



Know the
basics in
90 minutes

Quicklook at **Accountancy**



About Quicklook at Accountancy

It is said that money makes the world go round. It is vital to almost any organisation or individual. Accounting for it is important and accountancy, in some form, is nearly as old as money itself. Accountancy is without doubt one of the leading professions. It represents a significant part of the economy and has international scope.

In this very readable book, experienced accountant Mark Etchells takes you to the heart of this complex subject and makes it clear, without swamping you with detail. All of the basics are covered, from the background to accounts, the key elements of accounts and the ways in which they are used. It explains that accountancy in its various forms is the backbone of most types of organisation.

Tax looms large whenever money is being dealt with. In a few pages, this book explains the key ways in which the taxation process works.

Quicklook at Accountancy explains the structure of the profession, the fascinating range of different work undertaken by accountants, the different types of accountant and how they train. Accountants work in many different types of business. They perform important functions in government and the public sector.

Firms of accountants range from the very small to the “Big four” firms which span the globe. The book looks at how they operate.

The world of accountancy is changing fast. We take a peek into the future.



Quicklook at

Accountancy

Mark Etchells



Quicklook
books

Published by Quicklook Books Limited

Weighbridge House, Grittleton SN14 6AP

First edition in e-book format

This revised edition first published in hard copy 2012

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Cover photo from istockphoto.com.

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Printed by CPI Group (UK) Limited, Croydon, CR) 4YY

Quicklook is a registered European trade mark (number 008147258)

ISBN 978-1-908926-13-5

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What is accountancy?



A SET of accounts is a system for recording financial information. It operates like a filing system. Each “file”, or account, deals with a particular subject.

Accounts are sometimes referred to as books of account, or, more simply, “the books”.

Almost all organisations use money and need to keep track of it. They therefore need to keep accounts.

Those who concentrate on working with accounts are often called “Accountants”. This work can be very complicated and require demanding qualifications. People who mainly deal with making entries into accounts may not have these qualifications although it is responsible work requiring attention and skill. They are often called bookkeepers.

Accountancy

Money is of such importance that Accountancy, the profession which keeps track of it, has become one of the most prominent of all. Accountants work in almost all fields of activity, including all types of business or public authority, trade unions, charities and everything else where money is involved. Many accountants work within specialist firms of accountants and provide services to a wide range of clients.

There are many types of accountant. The complexity of modern activity, particularly in large businesses, means that the task of maintaining accurate records relating to it is a demanding one. Most organisations have a Finance Director, or Chief Finance Officer, who is responsible for this. External accountants, working as “auditors”, check their work. Other accountants focus on business planning, by creating financial models based on carefully thought out assumptions. Business decisions, such as whether to extend a

factory, or what to charge for a new range of products, can be based on their work.

Other accountants concentrate on seeing how a business is performing. Most businesses try to anticipate the future by preparing budgets. As time goes by, it is important to see if they are proving to be accurate. If not action may be required, e.g. to reduce costs.

There is a legal requirement to ensure that businesses do not continue to trade when they will not be able to pay their debts. If they cannot do so they are insolvent. Specialist accountants, called insolvency practitioners, deal with such problems. Even if a business is insolvent it normally still has assets as well as liabilities (i.e. debts). Insolvency specialists can find themselves operating large, complex, enterprises for a considerable time in an effort to maximise the sums available to creditors.

Tax is a large and extremely complex subject. Accountants, particularly in the UK, have emerged as the primary advisers on tax matters.

Since accountants are closely involved with so many aspects of most organisations they are in a position to gain a very thorough knowledge of them. This puts accountants in a very good position to take over top jobs within them. There is no upper limit to the career prospects for an accountant. Many Chief Executives are accountants.

Today accountancy is a significant part of the economy. In the UK accountancy (including associated advice services offered by accountancy firms) represents a significant part of the economy and employs 100,000's of people. Large firms, particularly the ones with big offices in the City, earn significant sums from foreign clients which form part of the UK's "invisible exports".

The development of accountancy



THE earliest discovered accounts are from Mesopotamia in the Middle East (very roughly where Iraq is now). The earliest form of record keeping was the use of tokens some 7000 years ago to measure how good farming had been. The use of tokens developed into marking clay to represent the tokens. Records dating back to circa 4000BC have been found recording the income of the temples. The object was, as now, to attribute value to transactions, record the accrual of wealth and allow taxes to be levied. These remain primary objectives of accountancy.

In about 2400BC flat clay tablets were used to record values with the use of symbols carefully maintained by scribes trained in literacy and numeracy skills.

Roman records of revenues and costs have been found on papyrus, which clearly show the importance of recording financial transactions in order to maintain control of daily life in an integrated society.

