USAID-*Tijara*

Provincial Economic Growth Program

Advancing Private Sector Development in Iraq
Accounting for Private Banks Lending Staff

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course Curriculum

Chapter One:-

Concept of accounting: what is accounting, its definition , objectives and categories benefiting from accounting data

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Accounting: is a system to produce information about the facility and communicating it to the respective parties to help them in making decisions. The accounting has two prongs:

Practical

concerned with the art of recording and classifying financial operations and demonstrating their impact on the business results and financial position of the facility

Scientific

Based on a set of principles and standards that governs the process of recording financial transactions of the facility

Accounting objectives

1. Recording the financial operations based on the supporting documents both manually or computerized
2. Classifying and categorizing financial operations in separate accounts showing the facility's debtors and creditors
3. Extracting the facility business results for the specific period of time, i.e. identifying the profit or loss
4. Providing the facility management with all required information whether in the form of accounting reports or periodic or non periodic financial statements
5. providing information that help external parties including investors and borrowers to take decisions on investment, lending or any other decisions.

Categories benefiting from Accounting data

External parties

- investors and shareholders
- financial analysts
- creditors and suppliers
- governmental agencies

Internal parties

- project owner
- project management

Categories benefiting from accounting data

They can be determined within two main groups

Category A: groups from within the company including

- **Project owner:** project owners are the people who financed the project. Therefore they are keen to know the results of the project business and financial position and whether or not they have achieved a profit from their investment. Moreover, they seek to know how far they would continue their investment in this project or recover some of their money so they re-invest it in a more profitable business.

- **Project management:** a successful management would shift a project from one position to another and work hard to guarantee its growth and prosperity, and this can be achieved through taking sound decisions and drawing up future policies. The management cannot achieve this without expressing the financial position of the project it runs.

Group B: groups from outside the project, it includes:

- **Project shareholders and investors:** the investor always thinks of choosing the most appropriate and viable project to put his money in. Therefore, the investor must study the financial position of the business in which he is going to invest his money before taking such a step.

- **Financial analysts:** the financial analyst is interested in obtaining accounting data to analyze the project status in order to provide advice and counsel to the investors about the company positions on dealing with its shares and bonds selling and buying in stock markets.

- **Project creditors and suppliers:** accounting information is offered to them on a solid basis in order to judge the project's financial position and cash flow, and its ability to repay liabilities on their maturity date. Therefore, banks, before granting credit facilities to the customers, always request them to provide full information about the project in order to analyze and study it.

- **Some governmental agencies:** The income tax department, for example, is interested in determining the project profits accurately so that to know the tax due on it, and specify the right of the state treasury in it. The public statistics and the ministry of planning are also interested in the data in order to formulate future plans and to be familiar with the level of state economic sectors.

The role of accounting as an information system:

Accounting performs its role as an information system in a continued and integrated process the main features of which can be determined in three consecutive steps:

1. Restricting the financial operations related to the company activities and representing them in basic data form (unrefined) to be recorded in the accounting books.

2. Operating or processing basic data according to a set of assumptions and generally accepted accounting principles to convert these data, after operating them in the accounting system, to financial information that serves the purposes of users of such information.

3. Delivering the processed information to the stakeholders through a set of financial reports.

Accounting model as an information system:

Accounting as an information system, can be seen as a set of systems, methods and procedures governed by sound principles and rules that are followed to operate the data on financial operations of the facility. In such area, we can distinguish three main parts of the accounting information system :

System Inputs :

System inputs are the data (i.e. numbers), which express the trade-offs taking place in the facility. These information is entered into a system and converted as documents.

Processing methods:

This data is processed by procedures that are governed by certain scientific principles and rules.

These procedures are:

