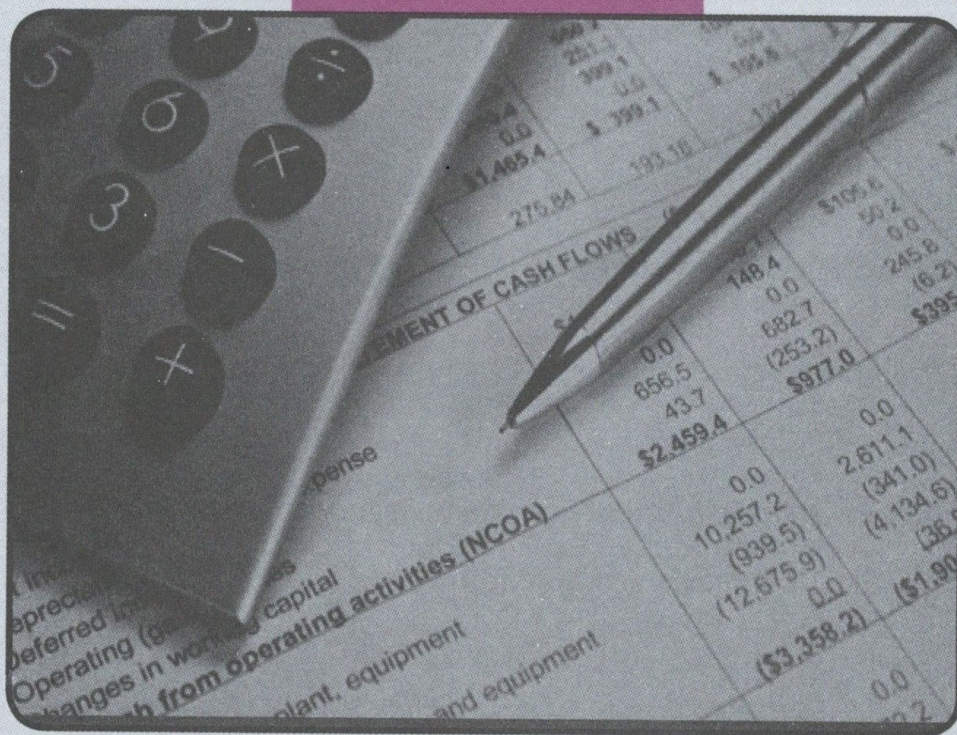


# Introducing Accounting

## Unit 1



## Objectives

In this unit you will learn briefly about:

- the basic concept of accounting
- the difference between accounting and bookkeeping
- different users of accounting information



## ■ Accounting

The purpose of **accounting**<sup>1</sup> is to provide information that will help you make correct financial decisions<sup>2</sup>. Your **accountant's** job is to give you the information you need to run your business as efficiently as possible to maximize your profits and keep your costs low.

Accounting plays a role in businesses of all sizes. A one-person business or a multinational corporation uses the same basic accounting principles. Accounting is legislated. It affects your **taxes**, your income, your costs etc.

Accounting is the language of business. It is the process of recording, classifying, and summarizing **economic events** through certain **documents** or **financial statements**. Like any other language, accounting has its own terms and rules. To understand how to interpret and use the information that accounting provides, you must first understand this language. Understanding the basic concepts of accounting is essential to success in business.

Different types of information which are provided by accountants are:

- Information which is prepared exclusively by people within a company such as **managers, employees, or owners** for their own use.
- Financial information which is required by various government agencies such as the **Internal Revenue Service** (IRS), **Securities and Exchange**

*1 The **boldfaced** words are technical terms in accounting. They will be practiced at the end of each unit.*

*2 The underlined phrases are useful collocations, two or more words which are recommended to be learnt together.*



**Commission** (SEC), and **the Federal Trade Commission** (FTC).

• General information about companies which is provided to people outside the **firm** such as **investors**, **creditors**, and **labor unions**.

### I. Find a synonym for each of the following items in the passage.

- |                     |                      |                    |
|---------------------|----------------------|--------------------|
| 1. supply:.....     | 2. well:.....        | 3. increase:.....  |
| 4. expenses:.....   | 5. big company:..... | 6. lawful:.....    |
| 7. happenings:..... | 8. words:.....       | 9. necessary:..... |
| 10. only:.....      | 11. needed:.....     | 12. company.....   |

### II. Check true or false.

1. Accounting information is used for decision making.

True  False

2. Accounting is only used by multinational companies.

True  False

3. Understanding the words and rules of accounting is necessary.

True  False

4. Accounting information is required by various users.

True  False

### III. Complete the following sentences based on the passage.

1. The purpose of accounting is maximizing ..... and minimizing .....

2. Accounting follows some rules. It means that accounting is .....

3. Through certain documents, economic events can be ....., ....., and .....

4. Examples of external users of accounting information are ....., ....., and .....



## ■ Accounting and Bookkeeping

**Bookkeeping** procedures and **bookkeepers** record the business transactions that are later used to generate financial statements. Most bookkeeping procedures have been systematized and, in many cases, can be handled by computer programs. Bookkeeping is a very important part of the accounting process, but it is just the beginning. There is currently no **certification** required to become a bookkeeper in the United States.

