزاد تالیف شده‌اند. در این کتاب‌ها سعی کرده‌ایم با بهره‌گیری از تجربه اساتید بزرگ و کتب معتبر، داوطلبان را از مطالعه کتاب‌های متعدد در هر درس بی‌نیاز کنیم.

دیگر تالیفات ماهان برای سایر دانشجویان به‌صورت ذیل می‌باشد:

• **مجموعه کتاب‌های ۸ آزمون:** شامل سوالات چند سال اخیر کنکور کارشناسی ارشد که همراه با پاسخ تشریحی در اختیار دانشجویان قرار می‌دهد.

بدین‌وسیله از مجموعه اساتید، مؤلفان و همکاران محترم خانواده بزرگ ماهان که در تولید و به‌روزرسانی تالیفات ماهان نقش موثری داشته‌اند، صمیمانه تقدیر و تشکر می‌نماییم.

دانشجویان عزیز و اساتید محترم می‌توانند هر گونه انتقاد و پیشنهاد در خصوص تالیفات ماهان را از طریق سایت ماهان به آدرس mahan.ac.ir با ما در میان بگذارند.

موسسه آموزش عالی آزاد ماهان

سخن مؤلف

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

فَيَذُوا الْعِلْمَ بِالْكِتَابِ. [علم را با نوشتن، به زنجیر بکشید.] (رسول الله صلى الله عليه و آله)

Fetter knowledge by writing it down.

خداوند را بسیار شاکرم که توفیق تدوین و تألیف این اثر را به حقیر عطا کرد. از آنجا که کتاب ابزار است که مؤلف، مقاصد و خواسته‌هایش را به صورت غیر مستقیم به مخاطب می‌رساند لذا با توجه به نیازی که در منابع موجود، احساس می‌شد بر آن شدیم تا مجموعه‌ای جامع برای علاقمندان به کنکور کارشناسی ارشد فراهم نمائیم. کتاب حاضر، به لحاظ محتوا، کیفیت ترجمه و تعدد سؤالات، کامل‌ترین کتاب در ایران محسوب می‌شود که مطالعه‌ی آن، دانشجویان را از مراجعه به سایر منابع، بی‌نیاز خواهد ساخت. یکی از سؤالاتی که ممکن است برای دانشجویان عزیز مطرح شود این است که چگونه می‌توان در درس زبان تخصصی، بهترین نتیجه را کسب نمود؟ برای موفقیت در این درس، وجود سه عامل ضروریست: ۱- تکنیک ترجمه ۲- دامنه‌ی لغات و ۳- دانش پایه از رشته‌ی حسابداری، که مختصراً به توضیح آن می‌پردازیم:

۱- تکنیک ترجمه: در ترجمه‌ی متون و سؤالات کنکور از روش گشتاری نوام چامسکی استفاده شده است. و علاقمندانی که تمایل به یادگیری این روش را دارند می‌توانند به کتاب زبان تخصصی حسابداری ۱، انتشارات ترمه، تألیف از این حقیر، به قسمت مقدمه از صفحه ۱ تا ۲۶ مراجعه نمایند.

۲- دامنه‌ی لغات: دانشجویان عزیز برای تقویت و افزایش دامنه لغات تخصصی خود می‌توانند از واژگان انتهایی این کتاب و برای تقویت لغات عمومی از کتاب ۵۰۴ یا ۱۱۰۰ استفاده نمایند البته بهترین روش برای حفظ لغت، یادگیری آن در درون متن می‌باشد.

۳- دانش پایه از رشته‌ی حسابداری: سطح علمی مورد نیاز برای دانشجویانی که رشته‌ی آنان حسابداری، مدیریت و یا اقتصاد است کفایت می‌کند لیکن آن دسته از دانشجویانی که رشته‌ی کارشناسی آنان غیر مرتبط است می‌بایست حداقل دو کتاب زبان تخصصی ۱ و ۲ را مطالعه و پس از مرور درسی این کتاب، شروع به تمرین تست‌زنی نمایند.

این کتاب شامل: ۱- سیزده درس از موضوعات مهم حسابداری ۲- سؤالات ۷ سال اخیر زبان تخصصی آزاد حسابداری از سال ۸۸ تا ۹۴ با پاسخ تشریحی و ۳- سؤالات ۲۱ سال اخیر زبان عمومی و تخصصی سراسری حسابداری از سال ۷۵ تا ۹۵ به همراه پاسخ تشریحی می‌باشد. به مدد تلاش‌های صورت گرفته انتظار می‌رود این کتاب، منبعی غنی برای کنکور کارشناسی ارشد حسابداری باشد.

در پایان از مدیریت محترم مؤسسه ماهان، جناب آقای سیّاری که همواره حامی تحقیق و پژوهش در عرصه‌ی علوم مختلف هستند و هوشمندانه، کمبودها و کاستی‌های آموزش را تشخیص و به بهترین نحو ممکن، پوشش می‌دهند کمال تشکر را دارم. از خانم بیگی نیز که پیگیری و مسئولیت چاپ این کتاب را به عهده داشته‌اند سپاسگذاری می‌کنم و همچنین از برادر عزیزم جناب آقای کیوان جهانی که در تایپ این اثر، حقیر را یاری فرمودند قدردانی می‌نمایم. از تمامی صاحب‌نظران، اساتید و دانشجویان عزیز استدعا دارم جهت هر چه بهتر شدن کیفیت این کتاب، پیشنهادات و انتقادات سازنده‌ی خود را به آدرس پستی اینجانب (peyman_cpa@yahoo.com) اعلام تا انشاءالله در چاپ‌های بعدی اصلاح گردد.

پیمان جهانی

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Unit1

Basic Accounting Terms

Accounting Equation

Assets = Equities; or Assets = Liabilities + Stockholders' equity.

Accounts Payable

Amounts owed to suppliers for goods or services purchased on credit.