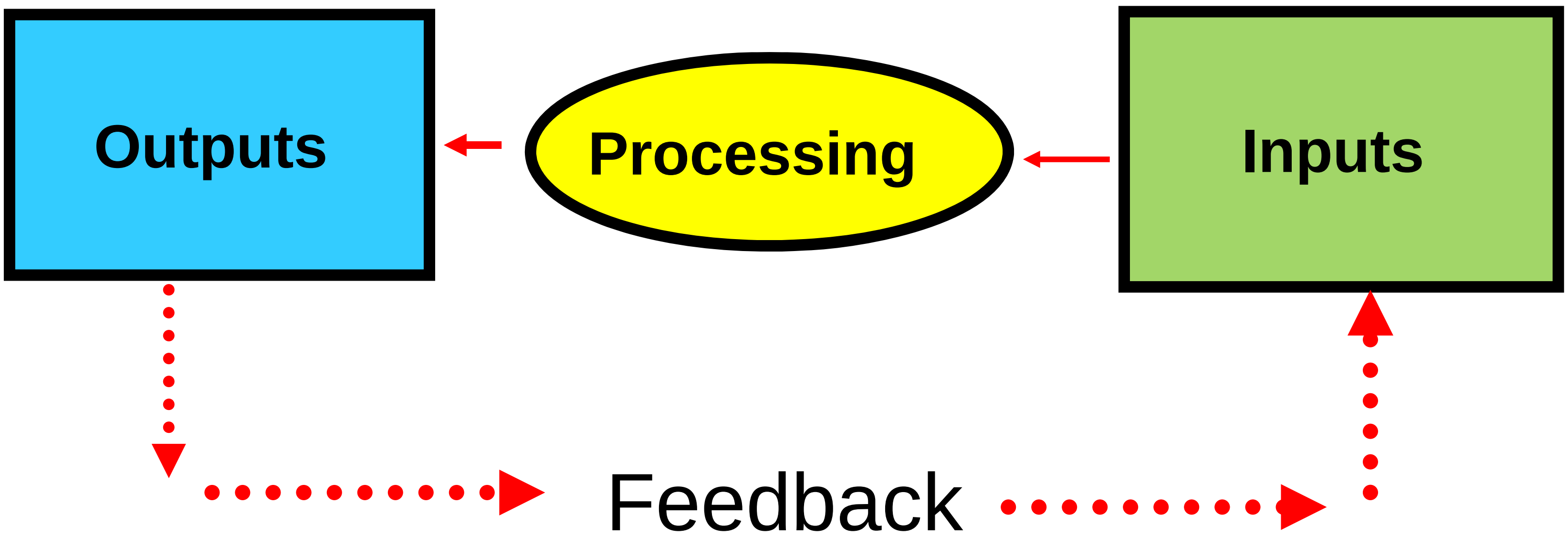
- Recording
- Classification
- Summarization
- Results analysis
- Reporting them

These procedures are conducted in the accounting books and records.

System outputs:

Accounting system outputs are information, that is to say data that has been operated in the previous procedures. The output information comes out from the accounting system carried in media called reports, and this information includes the following:

- Information on the activity outcome (profit or loss) during a specific financial period. This information in carried a report called the outcome account or the profit and loss account or so-called income statement.
- Information on the facility's financial position at the end of that period. This information is carried in a report called financial position statement or balance sheet.
- Information on the changes that occur in the financial position during a specific financial period, and this information is carried in a report called the changes statement in the financial position.



Accounting system

Chapter Two:-

Single entry

- What is single entry
- example on single entry

Single entry theory:-

it is called “single entry” because when a trader analyzes the commercial operations he is interested only in one party of the operations parties, which is the party that the trader will need in future. It’s a primitive method and rarely used in the practical life and does not suit the large projects.

to know the business result, the difference between the net two financial positions (financial position for this year and financial position for the previous year) is calculated, it is required to restrict the facility properties at the beginning and the end and the difference between them will be the profit gained or loss incurred. In case of profit, the project’s properties increase with the increase, and in case of loss, the project properties will decrease accordingly, assuming the owner didn’t add or draw anything from the capital. If the owner draws from or adds to the capital, this should be factored in, and the equation will be as follows:

Net profit or loss = capital at the end of period –
capital at the beginning of the period +
personal withdrawing during the period – capital additions during the period

Example:

Khaled started his business with a capital of 12000 ID, buying following items:

Tools	6000 ID
Goods	4000 ID
Furniture	2000 ID

At the end of the period, Khaled took stock of his shop and found:

Cash	200 ID
Tools	5000 ID
Goods	5000 ID
Furniture	1800 ID
Due debts	2000 ID

Required:

1- determining the business profit during the financial year?

2- determining the business profit during the financial year, assuming that Khaled had drawn 500 ID from the shop and then added 1000 ID during the year?

Solution:

1- determining the business profit during the financial year.

