

# ACCOUNTING

BASIC NOTIONS

part I

# 1- DEFINITION

- 1.11 In the simplest terms, accounting is nothing more than the recording of the financial history of an economic unit using the language of figures.
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- 1.12 "Information system allowing the assembling and communication of financial information, most often figures in monetary units, concerning the economic activity of enterprises or organizations." (*Dictionnaire de la Comptabilité*)

- **1.2 Universal norms**



- 1.21 To render it more immediately comprehensible, our accounting needs to conform to the universally recognized norms of accounting.



- **1.3 Uniformity**



- 1.31 Uniformity is desirable within the same country.



- 1.32 Uniformity facilitates better financial analysis.

# Accounting plan or Chart of accounts

- 1.41 Definition: "Codified list of accounts of an economic unit classified according to their nature and according to the different functions of the economic unit, established in order to permit a better interpretation of the accounts..." (*Dictionnaire de la Comptabilité*)
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- 1.42 The accounting plan must conform to the model requested or imposed in the country.

- 1.43 The number of accounts varies according to the economic unit and the degree of information and control sought. For example, one Province has a general account entitled **SECRETARIAT EXPENSES**, whereas another having the same item has subdivided the account in the following manner:
  - - Secretary's Salary and fringe benefits;
  - - Stationery: envelopes, paper, pencils; e
  - - Postage;
  - - Electronic mail expenses;
  - - Maintenance of the computer system;
  - - Maintenance of photocopier;
  - - etc.

# 2- FINANCIAL STATEMENTS

## ● 2.1 Definition

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- 2.11 Financial statements give the financial picture up to a **given date** (as is the case with the balance sheet) or **for a period of time** (as with personal financial statements).
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- 2.12 Financial statements are a form of communication. The financial statement must express the accounts of management in such a way that the members of the organization and those to whom these statements are to be presented can easily understand them. A certain standardization is thus necessary.

## ● 2.2 Aims



- 2.21 The internal management must be capable of reading and analyzing the statements so that enlightened decisions may be taken, activities planned and judicious choices made, taking due account of the limited resources;



- 2.22 To satisfy certain external organizations such as the government, international agencies, creditors and donors;



## ● 2.3 Types of information



● 2.31 Inside accounting records the following elements will generally be found: assets, liabilities, income and expenditure.



● 2.32 This information is presented by a large number of statements. The minimum statements to present are: **the balance sheet, income statement** or that of income and expenditure and some **notes and commentaries**.

- **2.33 Features of the information**



- 2.331 The **grouping** of accounts facilitates the rapid reading of the financial situation of the organization and saves the reader becoming lost in examining the details.



- 2.332 **Data which can be compared** with those of the preceding year are important for analyzing and establishing trends.

- **2.34 Publication of the Statement** - as soon as possible after the end of the financial year. Less than three months seems to be a reasonable time. A lapse of six to eight months after the closure of the accounts makes it difficult for the administration to react in time to effect important changes necessary for the next financial year.

# 3- ACCOUNTING SYSTEM

- **3.1 The accounting systems**
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- 3.11 The two systems in use are
- **CASH ACCOUNTING** or **CASH SITUATION**
- and **ACCRUAL ACCOUNTING.**

- 3.2 **Cash accounting or cash situation**



- 3.21 **Definition:** "A method which consists of accounting for revenues at the time when they are the object of a receipt ... according to this method the income is established at the moment of collection (receipt) of the revenue without any consideration being given to the time when they are earned or the period to which they apply..." (*Dictionnaire de la comptabilité*)

- 3.22 **A Concrete example:** the heating bill for the last six months of the financial year arrives and is paid two months after the end of your financial year. The expenditure appears in the next financial year. We don't have to correct that situation.

- 3.23 This accounting method is perfectly suitable for **the houses or communities** who have a system of accounts reduced to the minimum and where the amounts involved are not a very substantial part of the consolidated financial statement of the Province.



## ● 3.3 ACCRUAL ACCOUNTING

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- 3.31 **Definition:** "A method which consists of taking into consideration, in the determination of the net result of a financial unit, all revenues and expenditure pertaining to the operations of a fiscal period where the incomes are earned and the payments made, without considering the actual time when these operations are effected..." (*Dictionnaire de la comptabilité*)

- One often hears mention of "**double-entry bookkeeping**", which is the manner of recording financial transactions in accrual accounting using **debits and credits**.
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- 3.32 Concrete example (using the example cited in 3.22): The heating bill for the last six months of the financial year arrives and is paid two months after the end of your financial year. An Account Payable must be created in order to record this as an expense for the current financial year. When the payment is made two or three months into the next financial year the account payable is cleared and will have no effect on the statement of accounts for the new financial year..

- 3.33 This method must be adopted as far as possible by all the **Provinces and Districts**. "Commercial" enterprises which have to submit their financial statements to the government, are obliged to use Accrual Accounting.
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- 3.34 If a Province, at the end of its financial year requests the help of an public accountant or an auditor, he will make the appropriate adjustments to bring the Cash Accounting used during the year into line with Accrual Accounting.