The use of record keeping using simple accounts is mentioned in the Christian Bible, in the Book of Matthew, in the Parable of the Talents.

The fact that accounting has long been fundamental to life can be seen by the fact that in the Quran the Islamic law of inheritance defines exactly how the estate is calculated after death of an individual. The complexity of these inheritance laws led to the development of algebra (Arabic: al-jabr) by medieval Islamic mathematicians. The solution to the Islamic law of inheritance using linear equations is detailed in *The Compendious Book on Calculation by Completion and Balancing*, Baghdad, c. 825. Moving to the twelfth century, Latin translations of the “Book of Addition and Subtraction According to the Hindu Calculation” uses Indian numerals and introduced the decimal positional number system to the Western world.

It is generally accepted that Luca Pacioli’s book “*Summa di Arithmetica*”,

written in 1494, is the first to describe double entry bookkeeping. Other books and descriptions of accounting were written in Holland but it is Richard Grafton's book entitled "*The Maner and forme how to keppe a perfecte reconyng, after the order of debitour and creditour*" which is credited by historians as introducing double entry book keeping into Britain in 1553.

In 1780 Josiah Wade founded the Tribe Clarke and Company accountancy firm in Bristol, which is the oldest firm to trace its continuous existence. The first public recognition of accountants comes in the Bankruptcy Act of 1831. The Relief of Insolvent Debtors Act of 1842 created a new source of work as it required debtors owing less than £300 to attach a statement of debts when petitioning the Bankruptcy Court. The 1867 Companies Act created work for accountants in a big way as this establishes the role of Official Liquidator. It is ironic that the early work of accountants in Britain gained prominence from measuring and managing failures, rather than reporting and rewarding success.

The Industrial Revolution caused an explosion of economic activity and brought with it important developments in the ways in which expensive and often risky new businesses were financed. There was a requirement for large amounts of capital investment, so it was important to see where the money went. Outside investors needed to be reassured about where their money was going. The hope was to make a profit. Accounts were needed to show if there was one, and if so, how much.

Government control of finance continued to be important in controlling the economy and it was the 1879 Companies Act that required all banks to have properly audited accounts and that of 1900 that required all limited companies to produce an annual balance sheet.

World War 1 brought significant challenges and accountants played an important role in managing companies and banks. Accountants assisted in the control of costs in the production of ammunitions and the collection of taxes to pay for them. In 1914 the National Relief Fund was formed and accountants were important in managing this and getting funds to those in need in society.

Much changed after the end of the Second World War. So far as company regulation was concerned, a comprehensive Act of Parliament passed in 1948 heralded the modern era. Among the legal requirements were the

About the author

MARK ETCHELLS is a Fellow of the Institute of Chartered Accountants for England and Wales. He qualified with Price Waterhouse, one of the giants of the accounting world and worked for them for eight years, primarily dealing with audit work.

Upon leaving Price Waterhouse, Mark worked for a number of businesses in very different fields. This gave him very wide experience in subsidiaries of larger concerns, new businesses, small businesses and large ones operating internationally. The companies he worked for varied from manufacturing companies to service sector businesses. He had experience of dealing with practical problems relevant to each business sector and to the commercial success of businesses in general. He also dealt with strategy and analysis of business performance.

He worked for some years in the Middle East. As well as holding senior positions in Arabic businesses he was treasurer of the Abu Dhabi rugby club and the main Anglican Church in the United Arab Emirates.

Mark was some years the Finance Director of a company which sells, develops and supports financial systems used by many businesses in the UK. This gives him an insight into the challenges that they face at a time of rapid change and financial uncertainty.

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Quicklook at **Accountancy**

All the key areas of accountancy are covered in this very readable book.

We look at how accounts are prepared and the ways in which they are used. They can monitor the health and progress of a business. Things can go wrong – we consider what happens then.

Accountancy has become one of the world's leading professions. We find out why and what the many different types of accountant do. We see how they train and qualify. We look at the structure of the profession and the different firms which operate within it, from enormous multi-national operations to one-person practices.

● We take a peek into the future of accountancy.

Quicklook publishes layman-friendly books which take you to the heart of a big subject in a clear, short guide. They are available from good bookshops and from **quicklookbooks.com**

About the author

Mark Etchells qualified as an accountant with one of the giants of the accounting world and worked there for eight years. Since then he has had wide experience working as an accountant in a number of different businesses, small and large, in the UK and abroad. This has involved different business sectors.



Mark has worked in a company which supports the financial systems used by many businesses in the UK. This has given him a close insight into the challenges they face, and the technology now available to deal with some of the problems. Accountancy now operates very much in the computer age.

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