Value of properties at the end of the financial year

Tools	5000 ID
Goods	4000 ID
Furniture	1800 ID
Cash	200 ID
Due debts	2000 ID
	14000 ID, which represents the net capital at the end of the period

Value of properties at the beginning of the financial year

Tools	6000 ID
Goods	4000 ID
Furniture	2000 ID
	12000 ID, which represents the net capital at the beginning of the period

Net profit or loss = capital at the end of the period – capital at the beginning of the period

= 14000 ID – 12000 ID

= 2000 ID

2- determining the business profit during the financial year, assuming that Khaled had drawn 500 ID from the shop and then added 1000 ID during the year?

Net profit or loss = capital at the end of the period – capital at the beginning of the period + personal withdrawing during the period –additions to capital during the period.

= 14000 – 12000 + 500 – 1000

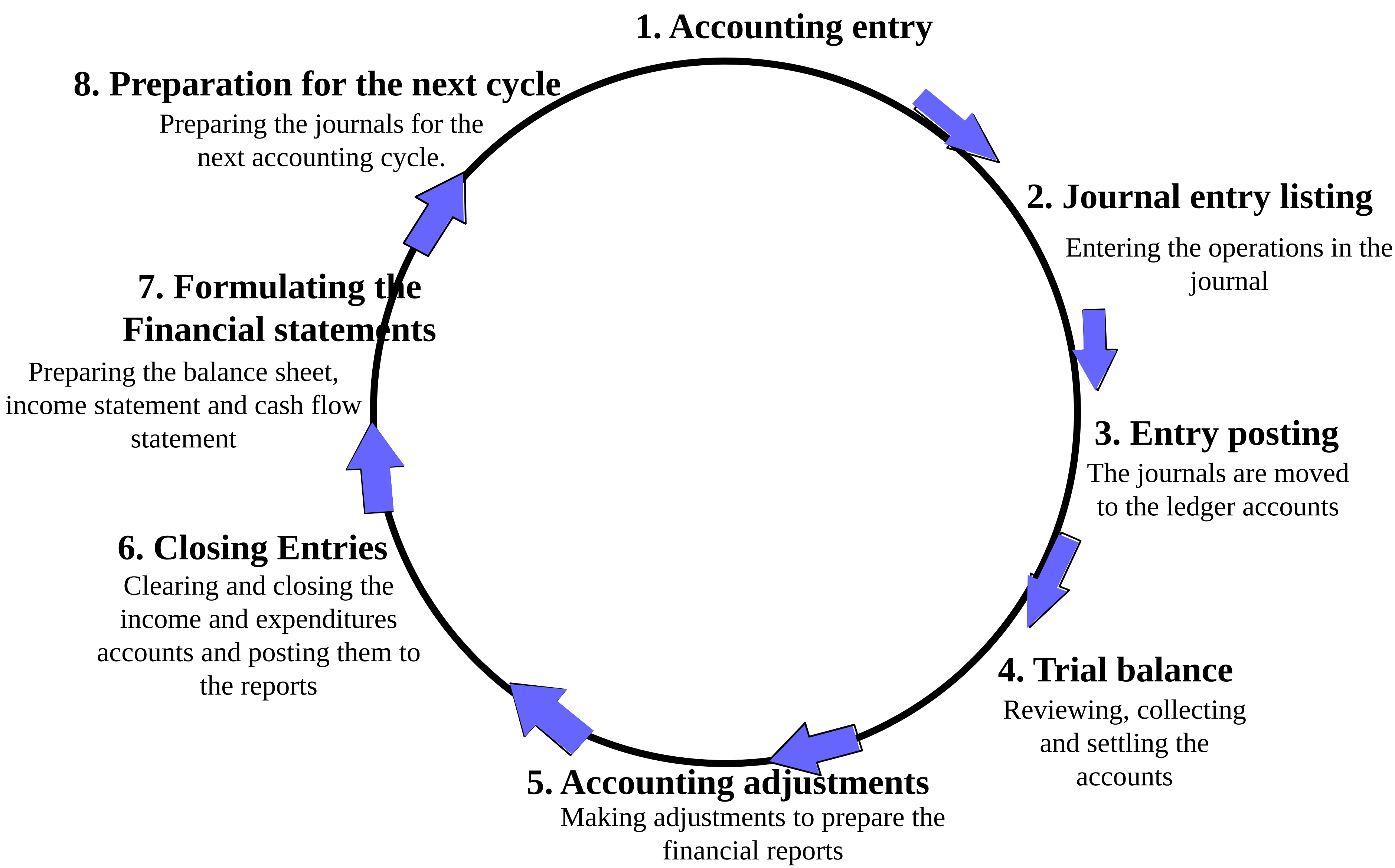
= 1500 ID

Chapter Three:

