Introduction to accounting

<u>The purpose of accounting</u>

There are many purposes to accounting the main ones being –

To keep the management updated on how the business is doing financially, they need to know the figures and have updates regularly. They need to know there profit and loss figures as to decide how to bring the business forward. They also need to know if they are overstaffed as paying to many staff to work will lower the profits and they may need to make cutbacks to make more profit. They also need to check that all the departments are sticking to there budgets as if they are overspending this will cut into the overall profit and this will need to be checked over to make sure all the money was spent effectively and everything bought was essential. The management have to give dividend to the shareholders and the shareholders will need to see there figures to check if there investment is paying off and they are going to see any return on there money.

Knowing the figures will help the business to make important decisions. If the business sees how much money they've got an how much financially they might decide to grow or expand. If a companies doing well and can see its making a great deal of profit they may decide to start new ventures or bring out new products. Without knowing these figures they could decide to expand and find out they haven't got enough money to do so, or they could bring out more products and find that there original ones weren't selling well which could lead to bigger financial problems and maybe bankruptcy.

- To satisfy reporting requirements for regulatory bodies is important as you need to know your figures to pay out the right amount of customs and excise (VAT). They need to make sure there financial figures are in order as they will check these in detail. Also they need to know for the cooperation tax, this currently stands at 21% for businesses earning up to £300,000 and 28% for businesses earning over £1500000 if they do not record all there figures accurately and do not know what they are earning they will not know have much corporation tax to pay and could end up paying to much or too little. Local government will also need to know as you will have to pay your local taxes. The competition commission and environmental agency will need to know how much money you are making and your figures if you are entitled to a grant and also will have to approve expansion plans. The general pubic may like to know to know as if a local business is doing well they may be approached to help local causes and give something back to there community. Share holders are probably the most important as they will need to know the performance of the business and if there is not a healthy return on there investment they may wish to suggest changes or sell there shares and no longer invest in the business.

Recording

Records need to be kept up-to-date to keep track of money coming in and out of the business There are different accounting books to help businesses record there different transactions. There is a

- Journal – This is a book where you record all of your business transactions, you have cashbooks where you record any item you pay cash or cheque for. You also have a day books which are a sales book and a purchase book., this in known as your cashbook.
- Ledger – you have a sales ledger, where you record all the invoices, cheques and all the money you have coming in. You put all the information from your day sales journal into this book. You also have a purchase ledger which you put in everything you buy and the cheques you have sent out, all the information from the purchase day journal will go in here.
- General ledger – This is a ledger where you right all the information from the other ledgers in one book and have all the final totals for the year.
- Petty cash – This is a float of money available by the staff for very small items such as tea and coffee or petrol, staff will buy these things then bring the receipt and a signed paper saying they have permission to have the money out of the petty cash and they will be reimbursed.

Records need to be kept for general customer enquiries for example if a customer says that they bought a product and it never came you need to be able to check that they have bough it and check the records to see what they bought or if someone claims to be overcharged. Also it is needed for auditing purposes. At the end if the year they need to check that all the figures are accurate and all the ledgers adds up to make sure there is no mistake or money is going missing etc.

Controlling

You much control your budgets to see how much money you are spending and earning to make crucial business decision this is called cash flow management. Businesses if not doing so well may increase there sales to make more profit though this may not work as if they put all there money into buying stock and it doesn't sell they will have other bills to pay so might find themselves in debt, its very important to control your finances as its what keeps a business running. If the business isn't making a lot of profit the business may have to change there budgets and cut costs which mean letting go some of there staff. They coul ask for trade credit where they get the goods straight away but have more time to pay for it as they can then free up some working capital and sell there products to raise more funds to pay for them.

Monitoring

Monitoring there budgets will help to make better informed decisions, they will evaluate how they are doing and may see they are struggling and cut costs or expand, if they exactly what there turnover is they can do this more effectively. This also lets the directors see the figures regularly so they can see if they need to change things around and keep an eye on how the business is doing.
This also allows the company to have ideas on how to become a market leader and on different strategies to improve the financial situation.
They need to monitor there budgets also to know what to set the share price at and evaluate what the business is worth, also they may need to check there pension schemes as if there is too much money being spent on pensions they may make new people pay a higher pension rate.