4. Business Accounting

"Nobody was ever meant to remember or invent what he did with every cent."

Robert Frost

Questions

1. What is the purpose of accounting?
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25. What are the two main types of bookkeeping?

26. When was the first work describing the double-entry system of accounting published?

27. What is recorded in a single-entry system?

28. Which elements need to be kept at least in memorandum form?

29. What can you prepare on the basis of recorded items and items kept in memoranda?

30. Who is single-entry bookkeeping useful for?

31. What are the advantages of single-entry records?

32. What are the advantages of double-entry bookkeeping?

33. What are the disadvantages of single-entry records?

34. What are the disadvantages of double-entry bookkeeping?

35. What is the basis of double-entry bookkeeping?

36. What happens if there is an error in one of the aspects of a transaction?

37. What is the standard account form like?

38. How can you calculate the balance of an account?

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40. What is a ledger?

41. Why are filing systems important in accountancy?

42. What is an audit?

43. What are the phases of audits?

Answers

1. **What is the purpose of accounting?**
Accounting involves keeping a company's financial records, recording its income, expenses, and business deals, and using these data to evaluate its financial status.

2. **What are the main types of accounting?**
We can differentiate between several types, such as financial accounting, managerial or management accounting, tax accounting, and cost accounting.

3. **What does financial accounting deal with?**
It deals with recording, classifying, summarising and interpreting financial information about a business.

4. **What does cost accounting involve?**
Cost accounting can mean two things. One is the process of following, recording and analyzing the costs of business activities. Cost accounting can also mean a kind of management accounting. It helps managers to reduce costs and improve profitability.

5. **What is management accounting?**
Management accounting provides information to managers so that they can make informed business decisions, such as formulating strategies and planning business activities. Management accounting information is used within an organisation and is usually highly confidential.

6. **What do accountants do?**
Accountants are responsible for bookkeeping and preparing the financial reports of a company. They take care of accounts receivable (or debtors), which is what customers owe the business, and accounts payable (or creditors), which is what the business owes its suppliers. They also put together financial statements.

7. **What is the difference between accounting and bookkeeping?**
Bookkeeping is a part of accounting as bookkeepers mainly just record all financial transactions. Accounting means not only recording but classifying and reviewing financial transactions and then interpreting and evaluating the information collected.

8. **Who is expected to evaluate the financial condition of a firm?**
It is the manager's task to evaluate the financial situation of the firm. After analysing all the data, he or she can make appropriate business decisions.

9. **What information does a business need?**
It needs information on its business condition, such as the cash flow, the amount of assets, and the amount of money it can invest.

10. **Why do you think a government needs the financial information of a company?**
With the help of this information the government can have an overall picture of the business condition and financial situation of the company. They can see

whether the company is profitable and ready to expand and that way employ more workers. They can also estimate the future tax liability of the company.

11. **Why do people and firms keep accounts of incomes and expenditures?**
They want to know how much money they have at a given moment, how much money they made and spent. On the basis of this information, they can make plans for the future.

12. **Why is it important to keep accurate records of financial transactions?**
Only accurate records can provide reliable and appropriate information for evaluating the financial situation of a company and making business plans.

13. **How much accounting competence is required in a business?**
It depends on the position of an employee. Managers should know the basics of accounting and have the skills to analyse the data they get from the highly qualified accountants working for the company. Bookkeepers should be good at keeping accurate records but they don’t have to deal with evaluating data.

14. **What is needed in order to start a business?**
It depends on the type and size of the business. For a production company, it is necessary to have a plant with machinery, raw materials, qualified staff and cash. A service company needs a well-equipped office, qualified staff and cash.

15. **Why is cash needed to start a business?**
It is needed to pay the bills and salaries, and to finance initial marketing activities.

16. **What sources can finance business activities?**
The owners can use their own funds, try to find investors, and turn to banks for loans.

17. **What is equity?**
It is the company’s own capital.

18. **What is liability?**
It is money owed by a company to outsiders, such as suppliers and lenders.

19. **What are the two most important financial statements?**
The two most important financial statements are the balance sheet and the profit and loss account.

20. **What does a balance sheet show?**
It shows a company’s financial position at a given time.

21. What are the two sides of a balance sheet?
The two sides are assets and liabilities. The balance sheet always has to balance, that is, the amount of assets must be the same as the amount of liabilities.

22. What does a profit and loss account show?
It shows the financial results of a company's activities for a period of time.

23. Why are financial statements important?
They are important because they show the financial position of a business or organisation, and they also show its performance over a given period of time.

24. What is the difference between fixed and liquid assets?
Fixed assets are property, land and equipment that are not intended for immediate sale. Liquid assets can be used to make immediate payments. Cash and goods in stock are examples of liquid assets.

25. What are the two main types of bookkeeping?
They are single-entry and double-entry bookkeeping.

26. When was the first work describing the double-entry system of accounting published?
As far as I know, it appeared in Italy in the fifteenth century. It was written by a Franciscan friar.

27. What is recorded in a single-entry system?
It records cash, accounts receivable and payable, and taxes paid.

28. Which elements need to be kept at least in memorandum form?
It's necessary to record operational assets, expenses, inventories and revenues.

29. What can you prepare on the basis of recorded items and items kept in memoranda?
It is possible to prepare an income statement and a balance sheet.

30. Who is single-entry bookkeeping useful for?
Single-entry bookkeeping is mainly good for small businesses and individuals.

31. What are the advantages of single-entry records?
It's cheaper to use single-entry bookkeeping because the work is easy and can be done by non-professionals.

32. What are the advantages of double-entry bookkeeping?
Double-entry bookkeeping gives a more accurate and detailed picture of business activities. It's easier to find mistakes.

33. What are the disadvantages of single-entry records?
Single-entry bookkeeping doesn't always provide accurate information and it's more difficult to find errors.

34. What are the disadvantages of double-entry bookkeeping?
Double-entry bookkeeping requires more systematic and complex work from accountants. It can be expensive.

35. What is the basis of double-entry bookkeeping?
It's based on the two aspects of financial transactions, that is, the debit side and credit side.

36. What happens if there is an error in one of the aspects of a transaction?
It becomes clear very quickly that the two sides are not in balance. So it's easy to correct the error.

37. What is the standard account form like?
It consists of two equal parts: the debit side and the credit side. The debit side is on the left of the form and it shows a positive asset whereas the credit side on the right shows an amount owed by the company.

38. How can you calculate the balance of an account?
You should add the sums in the debit and the credit columns, and then determine the difference between the two amounts.

39. What is a T-account?
It's a common accounting form in the shape of the capital letter T. It has three components: a title describing the given financial statement item, the debit side, and the credit side. There must be a separate T-account for each item in the ledger.

40. What is a ledger?
It's a book or a file in which the financial transactions of a business are entered in the form of debits and credits.

41. Why are filing systems important in accountancy?
They can help to collect, sort, and find data on the financial transactions of businesses.

42. What is an audit?
An audit is an official examination of records and financial accounts to check their accuracy.

43. What are the phases of audits?
Most audits can be divided into two phases. In the first phase accountants and managers prepare all the documents for the audit, and the second phase is the audit itself.

Vocabulary Practice

Word partnerships
Match up the following words to make word partnerships.

account	profit
accounts	statement
accounts	credit
cash	crisis
extended	received
income	payable
liquidity	day
net	receivable
numbered	capital
working	account

Determine whether the following terms belong to *fixed* or *variable costs*.

1. administrative costs
2. advertising costs
3. distribution costs
4. labour costs
5. material costs
6. production costs
7. selling costs
8. storage costs

Fixed costs:

Variable costs: