

University of Miskolc
Institute of Finance and Accounting
Department of Accountancy

Füredi-Fülöp Judit Ph.D.
associate professor
judit_fulop@uni-miskolc.hu

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ACCOUNTING

Way of exam:

Request for underwriting:
Attendance at least 70% of total seminars and minimum 21 scores from the two written seminar exams.

Request for passing the exam:
Passed the prerequisites + received the attendance sign.

Way of exam:
Two seminar written exams during the semester (finance) (2*20=40 points)
Written exam (accounting) (40 points)

Evaluation:
Total scores: ...0 points 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

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References

References: Slides and the following references

Learning material:

- 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

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The place and function of accountancy in the economics

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History of accountancy


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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)

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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.

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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.

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Modern accountancy

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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.

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What is accounting about?

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

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    graph LR
    A[Follow the changes that occur in the entity] --> B[Issue legal document]
    B --> C[Process the data (documents)]
    C --> D[Reporting the financial situation of the entity]
    D --> E[Analysis of the report (financial statements)]
    
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This is Accounting!

CRITICAL THINKING

USEFUL INFORMATION

GOOD DECISIONS

CONSEQUENCES

ECONOMIC ACTIVITY

Scales of Gony

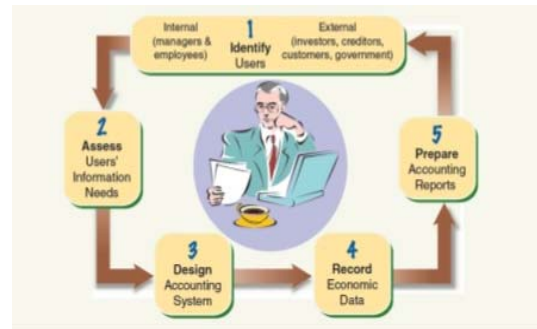
American Accounting Association 100 AICPA

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The role of accounting

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

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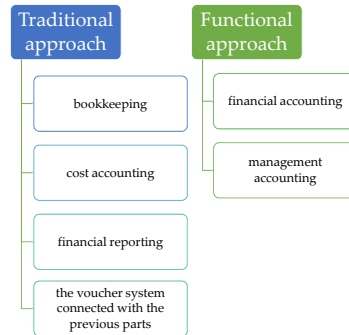
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Characteristics of accounting

It creates an information system	It aims to be complete	It prepares every event: continually, itemised, all inclusive.
Its standard/ fundamental unit is money	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

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The parts of accounting

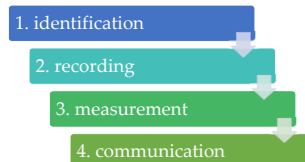


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Accounting information

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

Steps of preparation of accounting information:



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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".

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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

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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

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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

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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

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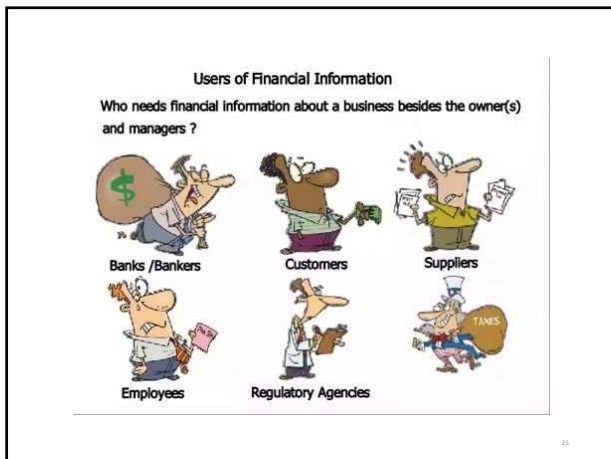
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Criteria of useful accounting information II.

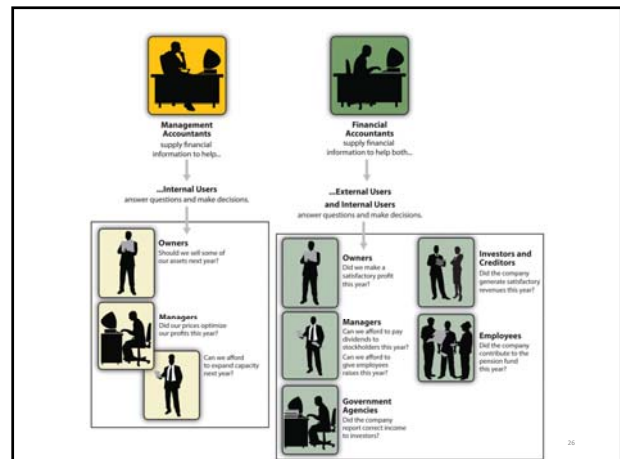
- **Comparability** - implies the ability for users to be able to:
 - compare similar companies in the same industry group
 - make comparisons of performance over time.
- **Reliability** - implies that the accounting information that is presented is:
 - truthful,
 - accurate,
 - complete (nothing significant 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.

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Interested parties - Users of accounting information

- potential users of accounting information:
 - shareholders,
 - lenders,
 - customers,
 - suppliers,
 - government departments,
 - employees and their organisations,
 - and society at large,
- Stakeholder:** anyone with an interest in the performance and activities of an organisation.
- categories of accounting information users:
 - external users:** parties outside the reporting entity (company) who are interested in the accounting information
 - internal users:** parties inside the reporting entity (company) who are interested in the accounting information

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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.

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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.

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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.

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Qualitative characteristics of financial information

Fundamental qualitative characteristics of financial information include:

- **Relevance:** the information must be relevant to the needs of the users, which is the case when the information influences the economic decisions of users. This may involve reporting particularly relevant information, or information whose omission or misstatement could influence the economic decisions of users.
- **Materiality** requires accountants and auditors to focus on financial information which is expected to affect the decisions of the users.
- **Faithful representation (*reliability*):** the information must be free of material error and bias, and not misleading. Thus, the information should faithfully represent transactions and other events, reflect the underlying substance of events, and prudently represent estimates and uncertainties through proper disclosure.

Enhancing qualitative characteristics include:

- **Comparability:** The information must be comparable across periods and across companies, so that users can identify trends in the performance and financial position of the reporting entity.
- **Verifiability** requires the information to communicate the underlying economics of the company's business
- **Timeliness** requires disclosure of financial information not to be excessively delayed
- **Understandability:** the information must be readily understandable to users of the financial statements. This means that information must be clearly presented, with additional information supplied in the supporting footnotes as needed to assist in clarification.

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Thank you for your
attention!

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