Accounts Receivable

Amounts due from customers for services already provided.

Accrual Accounting

Accrual accounting relies on two principles, which have already been alluded to: The **revenue recognition principle**: states that revenues are recognized when they are realized or realizable, and are earned (usually when goods are transferred or services rendered), no matter when the payment is received.

Assets

Things of value owned by the business. Examples include cash, machines, and buildings. To their owners, assets possess service potential or utility that can be measured and expressed in money terms.

Bad Debt

All reasonable means to collect a debt have been tried and have failed so the amount owed is written off as a loss and becomes categorized as an expense on an income statement. This results in net income being reduced.

Balance Sheet

Financial statement that lists a company's assets, liabilities, and stockholders' equity (including dollar amounts) as of a specific moment in time. Also called a statement of financial position.

Business Entity Concept (or Accounting Entity Concept)

The separate existence of the business organization.

Capital Stock

The title given to an equity account showing the investment in a business corporation by its stockholders.

Continuity

See going-concern concept.

Corporation

Business incorporated under the laws of one of the states and owned by a few stockholders or by thousands of stockholders.

Cost

Sacrifice made or the resources given up, measured in money terms, to acquire some desired thing, such as a new asset.

Cost of Goods Sold

This is the purchase cost of the merchandise that was subsequently sold to customers.

Creditor

A creditor is a person to whom the business owes money, for example a supplier, landlord, or utility organization.

Current Assets

This refers to assets with the value available entirely in the short term. This is usually understood to be a period of less than a year. This is either because they are what the business sells or because they are money or can quickly be turned into money. Examples of **assets** include inventory/stock, money owing by customers, money in the bank, or other short-term investments.

Current Liabilities

This refers to those things that the business could be called upon to pay in the short term - within the year. Examples include bank overdrafts and money owing to suppliers.

Debtor

A debtor is a person owing money to the business, for example a customer for goods delivered.

Depreciation

Assets have a certain length of time in which they operate efficiently, referred to as 'an asset's useful life.' During this period the value of that asset depreciates due to age, wear and tear, or obsolescence. The loss in value is recorded in accounts as a non-cash expense, which reduces earnings whilst raising cash flow.

Dividend

Payment (usually of cash) to the owners of a corporation; it is a distribution of income to owners rather than an expense of doing business.

Entity

A business unit that is deemed to have an existence separate and apart from its owners, creditors, employees, customers, other interested parties, and other businesses, and for which accounting records are maintained.

Equities

Broadly speaking, all claims to, or interests in, assets; includes liabilities and stockholders' equity.

Equity Ratio

A ratio found by dividing stockholders' equity by total equities (or total assets). Exchange-price (or cost) concept (principle): The objective money prices determined in the exchange process are used to record most assets.

Expenses

Costs incurred to produce revenues, measured by the assets surrendered or consumed in serving customers.

Expenses

Refers to the other costs that are not matched with sales as part of the cost of goods sold. They may be matched with a specific time, usually monthly, quarterly, or annually or they may also be one-off payments. Expenses include: staff wages, rent, utility bills, insurance, equipment, etc.

Fixed Assets

This refers to all of those things that the business owns which will have a value to the business over a long period. This is usually understood to be any time longer than one year. It includes freehold property, plant, machinery, computers, motor vehicles, and so on.

Gross Profit

Refers to what is left after you subtract the cost of goods sold from the sales. It is also called gross margin. For example, if an organization buys in an item for \$50 and sells it for \$75 (plus sales tax), then the gross profit will be \$25.

Going-concern (continuity) Concept

The assumption by the accountant that unless strong evidence exists to the contrary, a business entity will continue operations into the indefinite future.

Income Statement

Financial statement that shows the revenues and expenses and reports the profitability of a business organization for a stated period of time. Sometimes called an earnings statement.

Liabilities Debts

Owed by a business—or creditors' equity. Examples: notes payable, accounts payable.

Liquidity

This is the ability to meet current obligations with cash or other assets that can be quickly converted into cash in order to pay bills as they become due. In other words the organization has enough cash or assets that will become cash so that it is able to write checks without running out of money.

Manufacturing Companies

Companies that buy materials, convert them into products, and then sell the products to other companies or to final customers.

Merchandising Companies

Companies that purchase goods ready for sale and sell them to customers.

Money Measurement Concept

Recording and reporting economic activity in a common monetary unit of measure such as the dollar.

Net Income

Amount by which the revenues of a period exceed the expenses of the same period.

Net Loss

Amount by which the expenses of a period exceed the revenues of the same period.

Notes Payable

Amounts owed to parties who loan the company money after the owner signs a written agreement (a note) for the company to repay each loan.

Partnership

An unincorporated business owned by two or more persons associated as partners.

Periodicity (time periods) Concept

An assumption that an entity's life can be meaningfully subdivided into time periods (such as months or years) for purposes of reporting its economic activities.

Profitability

Ability to generate income. The income statement reflects a company's profitability.

Retained Earnings

Accumulated net income less dividend distributions to stockholders.

Revenues

Inflows of assets (such as cash) resulting from the sale of products or the rendering of services to customers.

Sales or Revenue

Revenue is the income that flows into an organization, and it is often used almost synonymously with sales. In government and nonprofit organizations it includes taxes and grants.

Don't confuse revenues with receipts. Under the **accrual basis of accounting**, revenues are shown in the period they are earned, not in the period when the cash is collected. Revenues occur when money is earned; receipts occur when cash is received.

Service Companies

Companies (such as accounting firms, law firms, or dry cleaning establishments) that perform services for a fee.

Single Proprietorship

An unincorporated business owned by an individual and often managed by that individual.

Solvency

Ability to pay debts as they become due. The balance sheet reflects a company's solvency.

Source Document

Any written or printed evidence of a business transaction that describes the essential facts of that transaction, such as receipts for cash paid or received. Statement of cash flows Financial statement showing cash inflows and outflows for a company over a period of time.

