

Accounting and Bookkeeping

Definition of Accounting

- Process used by individuals and business entities to record their financial transactions and measure their financial performance.
- Also, it is a way of recording, classifying, summarizing, reporting, analysing and interpreting business activities into monetary units to assists users in decision making.
- Accounting involves the process of identifying, measuring, recording and communicating the economics events to the users

Definition of Bookkeeping

- Bookkeeping is a small portion of an accounting. It refers mainly to the recording of financial transactions only.
- Bookkeeping is usually performed by a bookkeeper or an accounts clerk, not by an accountant.
- Bookkeeping only involves only the basic level of accounting which is identifying and recording of economic events and therefore is only part of the accounting process

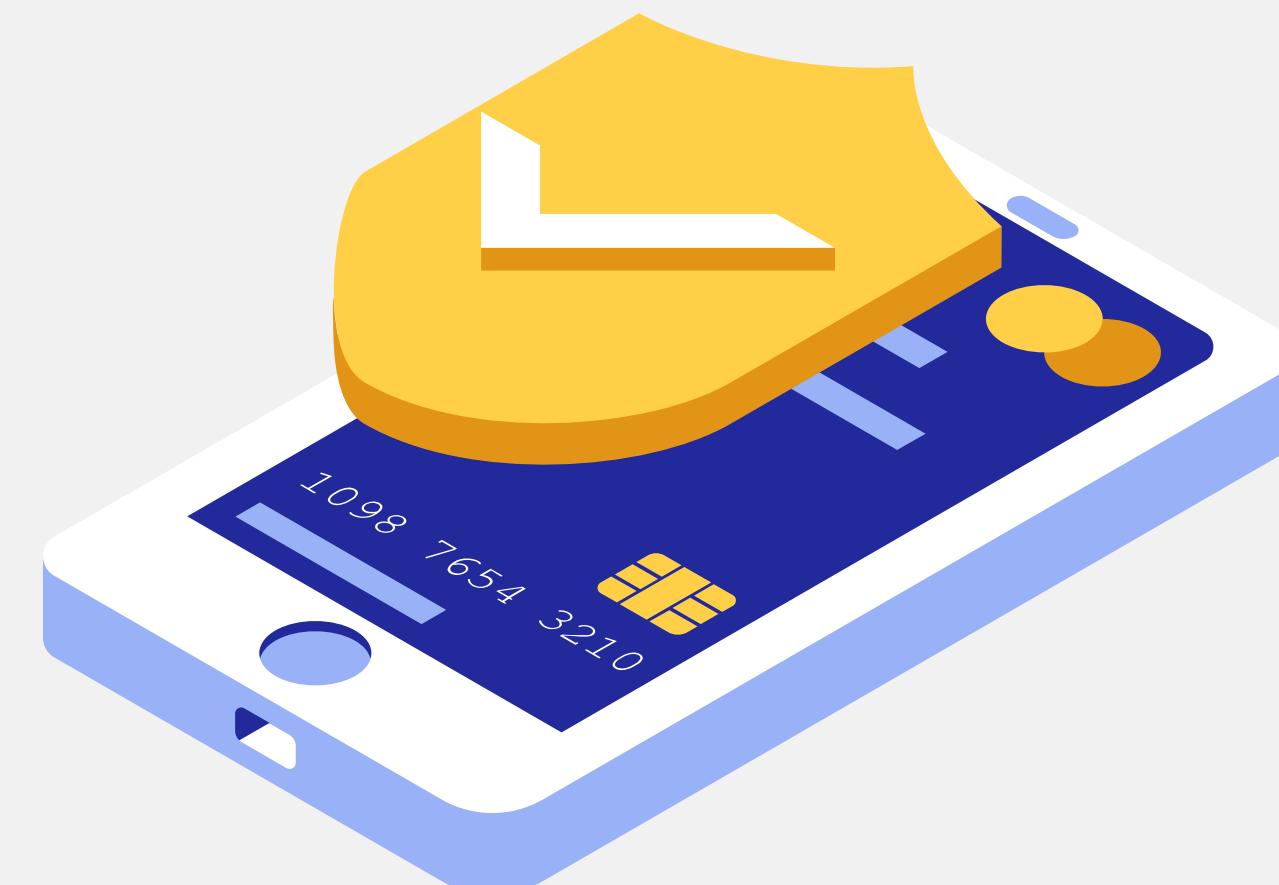
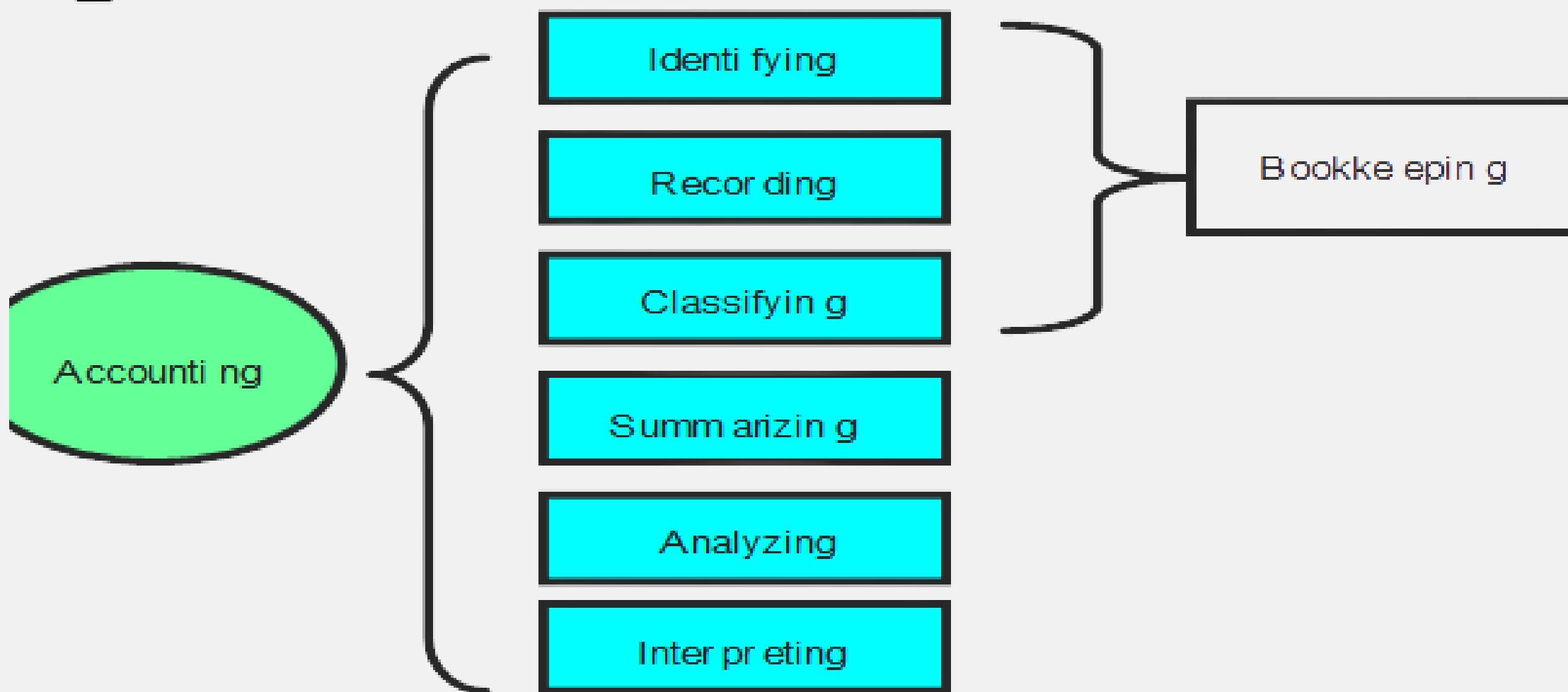
Bookkeeping

- Limited scope, involving only the earlier stages of the accounting, that is identifying and recording financial data.
- Just need basic knowledge of accounting.
- Prepared by bookkeeper.

Accounting

- Wider scope, including bookkeeping (identifying and recording) plus analysing, interpreting and communicating and making decision.
- Advanced knowledge in accounting needed.
- Prepared by an accountant

[Accounting Process]



Accounting is the process of identifying, recording, classifying, summarizing, analyzing and interpreting business transactions.



