

## 1

## Prologue

**Why Accounting?**

We are specialists. No longer are we able to provide for ourselves by ourselves. We must obtain the goods and services we require and desire from others. In return, we offer the gains of our own specialty (salary, wages, income) in exchange transactions that define the economy and the businesses which operate within. This interdependency and specialization provides us with our current standard of living and economic wealth as a society.



Accounting is the form of communication necessary to deal with this exchange economy. It is not optional nor is it perfect, but it is critical and the economy could not operate without it. The study of accounting should be an effort to understand this communication to better understand the dynamics and the possibilities of our economic system.

The enterprises we will study in this text are for-profit, that is, they are engaged in business for the purpose of earning a profit. As important as for-profits are, they are just part of the large list of organizations that require accounting systems to communicate the economic impact of their activities. As the following pages describe, not-for-profit organizations, state, local and the federal government all have critical needs for quality accounting information systems.

Accounting is a study of words, not numbers. It is a social science, a discipline that attempts to model economic reality and define it in terms of monetary units –dollars in this case. The numbers simply become the part of the product of accounting systems. It is the words and ideas and the behaviors they describe that are the challenge in the study of accounting. Understand the terms and dynamics of the transaction properly and the numbers will correctly tag along. Concentrate first on the language.

This introductory section will introduce the accounting industry and provide a perspective of the portion we will study. Future accounting study you may undertake will likely cover the rest of the industry, nonprofits and governmental organizations.

Throughout the text we will use the term “business” and “firm” to refer to a for-profit enterprise, providing demanded goods and services for a profit. Businesses require inputs, resources such as labor, material and intellectual property that are processed to produce the output goods and services. Accounting measures these inputs and outputs and provides the processed and summary information necessary to determine the efficiency and profitability of the process. These determinations are critical to guide economic behavior in a way that maximizes societal wealth and the overall standard of living. Accounting then becomes indispensable to the system and therefore worthy of our close study and attention.