Statement of Retained Earnings

Financial statement used to explain the changes in retained earnings that occurred between two balance sheet dates.

Stockholders' Equity

The owners' interest in a corporation.

Stockholders or Shareholders

Owners of a corporation; they buy shares of stock, which are units of ownership, in the corporation.

Transaction

A business activity or event that causes a measurable change in the items in the accounting equation, $Assets = Liabilities + Stockholders' equity$.

Working Capital

This is the difference between current assets and current liabilities. An organization without sufficient working capital cannot pay its debts as they fall due. In this situation it may have to stop trading even if it is profitable.

The **Matching Principle**: states that expenses are recognized when goods are transferred or services rendered, and offset against recognized revenues, which were generated from those expenses, no matter when the cash is paid out.

Unit 2

The History of Accounting

Accounting history can be traced back to a book called *Summa de arithmetica, geometria, proportioni et proportionalita*, written by the Italian mathematician, Luca Pacioli, in A.D. 1494.

Today, this book is regarded as an important document in accounting history: it included the first printed work on algebra and also recorded for the very first time the system of the double-entry accounting system, that became popular with Italian merchants during the Renaissance.

The book also included illustrations and diagrams drawn by Pacioli's friend, Leonardo Da Vinci.

Luca Pacioli described the use of journals and ledgers, and warned that a merchant should not rest until the debits equalled the credits. His ledger had accounts for assets, liabilities, capital, income and expenses. He also demonstrated year-end closing entries and proposed a trial balance be used to prove a balanced ledger.

Summa de arithmetica, geometria, proportioni et proportionalita was a best selling book, published across large parts of Europe, and became the basis for bookkeeping as we know it today. Even today, the double-entry accounting method is used today to record entries in both the Profit and Loss register and the Balance Sheet.

Company Legislation History

In 1844 The British Joint Stock Companies Act was an Act of Parliament that allowed companies owned by one or more individuals to be incorporated. Before this, incorporation was only possible through Royal Charter or private act. As a consequence, many businesses operated as unincorporated associations - often with thousands of members and management of these businesses, and the ability for the business to be regulated was limited. If a customer had a grievance against an unincorporated association, their only recourse was to litigate against every member individually, which was virtually impossible in many cases.

The 1844 Joint Stock Companies Act was brought in to place business and economy on a strong foundation and to increase the public's confidence in the honesty of a business.

This was followed up in 1855 by the Limited Liability Act, which limited the liability of the individual owners and directors of a business. In 1856, the Joint Stock Companies Act was updated and introduced the system still largely in use to the present day, where companies are

incorporated by registration and auditors needed to be appointed for public companies to examine the balance sheet and accounts.

Today, company accounts must follow the guidelines under the Companies Act 1985. This act sets out the responsibilities of companies, their directors and company secretaries. The Companies Act only applies to companies that are incorporated under it. Sole traders, partnerships, limited liability partnerships and co-operatives are not governed by the Act.

A new Companies Act 2006 will come into place by the end of 2009. The main differences between the old and new acts are down to new provisions for company communications to shareholders, the implementation of new European Directives and clarifications on areas of common law affecting companies.

Accounting Standards history

During the 1930s and 1940s there was concern that there was no standard framework for financial accounting. This was perceived to be a bigger problem in the United States where creative accounting - making a company look more successful than it actual was - was a problem and there were a number of high profile cases where supposedly profitable companies were able to attract additional investment only to collapse a few months later with huge debts.

The American Institute of Accountants set up the Committee on Accounting Procedures (CAP) in the late 1930s as a self-regulatory body and this produced a number of Accounting Research Bulletins, which were in effect statements on accounting principles and processes. These were extremely successful in eliminating a number of questionable accounting practices. However, it did not help in establishing an underlying accounting theory for 'good' practice.

This was resolved in 1953, when the Committee on Accounting Procedures produced a standard framework of guidelines for financial accounting, called the *Generally Accepted Accounting Principles* (GAAP). GAAP contained the structures and rules that accountants use in recording and summarising transactions and the preparation of financial statements. Whilst GAAP was written for the United States, it was quickly adopted - with regional modifications - across Europe. GAAP continues to be maintained and updated and is still used to the present day.

In 1959, the Committee on Accounting Procedures was replaced by the Accounting Principles Board (APB). In turn, this was replaced in 1973 by the Financial Accounting Standards Board (FASB), who had additional powers to regulate the Generally Accepted Accounting Principles (GAAP). In 1990, this task was taken over by the Accounting Standards Board (ASB) and today it is the ASB who have the task of setting and monitoring accounting standards.

Computerized Accounts history



The UNIVAC-1 - the world's first commercial computer

The history of the first computerized accounting system was also implemented in 1953, when Arthur Anderson Consultancy (now known as Accenture) was asked by General Electric to implement an automated payroll processing system at their site in Louisville, Kentucky.

The system comprised of a UNIVAC 1 (*UNIVersal Automatic Computer-1*) computer and printer. It was the first ever commercial computer system ever implemented and became the first ever computerized accounting system.

The first computerized spreadsheet appeared in 1961 whilst the first 'off the shelf' accounting auditing system appeared seven years later in 1968.

The first ever micro-computers started appearing in the mid 1970s. At first these were expensive, cumbersome and of limited benefit to small or medium-sized businesses. Micro-computers were perceived as being an expensive hobby toy with limited benefits. Where micro-computers were used in business, it was typically used for word processing and word processing systems sold for around £10,000 per system.

In 1978, two things happened in history. The Intel 8080 processor and the MOS 6502 processor became available significantly bringing down the cost of micro-computers, Apple launched the Apple II micro-computer, and the first commercially available off-the-shelf spreadsheet package was developed: Visicalc.

By modern day standards, of course, Visicalc was incredible crude, but for its time it was revolutionary: for the first time you could carry out financial modelling using a micro-computer. Visicalc revolutionized micro-computers in the business marketplace, and was a fundamental keystone in the acceptance of micro-computers for small and medium sized businesses.