Accounting cycle: layout and clarification of the accounting cycle

- Explaining the double entry
- What is debtor, what is creditor

- Components or elements of accounting
- Journal
- Ledger
- Trial balance


1. Accounting entry
2. Journal entry listing
Entering the operations in the journal
3. Entry posting
The journals are moved to the ledger accounts
4. Trial balance
Reviewing, collecting and settling the accounts
5. Accounting adjustments
Making adjustments to prepare the financial reports
6. Closing Entries
Clearing and closing the income and expenditures accounts and posting them to the reports
7. Formulating the Financial statements
Preparing the balance sheet, income statement and cash flow statement
8. Preparation for the next cycle
Preparing the journals for the next accounting cycle.

Double entry process

- **Each financial transaction has two parties equal in value but different in direction. One is** Debit**, the other is** Credit
- **The word debit is signified as “from it” and credit as “for it”**
- **Each accounting transaction has double concequential effects, one party is the debtor who got the value or benefit, and the creditor who lost the value or benefit**
- **To establish this operation, we may make the party who gets the value as a debtor, and the one who loses it as the creditor**

Double entry

Double entry system provides that every accounting transaction has two parties, one is the debit, that is “to take”, and the other one is the credit, that is “to give” at the same amount.

The double entry system is considered as the most common in recording the accounting operations. To clarify the accounting entry, we give the following example:

On 4th of January, Ahmed bought furniture at 2000 ID cash.

The analysis of this process shows us the following:

Taker account is furniture at the amount of 2000 ID.

Giver account is the cash of 2000 ID.

When recording this process, we replace the word “taker” with debit and the word “giver” with credit, to become as follows

Debit account is furniture at 2000 ID.

Credit account is cash of 2000 ID.

2000 from Account/ Furniture
2000 to Account/ Cash — this is called accounting entry

Journal:

A book in which financial transactions are kept on daily basis and in accordance with their occurrence (all accounting entries are registered in this book).

Journal Sample

Amount		Description	Entry No.	Document No.	Ledger Page No	Date
Debit	Credit					

General Ledger

A book in which monetary transactions are posted from a journal. In this ledger, each page is assigned for a particular account shown in journal. This book shows all the transactions of an account.

General Ledger Sample

A/ ....

Amount	description	Journal page No.	Date	Amount	Description	Journal page No.	Date

Trial Balance

A worksheet listing the accounts contained in the ledger, the balance of each account, whether it is debit or credit and is prepared periodically.

Trial balance sample as of …/…/….

Account name	Debit	Credit

Example: the following are financial transactions conducted within Al-Nahdha project

1. On February 7th, the shops purchased goods on credit from Khalid Shops for ID 2000
2. On February 8th, the shops paid ID 30 in cash for the phone bill
3. On February 10th, the shops sold goods for ID 1500 in cash

Required: analyze the previous transactions and register the accounting entries

Item	Date of transaction	Transaction parties	Debit	Credit	Accounting entry
1	7/2	Goods Creditors (Khalid Shops)	Goods ______	Creditors (Khalid Shops)	2000 from account/ purchases 2000 to account/ Creditors (Khalid Shops) Note: the goods purchased are registered as purchases in the accounting entry
2	8/2	Phone bill cash	Phone bill _______ __	_______ Cash	30 from account/phone expenses 30 to account/ cash
3	10/2	Goods cash	Cash _______	_______ goods	1500 from account/cash 1500 to account/ sales

Accounting Equation

Assets= Liabilities + Equity

Equity = Assets - Liabilities

Liabilities = Assets - Equity

Practical Case

If we assume that we have the following information, and according to the previous equations, please find the missing information in the following example:

1. Total liabilities = 10.000.000
2. The capital of Ahmed's partner = 15.000.000
3. The capital of Mohammed's partner = ?
4. The current assets = 5.000.000
5. Total assets = 30.000.000
6. Invested funds = ?
7. Fixed assets = ?

Chapter Five

Elements of Financial Statements

Types of financial statements

How to prepare them?

- Income statement
- balance sheet
- Cash Flow

Elements of Financial Statements:

- <u>The Assets:</u> are the possessions of economic entity and can be defined as the potential economic benefits or items owned by the company as a result of previous economic transactions. They are divided into three parts:
    1. Current and fixed assets
    2. Other assets
    3. Long term investments