

INTRO TO ACCOUNTING

ACCOUNTING

Accounting is a way of organizing a business

It is a system to record and summarize business and financial transactions

As long as people have had the written word, people have used accounting methods

There are ancient tax records from Mesopotamia and Egypt that date back as early as 3300-2000 BCE

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The idea of book keeping most likely emerged out of a necessity for a record of barter and trade

Ledgers or records of transactions were initially descriptive and read like narratives

Monday, May 12: In exchange for three chickens which I provided today, William Smith (labourer) promised a satchel of seeds when the harvest is completed in the fall

Wednesday, May 14: Sam Thompson (craftsman) agreed to make one chest of drawers in exchange for a year's worth of eggs. The eggs are to be delivered daily once the chest is finished

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If a dispute occurred over an agreement, the ledgers would be presented as proof of the agreement

This was essential as there could be long periods of time between the agreement and the exchange of goods/services

When currencies began to develop, bookkeeping also evolved to document these new transactions

It has been suggested that the primary reason for the development of writing came from the need to document trade

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Once currency was involved, bookkeeping became more focused on math rather than simply documentation

Not every merchant was able to complete these calculations so they began to employ bookkeepers or accountants

This change occurred during the late 1400s

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Although more mathematically focused, these early bookkeepers used single entry ledgers

Entries still used stories as descriptions, however, they also recorded the amount paid or owed

This is similar to modern cheque books

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Using our previous examples, this is what the newer ledgers would have looked like

Date	Details	Amount
Monday, May 12	Purchased one sack of seeds	-\$48.00
Monday, May 12	Sold three chickens	+\$48.00
Wednesday, May 14	Purchased a chest of drawers	-\$900.00
Wednesday, May 14	Sold one year's supply of eggs	+\$900.00

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This was a time consuming method of book keeping

The bookkeeper had to read the description of each item to determine if it was a profit or a loss

Those studying bookkeeping began looking for a better way

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In 1458, Cotrugli invented a double entry accounting system

Double entry accounting is any booking that involves both debit and credit entries for transactions

In 1494, Pacioli wrote “The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality” which was the first published work to include double entry book keeping

Pacioli is known as the father of accounting

He was also a close friend and teacher of Leonardo da Vinci

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The first professional accountants were established in Scotland in 1854

The organizations were granted a royal charter and could then call themselves chartered accountants