By the mid-1980s, PCs became an everyday part of office life. The Apple II was superseded by the IBM PC and the IBM PC in turn was superseded by Microsoft Windows, Visicalc was superseded by Lotus 1-2-3 and then by Microsoft Excel. Accounting software packages from ACT and SAGE started to be used and by the late 1990s, PCs were used for accounting by most businesses in the UK.

Modern Day - Cloud Accounting

The most recent change in the last few years is the switch from stand alone accounting packages to cloud accounting, where employees, bookkeepers and accountants can all access the software online at the same time. This development allows people to work from home and sharing information with the relevant people.

If you want to know more about accounting history there are many accounts history books and history journals which are available which cover the history right from Luca Pacioli, to the present day.

Accounting records dating back more than 7,000 years have been found in Mesopotamia, and documents from ancient Mesopotamia show lists of expenditures, and goods received and traded. The development of accounting, along with that of money and numbers, may be related to the taxation and trading activities of temples:

"another part of the explanation as to why accounting employs the numerical metaphor is [...] that money, numbers and accounting are interrelated and, perhaps, inseparable in their origins: all emerged in the context of controlling goods, stocks and transactions in the temple economy of Mesopotamia.

The early development of accounting was closely related to developments in writing, counting, and money. In particular, there is evidence that a key step in the development of counting—the transition from concrete to abstract counting—was related to the early development of accounting and money and took place in Mesopotamia.

Other early accounting records were also found in the ruins of ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years. The people of that time relied on primitive accounting methods to record the growth of crops and herds. Because there was a natural season to farming and herding, it was easy to count and determine if a surplus had been gained after the crops had been harvested or the young animals weaned.

Expansion of the accounting in ancient Iran

Between the 4th millennium BC and the 3rd millennium BC, the ruling leaders and priests in ancient Iran had people oversee financial matters. In Godin Tepe and Tepe Yahya, cylindrical tokens that were used for bookkeeping on clay scripts were found in buildings that had large rooms for storage of crops. In Godin Tepe's findings, the scripts only contained tables with figures, while in Tepe Yahya's findings, the scripts also contained graphical representations. The invention of a form of bookkeeping using clay tokens represented a huge cognitive leap for mankind.

During the 1st millennium BC, the expansion of commerce and business expanded the role of the accountant. The Phoenicians invented a phonetic alphabet "probably for bookkeeping purposes", and there is evidence that an individual in ancient Egypt held the title "comptroller of the scribes". There is also evidence for an early form of accounting in the Old Testament; for example the Book of Exodus describes Moses engaging Ithamar to account for the materials that had been contributed towards the building of the tabernacle.

By about the 4th century BC, the ancient Egyptians and Babylonians had auditing systems for checking movement in and out of storehouses, including oral "audit reports", resulting in the term "auditor" (from *audire*, to hear in Latin) importance of taxation had created a need for the recording of payments, and the Rosetta Stone also includes a description of a tax revolt.

Accounting in Roman Empire

By the time of Emperor Augustus (63 BC - AD 14), the Roman government had access to detailed financial information as evidenced by the *Res Gestae Divi Augusti* (Latin: "The Deeds of the Divine Augustus"). The inscription was an account to the Roman people of the Emperor Augustus' stewardship, and listed and quantified his public expenditure, including distributions to the people, grants of land or money to army veterans, subsidies to the *aerarium* (treasury), building of temples, religious offerings, and expenditures on theatrical shows and gladiatorial games, covering a period of about forty years. The scope of the accounting information at the emperor's disposal suggests that its purpose encompassed planning and decision-making.

The Roman historians Suetonius and Cassius Dio record that in 23 BC, Augustus prepared an account which listed public revenues, the amounts of cash in the treasury, in tax officials, and in the hands of the public contractors; and that it included the names of the freedmen and slaves from whom a detailed account could be obtained. The closeness of this information to the executive authority of the emperor is attested by Tacitus' statement that it was written out by Augustus himself.

Double-entry bookkeeping

When medieval Europe moved towards a monetary economy in the 13th century, sedentary merchants depended on bookkeeping to oversee multiple simultaneous transactions financed by bank loans. One important breakthrough took place around that time: the introduction of double-entry bookkeeping, which is defined as any bookkeeping system in which there was a debit and credit entry for each transaction, or for which the majority of transactions were intended to be of this form. The historical origin of the use of the words "debit" and "credit" in accounting goes back to the days of single-entry bookkeeping, which had as its chief objective keeping track of amounts owed by customers (debtors) and amounts owed to creditors. *Debit* in Latin means "he owes" and *credit* in Latin means "he trusts".

Luca Pacioli's *Summa de Arithmetica, Geometria, Proportioni et Proportionalità* (early Italian: "Review of Arithmetic, Geometry, Ratio and Proportion") was first printed and published in Venice in 1494. It included a 27-page treatise on bookkeeping, "Details of Calculation and Recording"). Pacioli wrote primarily for, and sold mainly to, merchants who used the book as a reference text, as a source of pleasure from the mathematical puzzles it contained, and to aid the education of their sons. His work represents the first known printed treatise on bookkeeping; and it is widely believed to be the forerunner of modern bookkeeping practice. In *Summa de arithmetica*, Pacioli introduced symbols for plus and minus for the first time in a printed book, symbols which became standard notation in Italian Renaissance mathematics. *Summa de arithmetica* was also the first known book printed in Italy to contain algebra.

Although Luca Pacioli did not invent double-entry bookkeeping, his 27-page treatise on bookkeeping contained the first known published work on that topic, and is said to have laid the foundation for double-entry bookkeeping as it is practiced today. Even though Pacioli's treatise exhibits almost no originality, it is generally considered as an important work, mainly because of its wide circulation; it was written in the vernacular Italian language, and it was a printed book.

