

Accounting as a Language of Business: A study for conceptual understanding

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Abstract:

The study endeavors to know why accounting is called the language of business, how it deals and who need this language. To serve the objectives of the study in-depth study in understanding about the theory of accounting, practice and open discussion with independent auditor, practitioners, different accounting recording format has been considered, the findings of the study show that accounting is the language of business in written and silence version not in orally until they been uttered in decision, different Financial Statements are the means of language.

Key Words: Accounting, Language, Independent auditor, Financial Statements etc.

Introduction:

Accounting plays a vital role in facilitating all forms of economic activity in the private, public and nonprofit sectors. Business owners and managers, in both large and small companies, use accounting information to gauge how their business is doing. Non-profits track the cash flow and income needed to fuel their organization's mission. Government entities use accounting information operationally as well as to track tax revenues that may be due to them from other governmental entities and taxpayers. In other words, accounting is the basis of all decision-making. The purpose of accounting is to provide a means of recording, reporting, summarizing, and interpreting economic data. In order to do this, an accounting system must be designed. A system design serves the needs of users of accounting information. Once a system has been designed, reports can be issued and decisions based upon these reports are made for various departments. Since accounting is used by everyone in one form or another, a good understanding of accounting principles is beneficial to all. Accounting fields exist that specialize in very specific areas of a business. Examples are auditing, budgetary, tax, social, cost, managerial, financial and international. In short, accounting is the language of business. Virtually nothing done in the business world that doesn't involve accounting information of some sort.

A language is a method of communication. Language is the ability to produce and comprehend both spoken and written (and in the case of sign language, signed) words. Understanding how language works means reaching across many branches of psychology—everything from basic neurological functioning to high-level cognitive processing. Language shapes our social interactions and brings order to our lives. Complex language is one of the defining factors that make us human. Language consists of the development, acquisition, maintenance and use of complex systems of communication, particularly the human ability to do so; and a language is any specific example of such a system.

For a business to properly function, effective methods of communication among owners, managers and investors are essential. Accounting fills the need for a common language of business. It records and processes financial information into an easily accessible format that can be understood by any person in the business world.

Objective:

The main objective of this study is to know why accounting is treated as the language of business.

The Specific objectives are as follows-

- i) To know how accounting works as a language
- ii) To find who understand the language.

Literature review:

Sociolinguistics assumes that the socialization of individual consciousness and the social molding of personality are largely determined by language (Luckmann, 1975, p. 7). The discipline deals with the interaction between two aspects of human behavior-the use of language and the social organization of behavior. One focus is on the generally accepted social organization of language usage within speech communities. This focus is known as the descriptive sociology of language and seeks to discover who speaks or writes what linguistic codes, to whom, when, and why. A second focus is concerned with the discovery of the determinants explaining changes in the social organization of language use and behavior. It is known as the dynamic sociology of language. What both foci imply is the existence in any speech community of several varieties of language or "verbal repertoires." Thus, the sociology of language attempts to explain the underlying causes of the verbal repertoires of a given speech community (Fishman, 1970, p. 4). The implication of the above statement is that within each language there are linguistic codes which play an important role as a mediator of the perceptual cognitive processes employed in defining the social environment (Bernstein (1958), Schatzman and Strauss (1955), Cowan (1969), Erwin-Tripp (1969), and White-man and Deutsch (1968).

Methodology:

Since this is a qualitative study in nature, an in-depth understanding about the topic has been ensured. Different theories have been gathered from various books, research articles, magazines etc. Financial Statements of various countries like, USA, UK, Bangladesh and India have been considered to render the objectives of the study. Open discussion with independent auditor and users has also been conducted to generate real sense of understanding. Finally, the knowledge of accounting and business has been adopted to generate the findings.

Discussion:

Accountants express their opinion concerning business through their activities and recordings. Financial Statements are the final outcome provided by the accountant. These Financial Statements are issued for the public use. But all classes of public are not educated enough to understand the detailed work of the accountants. For this reasons, the accountants provide the whole accounting works as Financial Statements. Educated as well as even though a little educated people can also be able to read the Financial Statements in a useful manner and for this reason accounting is called the language of the business. Since accountants talk to users concerning business activities, performance, conditions etc through accounting Financial Statements, accounting is called the language of the business.

Accountants talk about business through 4 major Financial Statements which represents different aspects of a business to the users in a useful manner.

The 4 main Financial Statements are Income Statement, Balance Sheet, Owner's Equity Statement and Cash Flow Statement. Each of the Statements serves its own aim.

Firstly,

Specimen of Income Statement

	A	B	C	D	E	F
1		[Company Name]		Income Statement		
2		For the Years Ending [Dec 31, 2008 and Dec 31, 2007]				
3						
4		Revenue		2008	2007	
5		Gross sales		181,683		
6		(Less sales returns and allowances)		(10,000)		
7		Net Sales		171,683		-
8						
9		Cost of Goods Sold				
10		Beginning inventory				
11		Goods purchased or manufactured		130,028		
12		Total Goods Available		130,028		-
13		(Less ending inventory)				
14		Cost of Goods Sold		130,028		-
15						
16		Gross Profit (Loss)		41,655		-
17						
18		Expenses				
19		Advertising				
20		Bad debt				
21		Commissions				
22		Depreciation		16,616		
23		Employee benefits				
24		Furniture and equipment				
25		Insurance				
26		Maintenance and repairs				
27		Office supplies				
28		Payroll taxes				
29		Rent				
30		Research and development				
31		Salaries and wages				
32		Software				
33		Travel				
34		Utilities				
35		Web hosting and domains				
36		Other		16,192		
37		Total Operating Expenses		32,808		-
38						
39		Operating Income (Loss)		8,847		-
40		Non-operating revenues, expenses, gains, losses		12,762		
41		(Less interest expense)		(6,113)		
42		Income Before Taxes		15,496		-
43		(Less income tax expense)		(1,069)		
44		Income From Continuing Operations		14,427		-
45						
46		Below-the-Line Items				
47		Income from discontinued operations				
48		Extraordinary items				
49		Cumulative effect of accounting changes				
50						
51		Net Income		14,427		-
52						

In English phrase the term "Bottom Line" means the most important point. Here in income statement, the bottom line refers to the Net Profit of an organization which measures the performance of a business whether working well/ profitably or not and degree of improvement considering previous years. The users who even cannot understand deeply everything but can also understand the last point as referred as net profit as performance measurement.