Accounting is the process of preparing and analyzing financial statements based on the transactions recorded through the bookkeeping process. Accountants are usually **professionals** who have completed at least a bachelor's degree in accounting, and often have passed a professional examination like the **Certified** Public Accountant Examination, the Certified Management Accountant Examination, or the Certified **Fraud Auditor** Examination.

Accounting goes beyond bookkeeping and the recording of economic information to include the summarizing and reporting of this information in a way that it drives decision making within a business.

### I. Find a synonym for each of the following items in the passage.

- |                   |                    |                   |
|-------------------|--------------------|-------------------|
| 1. deals:.....    | 2. done:.....      | 3. now:.....      |
| 4. degree:.....   | 5. experts:.....   | 6. finished:..... |
| 7. cheating:..... | 8. more than:..... | 9. pushes:.....   |

### II. Check true or false.



1. Generating financial statements is done before bookkeeping.

True  False

2. Accounting is the first stage of bookkeeping.

True  False

3. To be an accountant in the US, you need a certification.

True  False

4. Accounting is defined as bookkeeping plus decision making.

True  False

**III. Complete the following sentences based on the passage.**

1. The recorded business transactions can be used for .....

2. For being a bookkeeper in America, ..... is not needed.

3. CPAE is a kind of ..... exam for .....

4. What makes a difference between bookkeeping and accounting is .....

**■ Users of Accounting Information?**

In the world of business, accounting plays an important role to aid in making critical decisions. The more complex the decision, the more detailed the information must be. Individuals and companies need different kinds of information to make their business decisions.

Let's start with you as an individual. Why may you be interested in accounting? Accounting knowledge can help you with **investing** in the **stock market**, applying for a home loan, evaluating a potential job, balancing a



**checkbook**, and starting a personal **savings plan**.

Managers within a business also use accounting information daily to make decisions, although most of these managers are not accountants. Some of the decisions that they might make for which they will use accounting information are illustrated as:

- **Marketing**: Which line of **goods** should the company emphasize?
- **Production**: Should the company produce its goods in the United States or open a new plant in Mexico?
- **Research and Development**: How much money should be set aside for new product development?
- **Sales**: Should the company expand the **advertising budget** and take money away from some other part of the marketing budget?

Without the proper accounting information these types of decisions would be very difficult, if not impossible, to make.

**Bankers** continually use accounting information. They are in the business of taking care of your money and making money with your money, so they absolutely must make good decisions. Accounting is fundamental to their decision-making process. Some of the decisions bankers make by using accounting information are:

- **Granting** loans to individuals and companies
- Investing clients' money



- Setting interest rates
- Meeting federal regulations for protecting your money

Government agencies such as the Internal Revenue Service (IRS), the Securities and Exchange Commission (SEC), the Federal Trade Commission (FTC), and the Bureau of Alcohol, Tobacco, and Firearms (ATF) base their regulation enforcement and compliance on the accounting information which they receive.

### I. Find a synonym for each of the following items in the passage.

- |                    |                     |                      |
|--------------------|---------------------|----------------------|
| 1. help:.....      | 2. important:.....  | 3. specific:.....    |
| 4. share:.....     | 5. asking for:..... | 6. shown:.....       |
| 7. products:.....  | 8. focus:.....      | 9. factory:.....     |
| 10. increase:..... | 11. suitable:.....  | 12. completely:..... |
| 13. giving:.....   | 14. profit:.....    | 15. obeying:.....    |

### II. Check true or false.

- For making important decisions, more information is needed.  
True  False
- If you know accounting, you will be more successful in business.  
True  False
- A decision about advertisement is a marketing decision.  
True  False
- Without accounting information, every decision will be wrong.  
True  False
- Setting the interest rate is done via accounting information.  
True  False



### III. Complete the following sentences based on the passage.

1. Individuals can invest their money in .....
2. A decision about the site of a new factory is a ..... decision.
3. Two responsibilities of bankers are ..... and .....
4. IRS stands for .....

### ■ Exercises

#### 1. Translate the following technical terms into Persian.

New Word , Pronunciation, & Definition	Translation
<b>accountant</b> /ə' kauntənt/ someone whose job is to check financial accounts	.....
<b>accounting</b> /ə' kauntɪŋ/ the act of checking financial accounts	.....
<b>advertising</b> /' ædvər 'taɪzɪŋ/ telling the public about a product or service	.....
<b>agencies</b> /' eɪdʒənsɪz/ businesses that provides services	.....
<b>auditor</b> /' ɒdətər/ someone who checks a company's financial records	.....
<b>banker</b> /' bæŋkər/ someone who works in a bank	.....
<b>bookkeeping</b> /' bu:k , kɪpɪŋ/ the job of recording the financial accounts	.....



