

University of Miskolc
Institute of Finance and Accounting
Department of Accountancy

Füredi-Fülöp Judit Ph.D.
Assistant professor
Judit.fulop@uni-miskolc.hu

ACCOUNTING & FINANCE

Way of exam:

- Written exam (80 points = accounting 40+finance 40)

Evaluation:

Total scores:

- 0 - 39 points (1) unsatisfied;
- 40 - 49 points (2) satisfied;
- 50 - 59 points (3) average;
- 60 - 69 points (4) good;
- 70 - 80 points (5) excellent

2

References

References: Slides and the following references

Compulsory reference:

- Madura Jeff: *Financial markets and institutions* South Western Cengage Learning 2012 ISBN: 9780538482165
- Michael P. Griffin: *MBA Fundamentals, Accounting & Finance*, Kaplan Publishing 2009 ISBN-13: 978-1-4277-9719-3
- A. L. Lesser - G.S. Lesser: *Basic Accounting Simplified*, GSL Galactic Publishing 2011 ISBN: 978-0-578-07632-4

Offered readings:

- Levi Maurice: *International Finance* Routledge 2009
- Rose Peter – Hudgins Sylvia: *Bank Management & Financial Services* McGraw-Hill 2012 ISBN: 9780078034671
- Kohn Meir: *Financial institutions and markets* Oxford University Press 2004 ISBN: 978-0195134728
- Rose Peter: *Money and Capital Markets* Business Publication, Inc 1986
- Anderson John: *Public Finance* South Western Cengage Learning 2006 ISBN: 9380538478441

3



Early history

- Accountancy's infancy dates back to the earliest days of human agriculture and civilization
 - the Sumerians in Mesopotamia,
 - the Egyptian Old Kingdom.
- Ancient economic thought of the Near East facilitated
 - the creation of accurate records of the quantities and relative values of agricultural products,
 - methods that were formalized in trading and monetary systems by 2000 BC.
- Simple accounting is mentioned in the
 - Christian Bible (New Testament) in the Book of Matthew, in the Parable of the Talents
 - Islamic Quran (for trade and credit arrangements)

5

Luca Pacioli and the birth of modern accountancy

Luca Pacioli (1445 - 1517),



- also known as Friar Luca dal Borgo,
- is credited for the "birth" of accountancy
- Summa on arithmetic, geometry, proportions and proportionality (Venice 1494)
 - a textbook for use in the abbaco schools of northern Italy, where the sons of merchants and craftsmen were educated.
 - a compendium of the mathematical knowledge of his time,
 - includes the first printed description of the method of keeping accounts that Venetian merchants used at that time, known as the double-entry accounting system.

6

Pacioli codified rather than invented this system, he is widely regarded as the "father of accounting," the system he published included most of the accounting cycle as we know it today

he described the use of **journals** and **ledgers**, and warned that a person should not go to sleep at night until the debits equaled the credits

his ledger had **accounts for**
 assets (including receivables and inventories),
 liabilities,
 capital,
 income, and
 expenses

the account categories that are reported on an organization's **balance sheet** and **income statement**, respectively

he demonstrated **year-end closing entries**
 his treatise also touches on a wide range of related topics from **accounting ethics** to **cost accounting**.

7



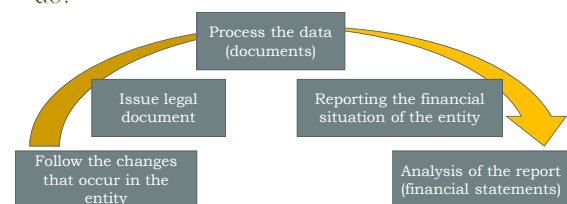
Definition of accounting

- The process of
 - identifying,
 - measuring and
 - communicating
 economic information so a user of the information may make informed economic judgments and decisions based on it.
- A service-based profession that
 - provides reliable and relevant financial information useful in making decisions,
 - financial information may include sales, expenses, taxes and other figures.

9

What is accounting about?

- Why do we need accounting?
- What does accounting do/what do accountants do?



