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جامعة محمد بوضياف – المسيلة
كلية العلوم الاقتصادية والتجارية
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ENGLISH FOR ACCOUNTING & AUDITING

Masters (2)

Course for Master students in Accounting and Auditing

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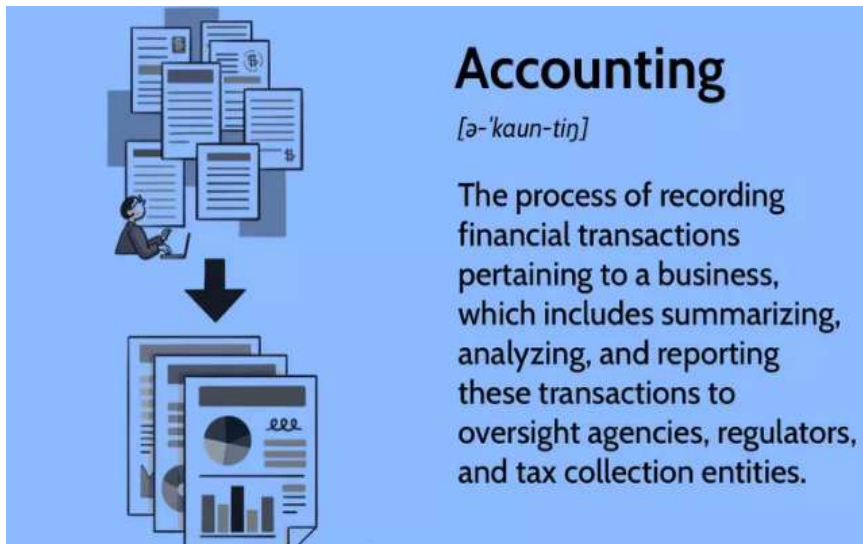
Chapter 1

FINANCIAL ACCOUNTING

➤ **Accounting**

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities.

The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position, and cash flows.

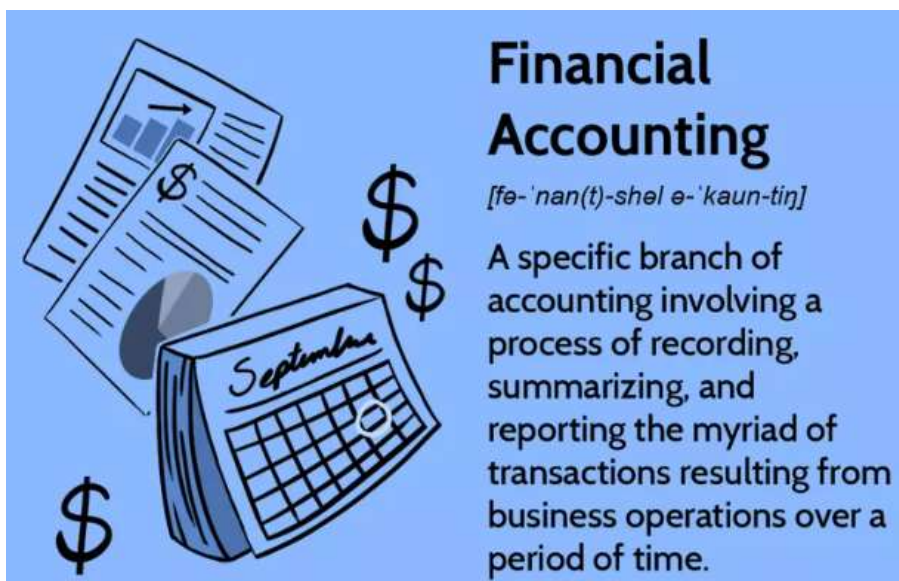


➤ **Financial accounting**

Financial accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time.

These transactions are summarized in the preparation of financial statements (including: the balance sheet, income statement, and cash flow statement) that record a company's operating performance over a specified period.

Nonprofits, corporations, and small businesses use financial accountants to prepare their books and records and generate their financial reports.



➤ **Financial statements**

• **Balance sheet**

Balance sheet reports a company's financial position as of a specific date. Balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity.

The balance sheet is used by management, lenders, and investors to assess the liquidity and solvency of a company.