<b>bookkeeper</b> /'bʊk,ki:pər/ <i>a person who does bookkeeping</i>	.....
<b>budget</b> /'bʌdʒət/ <i>the money that is available to an organization</i>	.....
<b>business</b> /'biznəs/ <i>the activity of making money by selling goods or services</i>	.....
<b>certification</b> /,sə:təfə'keɪʃn/ <i>an official document saying that someone can do a job</i>	.....
<b>certified</b> /'sɜ:tə'faɪd/ <i>somebody who has a certification</i>	.....
<b>checkbook</b> /'tʃek,bʊk/ <i>a small book of checks that your bank gives you</i>	.....
<b>concept</b> /'kɒ:nsept/ <i>an idea of how something is</i>	.....
<b>corporation</b> /kɔ:rpə'reɪʃn/ <i>a big company</i>	.....
<b>creditor</b> /'kredətər/ <i>a person, or company that you owe money to</i>	.....
<b>document</b> /'dɒ:kjəmənt/ <i>a piece of paper with official information</i>	.....
<b>economic</b> /,ekə'nɒ:mɪk/ <i>relating to the management of money</i>	.....
<b>employee</b> /,emplɔɪ'i:/ <i>someone who is paid to work for someone else</i>	.....
<b>event</b> /ɪ'vent/ <i>something important that happens</i>	.....
<b>financial</b> /faɪ'nænjəl/ <i>relating to money</i>	.....



**firm** /'fɜ:m/

*a small business or company*

**fraud** /'frɒd/

*the act of deceiving people*

**goods** /'gʊdz/

*things that are produced*

**grant** /'grænt/

*to give something to someone*

**interest** /'ɪnrəst/

*the extra money that you must pay for borrowed money*

**Internal Revenue Service** /ɪn'tɜ:nl 'revə.nu: 'sɜ:vəs/

*an organization in the US which collects taxes*

**invest** /,ɪn'vest/

*to buy something to make a profit*

**investor** /,ɪn'vestər/

*someone who invests*

**manager** /'mænədʒər/

*someone who controls a company*

**market** /'mɑ:rkət/

*a place where goods are sold*

**marketing** /'mɑ:rkətɪŋ/

*the activity of deciding how to sell goods*

**owner** /'əʊnər/

*someone who has something*

**principle** /'prɪnsəpl/

*the basic idea*

**production** /prə'dækʃn/

*the process of making things*



<b>professional</b> /prə'feʃənəl/ someone who has a skill or knowledge	.....
<b>profit</b> /'prɒ:fɪt/ money that you gain by doing business	.....
<b>rate</b> /'reɪt/ the amount at which something happens	.....
<b>sales</b> /'seɪlz/ all products that are sold	.....
<b>savings</b> /'seɪvɪŋz/ all the money that you have in a bank	.....
<b>Securities and Exchange Commission</b> /sɪ'kjʊrətɪz ənd ɪks'tʃeɪndʒ kə'mɪʃn/ a US organization that controls the sale of stocks	.....
<b>statement</b> /'steɪtmənt/ something official for recording facts	.....
<b>stock</b> /'stɔ:k/ one of the equal parts of the ownership of a company	.....
<b>tax</b> /'tæks/ the money that you must pay according to your income	.....
<b>the Federal Trade Commission</b> /ðə 'fedərəl 'treɪd kə'mɪʃn/ a US organization responsible for trade	.....
<b>transaction</b> /trænzækʃn/ a business deal	.....
<b>union</b> /'ju:njən/ an organization formed by workers to protect their rights	.....

2. Match the items in column A with the items in column B. There is one extra item in column B.



Column A	Column B
1) <b>accountant</b> ( )	<b>a.</b> a degree which shows your education or skill
2) <b>budget</b> ( )	<b>b.</b> a share in a company
3) <b>certification</b> ( )	<b>c.</b> a person who analyzes financial information
4) <b>corporation</b> ( )	<b>d.</b> a big or international company
5) <b>employee</b> ( )	<b>e.</b> the money which is available to an organization
6) <b>financial</b> ( )	<b>f.</b> whatever related to money
7) <b>investing</b> ( )	<b>g.</b> all the products that are sold
8) <b>sales</b> ( )	<b>h.</b> a document that shows the transactions
9) <b>savings</b> ( )	<b>i.</b> all the money you have put in a bank
10) <b>stock</b> ( )	<b>j.</b> spending money to make more money
	<b>k.</b> a person who employes somebody else

**3. Fill in the blanks with the given words. There is one extra word in each set.**

**auditor / business / managers / concepts / economic / grant / investors**

1. Banks are required to ..... loan to investors.
2. She is running a ..... which sells clothing.
3. All the ..... should know about the basic concepts of accounting.
4. The ..... growth of the country is very slow.
5. A person who examines the financial records is a(an) .....
6. The new company needs ..... to support it financially.



**market / owner / production / rate / tax / fraud / transactions**

1. The unemployment ..... in this country is high.
2. I usually buy all the vegetables at the ..... every Thursday.
3. The new model will go into ..... next year.
4. We always pay 5% ..... on our income.
5. All the ..... must be recorded by bookkeepers.
6. The new ..... of the factory wants to employ 50 new workers.