10

The role of accounting

- Practice-orientated.
- Language of bussiness: to communicate the results and position to stakeholders
- It is determinated by the technological development
- It is a part of economics
- It has past of centuries

11

Characteristics of accounting

- It creates an information system
- It aims to be complete
 - It prepares every event:
 - continually,
 - itemised,
 - all inclusive.
- Its standard/ fundamental unit is money
- It needs to be supported by vouchers
- It needs external control
- It creates a closed system
- It is output-orientated

12

The parts of accounting

1. Traditional approach
 - a.) bookkeeping
 - b.) cost accounting
 - c.) financial reporting
 - d.) the voucher system connected with the previous parts

2. Functional approach:
 - a.) financial accounting
 - b.) management accounting

13

Accounting on international level

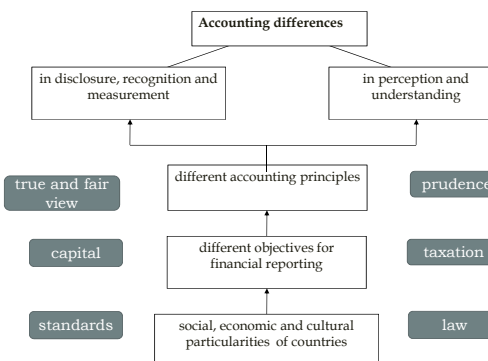


Accounting on international level

- accounting is a regulated activity
- traditionally regulation was carried out on national (country) level
- globalization made companies more complex
- need for international regulation

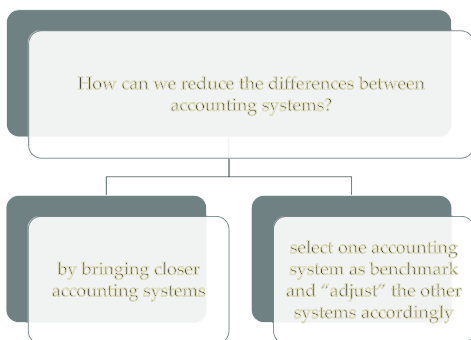
15

Internationalization of accounting



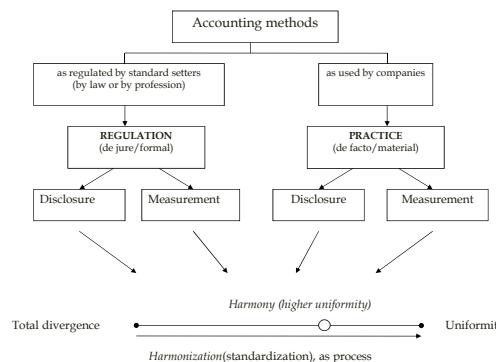
16

▪ Harmonization in accounting



17

Harmonization (convergence)



18

Internationalization of accounting

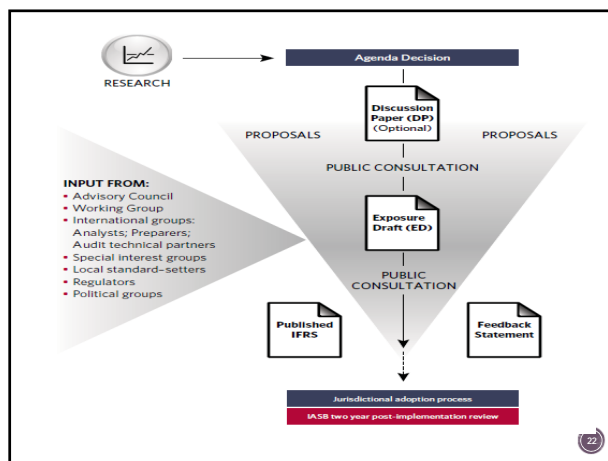
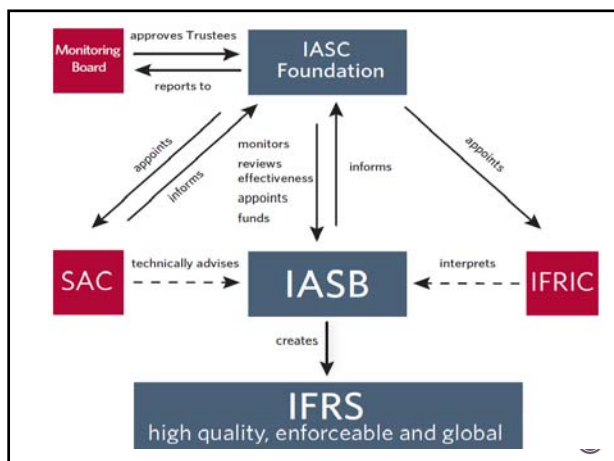
- International standardization since 1973
 - by International Accounting Standards Board (IASB, formerly IASC)
 - It's **main goal**: harmonization of accounting
 - to ensure high quality standards worldwide
 - to establish a common language for financial reporting
 - How can this be achieved?
 - An **independent standard-setting board**, overseen by a geographically and professionally diverse body of Trustees, publicly accountable to a Monitoring Board of capital market authorities
 - A thorough, open and transparent **due process**
 - Engagement with investors, regulators, business leaders and the global accountancy profession at every stage of the process
 - Collaborative efforts with the worldwide standard-setting community

19

- As of 2017: there are 195 independent sovereign nations in the world approximately 126 of them require the use of International Financial Reporting Standards (IFRS), with another 12 permitting its use.