Liability

Obligations contracted by an organization.
Just like the Assets, liabilities can be current
and non-current



Equity

Amount of money or resources endowed to
an organization



Asset

The assets side of the
Balance Sheet is divided in
Current Assets (which
usually have a life cycle of
one accounting year) + Non-
Current or Long-Term Fixed
Assets (with a life cycle of
more than one accounting
year)



Balance sheet example

TEDDY FAB INC. BALANCE SHEET December 31, 2100		
ASSETS	LIABILITIES AND SHAREHOLDERS' EQUITY	
Current assets	Current liabilities	
Cash and cash equivalents	Accounts payable	\$ 30,000
Accounts receivable	Notes payable	10,000
Inventory	Accrued expenses	5,000
Prepaid expense	Deferred revenue	2,000
Investments	<u>Total current liabilities</u>	<u>47,000</u>
<u>Total current assets</u>	Long-term debt	200,000
Property and equipment	<u>Total liabilities</u>	<u>247,000</u>
Land	Shareholders' Equity	
Buildings and improvements	Common stock	10,000
Equipment	Additional paid-in capital	20,000
Less accumulated depreciation	Retained earnings	197,100
	Treasury stock	(2,000)
Other assets	<u>Total liabilities and shareholders' equity</u>	<u>\$ 472,100</u>
Intangible assets		
Less accumulated amortization		
<u>Total assets</u>		
\$ 472,100		

- **Income statement**

Income statement (also known as a “*profit and loss statement*”) is one of the three major financial statements, along with the balance sheet and the cash flow statement, that report a company’s financial performance over a specific accounting period.

Usually issued on a monthly, a quarterly, or an annual basis, the income statement lists revenue, expenses, and net income of a company for a given period. Further, income statement is considered as useful to management.



Income Statement								
Revenue	118,086	131,345	142,341	150,772	165,849	182,434	200,678	218,739
Cost of Goods Sold (COGS)	48,004	49,123	52,654	56,710	69,657	78,447	88,298	98,432
Gross Profit	70,082	82,222	89,687	94,062	96,193	103,987	112,379	120,306
Expenses								
Marketing, Advertising & Promotor	22,658	23,872	23,002	25,245	28,194	31,014	34,115	37,186
General & Administrative	10,125	10,087	11,020	11,412	15,000	15,000	15,000	15,000
Depreciation & Amortization	18,150	17,205	16,544	16,080	7,504	9,003	10,203	11,162
Interest	2,500	1,500	1,500	1,500	3,000	3,000	1,000	1,000
Total Expenses	53,433	52,664	52,066	54,237	53,699	58,017	60,318	64,348
Earnings Before Tax	16,649	29,558	37,622	39,825	42,494	45,970	52,062	55,958
Taxes	4,858	8,483	10,908	11,598	11,898	12,872	14,577	15,668
Net Earnings	11,791	21,075	26,713	28,227	30,596	33,099	37,484	40,290

- **Cash flow statement**

Cash flow statement reports how a company used cash during a specific period.

Cash flow statement is an accounting document that tracks the incoming and outgoing cash and cash equivalents from a business.

Cash flow statement helps identify the availability of liquid funds with the organization in a particular accounting period.



Cash flow statement is broken into three sections:

- **Operations** – These are the costs of a company's core business activities.
- **Financing** – This is money the company receives from taking loans or issuing shares, as well as money paid in interest on loans and dividends to investors.
- **Investments** – This is money that comes from buying and selling the company's investments, such as securities or fixed assets.

Cash flow statement is used to better understand how cash is being spent and received.

CASH FLOW STATEMENT FOR FY 2017	
<i>Operating activities</i>	
Cash receipt (from customers)	\$ 80,000
Cash paid	(60,000)
<i>Investing activities</i>	
Cash receipt from sales	11,000
Equipment cost	(16,000)
<i>Financing activities</i>	
Loan payment	(30,000)
Net cash flow	(15,000)

➤ Classification of financial statements

The statements used in financial accounting cover the five main classifications of financial data, which are:

- **Revenues** – Included here is income from sales of products and services, plus other sources, including dividends and interest.
- **Expenses** – These are the costs of producing goods and services, from research and development to marketing to payroll.
- **Assets** – These consist of owned property, both tangible (buildings, computers) and intangible (patents, trademarks).
- **Liabilities** – These are all outstanding debts, such as loans or rent.
- **Equity** – If you paid off the company's debts and liquidated its assets, you would get its equity, which is what a company is worth.

Revenues and expenses are accounted for and reported on the income statement, resulting in the determination of net income at the bottom of the statement.

Assets, liabilities, and equity accounts are reported on the balance sheet, which utilizes financial accounting to report ownership of the company's future economic benefits.

Chapter 2

FINANCIAL MARKETS

➤ Defining financial markets

Financial markets refer broadly to any marketplace where the trading of securities occurs.

Financial Markets include any place or system that provides buyers and sellers the means to trade financial instruments, including bonds, equities, the various international currencies, and derivatives.

Financial markets facilitate the interaction between those who need capital with those who have capital to invest.



➤ The kind of financial markets

There are many kinds of financial markets, including (but not limited to):

- **Stock market**

Stock markets are considered the most widespread financial markets. Stock markets are markets where companies list their shares, which are bought and sold by traders and investors. Stock markets, or

equities markets, are used by companies to raise capital and by investors to search for returns.

- **Bond market**

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. The bond is considered an agreement between the lender and borrower containing the loan's details and its payments. The bond market is also called the debt, credit, or fixed-income market.

