
ACCOUNTING

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HISTORICAL BACKGROUND

Business accounting is indeed a very old practice. In fact, it is generally accepted that the father of modern accounting is a Franciscan monk, Luca Paciolo, who lived in one of the Italian city ports. In 1494 he published a book, *Summa*, which although dealing principally with mathematics included a brief section on book-keeping. The accounting principles laid down are rather crude and imperfect. However, it is to Paciolo's credit that the essential broad principles of accounting then set forth have remained unchanged. They withstood the test of time; only the accounting methods and techniques are undergoing constant change and improvement in order to meet the ever-changing needs of business.

Development in the field of accounting has been rather slow and gradual. Important changes have always followed increased business activity and came about as a natural result of much activity. Accounting, ever sensitive to the needs of business, underwent slow, yet constant, development in line with the increased tempo of business. It is not surprising, therefore, that most of the important developments in accounting materialised to meet the needs of the widespread industrialisation, which originated in England before 1900 and spread throughout Europe and the United States of America. As business transactions increased considerably, so better and sounder accounting methods had to be devised in order to record such transactions more accurately.

Small businesses mushroomed throughout the industrial world and these businesses had to employ accounting principles so as to record their transactions. When most businesses were small it was possible for any one individual to control the operation with only the simplest of records. However, as small businesses expanded into larger organisations it became necessary to maintain adequate accounting records for efficient operation. No one individual can acquire the intimate knowledge of the affairs of a large scale enterprise without the help of an efficient, accurate and foolproof accounting system. A complete accounting system is a must for the large corporations of today. No fruitful decision can be taken which is not based on sound accounting information.

During the past years many of the accounting problems created by large-scale enterprises have been solved by the introduction of business machines. High speed accounting machines and computers have eliminated much of the drudgery of recording transactions by hand,

Besides, such machines made it possible for accountants to step into new uncharted accounting horizons. Important accounting data can be computed in a matter of seconds, then stored for an indefinite period, and re-obtained whenever the need arises. Indeed, these machines are of incredible help to accounting, and in themselves they cannot function properly without a sound system of accounting.

As a whole, book-keeping and accounting may be defined as the process of analysing, recording and interpreting the effect that transactions have on a business. Indeed, there is no definite boundary between the two, and any attempt to do so is futile. It may be taken, however, that book-keeping is principally concerned with analysing and recording the transactions. It forms an essential part of accounting, just as arithmetic forms an essential part of the whole field of mathematics. On the other hand, accounting is principally concerned with the interpretation of the book-keeping data, although it very often overlaps onto book-keeping. Accounting however concerns itself with analysing and recording only incidentally.

THE WORK OF THE ACCOUNTANT TODAY

As a general rule the trained accountant may pursue two broad fields of work, namely Public Accounting and Internal Accounting.

Public accountants render service to a number of different firms. They are professional men and, like lawyers and doctors, their relationship to their clients is one of the utmost good faith. They scrutinize the book-keeping records of their clients in order to ascertain that these have been properly and accurately kept; they prepare statements of paramount importance both to management and to the owners of business; they assess whether the business is making any profit or loss; they help in the preparation of tax returns; they perform numerous other tasks whenever and wherever the accountant's skill and knowledge are required.

Public accountants have a grave responsibility both to government and to the proprietors of business. They are duty bound to ensure that the accounts which they prepare give a fair and true view of the business as a whole. In this way they prepare useful and accurate data on which government formulates its policies towards the commercial community. On the other hand, they help the proprietors of businesses to take decisions based on sound accounting information.

Internal accountants are employees of a simple business. Their work is to supervise the varied activities of the accounting department and to prepare the statements and reports which are regularly required by management. Their duties may not be strictly confined to the accounting department and may stretch further out, depending on the size and policy of the firm in question. Internal accountants are commonly known as "controllers" or "auditors". They perform a most important duty in the control and successful operation of the enterprise as a whole.

They devote their time to reviewing the activities and records of the firm, and in the course of their duty check much of the detail work, such as authorisation, recording and custody procedures, managerial supervision and reviews. Internal accountants may be regarded as the watchdogs of the business firm since their main goal is to ensure that everything within the business organisation is functioning according to a set plan.