20

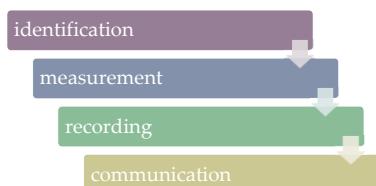


22

Accounting information

Accounting information is economic information : it relates to the financial or economic activities of the business or organisation

Steps of preparation of accounting information:



24

IDENTIFICATION

- economic events (accounting information) needs to be **identified**:
 - economic events
 - a sale at a gas station,
 - payment of taxes by a commercial enterprise,
 - purchase of insurance
- the accounting system identifies "accounting transactions".

25

MEASUREMENT

- the "**measurement**" of accounting information involves
 - making judgements about the value of assets owned by a business or liabilities owed by a business
 - accurately measuring how much profit or loss has been made by a business in a particular period.
- the measurement of accounting information often requires subjective judgement to come to a conclusion

26

RECORDING

- all "accounting transactions,, have to be **recorded**
- to provide a history of a company's financial activities
- in this step economic events are also classified and summarized
- this is done by way of a "set of accounts", based on a system of accounting known as double-entry bookkeeping

27

COMMUNICATION

- information about classified and summarized economic events is **communicated** to interested parties
 - who needs the accounting information?
 - what they need to know?
- forms of accounting communication: "financial statements":
 - annual report and accounts,
 - management accounting reports

28

Criteria of useful accounting information I.

- Understandability - the expression of accounting information in such a way that it will be understandable to users - who are generally assumed to have a reasonable knowledge of business and economic activities
- Relevance - implies that, to be useful, accounting information must assist a user to form, confirm or maybe revise a view - usually in the context of making a decision:
 - should I invest,
 - should I lend money to this business?
 - should I work for this business?
- Consistency - implies consistent treatment of similar items and application of accounting policies

29

Criteria of useful accounting information II.

- Comparability - implies the ability for users to be able to:
 - compare similar companies in the same industry group
 - make comparisons of performance over time.
- Reliability - implies that the accounting information that is presented is:
 - truthful,
 - accurate,
 - complete (nothing significant missed out) and
 - capable of being verified (e.g. by a potential investor).
- Objectivity - implies that accounting information is prepared and reported in a "neutral" way.

30

Interested parties - Users of accounting information

- **Stakeholder:** anyone with an interest in the performance and activities of an organisation.

categories of accounting information users

external users

internal users

parties **outside** the reporting entity (company) who are interested in the accounting information

parties **inside** the reporting entity (company) who are interested in the accounting information

31

External users

- **Potential investors (owners)**
 - use accounting information to make buy decisions related to shares, bonds, etc.
- **Lenders:**
 - Banks and loan stockholders who lend money to a business require information that helps them determine whether loans and interest will be paid when due.
- **Creditors:**
 - Suppliers and trade creditors require information that helps them understand and assess the short-term liquidity of a business. Is the business able to pay short-term debt when it falls due?
- **Debtors:**
 - Customers and trade debtors require information about the ability of the business to survive and prosper.
 - As customers of the company's products, they have a long-term interest in the company's range of products and services.
 - They need accounting information to decide which products and from which company to buy and they may even be dependent on the business for certain products or services.

32

External users

- **Government:**
 - There are many government agencies and departments that are interested in accounting information:
 - Inland Revenue needs information on business profitability in order to levy and collect Corporation Tax.
 - Customs & Excise need accounting information to verify Value Added Tax ("VAT") returns;
 - Local government need similar information to levy local taxes and rates.
- **Investment analysts:**
 - specifically for companies quoted on a stock exchange.
 - They require very detailed financial and other information in order to analyse the competitive performance of a business and its sector.
- **Public at large:**
 - Interest groups, formed by various groups of individuals who have a specific interest in the activities and performance of businesses, will also require accounting information.

33

Internal users

- **Investors (owners)**
 - use accounting information to make buy, sell or keep decisions related to shares, bonds, etc.
 - are concerned about risk and return in relation to their investments.
 - They require information to decide whether they should continue to invest in a business.
 - They also need to be able
 - to assess whether a business will be able to pay dividends, and
 - to measure the performance of the business' management overall.
- A company's senior and middle **management**
 - uses accounting information to run business.
- **Employees**
 - utilize accounting information to determine a company's profitability and profit sharing.
 - Employees (and organisations that represent them - e.g. trade unions) require information about the stability and continuing profitability of the business.
 - They are crucially interested in information about employment prospects and the maintenance of pension funding and retirement benefits.
 - They are also likely to be interested in the pay and benefits obtained by senior management.