✓	Identifying	Identify the transactions that occurred from source documents such as invoice, bill, credit note, debit note etc.
✓	Recording	Records transaction to book of first entry and cash book
✓	Classifying	All transaction is categorized into the appropriate ledgers
✓	Summarizing	Ledger balances will be summarized in the form of trial balance for the preparation of financial statements
✓	Analyzing	Trial balances will be analyzed for the preparation of financial statements
✓	Interpreting	The results from financial statement will be used as guide to make decision

Users of accounting information

Users of financial or accounting information can be divided into two categories, the **INTERNAL** and **EXTERNAL** users.

INTERNAL users are people inside the business organization who use the information for day-to-day business decisions.

EXTERNAL users are people outside the business organization who does not involve with the day-to-day business operation.



Example of Internal Users

Management – Plan, organize and control organization and measure performance.

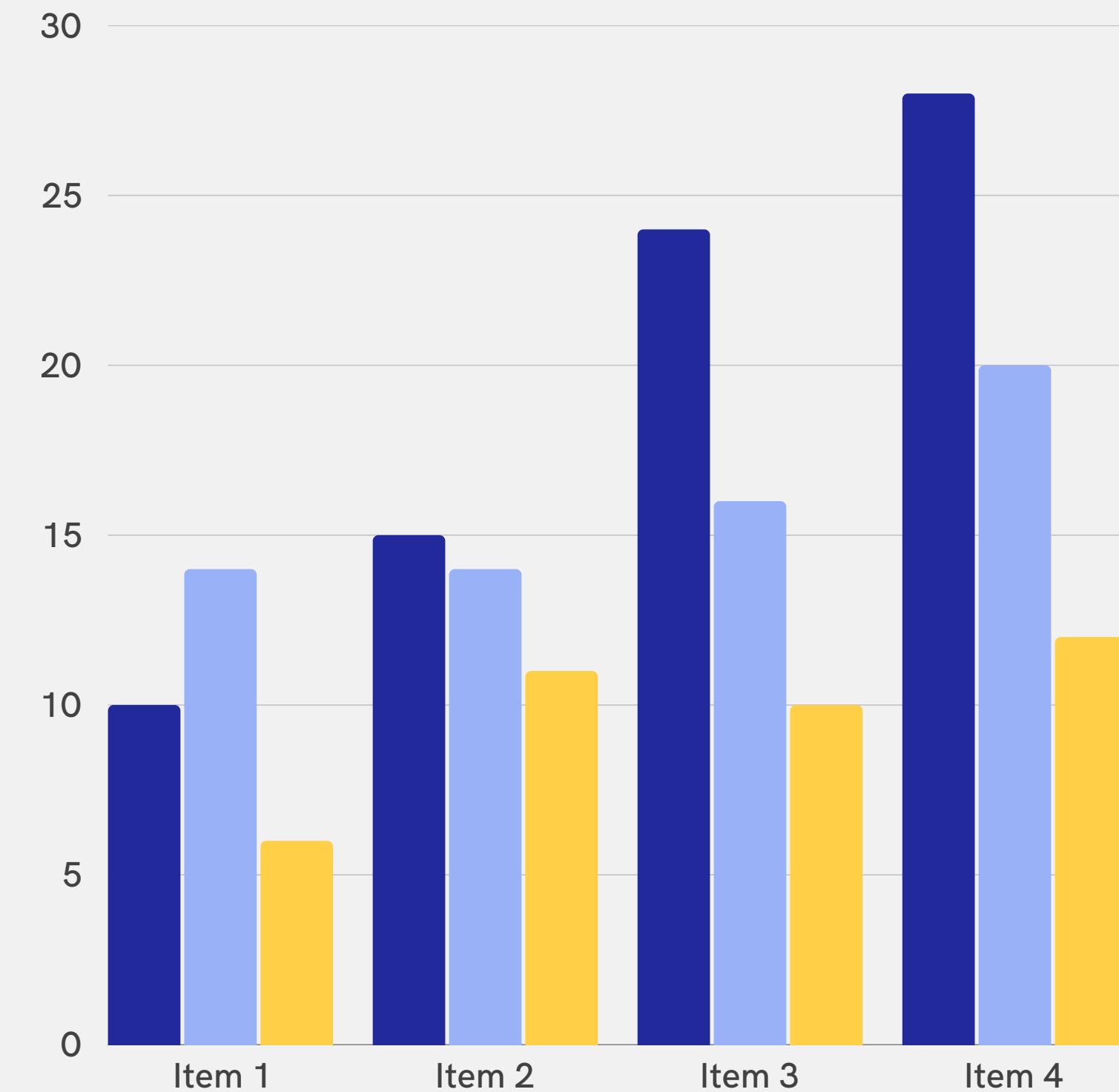
Finance Department – Ability to pay debts.

