

Mastering Financial Accounting Essentials

The Critical Nuts and Bolts

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Preface

Most accounting textbooks are written to teach accounting to future accountants, the creators of financial statements. This book is intended to explain financial accounting to company managers and investors, the users of financial statements. As a result, this book will give an intuitive understanding of the accounting process and standard accounting reports. This text does not focus on accounting rules and therefore is not intended to teach accounting to future accountants.

The questions at the end of each chapter follow an extended example of a new company being created. As the company is created and grows, new kinds of activities require accountants to record a widening variety of business transactions. The questions follow the topic in each chapter and don't necessarily appear in chronological order. However, a list of accounting entries sums up the year in chronological order.

The book is written as a text for an executive master's program in business school or part of the business curriculum in a professional degree program (engineering, law, medicine, etc.). To respect the scarce time of the student, the most important material will occupy the main text. Students can read the chapters without studying the questions at the end of the chapter, but they should work through both the chapters and questions for a better understanding of the material.

Not every accounting student is enthusiastic about having to learn accounting. Yet they attend the class because modern business makes it important for everyone outside the accounting department to understand the company's accounting system.

Perhaps it would be more rewarding to start over and build a logical accounting system from scratch. If no accounting system existed, we could design it to meet the needs of a modern business, to be logical, and to be understandable. But this text must describe our existing accounting system to be useful to the reader. The reader will discover that the existing accounting system is logical and does meet the needs of modern business.

Traditional accounting textbooks are much easier to understand if the reader already has a good grasp of accounting concepts. A reader without prior knowledge may need to read a traditional accounting text twice

because material in the early chapters is clear only after the reader is familiar with content in other parts of the book. This text will seek to present the material in a way that explains the key features of modern accounting step by step and will develop an intuitive understanding of accounting.

Although this text will not invent a new accounting system, it will introduce the concepts of modern accounting in an orderly way that sounds a bit like the evolution of a primitive system into our current practices. This text will start with a limited accounting system that does not include many key features of modern accounting. These features (such as accrual accounting, which can make accounting numbers more useful for business decisions) are successively added, so the reader can understand how these features work and why they are used.

Disclaimer: Financial accounting textbooks generally do not include a disclaimer. These textbooks are published to educate students interested in becoming accountants or to be an authoritative source on accounting rules and methods. As explained in the Forward, this text is not written to educate future accountants or to serve as a thorough summary of accounting rules. Instead, the book serves to explain accounting to individuals who interact with accountants and accounting records. This text should not be used to determine how financial statements should be prepared.

The text begins with the assumption that the reader is not familiar with any accounting jargon and is not familiar with double-entry accounting. Accounting concepts are introduced along with the language accountants use to describe the process. The name of a particular account (such as ASSETS or CASH) will be written in uppercase to make it clear when the text describes that account. Gradually, the main accounting statements are described using the previously introduced accounting vocabulary. In this way, the reader learns about accounting without having to have a grounding in the topic, then gets to rehearse the language used by accountants.

Later chapters describe how businesses and users can assess the usefulness of accounting records, reduce the opportunity for fraud, and to use accounting information intelligently.

Each chapter presents key accounting concepts. Questions at the end of each chapter revisit these key concepts by reviewing how accountants handle common business transactions, with answers at the back of the book. The descriptions are short by design and some readers may want to read more if they need to know more about particular topics not thoroughly covered, such as valuing intangible assets, leasing, pension fund accounting, accounting for subsidiaries, accounting for nondollar transactions, stock options, or partnership accounting.

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