34

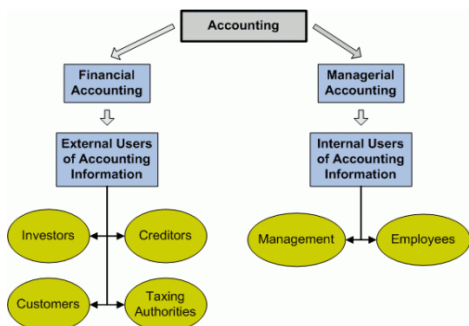
Types of accounting information

Types of accounting information

- **Financial Accounts:**
 - provides information that is designed to satisfy the needs of external users
 - such reporting is usually done in the form of financial statements.
- **Management Accounts:**
 - provides information that is useful in running a company by internal users.
 - such reporting is usually accomplished through custom designed reports.

36

Connection between types of accounting and accounting information users



37

Characteristics of accounting

Financial accounting

- Public information
- For all stakeholders
- All operations:
 - exchange between entity and its environment
- Standard documents
- Reporting period: financial year
- **Strong regulation**

Managerial accounting

- Private information
- Only for management
- Operations and other events
 - Focus on managerial decisions
- Non-standard documents
- Reporting period (?)
- **Weak regulation**

38

Comparison of financial and management accounting I.

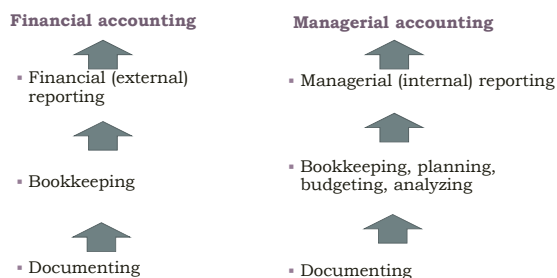
Financial Accounts	Management Accounts
Describe the performance of a business over a specific period and the state of affairs at the end of that period.	Are used to help management record, plan and control the activities of a business and to assist in the decision-making process.
The specific period is often referred to as the "Trading Period" and is usually one year long. The period-end date as the "Balance Sheet Date"	They can be prepared for any period (for example, many retailers prepare daily management information on sales, margins and stock levels).
Companies are required by law/standards to prepare and publish financial accounts. The level of detail required in these accounts reflects the size of the business.	There is no legal requirement to prepare management accounts, although few (if any) well-run businesses can survive without them.
The format of published financial accounts is determined by several different regulatory elements: <ul style="list-style-type: none"> • Accountancy Act (2000. C.) • Accounting Standards (IAS, IFRS) 	There is no pre-determined format for management accounts. They can be as detailed or brief as management wish.

39

Comparison of financial and management accounting II.

Financial Accounts	Management Accounts
Concentrate on the business as a whole rather than analysing the component parts of the business.	Can focus on specific areas of a business' activities. For example, they can provide insights into performance of:
For example, sales are aggregated to provide a figure for total sales rather than publish a detailed analysis of sales by product, market etc.	<ul style="list-style-type: none"> • Products • Separate business locations (e.g. shops) • Departments / divisions
Most financial accounting information is of a monetary nature.	Usually include a wide variety of non-financial information, for example, analysis of:
	<ul style="list-style-type: none"> • Employees (number, costs, productivity) • Sales volumes (units sold etc.) • Customer transactions (e.g. number of calls received into a call centre)
By definition, financial accounts present a historic perspective on the financial performance of the business	Largely focus on analysing historical performance. However, they also usually include some forward-looking elements - e.g. a sales budget; cash-flow forecast.

Structure of accounting



41

Process of accounting - "Financial Management"

- 1) **Collection**: in money terms of information relating to transactions that have resulted from business operations
- 2) **Recording and Classifying**: data into a permanent and logical form. This is usually referred to as "Book-keeping"
- 3) **Summarising**: data to produce statements and reports that will be useful to the various users of accounting information - both external and internal
- 4) **Interpreting and Communicating**: the performance of the business to the management and its owners
- 5) **Forecasting and Planning**: for future operation of the business by providing management with evaluations of the viability of proposed operations. The key forecasting and planning tool is the "Budget"

42

Key objectives of financial management



43

Thank you for your attention!

44