**Unit 7 : Accounting and accountancy**

« If I have seen further, because I was standing on the shoulder of giants », Isaac Newton, 1643-1727



Accounting involves recording and summarizing an organization's transactions or business deals such as purchases or sales and reporting them in the form of financial statements. In many countries, accounting and accountancy profession has a professional organizations which operate their own training and examination systems, and make technical and ethical rules. These relate to accepted ways of doing things. Bookkeeping is the day to day recording of transactions.

Financial accounting includes bookkeeping and preparing financial statements for shareholders and creditors (people and organizations who have lent money to the company).

Management accounting involves the use of accounting data by managers, for making plans and decision.

Auditing means examining a company's system of control and the accuracy of its records looking for errors or possible fraud, where the company may have deliberately given false information.

* An internal audit is carried out by a company's own accountants or internal auditors.
* An external audit is done by independent auditor who are not employees of the company.

The external audit examines the truth and the fairness of financial statements. It tries to prevent what is called creative accounting, which means recording transactions and values in a way that produces a false result, usually an artificially high profit.

**Comprehension :**

1. Do you think the accountancy profession independent ?
2. What is the role of professional accountancy organization ?
3. What is the difference between internal and external audit ?

**Vocabulary :** when writing accounts and financial statements, accountants have to follow a set of principles. As you are students in accounting, you have probably studied these assumptions, read definitions below and match each one with its meaning.

1. Materiality
2. Objectivity
3. Separate entity
4. Unit of measure
5. Full-disclosure
6. Time period
7. Conservatisme
8. Matching principles
9. The revenue recognition

**A**. A business is an accounting unit separated from its owner, creditors and managers and their assets. These people can all change but the business continues as before.

**B.** The economic life of a business can be divided into artificial periods such as a financial year or a quarter of it.

**C**. All financial transactions are in a single currency. Companies with subsidiaries in different countries have to convert their results into one currency in a consolidated financial statement for the whole group of companies.

**D.** Financial reporting should include all significant informations, anything that makes a difference to the users of financial statements.

**E.** Very small and unimportant amounts do not need to be shown.

**F.** If there are different accounting methods, you choose the one that is least likely to overstate or over-estimate assets or income.

**G.** Accounts should be based on facts, not on personal opinions or feelings. Accounts should be verifiable. Internal or external auditor should be able to recognise that they are true. This isn't always possible, depreciation and amortization or provisions for bad debts, for example, are necessarily subjectives, based on opinions.

**H.** The revenue is recognised in the accounting period in which it is earned. The revenue is recorded when a service is provided or when good is delivered, not when they are paid for.

**I.** Each cost or expense related to revenue earned must be recorded in the same accounting period as the revenue it helped to earn.

**Grammar** : *Reflexive pronouns*

Here are 4 cases where we should use Reflexive pronouns.

1. We use a reflexive pronoun with **transitive verbs**, as a **direct object** when the **object** is the same **subject** of the verb :

* Be careful with that knife, you might **cut** **yourself**

The most common transitive verbs are : enjoy, dry, amuse, blame, hurt, introduce, prepare, satisfy…. We do not use Reflexive pronouns after verbs which describe things people do obviously for themselves : dress, shave, wash.

* He always **shaves** ~~himself~~ before going to work.

We only use Reflexive with these verbs for emphasize :

* She **dressed herself** in spite of her injuries

2. We use Reflexive pronouns as an **indirect object** when the **object** is the same as the **subject**.

* We have brought **ourselves** something to eat.

3. As an object of a preposition when the object refers to the subject of the clause.

- He was feeling very sorry for **himself.**

4. With the preposition by if we want to show that someone did something alone.

- he walked home by **himself**

- she lived by **herself** in an enormous house.

5. To emphasize the person or thing we are referring to.

- the Chairperson **himself** gave me the gift.

Note : we don't use Reflexive pronouns after a preposition of place :

* He had a big opportunity beside **him**.

After with when it means accompanied by :

* I have few friends with **me**.

**Writing** : fill in the gaps with the appropriate word.

* Every transactions made by the company must be………………… There must be a document to show that it's true.
* Multinational with its subsidiaries, combines all their results in a set of……………………………
* Both internal and external auditors have to ………………company's accounts.
* Despite the……………....principle, accountants have to make some subjective judgment.

**Activity :** Here you have a part of a conversation between two students about work:

* Don’t………. find the statement “labour market” a little strange? (he/we/you)
* Yes, I…………..always wondered how we can exchange human working on a market like any commodity (has/have). I have never ……………….. how we can give a price to human work (understand/understood)
* My father told me that in…………….African countries and even in the countries of the Middle East (many/much), the worker had no salary, he………….. a part of the profit made by the employer (taken, take, took).
* Are you serious? This……….. unbelievable (are/is)
* Yes, the employer used to consider his employees as people helping………… (he/his/him), they are all ……………….. together, and it is unfair to fix a price for their effort (works/worked/working). So they share the fruit of the work.
* And how………….. they fix the part taken by the worker (do/did/doing) ?
* The worker used to take a fifth of the profit, no matter………….. big the profit is (what/who/how).