# 3- BALANCE SHEET

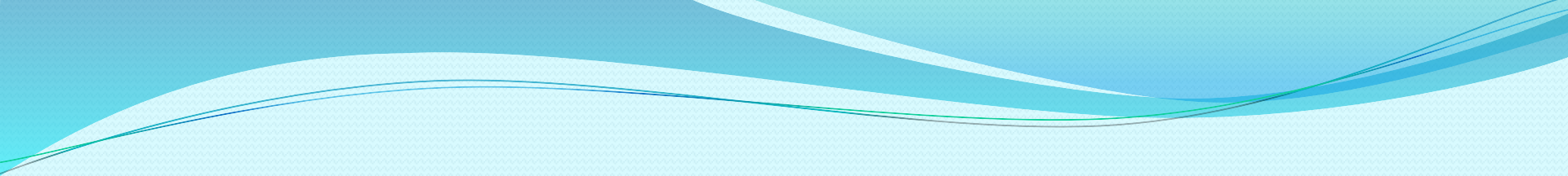
- 4.11 **Definition:** "A document of synthesis which presents the financial situation and the asset base of a financial unit at a given date and in which appears the list of assets and liabilities as well as the difference which corresponds to the capital..."  
*(Dictionnaire de la comptabilité)*
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- 4.12 The balance sheet is generally presented in the form of a table. The left-hand column is called **ASSETS** and the right-hand one **LIABILITIES**.

- 4.13 The assets are divided into: - current assets (cash on hand, accounts receivable, Stock of goods on hand, prepaid expenses, etc.) - fixed assets (property and buildings, vehicles, equipment).
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- 4.14 The liabilities are divided into: short term liabilities (current accounts payable, deferred payments etc.); long term liabilities (mortgages etc.). **CAPITAL (EQUITY) or NET VALUE** which is only the difference between the assets and the liabilities is usually entered in the right-hand column.

# 4- STATEMENT OF INCOME AND EXPENDITURE

- **4.21 Definition:** "Statement where revenue and income appear together with expenses and losses for a fiscal period. It sets income against expenditure."  
*(Dictionnaire de la comptabilité)*
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- 4.22 Usually revenues are not very diversified, they can be listed without classification. On the other hand, the great length of the list of expenses (or expenditure) suggests that some sort of classification would make it much easier to read the financial state of affairs for the past year at a glance. A setting-out comparable to the previous year is essential for easy analysis and recognition of trends.





# 5- NOTES & COMMENTS

- **4.31 Definition:** "Means of presenting financial information in notes and appendices to financial statements in order to explain the nature of certain items which appear in these statements, to furnish supplementary details and to make known the principles, rules and accounting methods the economic unit uses to determine the amounts of the items in the financial statements." (*Dictionnaire de la comptabilité*)

- 4.32 The nature of the legal entity, the investments, the method of accounting for fixed assets, the nature of various funds, the explanation of an unusual income or expense are some examples of points that are often found in Notes and Commentaries. Refer to the appendix for the model.
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- 4.321 Among the recommendations of the ICCA (Canadian Institute of Chartered Accountants) is mentioned: "A clear and concise description of the accounting practices having an important effect of the financial statements of an enterprise ought to be supplied as an integral part of those statements." (ICCA 1505.03)

# 6 - GAAP

**G** *GENERALLY*

**A** *ACCEPTED*

**A** *ACCOUNTING*

**P** *PRINCIPLES*

## 5.1 Principle of historical cost

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- 5.11 **Definition:** "A principle stating that the books be kept and the statements be based on historical cost in preference to all other bases of measurement..." (*Dictionnaire de la comptabilité*)
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- 5.12 **Consistency:** "This original cost must be maintained in the accounts throughout the total life of the asset."
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- 5.13 **Advantage:** "The great advantage of the historic cost over all other bases of evaluation is its reliability: its use normally leads to objective and verifiable information."

## ● 5.2 The principle of sound information

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- **5.21 Definition:** "The principle of accounting which requires an organization to furnish all the elements of financial information important enough to influence the judgement or the decisions of the informed user..."
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- **5.22 Range of information:** "The organization must strive to produce financial statements sufficiently detailed to present all the aspects which may influence the decisions of the user while being condensed enough to be easily consulted..." (*Dictionnaire de la comptabilité*)
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- 5.23 According to this principle the Financial Statement of the organization must contain all the financial information. It is not a question of presenting only a part of the incomes, expenses, assets and liabilities. Everything must appear otherwise the Financial Statement will present only an incomplete picture of the organization.

- 5.3 Principle of consistent methods



- **5.31 Definition:** "Principle requiring the use of the same accounting methods from one financial year to the next so as to maintain comparability of financial statements..."  
*(Dictionnaire de la comptabilité)*

## 5.4 Principle of liquidation

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- **5.41 Definition:** "Principle which consists in recognizing a revenue or a gain only when it has been realized..." (*Dictionnaire de la comptabilité*)
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- 5.42 If a benefactor informs you that he is going to make a substantial donation soon, you must not register this gift until the day it is actually deposited.



## 6- INTERNATIONAL ACCOUNTING NORMS

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- 6.1 The international accounting norms are published by the IASC (International Accounting Standards Committee).
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- 6.2 Up to the present the IASC has published 31 international accounting norms. These norms apply rather to commercial enterprises and to those that have to present financial statements in several countries. It is hardly likely that these norms would be of great help to provincial bursars.