Secondly,

Specimen of Balance Sheet

Paul's Guitar Shop, Inc. Balance Sheet December 31, 2015		
Assets		
Current Assets		
Cash		32,800
Accounts Receivable		300
Prepaid Rent		1,000
Inventory		39,800
Total Current Assets		73,900
Long-term Assets		
Leasehold Improvements	100,000	
Accumulated Depreciation	(2,000)	98,000
Total Long-term Assets		98,000
Total Assets:		171,900
Liabilities		
Current Liabilities		
Accounts Payable		49,000
Accrued Expenses		450
Unearned Revenue		1,000
Total Current Liabilities		50,450
Long-term Liabilities		99,500
Total Liabilities		149,950
Owner's Equity		
Owner's Equity		
Retained Earnings		11,950
Common Stock		10,000
Total Owner's Equity		21,950
Total Liabilities and Owner's Equity		171,900

In the balance sheet the accountants record all long term, short term liabilities, equity and assets. Balance Sheet represents the financial position of an organization at a specific point of time. Users get information from the balance sheet about the effective use of assets and liabilities. They can see the detailed position about short term assets, long term assets, investment, short-term and long term liabilities etc. Users can also compare the financial position of an organization with its prior periods and with other similar organizations to take business decisions.

Thirdly,

Specimen of Owners' equity Statement

Accounting Software Co. State of Changes in Owner's Equity For the Year Ended December 31, 2016	
Owner's equity at December 31, 2015	\$ 0
Add: Owner's investment	10,000
Net income	180
Subtotal	10,180
Deduct: Owner's draws	100
Owner's equity at December 31, 2016	\$10,080

Owner's equity Statement refers to the final change in Owners' equity in respect of opening to ending condition. Details can also be drawn in respect of dividend apportionment, reserves etc. Actually, this Statement provides information to the users about the changes in proprietorship.

Finally,

Specimen of Cash Flow Statement

	A	B	C	D	E
1	[Company Name]				
2	Cash Flow Statement				
3					
4				For the Year Ending	12/31/2008
5				Cash at Beginning of Year	15,700
6					
7	Operations				
8	Cash receipts from customers			693,200	
9	Cash paid for				
10	Inventory purchases			(264,000)	
11	General operating and administrative expenses			(112,000)	
12	Wage expenses			(123,000)	
13	Interest			(13,500)	
14	Income taxes			(32,800)	
15	Net Cash Flow from Operations			147,900	
16					
17	Investing Activities				
18	Cash receipts from				
19	Sale of property and equipment			33,600	
20	Collection of principal on loans				
21	Sale of investment securities				
22	Cash paid for				
23	Purchase of property and equipment			(75,000)	
24	Making loans to other entities				
25	Purchase of investment securities				
26	Net Cash Flow from Investing Activities			(41,400)	
27					
28	Financing Activities				
29	Cash receipts from				
30	Issuance of stock				
31	Borrowing				
32	Cash paid for				
33	Repurchase of stock (treasury stock)				
34	Repayment of loans			(34,000)	
35	Dividends			(53,000)	
36	Net Cash Flow from Financing Activities			(87,000)	
37					
38	Net Increase in Cash			19,500	
39					
40				Cash at End of Year	35,200
41	© 2008 Vertex42 LLC			Templates by Vertex42.com	

The Cash Flow Statement is very much important financial statement among the four (4) Financial Statements. Because Cash is the most liquid and important asset to change the decision of users. In cash flow statement cash inflows and outflows from operating activities, investing activities and Financing activities are shown in details. So, cash flow statement shows the changes in cash position at the ending from beginning. Users can use this information for having decision and as on need. Here, accounting record disseminate the business's cash position.

Accounting record is not only for keeping record of business transactions but also for helping the users of information in decision making. This is the age of competition and expansion. For this purpose external investment is highly required and the potential investors are the users of this information where accounting records disseminate the business performance, financial position, changes in cash position via Financial Statements and users use them to take investment decision not only potential investors but also Government, owners, labor union, tax authorities, management, production manager etc need accounting information to take their corresponding decision.

Findings:

Upon the detailed discussion on the stated issue, the followings are the findings in short-

- i) Accounting disseminates information about business through accounting records or Financial Statement i.e. through numerical recordings.
- ii) Accounting records cannot talk in sound but can communicate in written and silently.
- iii) Financial statements are the way to express opinion of accounting about business.
- iv) Users (Internal & External) understand the language of accounting through disseminating accounting records in their own way.

Conclusion:

Accounting is an information system which disseminates information about the business concern to the interested users for decision making. Human being uses tongue as a language for communication to others, animals use their native voice or sound as a language. Accounting uses its recordings as a means of language. The purpose of a language is to make a way of communication and accounting ensures its activities or recording as a language of business. Language should be as easy as possible to be disseminated among the users. So the practice of accounting should be easy enough to be communicated among users. If, the accounting practice or recording be easily understandable then this can be used as a useful manner. So accounting is an implied language of business which is translated by the users as they feel need. Language can be used to communicate with others by orally or in written. But accounting is language itself for business.

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