

AN ACCOUNTING OVERVIEW

Accounting is frequently called the "language of business" because of its ability to communicate financial information about an organization. Various interested parties, such as managers, potential investors, creditors, and the government, depend on a company's accounting system to help them make informed financial decisions. An effective accounting system, therefore, must include accurate collecting, recording, classifying, summarizing, interpreting, and reporting of information on the financial status of an organization.

In order to achieve a standardized system, the accounting process follows accounting principles and rules. Regardless of the type of business or the amount of money involved, common procedures for handling and presenting financial information are used. Incoming money (revenues) and outgoing money (expenditures) are carefully monitored, and transactions are summarized in financial statements, which reflect the major financial activities of an organization.

Two common financial statements are the balance sheet and the income statement. The balance sheet shows the financial position of a company at one point in time, while the income statement shows the financial performance of a company over a period of time. Financial statements allow interested parties to compare one organization to another and/or to compare accounting periods within one organization. For example, an investor may compare the most recent income statements of two corporations in order to find out which one would be a better investment.

People who specialize in the field of accounting are known as accountants. In the United States, accountants are usually classified as public, private, or governmental. Public accountants work independently and provide accounting services such as auditing and tax computation to companies and individuals. Public accountants may earn the title of CPA (Certified Public Accountant) by fulfilling rigorous requirements. Private accountants work solely for private companies or corporations that hire them to maintain financial records, and governmental accountants work for governmental agencies or bureaus. Both private and governmental accountants are paid on a salary basis, whereas public accountants receive fees for their services.

Through effective application of commonly accepted accounting systems, private, public, and governmental accountants provide accurate and timely financial information that is necessary for organizational decision-making.

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A. Answer the following questions about accounting. Questions with asterisks (*) cannot be answered directly from the text.



1. Why is accounting called the "language of business"?
2. How is a standardized accounting system achieved?
3. What are revenues and expenditures?