

Chapter 2

Section 2 Accounting: The Universal Language of Business

What You'll Learn

- How the accounting system works.
- Who uses financial accounting reports.
- Who uses management accounting reports.
- How accounting is used to help make business decisions.
- What assumptions provide the foundation for accounting systems.



Why It's Important

Understanding accounting systems is the key to understanding business.

Key Terms

- accounting system
- manual accounting system
- computerized accounting system
- GAAP
- financial reports
- financial reports
- financial accounting
- management accounting
- business entity
- accounting period
- going concern



The Accounting System

Designed to collect, document, and report on financial transactions affecting the business.

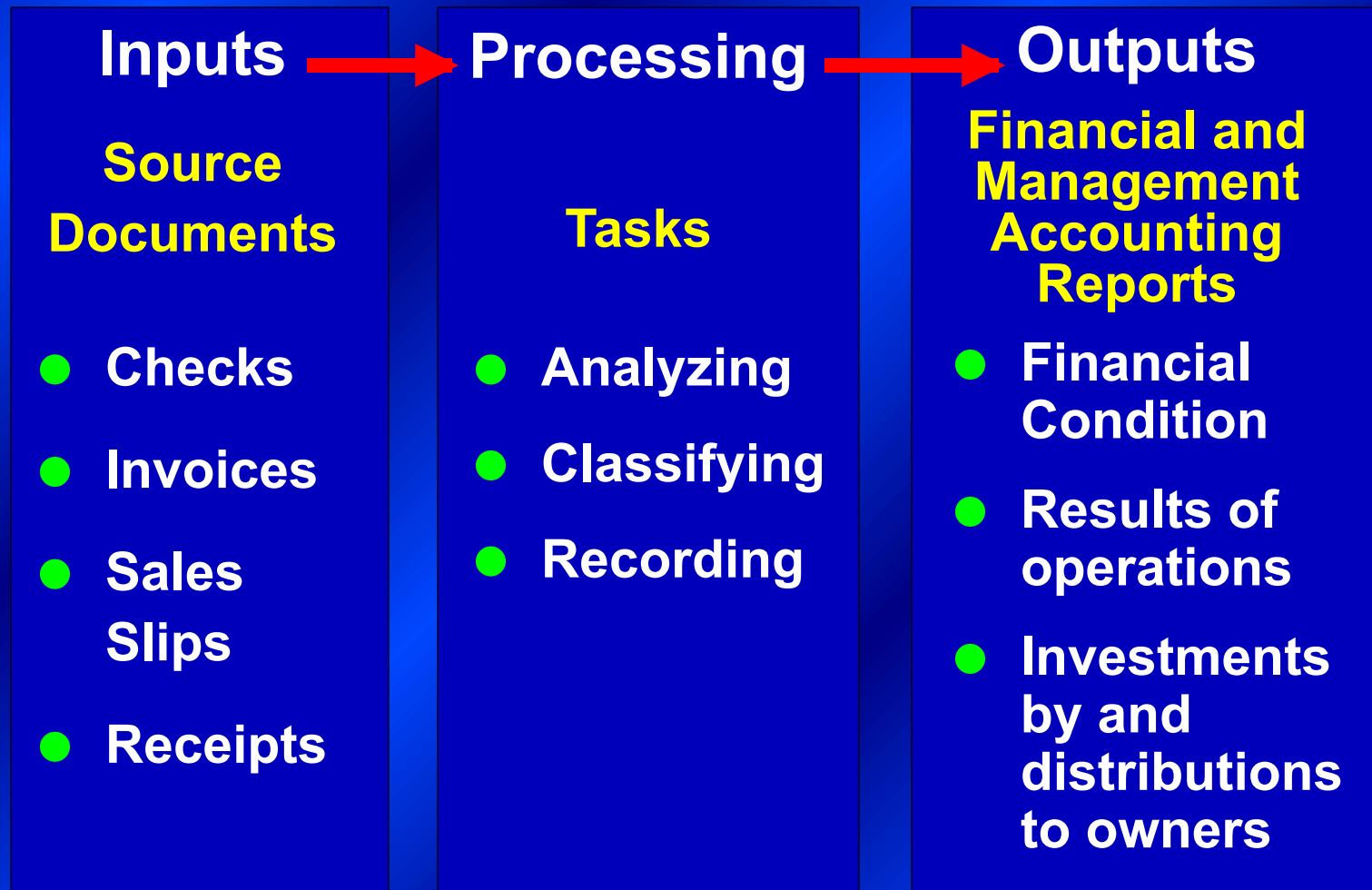
- **manual accounting system**
 - Information is processed by hand.
- **computerized accounting system**
 - Financial information is recorded by entering it into a computer.



The Accounting System

- **generally accepted accounting principles (GAAP)**
 - A set of rules that all accountants use.
- **financial reports**
 - Summarized information about the financial status of a business.

How the Accounting System Works



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Using Accounting Reports for Making Business Decisions

There are two groups that use accounting reports:

- individuals *outside* the business who have an interest in the business
- individuals *inside* the business



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Financial Accounting

Financial accounting focuses on reporting information to external users.

Who Uses Financial Accounting Reports?

- potential investors
- banks that loan money to a business
- local, state, and federal governments
- workers, consumers, union leaders, and competitors



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Management Accounting

Management accounting focuses on reporting information to management. Is accounting for internal users.

- Managers

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Accounting Assumptions

- **business entity**

- The business exists independently of its owner's personal holdings.

- **accounting period can cover:**

- One month

- Three months (quarterly)

- One Year (most common)

- **going concern**

- Accountants assume that a business has the ability to survive and operate indefinitely.



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Check Your Understanding

Assignment:

- Thinking Critically p35, 1&2
- Computing in the Business World
- Problem 2-2 Complete in your workbook.
- A Matter of Ethics p34