Marketing Department – Pricing decision.

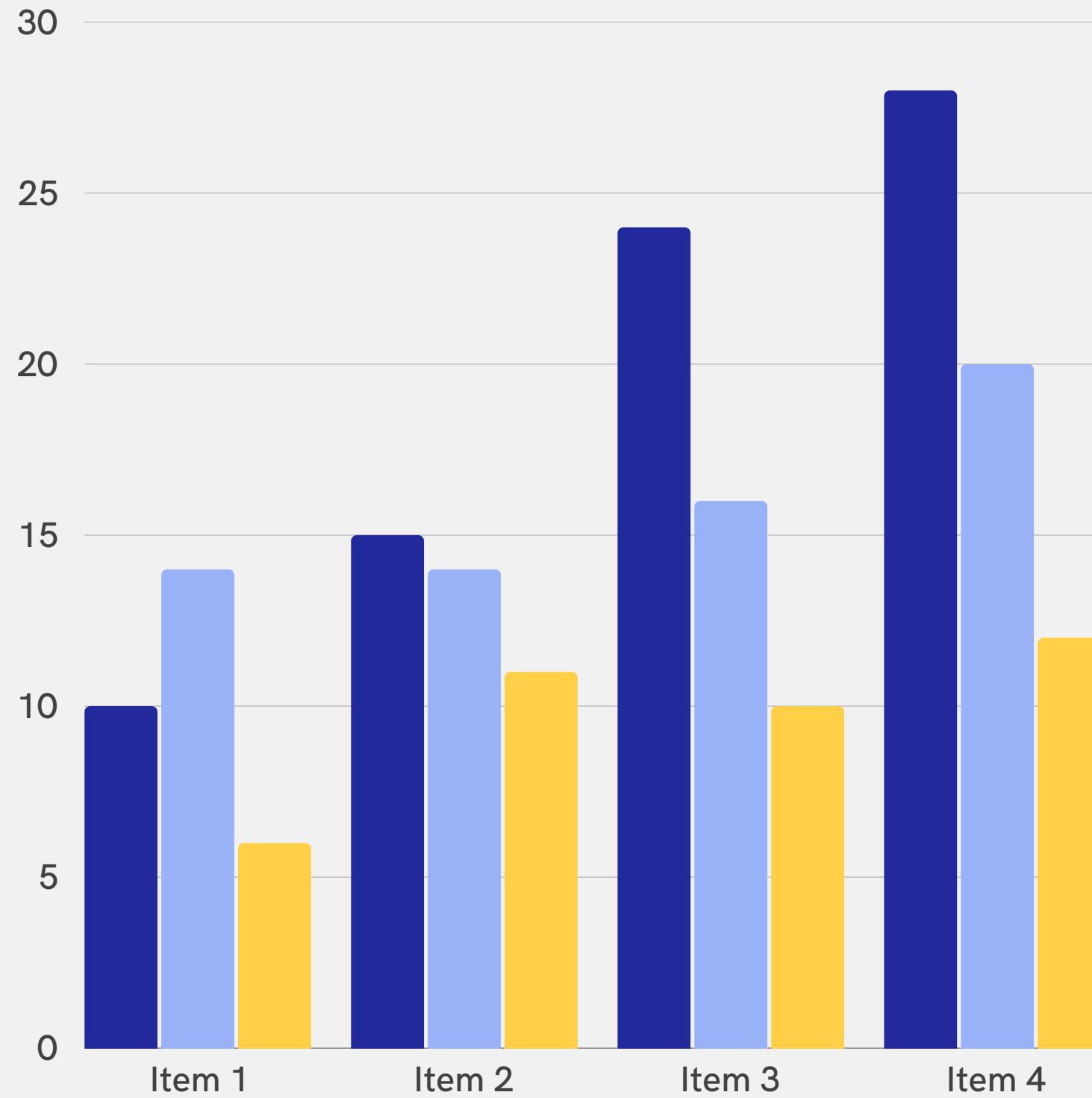
Business owner – Maintain, increase or reduce investment.

