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 **Accounting 1.**

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Table of Contents

Introduction 3

Discussion 5

I. Current Assets 8

II. Fixed Assets 9

III. Financial Assets 9

IV. Intangible Assets 9

Conclusion 12

Bibliography 13

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## Introduction

When I first came across the word accounting I was in high school, I remembered each one of us being asked to define accounting. I was praying that the teacher don’t point at me, but unfortunately he did.

Not know what the answer was I decided to give the answer “ Accounting is counting business money” that was my honest response because I didn’t know. My teacher looked at me with smile, “ that is what I like about you, you always gives it a try’’. I began to again my confident because I knew I was close to the answer so it was a good guess.

According to investpedia.com, Accounting is the process of recording financial transactions of the business. From the definition, you can agree with me that it is the process since it includes summary, analysis, and reporting. The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position.

I run a cosmetic shop in South Sudan, where I employed a lady to run it. It has been four months since we opened, and one thing I have come to learn is that, regardless of the size of a business, accounting is a necessary function for decision-making cost planning, and measurement of economic performance measurement.



As small as we are, I don’t have a professional accountant to handle the accounting needs, so the lady I employed does it. (Jason, 2022)” A bookkeeper can handle basic accounting needs, but a Certified Public Accountant (CPA) should be utilized for larger or more advanced accounting tasks”.

In accounting there are two important types of accounting for businesses, namely managerial accounting and cost accounting. Managerial accounting helps management teams make business decisions, while cost accounting helps business owners decide how much a product should cost.

However I remember in high school, my teachers mentioned that, professional accountants follows a set of standards known as the Generally Accepted Accounting Principles (GAAP) when preparing financial statements.

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## Discussion

1. Discuss the types of accounting.

Accounting is very important in any business or organization either non-profit making or profiting.

I love to use my owner experience as an example. In 2019, Nile Petroleum Corporation a state own corporation in South Sudan made changes in the top management whereby the Managing Director was removed and President appointed new Managing Director. A move we all thought was going to being change, but unfortunately that was the beginning of the mess.

Few days after the appointment of new Managing Director, changes were also made in the finance department where manager, accountant and cashier were removed at the same time. The mess started in the finance where transactions where done without proper records, this went on and the management would not understand anything because there was no clear report of financial transaction in the company.



Payment made without signed contracts and transactions documents always misplaced.

As time goes by the company began to experience financial issues, such as failure to pay contractors, delay of salaries, and management would not sit to make decisions.

(Jason, 2022) Without accounting investors would be unable to rely on timely or accurate financial information, and companies’ executives would lack the transparency needed to manage risks or plan projects. However regulators also rely on accountants for critical functions such as providing auditors’ opinions.

All in all my point is that, although accounting is sometimes overlooked, it is absolutely critical for the smooth functioning of modern finance.

There are three types of accounting, according David Krug, an accounting instructor at JCCC.

* Managerial Accounting**.**

Managerial accounting helps management teams make business decisions. Managerial accounting uses much of the same data as financial accounting, but it organizes and utilizes information in different ways.



In managerial accounting, an accountant generates monthly or quarterly reports that a business’s management team can use to make decisions about how the business operates.

Managerial accounting also encompasses many other facets of accounting, including budgeting, forecasting, and various financial analysis tools. Essentially, any information that may be useful to management falls underneath this umbrella.

* Financial Accounting.

Financial Accounting refers to the processes used to generate interim and annual financial statements. The results of all financial transactions that occur during an accounting period are summarized into the balance sheet, income statement, and cash flow statement.

An external CPA firm audits the financial statements of most companies annually. For some, such as publicly traded companies, audits are a legal requirement.

However, lenders also typically require the results of an external audit annually as part of their debt covenants. Therefore, most companies will have annual audits for one reason or another.

* Cost Accounting.

Just as managerial accounting helps businesses make decisions about management, cost accounting helps businesses make decisions

About costing.

Essentially, cost accounting considers all of the costs related to producing a product. Business owners, Managers and accountants use this information to determine what their products should cost.

In cost accounting, money is cast as an economic factor in production, whereas in financial accounting, money is considered to be a measure of a company's economic performance.

* 2. Define an Asset

An asset is a resource with economic value that an individual, corporation, or country owns or control with the expectation that it will provide a future benefit.

Asset are however reported on a company’s balance sheet and are bought or created to increase company’s value.

An asset can be thought of as something that, in the future, can generate cash flow, reduce expenses, or improve sales, regardless of whether it's manufacturing equipment or a patent.

b) Outline the types of assets

Having highlighted meaning of an asset, it is therefore necessary outline types of assets according to David Krug; assets can be broadly categorized into short-term (current) assets, fixed assets, financial investments, and intangible assets.



### Current Assets

### Are short-term economic resources that are expected to be converted into cash within one year.

To my understanding a good examples of current assets include cash and cash equivalents, accounts receivable, inventory and various prepaid expenses.

While cash is easy to value, accountants periodically reassess the recoverability of inventory and accounts receivable. If there is evidence that accounts receivable might be uncollectible, it'll become impaired. Or if inventory becomes obsolete, companies may write off these assets.

Assets are recorded on companies' balance sheets based on the concept of historical cost, which represents the original cost of the asset, adjusted for any improvements or aging.

### Fixed Assets



Fixed assets are long-term resources, such as plants, equipment, and buildings. An adjustment for the aging of fixed assets is made based on periodic charges called depreciation, which may or may not reflect the loss of earning powers for a fixed asset.

Generally accepted accounting principles (GAAP) allow depreciation under two broad methods. The straight-line method assumes that a fixed asset loses its value in proportion to its useful life, while the accelerated method assumes that the asset loses its value faster in its first years of use.

### Financial Assets

Financial assets represent investments in the assets and securities of other institutions. Financial assets include stocks, sovereign and corporate bonds, preferred equity, and other hybrid securities. Financial assets are valued depending on how the investment is categorized and the motive behind it.

### Intangible Assets

Intangible assets are economic resources that have no physical presence. They include patents, trademarks, copyrights, and goodwill. Accounting for intangible assets differs depending on the



type of asset, and they can be either amortized or tested for impairment each year.

3.What is a liability?

A liability is something a person or company owes, usually a sum of money. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services. Recorded on the right side of the balance sheet, liabilities include loans, accounts payable, mortgages, deferred revenues, bonds, warranties, and accrued expenses.

In general, a liability is an obligation between one party and another not yet completed or paid for. In the world of accounting, a financial liability is also an obligation but is more defined by previous business transactions, events, sales, exchange of assets or services, or anything that would provide economic benefit at a later date. Current liabilities are usually considered short-term (expected to be concluded in 12 months or less) and non-current liabilities are long-term (12 months or greater).

Liabilities are categorized as current or non-current depending on their temporality. They can include a future service owed to others



(Short- or long-term borrowing from banks, individuals, or other entities) or a previous transaction that has created an unsettled obligation. The most common liabilities are usually the largest like accounts payable and bonds payable. Most companies will have these two line items on their balance sheet, as they are part of ongoing current and long-term operations.

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## Conclusion

From the above we can conclude that accounting not only helps an enterprise to conduct its day-to-day activities smoothly but also helps in its future growth. At the same time multiple stakeholders to take economic decisions use financial statements produced by various accounting systems.

Accounts give an idea about the profitability and financial position of a business to its management, owners, and other interested parties. All business transactions are first recorded in a journal. They are then transferred to a ledger and balanced.

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