- **Money market**

The money markets trade in products with highly liquid short-term maturities (less than one year) and are characterized by a high degree of safety and a relatively lower interest return than other markets.

Chapter 3

MARKET PRICING

➤ Pricing

The market price is the current price at which an asset or service can be bought or sold. The market price of an asset or service is determined by the forces of supply and demand.

The price at which quantity supplied equals quantity demanded is the market price.



In financial markets, the market price can change quickly as people change their bid or offer prices, or as sellers hit the bid or buyers hit the offer.

The market price is the result of the interaction of traders, investors, and dealers in the stock market. In order for a trade to occur, there must be a buyer and a seller that meet at the same price.

The “**bid**” is the higher price someone is advertising they will buy at, the “**offer**” is the lowest price someone is advertising they will sell at.

- **Bid is** represented by buyer,
- **Offer** is represented by seller.

Chapter 4

INVESTEMENT

➤ Investing

Investing is defined as deploying capital (money) toward projects or activities that are expected to generate a positive return over time.

Investing is putting money to work for a period of time in some sort of project or undertaking in order to generate positive returns.

Investing is the act of allocating resources, usually capital (i.e., money), with the expectation of generating an income, profit, or gains.

One can invest in many forms, such as; using money to start a business, or in assets such as purchasing real estate in hopes of generating rental income and/or reselling it later at a higher price.



In investing, risk and return are two sides of the same coin (i.e, Risk and return go hand-in-hand in investing). Low risk generally means low expected returns, while higher returns are usually accompanied by higher risk.

➤ **The major types of investment**

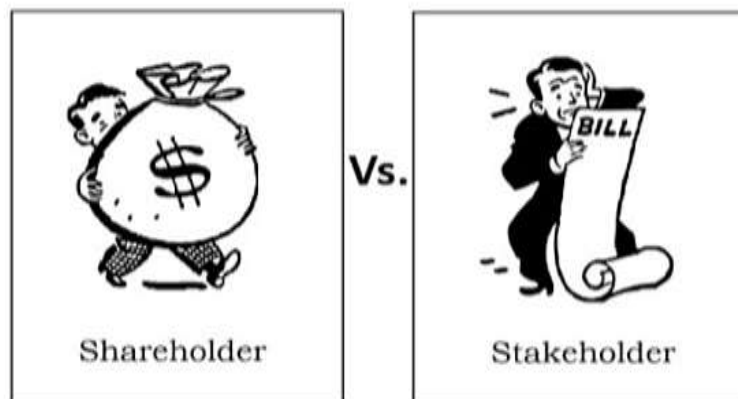
The type of returns generated depends on the type of project or asset;

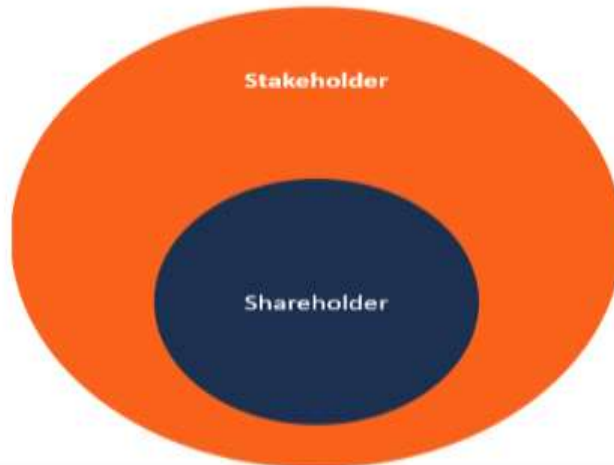
- **Real estate** can produce both rents and capital gains,
- **Stocks** pay quarterly dividends;
- **Bonds** tend to pay regular interest.

Chapter 5

SHAREHOLDERS AND STAKEHOLDERS

- A **shareholder** owns part of a public company through shares of stock, while a **stakeholder** has an interest in the performance of a company for reasons other than stock performance or appreciation.
- A **shareholder** can be an individual, company, or institution that owns at least one share of a company and therefore has a financial interest in its profitability. (A shareholder can also be known as a stockholder).
- **Stakeholders** are those who either affect or are affected by a project or company. They have a "stake" in its success or failure. Stakeholders might be shareholders or owners.
- **Shareholders** are always stakeholders in a corporation, but **stakeholders** are not always shareholders.





➤ **Types of shareholders**

There are two types of shareholders:

- **Common shareholders:** Anyone who owns common stock in a company. Common stock gives you part ownership of the company and often has higher rates of return over the long term. Common shareholders can vote on board members or other company policies.
- **Preferred shareholders:** Anyone who owns preferred stock. Preferred stock has lower rates of return in the long term but guarantees a yearly dividend. Preferred shareholders can't vote on policies or board members, but they can claim assets before common shareholders if a company fails and its assets are liquidated.

