Introduction to Accounting

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Basic Accounting terminology

1. What is Accounting

Accounting is an activity or process of recording business transactions in the books of accounts; it is a language of business. The purpose of accounting is to present data in systematic way so that profit or loss of business can be ascertained during a particular period of time. The accounting system owes its origin to Luco Pacioli who first published the principles of double entry system in the year 1494 at Venice in Italy, internationally; there are three popular systems of accounting namely, British system, American system and Islamic system.

1.1. Definition of Accounting

The American institute of certified public Accountants has defined Financial Accounting as “the art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part, at least of a financial character, and interpreting the results thereof”.

The American accounting Association defines Accounting as “the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information”

1.2. Objectives of Accounting

The objective of accounting is to provide essential information for running business units relating to financial and human resources so that it is possible to exercise control over these factors.

1.3. Functions of Accounting

1. To keep permanent record of financial transactions.
2. To keep records of income and expenditure
3. To keep record of assets and liabilities.
4. To exercise control over expenditures in order to minimize them.
5. To communicate the results to various parties, namely, owners, investors, employees, government, etc.

Audit

1. what is an audit

An audit is an objective examination and evaluation of the financial statements of an organization to make sure that the records are a fair and accurate representation of the transactions they claim to represent. It can be done internally by employees of the organization, or externally by an outside firm.

1.1. Types of Auditors

When it comes to external auditing, there are two different categories of auditors:

- First, there is an " *external* " or " *statutory* " auditor who works independently to evaluate financial reporting, and then there are external cost auditors who evaluate cost statements and sheets to see if they're free of misstatements or fraud. Both of these types of auditors follow a set of standards different from that of the company or organization hiring them to do the work.
- " *Internal auditors* ", as the name implies, are employed by the company or organization for whom they are performing the audit. To the best of their ability, internal auditors provide information to the board, managers, and other stakeholders on the accuracy of their books and the efficacy of their internal systems.
- " *Consultant auditors* ", while not working internally, use the standards of the company they are auditing as opposed to a separate set of standards. These types of auditors are used when an organization doesn't have the resources to audit certain parts of their own operations.