Pacioli's treatise gave instructions on recording barter transactions and transactions in a variety of currencies – both of which were far more common than today. It also enabled merchants to audit their own books and to ensure that the entries in the accounting records made by their bookkeepers complied with the method he described. Without such a system, all merchants who did not maintain their own records were at greater risk of theft by their employees and agents: it is not by accident that the first and last items described in his treatise concern maintenance of an accurate inventory.

Modern professional accounting

The modern profession of the chartered accountant originated in Scotland in the nineteenth century. During this time, accountants often belonged to the same associations as solicitors, and the latter solicitors sometimes offered accounting services to their clients. Early modern accounting had similarities to today's forensic accounting:

"Like forensic accountants today, accountants then incorporated the duties of expert financial witnesses into their general services rendered. An 1824 circular announcing the accounting practice of one James McClelland of Glasgow promises he will make "statements for laying before arbiters, courts or council."

In July 1854 The Institute of Accountants in Glasgow petitioned Queen Victoria for a Royal Charter. The Petition, signed by 49 Glasgow accountants, argued that the profession of accountancy had long existed in Scotland as a distinct profession of great respectability, and that although the number of practitioners had been originally few, the number had been rapidly increasing. The petition also pointed out that accountancy required a varied group of skills; as well as mathematical skills for calculation, the accountant had to have an acquaintance with the general principles of the legal system as they were frequently employed by the courts to give evidence on financial matters. The Edinburgh Society of accountants adopted the name "Chartered Accountant" for members.

By the middle of the 19th century, Britain's Industrial Revolution was in full swing, and London was the financial centre of the world. With the growth of the limited liability company and large scale manufacturing and logistics, demand surged for more technically proficient accountants capable of handling the increasingly complex world of high speed global transactions, able to calculate figures like asset depreciation and inventory valuation and cognizant of the latest changes in legislation such as the new Company law, then being introduced. As companies proliferated, the demand for reliable accountancy shot up, and the profession rapidly became an integral part of the business and financial system.

To improve their status and combat criticism of low standards, local professional bodies in England amalgamated to form the Institute of Chartered Accountants in England and Wales, established by royal charter in 1880. Initially with just under 600 members, the newly formed institute expanded rapidly; it soon drew up standards of conduct and examinations for admission and members were authorized to use the professional designations "FCA" (Fellow Chartered Accountant), for a firm partner and "ACA" (Associate Chartered Accountant) for a qualified member of an accountant's staff. In the United States the American Institute of Certified Public Accountants was established in 1887.

Unit 3

Development of Accounting

This unit covers developments between 1939 and 2003, including increased co-operation between the UK accountancy bodies and the adoption of international accounting standards.

1939 1945	-	<i>World War Two</i> sees the area around Moorgate Place badly damaged during bombing raids on London but Chartered Accountants' Hall escapes save a few broken windows. Approximately 3,000 Institute members, over a quarter of the membership, serve with the Armed Forces.
1939		Association of Certified and Corporate Accountants is formed following the merger of the Corporation of Accountants in Scotland and the London Association of Certified Accountants.
1939		Tax is levied on the 'excess profit' above the standard at 60 per cent.
1940		Tax is levied on the 'excess profit' above the standard at 100 per cent.
1940		'Pay-as-you-earn' tax is introduced to simplify tax collection.
1941		Institution of Certified Public Accountants merges with the Association of Certified and Corporate Accountants.
1941		The value of accountants in the management of the war effort starts a movement to give non-practising members some influence in the ICAEW and possibly representation on the Council.
1942		At the Annual General Meeting of the ICAEW it is decided that non-practising members should not sit on the Council. Instead a Taxation and Financial Relations Committee (later the Taxation and Research Committee) is set up to deal with matters affecting taxation and business

	finance with the Inland Revenue and the Government. This signals the start of non-practising members dealing directly with Institute Affairs.
1942	Society of Commercial Accountants is formed.
1943	F. R. M. de Paula, Controller of Finance for the Dunlop Rubber Company is the first non-practising member to be elected to the Institute's Council.
1945	ICAEW organizes weekend 'refresher' courses and regional lectures for returning servicemen in the profession. This later developed into a program of 'Continuing Professional Development' that is still in operation today.
Circa 1950s	The first ICAEW Member's Handbook is published offering guidance to members.
1950	Association of Practising and Commercial Accountants is formed.
1951	Institute of Chartered Accountants of Scotland (ICAS) is formed following the merger of the Society of Accountants in Edinburgh, the Institute of Accountants and Actuaries in Glasgow and the Society of Accountants in Aberdeen.
1954	Society of Incorporated Accountants and Auditors is renamed the Society of Incorporated Accountants.
1955 (Christmas)	The Society of Incorporated Accountants and the ICAEW agree terms to merge. Members of the Society are to disband and join either the ICAEW, ICAS or ICAI.
1957 (Nov1)	The Society of Incorporated Accountants goes into liquidation.
1957	Members of the Society of Incorporated Accountants become members of the ICAEW, ICAI and ICAS.
1959	Architect William Whitfield is commissioned to extend Chartered Accountants' Hall by the inclusion of a Great Hall for large meetings.
1961	Association of Practising and Commercial Accountants is absorbed by association to the British Association of Accountants and Auditors.
1963	Richard Vaughan, an ICAEW Chartered Accountant, becomes the last