THE ACCOUNTANT'S TRAINING

Being a professional man, an accountant needs adequate training. A successful accountant requires two qualities in order to carry out his duties efficiently; these are sound judgement and profound technical skill. Very few students of accounting, if any, can ever dream of stepping from the classroom into an executive position requiring balanced judgement. This wide stride can only materialize after a period of solid practical experience. Therefore, the most essential information that a young man or woman entering business should possess is a mastery of the fundamental principles and technical tools. He or she must be able to apply such fundamentals without hesitation at the right time and in the right situation.

Judgement is acquired at a later stage, depending, in each case, on the individual himself and his environment. The quality of judgement has to be developed primarily by the individual through a period of practical experience. However, it is necessary that this judgement be acquired soon, since only then his chances of success become brighter. Only through good judgement and accounting skill can a young accountant aspire for future advancement and increased responsibility.

SPECIALISATION IN ACCOUNTING

When accounting was still in its infancy it was sufficient to record any business transaction in a haphazard way without any due attention to accounting principles. The mere fact that the transaction had been recorded was enough from the point of view of the businessmen, since such a record served its own purpose, that of reminding the businessman of the existence of such a transaction. However, as business enterprises grew in size, so grew intricate business transactions. This growth, both in volume and complexity, gave rise to the development of specialisation in accounting. Today, there are at least six generally accepted special areas of accounting, and an individual accountant may specialise in one or more of these fields:

1. General Accounting:

This is the most common field of accounting. Here the accountant works in a business organisation. His main duties are the summarising and interpretation of business transactions.

2. Auditing:

This is the detailed analysis, verification and investigation of the transactions of a business. It involves, also, the presentation of the results in statements which are forwarded to management, and it serves, at the same time, as a check on the general accounting work.

3. Tax Accounting:

This is the computation and preparation of tax liability to governments with regard to inland revenue, import duty, excise duty, etc. It also involves the presentation of various tax returns.

4. Cost Accounting:

This field usually involves the determination of the cost per unit of goods produced for sale. Nowadays, cost accounting has been extended to other areas, namely, the cost per unit of selling and distribution of goods. A number of costing techniques have now been developed.

5. Government Accounting:

This area includes accounting for the various government departments. As the information required by government departments and parastatal bodies differs from that required by commercial enterprises the need was felt to train accountants for this particular type of work.

6. System Installation:

The advent of business machines and computers has given rise to this type of accounting. This field includes the selection, preparation and designing of charts, records and programmes for use on such machines and computers. This is a highly skilled work requiring a sound knowledge of accounting principles as well as the ability to instal effective checks in order to prevent possible fraud.

PRESSURES ON ACCOUNTING

The rapid growth of accounting over the last fifty years or so was the result of two distinct, yet complimentary, pressures constantly hammering on the profession. One was the widespread increase in the size and number of business units, coupled with the reliance that business executives were compelled to place on accurate accounting; the other was the increased government intervention to which business has been subjected, both as a matter of tax collecting and as a measure of control.

Today, it is clearly impossible for any individual, or a group of individuals, to run and manage efficiently a sizeable business. They have to depend to a large degree on statistical and accounting data. The extent and variety of the properties used by large-scale organisation create special accounting problems of classification and control. These pres-

tures have undoubtedly stimulated the growth of accounting so that the business enterprise could function smoothly; without the help of accounting a business unit simply cannot exist for long.

Whether due to the vast scale of business operations, or to the increasing use by business firms of the corporate structure, or to other factors or a mixture of these, the fact remains that government control has increased during the past thirty years. It is conceded that some measure of government control over some businesses is essential. However, the extent of this control is open to question. Whatever the merits and demerits of such control are, the increased government control over businesses created new accounting problems, since each extension of this control very often necessitated additional reports and statements.

CONCLUSION

Although accounting is principally concerned with the recording, analysing and interpreting business transactions and their effect on the business firm, it serves another important purpose — that of presenting management with rather essential information. In fact, accounting may be regarded as a useful and effective tool in the hands of management, without which no organisation can be seen and managed efficiently. For this reason, the information presented to management, besides being accurate, must also be relevant and timely. To meet these requirements the accountant will need to have a detailed understanding of the business and the ability to present the information in such a way as to enable management to take the right decisions without wasting time on unnecessary routine activities. All this places a very grave responsibility on the accountant's shoulders, a responsibility which can only be scrupulously discharged if the accountant is fully qualified.