Current Investor – Maintain, increase or reduce investment.

Staff – Ability of company to pay bonus to all staff



Example of External Users



Bank – Need to know company ability to pay debts.

Employee unions – Welfare of employee such as salary increment and other benefits.

Supplier – Credit granting decision.

Government – fiscal policies such as tax and subsidy decisions.

Shareholder - Need to know the expected rate of return obtained from investments and potential company to pay dividends.

THE IMPORTANCE OF ACCOUNTING INFORMATION

To identify the financial position of a business, that is whether it is making a profit or a loss and the necessary follow up actions that should be taken

Transactions that are recorded are easily referred to in the future

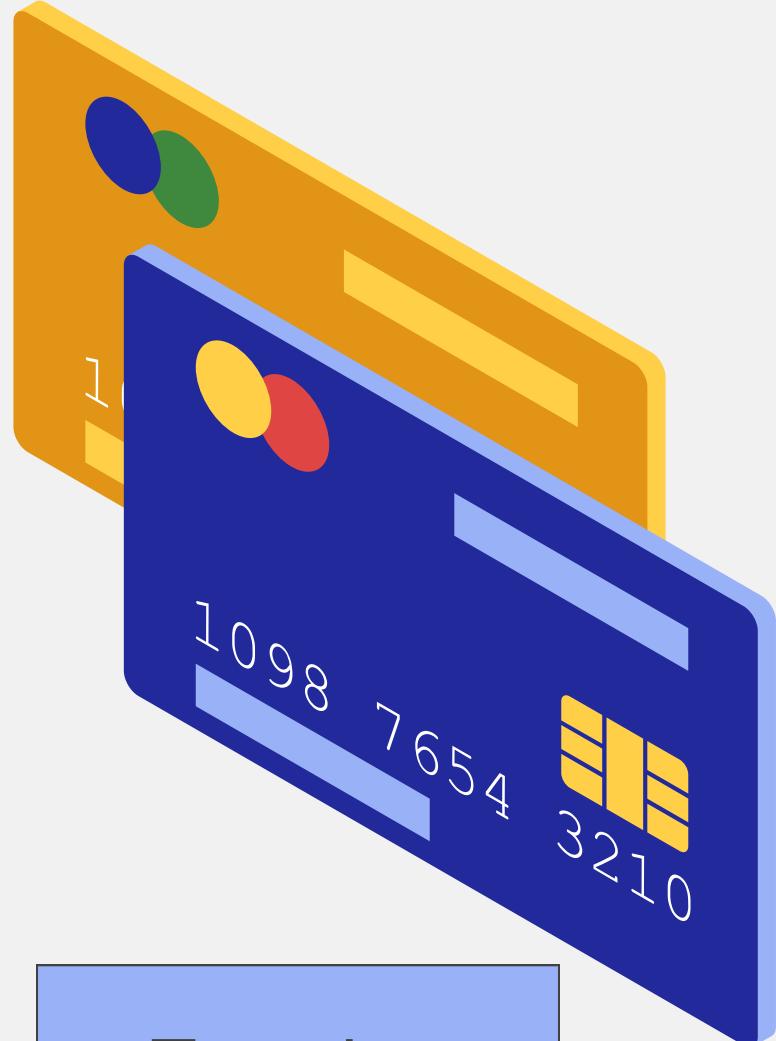
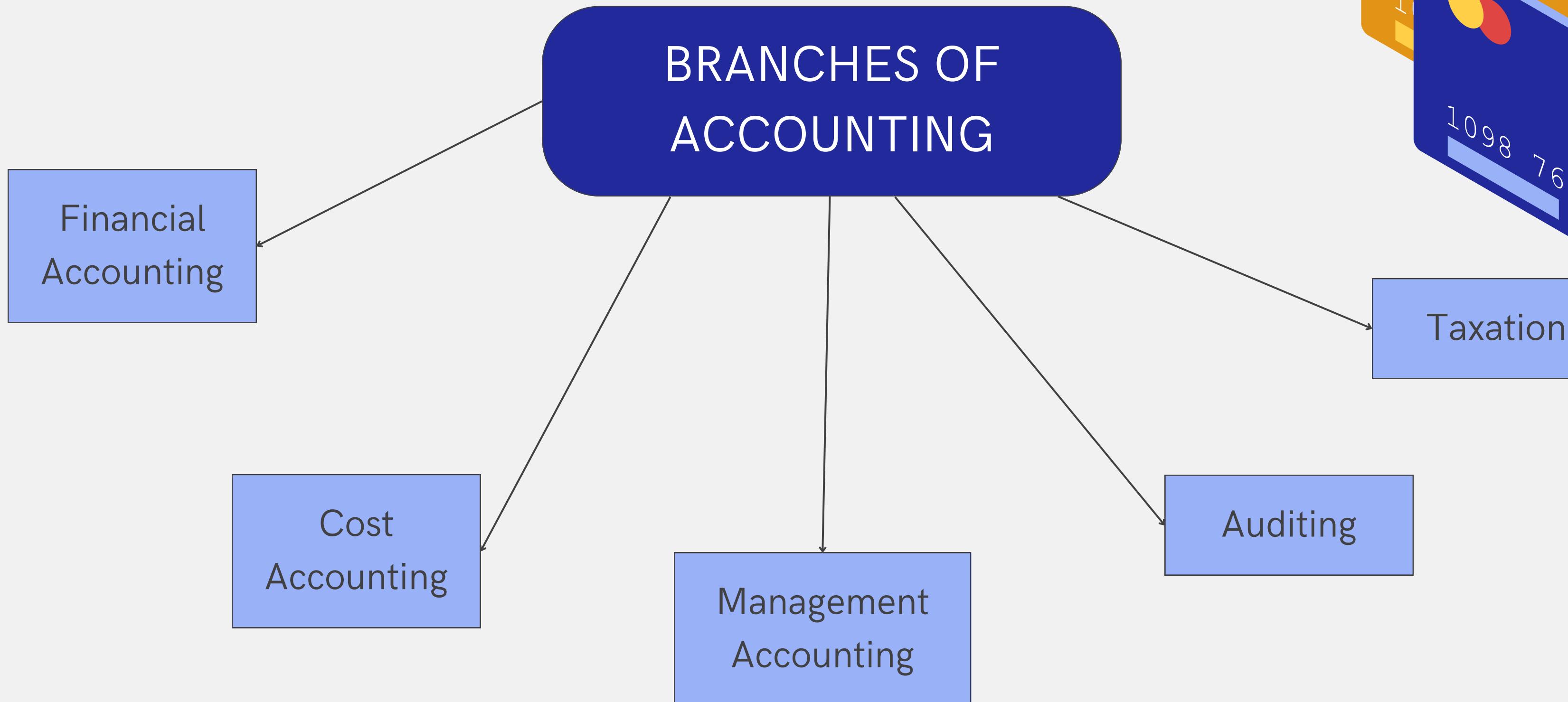
Management's responsibility in a large organization may be complicated if transaction are not recorded accurately. Financial statements may provide an inaccurate description of the business.