	man officially discharged from National Service on 16 May 1963.
1964	ICAEW Council sets up a committee to reappraise education and training policies.
1967	Companies are required by law to publish a sales figure in the profit and loss account.
1968 (Jul25)	ICAEW proposes two major changes to the profession. Firstly, a merger of the ICAEW, ICAS, ICAI, the Association of Certified Corporate Accountants, the Institute of Cost and Works Accountants and the Institute of Municipal Treasurers and Accountants into three geographical Institutes in England & Wales, Scotland and Ireland. Secondly, a reduction of the number of qualifications to two: the Chartered Accountant (signifying highly qualified) and the Licentiate Accountant (less qualified).
1970 (Jun 24)	At a joint meeting at the Albert Hall the proposals to merge the professional bodies and change the qualification structure are discussed. Opponents speak against it and at their own expense canvas every member to vote against it. Their efforts pay off as they win the postal vote and the proposals fail.
1970 (May)	The extended and new building at Chartered Accountants' Hall is opened by Her Majesty Queen Elizabeth, the Queen Mother.
1971	Association of Certified and Corporate Accountants is renamed the Association of Certified Accountants.
1973	Institute of Cost and Works Accountants is renamed the Institute of Cost and Management Accountants.
1973	Institute of Municipal Treasurers and Accountants is renamed the Chartered Institute of Public Finance and Accountancy. (CIPFA)
1973	Faculty of Auditors is absorbed by association into the British Association of Accountants and Auditors.
1973	International Association of Book-keepers is founded.
1974	Consultative Committee of Accountancy Bodies (CCAB) is established partly solving the problem of the proliferation of accountancy bodies and

	helping the co-ordination of efforts.
1974	Institute of Company Accountants is renamed the Society of Company and Commercial Accountants.
1977	International Federation of Accountants (IFAC) is founded.
1978 (Jun)	Association of Technicians in Finance and Accounting (ATFA) is launched backed by the ICAEW, ICMA and CIPFA.
1980	Centenary of the ICAEW.
1980	British Association of Accountants and Auditors is absorbed by association into the Society of Company and Commercial Accountants.
1980	Association of Accounting Technicians (AAT) is incorporated by unifying the Institute of Accounting Staff (IAS) and the Association of Technicians in Finance and Accounting (ATFA).
1983 (December)	Gloucester House, the ICAEW's new building in Milton Keynes (replacing the offices at City House and St. Alphage House in London) is completed.
1984 (29 October)	Gloucester House is officially opened by HRH The Duke of Gloucester.
1984	Association of Certified Accountants is renamed the Chartered Association of Certified Accountants.
1986	Institute of Cost and Management Accountants is renamed the Chartered Institute of Management Accountants (CIMA).
1990	Society of Company and Commercial Accountants is renamed the Institute of Company Accountants.
1996	Chartered Association of Certified Accountants is renamed the Association of Chartered Certified Accountants (ACCA).
2001 (Dec 2)	Enron, the once global energy trading giant, files for protection under Chapter 11 bankruptcy proceedings.
2002	Enron's Auditor Arthur Andersen discloses that staff at its Houston office had shredded documents and deleted emails relating to the Enron

	Audit. Andersen is indicted by the Justice Department on charges on obstruction of justice relating to the enquiry into Enron's Accounting.
2002 (Mar)	International Accounting Standards are adopted by the European Union with changeover target of 2005.
2002 (Jun 15)	US Andersen is found guilty of charges of obstruction of justice in relation to the Enron collapse.
2002 (Aug)	The Sarbanes-Oxley Act is passed in the United States in the wake of the Enron scandal.
2002	The Proceeds of Crime Act makes it an offence for accountants not to report suspicions about their clients to the National Criminal Intelligence Service (NCIS).
2003 (Jan 29)	UK Government Announces that the Financial Reporting Council (FRC) will assume the functions of the Accountancy Foundation to create a unified, independent UK regulator.
2003 (Jan)	The Higgs Report on the role of non-executive Directors is published.
2003	Institute of Company Accountants merges with the Association of International Accountants.

Unit 4

The Father of Accounting

In 1494, the first book on double-entry accounting was published. The author was an Italian friar, Luca Pacioli. His impact on accounting was so great that five centuries later, accountants from around the world gathered in the Italian village of San Sepulcro to celebrate the anniversary of the book's publication. The first accounting book actually was one of five sections in Pacioli's mathematics book, titled *Everything about Arithmetic, Geometry, and Proportions*. This section on accounting served as the world's only accounting textbook until well into the 16th century.

Since Pacioli was a Franciscan friar, he might be referred to simply as Friar Luca. While Friar Luca is often called the "Father of Accounting," he did not invent the system. Instead, he simply described a method used by merchants in Venice during the Italian Renaissance period. His system included most of the accounting cycle as we know it today. For example, he described the use journals and ledgers, and he warned that a person should not go to sleep at night until the debits equaled the credits. His ledger included assets (including receivables and inventories), liabilities, capital, income, and expense accounts. Friar Luca demonstrated year-end closing entries and proposed that a trial balance be used to prove a balanced ledger. Also, his treatise alludes to a wide range of topics from accounting ethics to cost accounting. Pacioli was 49 years old in 1494 (just two years after Columbus discovered America) when he returned to Venice for the publication of his fifth book, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* (*Everything About Arithmetic, Geometry and Proportions*). It was written as a digest and guide to existing mathematical knowledge, and bookkeeping was only one of five topics covered. The *Summa's* 36 short chapters on bookkeeping, entitled *De Computis et Scripturis* (*Of Reckonings and Writings*) were added "in order that the subjects of the most gracious Duke of Urbino may have complete instructions in the conduct of business," and to "give the trader without delay information as to his assets and liabilities". Numerous tiny details of bookkeeping technique set forth by Pacioli were followed in texts and the profession for at least the next four centuries, as accounting historian Henry Rand Hatfield put it, "persisting like buttons on our coat sleeves, long after their significance had disappeared." Perhaps the best proof that Pacioli's work was considered potentially significant even at the time of publication was the very fact that it was printed on November 10, 1494. Guttenberg had just a quarter-century earlier invented metal type, and it was still an extremely expensive proposition to print a book. Accounting practitioners in public accounting, industry, and not-for-profit organizations, as well as investors, lending institutions, business firms, and all other users for financial information are indebted to Luca Pacioli for his monumental role in the development of accounting.

