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IFTM University, Moradabad, Uttar Pradesh
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FINANCIAL ACCOUNTING - I

**OVERVIEW OF
ACCOUNTING**



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OVERVIEW OF ACCOUNTING

MEANING AND DEFINITION OF ACCOUNTING

Accounting is that method of recording financial transactions in the books of accounts and converts into relevant financial information by analysing with the help of various tools and also communicated to those persons who want to know its results by its interpretation and abridgement.

American Institute of Certified Public Accountants (AICPA) ---

Accounting is defined as "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character and interpreting the result thereof."

Smith and Ashburne ---

"Accounting is a means of reporting the results of economic activities."

Mr. Foulke ---

"Accounting is a financial language. It means to record those activities and value in arabic figures which presents daily business transactions."

American Accounting Association ---

"Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of information."

CHARACTERISTICS OF ACCOUNTING

On the basis of above definitions, following are the main characteristics of accounting:

1. RECORDING

This is the first step in accounting process. Under this an accountant can records all the transactions in subsidiary books for the purpose of future records. It is referred to as "Journal."

2. CLASSIFYING

Classifying means any classification of transactions into various books of accounts on the basis of homogeneous nature. All the recorded transactions in journal entries are transfer to the “Ledger Accounts”.

3. SUMMARISING

For the purpose of making final accounts, all the recorded transactions in main books will be summarised. Final accounts of company comprise Trading Account, Profit and Loss Account and Balance Sheet.

4. INTERPRETATION

It refers to the explanation of the meaning and significance of the result of financial accounts and balance sheet so that parties concerned with business can determine the long term and short term financial position of the business, sound dividend policy.

5. ECONOMIC ACTIVITY

In accounting, we consider only those transactions which are measurable in terms of money. Non-monetary transactions are not included for accounting processes

FUNCTIONS OF ACCOUNTING

(a) Keeping Business Transaction Records:

The first and foremost function of accounting is to keep systematic records of all the business transactions. This function comprises recording of business transactions by passing journal entries and classified these into the books of accounts like ledger accounts, etc.

(b) Provide Financial Information to the Stakeholders:

Accounting is treated as the information basket for the financial information between the business and their stakeholders like government, employees, investors or prospective investors, creditors, general public, etc.

The purpose of this function is to allow these parties to have better understanding of the business and take healthy and realistic financial decisions.

(c) Compliance of Legal Requirements:

This is the responsibility to provide true and fair scene of the business in front of the various stakeholders of business. This is important to compliance of legal formalities as regard to regulators of business and tax authorities.

(d) Protecting the Properties of the Business:

Accounting also provides protection to the assets of the business.

(e) Planning and Controlling the Business Activities:

Proper of process of planning and controlling is very important for the success of any business. Accounting information helps businesses to plan their financial activities and controlling its day to day business activities.

OBJECTIVES OF ACCOUNTING

(a) Provide relevant information with the objective to protect the interest of the business and their stakeholders.

(b) To focus on calculating and considering the profits earned and losses of the business.

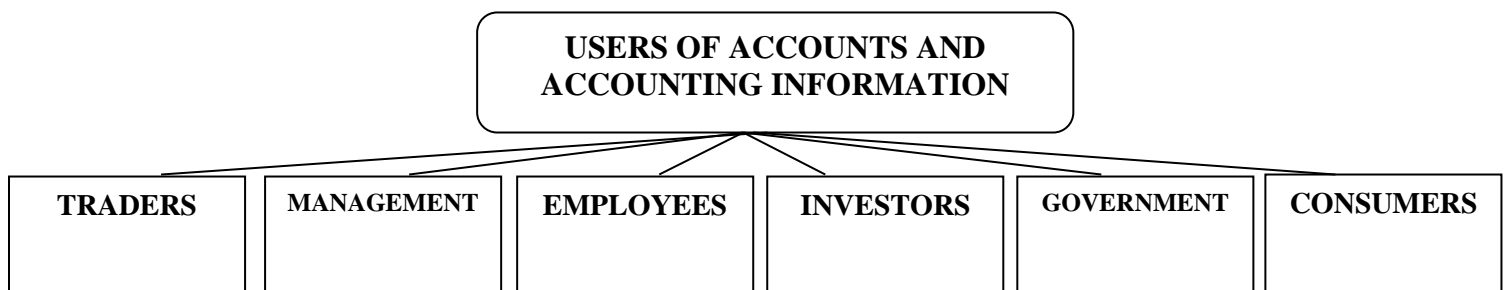
(c) To assess the actual financial position of the whole business.

