UMBB
Faculty of Economics, Commercial and Management sciences
Management Sciences department

Accounting

01-Introduction to accounting:

The word "Accountant" is derived from the French word Compter, which took its origin from the Latin word **Computare.** The word was formerly written in English as "Accomptant", but in process of time the word, which was always pronounced by dropping the "p", became gradually changed both in pronunciation and in orthography to its present form.

Accountancy is the process of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management; the art lies in selecting the information that is relevant to the user and is reliable.

Accountancy is a branch of mathematical science that is useful in discovering the causes of success and failure in business. The principles of accountancy are applied to business entities in three divisions of practical art, named accounting, bookkeeping, and auditing.

Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof."

02-History of accounting:

Accounting is thousands of years old; the earliest accounting records, which date back more than 7,000 years, were found in the Middle East. The people of that time relied on primitive accounting methods to record the growth of crops and herds. Accounting evolved, improving over the years and advancing as business advanced. Early accounts served mainly to assist the memory of the businessperson and the audience for the account was the proprietor or record keeper alone. Cruder forms of accounting were inadequate for the problems created by a business entity involving multiple investors, so double-entry bookkeeping first emerged in northern Italy in the 14th century, where trading ventures began to require more capital than a single individual was able to invest. The development of joint stock companies created wider audiences for accounts, as investors without firsthand knowledge of their operations relied on accounts to provide the requisite information. This development resulted in a split of accounting systems for internal (i.e. management accounting) and external (i.e. financial accounting) purposes, and subsequently also in accounting and disclosure regulations and a growing need for independent attestation of external accounts by auditors.

Today, accounting is called "the language of business" because it is the vehicle for reporting financial information about a business entity to many different groups of people.

03- Branches of accounting:

03-01-Financial accounting: refers to accounting for revenues, expenses, assets, and liabilities. It involves the basic accounting processes of recording, classifying, and summarizing transactions.

03-02- Cost accounting: is the branch of accounting dealing with the recording, classification, allocation, and reporting of current and prospective costs.
03-02- Managerial accounting: is the branch of accounting designed to provide information to various management levels in the hospitality operation for the purpose of enhancing controls.

04-GAAP and accounting principles:

The term "GAAP" is an abbreviation for Generally Accepted Accounting Principles (GAAP). GAAP is a codification of how CPA firms and corporations prepare and present their business income and expense, assets and liabilities on their financial statements. GAAP is not a single accounting rule, but rather the aggregate of many rules on how to account for various transactions. Most important Principles derive from GAAP are:

- **Principle of regularity**: Regularity can be defined as conformity to enforced rules and laws.

- **Principle of consistency**: This principle states that when a business has once fixed a method for the accounting treatment of an item, it will enter all similar items that follow in exactly the same way.

- **Principle of sincerity**: According to this principle, the accounting unit should reflect in good faith the reality of the company's financial status.

- **Principle of the permanence of methods**: This principle aims at allowing the coherence and comparison of the financial information published by the company.

- **Principle of non-compensation**: One should show the full details of the financial information and not seek to compensate a debt with an asset, a revenue with an expense, etc. (see convention of conservatism)

- **Principle of prudence**: This principle aims at showing the reality "as is": one should not try to make things look prettier than they are. Typically, a revenue should be recorded only when it is *certain* and a provision should be entered for an expense which is *probable*.

- **Principle of continuity**: When stating financial information, one should assume that the business will not be interrupted. This principle mitigates the principle of prudence: assets do not have to be accounted at their disposable value, but it is accepted that they are at their historical value (see depreciation and going concern).

- **Principle of periodicity**: Each accounting entry should be allocated to a given period, and split accordingly if it covers several periods. If a client pre-pays a subscription (or lease, etc.), the given revenue should be split to the entire time-span and not counted for entirely on the date of the transaction.

- **Principle of Full Disclosure/Materiality**: All information and values pertaining to the financial position of a business must be disclosed in the records.

- **Principle of Utmost Good Faith**: All the information regarding to the firm should be disclosed to the insurer before the insurance policy is taken.