Unit 5

Forms of business organizations

It is important that the business owner seriously considers the different forms of business organization—types such as sole proprietorship, partnership, and corporation. Which organizational form is most appropriate can be influenced by tax issues, legal issues, financial concerns, and personal concerns. For the purpose of this overview, basic information is presented to establish a general impression of business organization.

1. Sole Proprietorship

A Sole Proprietorship consists of one individual doing business. Sole Proprietorships are the most numerous form of business organization in the United States, however they account for little in the way of aggregate business receipts.

Advantages

- Ease of formation and dissolution. Establishing a sole proprietorship can be as simple as printing up business cards or hanging a sign announcing the business. Taking work as a contract carpenter or freelance photographer, for example, can establish a sole proprietorship. Likewise, a sole proprietorship is equally easy to dissolve.
- Typically, there are low start-up costs and low operational overhead.
- Ownership of all profits.
- Sole Proprietorships are typically subject to fewer regulations.
- No corporate income taxes. Any income realized by a sole proprietorship is declared on the owner's individual income tax return.

Disadvantages

- Unlimited liability. Owners who organize their business as a sole proprietorship are personally responsible for the obligations of the business, including actions of any employee representing the business.
- Limited life. In most cases, if a business owner dies, the business dies as well.
- It may be difficult for an individual to raise capital. It's common for funding to be in the form of personal savings or personal loans.

The most daunting disadvantage of organizing as a sole proprietorship is the aspect of unlimited liability. An advantage of a sole proprietorship is filing taxes as an individual rather than paying corporate tax rates. Some hybrid forms of business organization may be

employed to take advantage of limited liability and lower tax rates for those businesses that meet the requirements. These include S Corporations, and Limited Liability Companies (LLC's). Where S-Corps are a Federal Entity, LLC's are regulated by the various states. LLC's give the option for profits from the business to pass through to the owner's individual income tax return.

2. Partnership

A Partnership consists of two or more individuals in business together. Partnerships may be as small as mom and pop type operations, or as large as some of the big legal or accounting firms that may have dozens of partners. There are different types of partnerships—general partnership, limited partnership, and limited liability partnership—the basic differences stemming around the degree of personal liability and management control.

Advantages

- Synergy. There is clear potential for the enhancement of value resulting from two or more individuals combining strengths.
- Partnerships are relatively easy to form, however, considerable thought should be put into developing a partnership agreement at the point of formation.
- Partnerships may be subject to fewer regulations than corporations.
- There is stronger potential of access to greater amounts of capital.
- No corporate income taxes. Partnerships declare income by filing a partnership income tax return. Yet the partnership pays no taxes when this partnership tax return is filed. Rather, the individual partners declare their pro-rata share of the net income of the partnership on their individual income tax returns and pay taxes at the individual income tax rate.

Disadvantages

- Unlimited liability. General partners are individually responsible for the obligations of the business, creating personal risk.
- Limited life. A partnership may end upon the withdrawal or death of a partner.
- There is a real possibility of disputes or conflicts between partners which could lead to dissolving the partnership. This scenario enforces the need of a partnership agreement.

As pointed out, unlimited liability exists for partnerships just as for sole proprietorships. One way to alleviate this risk is through Limited Liability Partnerships (LLP's). As with LLC's, LLP's may offer some tax advantages while providing some risk protection for owners.

3. Corporations

Corporations are probably the dominant form of business organization in the United States. Although fewer in number, corporations account for the lion's share of aggregate business receipts in the U.S. economy. A corporation is a legal entity doing business, and is distinct from the individuals within the entity. Public corporations are owned by shareholders who elect a board of directors to oversee primary responsibilities. Along with standard, for-profit corporations, there are charitable, not-for-profit corporations.

Advantages

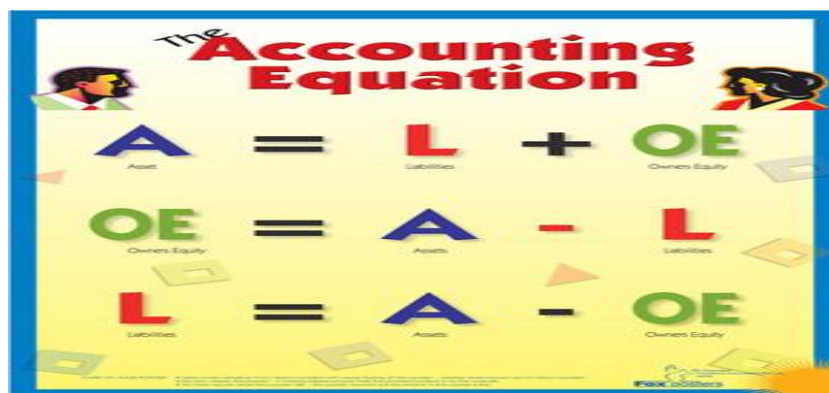
- Unlimited commercial life. The corporation is an entity of its own and does not dissolve when ownership changes.
- Greater flexibility in raising capital through the sale of stock.
- Ease of transferring ownership by selling stock.
- Limited liability. This limited liability is probably the biggest advantage to organizing as a corporation. Individual owners in corporations have limits on their personal liability. Even if a corporation is sued for billions of dollars, individual shareholder's liability is generally limited to the value of their own stock in the corporation.

Disadvantages

- Regulatory restrictions. Corporations are typically more closely monitored by governmental agencies, including federal, state, and local. Complying with regulations can be costly.
- Higher organizational and operational costs. Corporations have to file articles of incorporation with the appropriate state authorities. These legal and clerical expenses, along with other recurring operational expenses, can contribute to budgetary challenges.
- Double taxation. The possibility of double taxation arises when companies declare and pay taxes on the net income of the corporation, which they pay through their corporate income tax returns. If the corporation also pays out dividends to individual shareholders, those shareholders must declare that dividend income as personal income and pay taxes at the individual income tax rates. Thus, the possibility of double taxation.