(d) To check that the accounts are prepared according to the generally accepted accounting principles (GAAPs).

(e) To ensure the compliance of the requirements of the provisions of Company Act, Income Tax Act and other laws.

ADVANTAGES OF ACCOUNTING

Advantages of accounting are defined towards the various users of accounts and accounting information:



A) ADVANTAGES TO TRADERS

1. Complementary to Memory
2. Provides Information
3. Helpful in Tax Assessment
4. Determination of Profit & Loss
5. Helpful in Comparative Study
6. Helpful in Settlement of Disputes
7. Helpful in Borrowings
8. Control over Staff
9. Helpful in Disposal of Business

10. Helpful in Partnership
11. Helpful in Financial Assistance

B). ADVANTAGES TO MANAGEMENT

1. Helpful in Management
2. Helpful in Planning

C). ADVANTAGES TO EMPLOYEES

1. Helpful in determining salary, allowances, etc.
2. Also helps to control the frauds, cheating, forgery, etc. in the business organisation.

D). ADVANTAGES TO INVESTORS

Investors are interested in knowing the financial and economic status of the enterprise before investing their money. They make their investments in those enterprises which are financially sound and have good profitability, which they can know from the financial statement of the enterprises.

E). ADVANTAGES TO GOVERNMENT

1. Helpful in determine tax
2. Facility in granting license
3. Knowledge of Progress
4. Helps in determining Financial Assistance
5. Price Control and Revision of Financial Assistance

F). ADVANTAGES TO CONSUMERS

A properly maintained account helps in reducing the cost of goods due to which good quality products are available at reasonable price to the consumers.

LIMITATIONS OF ACCOUNTING

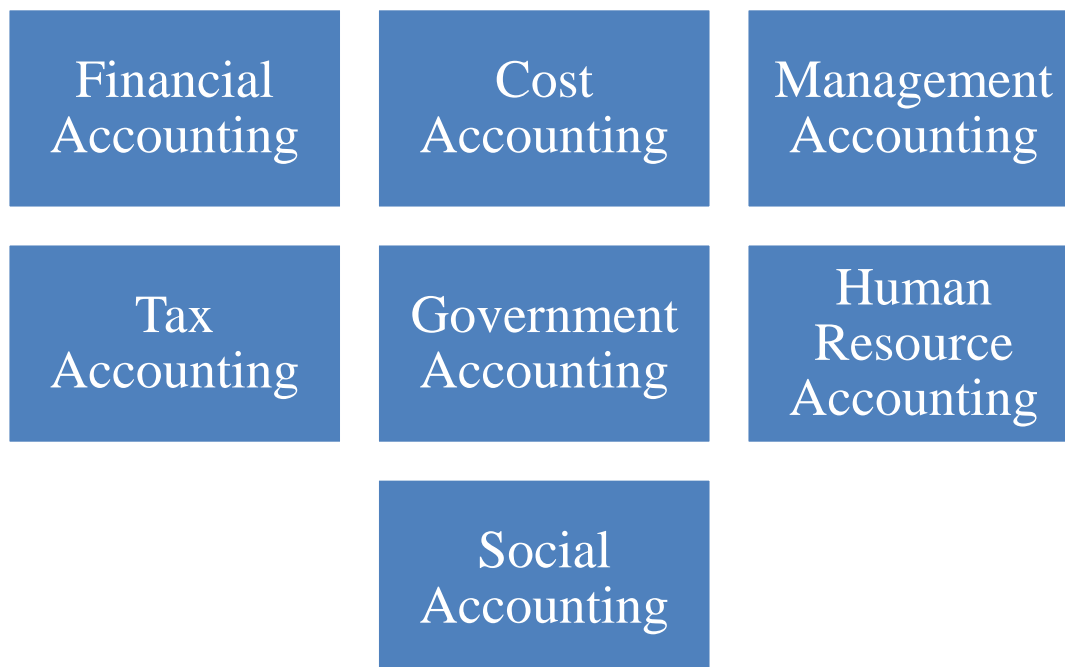
- (a) Accounting reveals only the profitability of the business.
- (b) Accounting provides only limited information to their stakeholders.
- (c) Accounting not considers qualitative information which is also important for making any decisions.
- (d) Accounting includes only transactions which are measurable in terms of money only.
- (e) Accounting is based on post mortem technique of business transactions i.e. it is only historical in nature.