➤ **Types of stakeholders**

Stakeholders can be divided into two types:

- **Internal stakeholders:** Those who are employed by the company or have a direct relationship with it. These are usually employees, shareholders, executives, and partners.

- **External stakeholders:** Those who are impacted by your company but don't have a direct relationship with it. These are usually customers, suppliers, and community members.

Chapter 6

AUDIT

➤ Audit

The term audit usually refers to the financial audit or review of financial statements. A financial audit is an objective examination and evaluation of the financial statement of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent.

The audit can be conducted internally by employees of the organization or externally by an outside certified public accountant (CPA) firm.

An audit is the review or inspection of a company or individual's accounts by an independent body. Auditors may be hired internally by the company or work for an external third-party firm. Almost all companies receive a yearly audit of their financial statements. This includes the review of statements like the balance sheet, income statement, and cash flow statement.



➤ **Types of audits**

• **External audits**

External audits are commonly performed by Certified Public Accounting firms and result in an auditor's opinion which is included in the audit report.

Unqualified (clean) audit opinion means that the auditor has not identified any material misstatement as a result of his or her review of the financial statements.

External audits can include a review of both financial statements and a company's internal controls. Therefore, external audits allow stakeholders to make better, more informed decisions related to the company being audited.

External auditors follow a set of standards that are different from those of the company or organization hiring them to do the work.

• **Internal audits**

Internal audits serve as a managerial tool to make improvements to processes and internal controls.

Internal auditors are employed by the company or organization for whom they are performing an audit, and the resulting audit report is given directly to management and the board of directors.

Internal auditors are used when an organization doesn't have the in-house resources to audit certain parts of its own operations.

- **Internal Revenue Service (IRS) audits**

The IRS routinely performs audits to verify the accuracy of a taxpayer's return and specific transactions.

IRS audit selection is usually made by random statistical formulas that analyze a taxpayer's return and compare it to similar returns. A taxpayer may also be selected for an audit if they have any dealings with another person or company who was found to have tax errors on their audit.

There are three possible IRS audit outcomes available:

1. No change to the tax return
2. A change that is accepted by the taxpayer
3. A change with which the taxpayer disagrees

If the change is accepted, the taxpayer may owe additional taxes or penalties. If the taxpayer disagrees, there is a process to follow that may include mediation or an appeal.

- **The purpose of an Audit**

- Audits are generally meant to ensure that businesses and individuals are being honest and accurate about their financial positions. But, the purpose of an audit depends entirely on the type of review in question.
- For instance, corporations are routinely audited to ensure they are compliant and are following accounting standards. Audits also

ensure that businesses are representing their financial well-being accurately.

- Tax agencies conduct routine audits at random or may do so if someone's tax return is flagged. Things that may trigger an audit include specific tax credits and deductions, or certain types of income.

Chapter 7

TAXATION

➤ **Taxation**

Taxation is a term for when a taxing authority (usually a government) imposes a financial obligation on its citizens or residents. Paying taxes to governments or officials has been a mainstay of civilization since ancient times.

Taxation occurs when a government or other authority requires that a fee be paid by citizens and corporations, to that authority. Particularly, tax occurs on physical assets, including property and transactions, such as a sale of stock, or a home.

The term "taxation" applies to all types of mandatory levies, from income to capital gains to estate taxes. Though taxation can be a noun or verb, it is usually referred to as an act; the resulting revenue is usually called "taxes".

➤ **Taxes**

Taxes are mandatory contributions levied on individuals or corporations by a government entity (local, regional, or national).

Tax revenues finance government activities, including public works and services such as roads and schools, or programs such as Social Security and Medicare.

There are many forms of taxes and most are applied as a percentage of a monetary exchange (for example, when income is earned or a

sales transaction is completed). Other forms of taxes, such as property taxes, are applied based on the assessed value of a held asset.

Thus, the types of taxes include income, corporate, capital gains, property, inheritance, and sales.



➤ **Types of taxation**

Taxation applies to all different types of levies. These can include (but are not limited to):

- **Income tax**

Governments impose income taxes on financial income generated by all entities within their jurisdiction, including individuals and businesses.

- **Corporate tax**

This type of tax is imposed on the profit of a business.

- **Capital gains**

A tax on capital gains is imposed on any capital gains or profits made by people or businesses from the sale of certain assets including stocks, bonds, or real estate.

- **Property tax**

A property tax is assessed by a local government and paid for by the owner of a property. This tax is calculated based on the values of property and land.

- **Inheritance**

A type of tax levied on individuals who inherit the estate of a deceased person.

- **Sales tax**

A consumption tax imposed by a government on the sale of goods and services. (This can take the form of a value-added tax (VAT), a goods and services tax (GST), a state or provincial sales tax, or an excise tax).