Unit 6

Accounting Equation



The accounting equation, also called the basic accounting equation, forms the foundation for all accounting systems. In fact, the entire double entry accounting concept is based on the basic accounting equation. This simple equation illustrates two facts about a company: what it owns and what it owes.

The accounting equation equates a company's assets to its liabilities and equity. This shows all company assets are acquired by either debt or equity financing. For example, when a company is started, its assets are first purchased with either cash the company received from loans or cash the company received from investors. Thus, all of the company's assets stem from either creditors or investors i.e. liabilities and equity.

Accounting Equation				
Assets	=	Liabilities	+	Equity

Assets equal the sum of liabilities and owner's equity. This makes sense when you think about it because liabilities and equity are essentially just sources of funding for companies to purchase assets.

The equation is generally written with liabilities appearing before owner's equity because creditors usually have to be repaid before investors in a bankruptcy. In this sense, the

liabilities are considered more current than the equity. This is consistent with financial reporting where current assets and liabilities are always reported before long-term assets and liabilities.

This equation holds true for all business activities and transactions. Assets will always equal liabilities and owner's equity. If assets increase, either liabilities or owner's equity must increase to balance out the equation. The opposite is true if liabilities or equity increase.

Assets

An asset is a resource that is owned or controlled by the company to be used for future benefits. Some assets are tangible like cash while others are intangible like goodwill or copyrights.

Another common asset is a receivable. This is a promise to be paid from another party. Receivables arise when a company provides a service or sells a product to someone on credit.

All of these assets are resources that a company can use for future benefits. Here are some common examples of assets:

- Cash
- Accounts Receivable
- Prepaid Expenses

- Vehicles
- Buildings
- Goodwill

- Copyrights
- Patents

Liabilities

A liability, in its simplest terms, is an amount of money owed to another person or organization. Said a different way, liabilities are creditors' claims on company assets because this is the amount of assets creditors would own if the company liquidated.

A common form of liability is a payable. Payables are the opposite of receivables. When a company purchases goods or services from other companies on credit, a payable is recorded to show that the company promises to pay the other companies for their assets.

Here are some examples of some of the most common liabilities:

- Accounts payable
- Bank loans

- Lines of Credit
- Personal Loans

- Officer Loans
- Unearned income

Equity

Equity represents the portion of company assets that shareholders or partners own. In other words, the shareholders or partners own the remainder of assets once all of the liabilities are paid off.

Owners can increase their ownership share by contributing money to the company or decrease equity by withdrawing company funds. Likewise, revenues increase equity while expenses decrease equity.

Here are some common equity accounts:

- Owner's Capital
- Owner's Withdrawals

- Revenues
- Expenses

- Common stock
- Paid-In Capital

Example

Ted is an entrepreneur who wants to start a company selling speakers for car stereo systems. After saving up money for a year, Ted decides it is time to officially start his business. He forms Speakers, Inc. and contributes \$100,000 to the company in exchange for all of its newly issued shares. This business transaction increases company cash and increases equity by the same amount.

Accounting Equation				
\$100,000 		\$100,000 		
Assets	=	Liabilities	+	Equity

After the company formation, Speakers, Inc. needs to buy some equipment for installing speakers, so it purchases \$20,000 of installation equipment from a manufacturer for cash. In this case, Speakers, Inc. uses its cash to buy another asset, so the asset account is decreased from the disbursement of cash and increased by the addition of installation equipment.

Accounting Equation				
\$20,000 		\$20,000 		
Assets	=	Liabilities	+	Equity

After six months, Speakers, Inc. is growing rapidly and needs to find a new place of business. Ted decides it makes the most financial sense for Speakers, Inc. to buy a building. Since Speakers, Inc. doesn't have \$500,000 in cash to pay for a building, it must take out a loan. Speakers, Inc. purchases a \$500,000 building by paying \$100,000 in cash and taking out a \$400,000 mortgage. This business transaction decreases assets by the \$100,000 of cash disbursed, increases assets by the new \$500,000 building, and increases liabilities by the new \$400,000 mortgage.

Accounting Equation				
\$100,000 		\$500,000 		\$400,000
Assets	=	Liabilities	+	Equity

All of these transactions always balance out the accounting equation. This is one of the fundamental rules of accounting. The accounting equation can never be out of balance. Assets will always equal liabilities and owner's equity.

Unit 7

Financial Statements

In this unit you will learn about the five financial statements that a U.S. corporation should include when it distributes its annual financial statements to anyone outside of the corporation.

A corporation is required to issue annual financial statements, but it is common for a corporation to prepare monthly financial statements for its management. As a result we see financial statements covering one month, four weeks, three months, 13 weeks, eight months, eleven months, one year, etc.

Many corporations have accounting years that begin on January 1 and end on December 31. This one-year period of time (or time interval) is referred to as a *calendar year*. A calendar year corporation will have quarterly accounting periods that end on March 31, June 30, September 30, and December 31.

Some U.S. corporations have accounting years that end on a date other than December 31. For example, a corporation could have an accounting year that begins on July 1 and ends on the following June 30. Another corporation might have an accounting year that begins on October 1 and ends on September 30. These are known as *fiscal years*.

Some U.S. corporations have a fiscal year that is based on weeks instead of months. For example, some large U.S. retailers have fiscal years consisting of the 52 or 53 weeks ending on the Saturday nearest to January 31. Hence, their fiscal year could begin on a Sunday (such as February 3) and end 52 weeks later on a Saturday (such as February 1).

The benefit of having a fiscal year is that it will coincide with the business year. In other words, if a retailer has a fiscal year ending four or five weeks after the peak holiday sales of December, its net sales and net income will reflect the merchandise that was sold in December minus the merchandise that was returned in January.

Users of the Financial Statements

The financial statements issued by a U.S. corporation and distributed outside of the corporation could find their way into the hands of the following people and/or organizations:

- current stockholders