(f) There are many problems in accounting for which there is no specific principal exists. In such situation, the concerned accountant has to take personal decisions which affects profit or loss and economic status of the business organisation.

(g) Accounting is based on various assumptions like the business will continue for longer period of time. So the correct values of assets are calculated only at the time of closure of business.

BRANCHES OF ACCOUNTING

Many branches of accounting came into existence to cater and fulfil the needs of various stakeholders like Creditors, Management, Government, etc. The main branches of accounting are as under:



FINANCIAL ACCOUNTING:

Under financial accounting, final accounts can be prepared on the basis of double entry accounting system. Financial accounting is concerned with the calculation of profitability and financial position of a business for a specific period.

COST ACCOUNTING:

Cost accounting is concerned with the ascertainment of cost and control over the cost of production of goods. Under this, cost of production is classified scientifically and regularly in such a manner that the total cost and cost per unit of goods or services can be determined.

MANAGEMENT ACCOUNTING:

Accounting for management or managers for making decisions is known as management accounting. The main purpose of management accounting is to provide accounting or financial information to the top level management for planning, policy formulation, decision making and control.

TAX ACCOUNTING:

The accounting made by keeping in mind various taxes like income tax, goods and service tax, etc is known as tax accounting. This accounting is helpful for tax planning or resolves the disputes relating to taxation.

GOVERNMENT ACCOUNTING:

The accounting made by central government, state government or local authorities is known as government accounting.

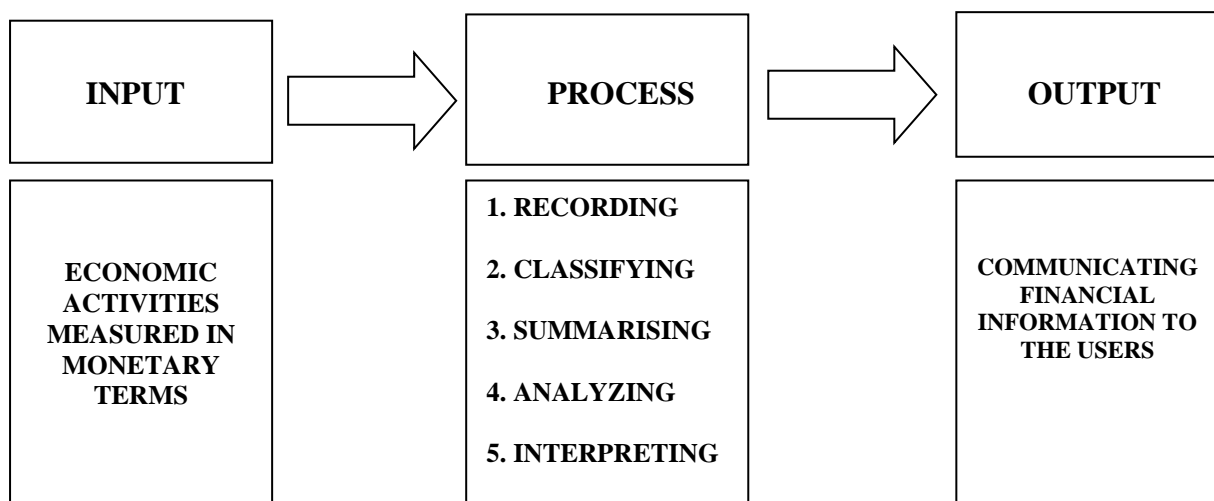
HUMAN RESOURCE ACCOUNTING:

The measurement of cost of human resource and the accounts relating to investment made on human resource are known as human resource accounting.

SOCIAL ACCOUNTING:

This branch of accounting relates with the trade towards society, employment in services and products, taxes and fees, environment protection activities, etc

PROCESS OF ACCOUNTING



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