Types of Business Organization

Sole Proprietorship	Partnership	Company
<ul style="list-style-type: none">- Owned & managed by one individual.- Own funds as capital and makes all the business decision.- Receives all profit and bears loses of the business (unlimited liability).- Low entry cost.	<ul style="list-style-type: none">- Owned by two or more persons (partners) and maximum 20 persons.- Share resources to start business.- Partners share profit and losses.- Can be divided in two which is : General Partnership : Partner contribute cash or any assets that can be converted to cash. Not a separate legal entity which means partners bear unlimited liability. Limited Liability Partnership (LLP) : Regulated under LLP Act 2012. Capital contribute by partner in the form of shares. Separate legal entity (limited liability) which means that the personal assets of the partner protected.	<ul style="list-style-type: none">- Capital is funded by owners called shareholder.- Shareholders are the public who bought the shares.- Business ends with the word "Sdn Bhd" or "Bhd"- Separate legal entity (limited liability)- Business managed by BOD (Board of Director).

Types of Accounting Field



Types of Accounting Field

Financial Accounting : Original form of accounting that is related to the preparation of financial statements for the use of internal and external users. Main objective is to determine profit and loss made by the business.

Cost Accounting : Provide information to the management of the company to determine the total cost or cost per unit of the product or services.

Management Accounting : Prepared specifically for the management team by management accountants. It provides necessary information to the management to perform its functions such as making policies, taking decisions and controlling business activities.

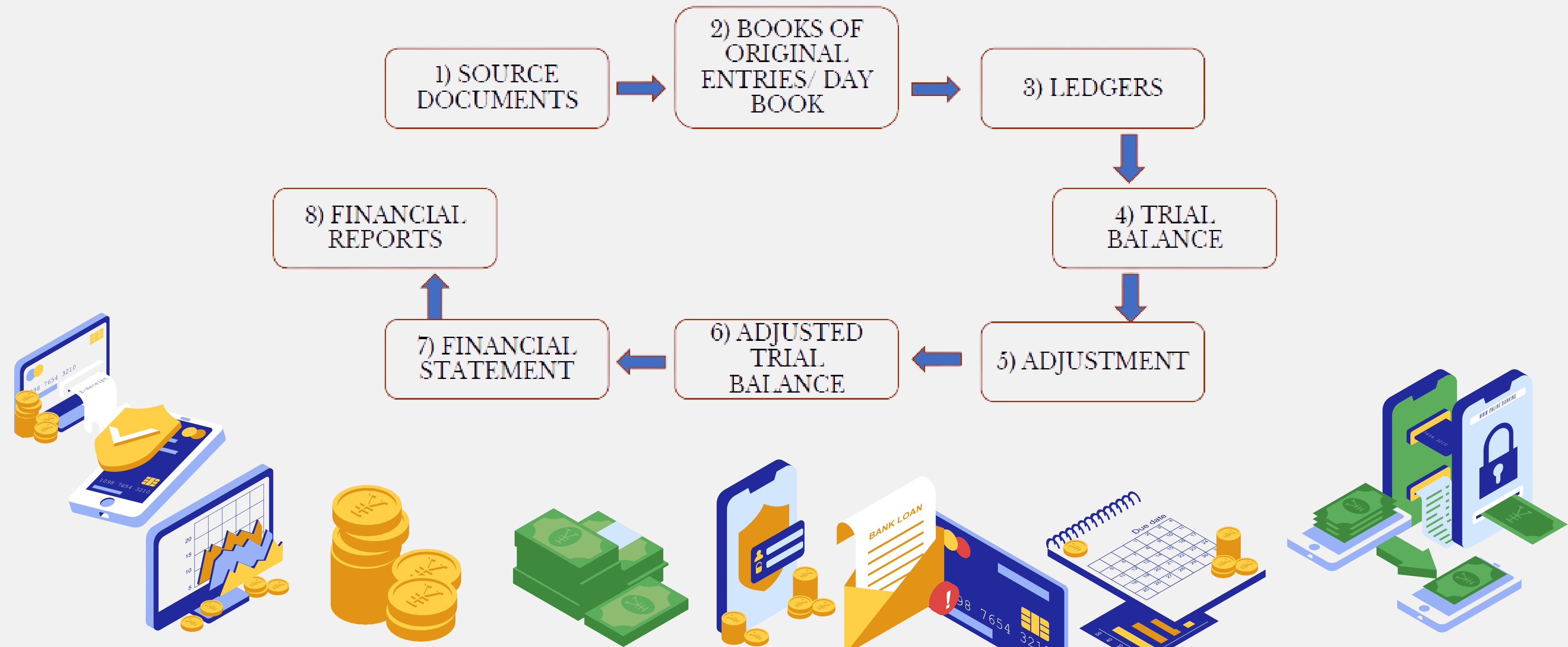
Auditing : Involves the examination and verification of company accounts which can be done internally and externally. External auditors are independent audit firm hired by the company to check the correctness in preparing their accounts.

Taxation : Preparation various tax forms and documentation as well as determining the amount of taxes payable by the company each year.



Steps in Accounting Cycle

Accounting Cycle is the Process of recording business transactions which involve several stages over a particular period of time.



Thank you.

