Accounting: The Language of Business

**What is Accounting:** Accounting is the means by which we measure and describe economic activities.

**The purpose of accounting** is to provide decision makers with useful information about economic activities.

*Accounting is called the “language of business”* because it is so widely used to describe all types of business activities.
Costs, prices, sales volume, profits, and return on investment—all are accounting measurements. Every investor, creditor (lender) and business manager needs a clear understanding of accounting terms and concepts if he is to effectively communicate and participate in the business community.
Financial reporting

Financial reporting is the process of supplying public information to decision makers outside of the business organization.

Financial reporting provides an overview of a company’s current financial strength, the results of its recent business operations, and its future prospects.
In large part, this information is used by investors and creditors in deciding where to place their scarce investment resources.

These decisions are important to society, as they determine which industries and companies receive the financial resources necessary for growth, and which do not.
Financial statements

Financial statements are a set of accounting reports which, taken together, describe the financial position of a business and the results of its recent operations.

Financial position is described by identifying the company’s financial resources and obligations as of a specific date.

The phrase “results of operations” refers to reports that describe the company’s financial activities over a recent time period, such as a month, a quarter, or a year.
Types of Financial statements

A complete set of financial statements for a corporation includes four related accounting reports:

1- **A balance sheet**, which shows the financial position of the business at a specific date by describing its financial resources and obligations.

2- **An income statement**, which reports the company’s profitability over a recent period of time.
3- **A statement of retained earnings**, which explains changes in the amount of the owners’ equity over the period of time covered by the income statement.

4- **A statement of cash flows**, which summarizes the company’s cash receipts and cash payments over the period of time covered by the income statement.

A complete set of financial statements also includes several pages of notes. These notes provide additional information that is useful in interpreting the statements.