AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

"Accounting is 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 results thereof. "

NEED FOR ACCOUNTING

- In all activities and organizations (business or non-business) which require money and other economic resources, accounting is required to account for these resources.
- In other words, wherever money is involved, accounting is required to account for it.
- Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function.

ACCOUNTING HELPS ANSWERING QUESTIONS LIKE :

- Am I making or losing money from my business?
- How much am I worth?
- Should I put more money in my business or sell it and go into another business?
- How much is owed to me, and how much do I owe?
- How can I change the way I operate to make more profits ?

OBJECTIVES OF ACCOUNTING

Objective of accounting may differ from business to business depending upon their specific requirements. However, the following are the general objectives of accounting.

- Keeping systematic record.
- Ascertain the results of the operation.
- Ascertain the financial position of the business.
- Portray the liquidity position.
- To provide information to various parties.
- To facilitate rational decision – making.
- To satisfy the requirements of law

FEATURES OF ACCOUNTING

- Identifying the transactions and events
- It is the art of recording business transactions
- It is the art of classifying business transactions
- The transactions are events of a business must be recoded in monetary terms
- It is the art of summarizing financial transactions
- It is an art of analysis and interpretation of these transactions
- The result of such analysis must be communicated to the persons who are to make decisions

USERS OF ACCOUNTING INFORMATION

<u>Owners:</u> The owners provide funds or capital for the organization. They possess curiosity in knowing whether the business is being conducted on sound lines or not, and whether the capital is being employed properly or not. Owners, being businessmen, always keep an eye on the returns from the investment. Comparing the accounts of various years helps in getting good pieces of information.

USERS OF ACCOUNTING INFORMATION

Management: The management of the business is greatly interested in knowing the position of the firm. The accounts are the basis, the management can study the merits and demerits of the business activity. Thus, the management is interested in financial accounting to find whether the business carried on is profitable or not. The financial accounting is the "eyes and ears of management and facilitates in drawing future course of action, further expansion etc."

USERS OF ACCOUNTING INFORMATION

- Creditors: Creditors are the persons who supply goods on credit, or bankers or lenders of money. It is usual that these groups are interested to know the financial soundness before granting credit. The progress and prosperity of the firm, two which credits are extended, are largely watched by creditors from the point of view of security and further credit. Profit and Loss Account and Balance Sheet are nerve centers to know the soundness of the firm

USERS OF ACCOUNTING INFORMATION

- Employees: Payment of bonus depends upon the size of profit earned by the firm. The more important point is that the workers expect regular income for the bread. The demand for wage rise, bonus, better working conditions etc. depend upon the profitability of the firm and in turn depends upon financial position. For these reasons, this group is interested in accounting.

USERS OF ACCOUNTING INFORMATION

Investors: The prospective investors, who want to invest their money in a firm, of course wish to see the progress and prosperity of the firm, before investing their amount, by going through the financial statements of the firm. This is to safeguard the investment. For this, this group is eager to go through the accounting which enables them to know the safety of investment.

USERS OF ACCOUNTING INFORMATION

Government: Government keeps a close watch on the firms which yield good amount of profits. The state and central Governments are interested in the financial statements to know the earnings for the purpose of taxation. To compile national accounting is essential.

USERS OF ACCOUNTING INFORMATION

Consumers: These groups are interested in getting the goods at reduced price. Therefore, they wish to know the establishment of a proper accounting control, which in turn will reduce to cost of production, in turn less price to be paid by the consumers. Researchers are also interested in accounting for interpretation.

USERS OF ACCOUNTING INFORMATION

Research Scholars: Accounting information, being a mirror of the financial performance of a business organization, is of immense value to the research scholar who wants to make a study into the financial operations of a particular firm as such study needs detailed accounting information relating to purchases, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long-term liabilities and share-holders funds which is available in the accounting record maintained by the firm.

TYPES OF ACCOUNTING

Cost Accounting:

In view of the limitations of financial accounting in respect of information relating to the cost of individual products, cost accounting was developed. It is that branch of accounting which is concerned with the accumulation and assignment of historical costs to units of product and department, primarily for the purpose of valuation of stock and measurement of profits. Cost accounting seeks to ascertain the cost of unit produced and sold or the services rendered by the business unit with a view to exercising control over these costs to assess profitability and efficiency of the enterprise. It involves an estimation of future costs to be incurred based on the data provided by the financial accounting.

TYPES OF ACCOUNTING

<u>Management Accounting</u>:

It is an accounting for the management, In other words; the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation. It covers all arrangements and combinations or adjustments of the traditional information to provide the Chief Executive with the information from which he can control the business e.g. Information about funds, costs, profits etc. Management accounting is not only confined to the area of cost accounting but also covers other areas (such as capital expenditure decisions, capital structure decisions, and dividend decisions) as well.

TYPES OF ACCOUNTING

Financial Accounting:

- The accounting system concerned only with the financial state of affairs and financial results of operations.
- It is the original form of accounting. It is mainly concerned with the preparation of financial statements for the use of outsiders like creditors, debenture holders, investors and financial institutions.

MEANING AND DEFINITION OF BOOKKEEPING

- Definition: "The art keeping permanent record of business transactions is book keeping."
- J. R. Batliboi: "book-keeping is an art of recording business dealings in a set of books".
- R. N. Carter: "Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that results in transfer of money's worth".

FEATURES OF BOOK-KEEPING

- It is the process of recording business transactions.
- Monetary transactions are only recorded.
- Recording is made in given set of books of accounts.
- Record is prepared for a specific period but presented for future references.
- It is an art of recording business transactions scientifically.

DIFFERENCE B/W BOOK-KEEPING AND ACCOUNTING

BOOK-KEEPING

- The object of book-keeping is to prepare original books of accounts, trial balance and to maintain systematic record of financial results.
- It has a limited scope .
- Level of work is restricted to clerical work

ACCOUNTING

- The object of accounting is to record, classify, summarize, analyze, and interpret the business transactions and ascertain financial results and to communicate to various parties.
- It has a wider scope.
- It is concerned with all levels of Management.

DIFFERENCE B/W BOOK-KEEPING AND ACCOUNTING

BOOK KEEPING

- Book-keeping is a primary stage.
- Book keeper is not required to have higher level of knowledge.
- It has to depend on accounting principles.

ACCOUNTING

- Accounting is secondary stage.
- The accountant must have higher level of knowledge.
- It has to depend on book-keeping

ADVANTAGES OF ACCOUNTING

- Replacement of memory
- Evidence court
- Assessment of taxation liability
- Comparative study
- Sale of business
- Assistance to the insolvent person
- Assistance to various parties
- Facilities in raising loans
- Information regarding financial position.

LIMITATIONS OF ACCOUNTING

- Records only monetary transactions.
- Unsuitable for forecasting.
- No realistic information
- Personal bias of the accountant affects the accounting statements .
- Incomplete information.
- Profit no real test of managerial performance .
- Historical in nature.
- Window dressing in balance sheet.

TERMS USED IN ACCOUNTING

- Entity
- An entity means an economic unit which performs economic activities e.g., Bajaj Auto, Maruti, TISCO.

TERMS USED IN ACCOUNTING

- Account
- It is a summarised record of
- relevant transactions at one place
- relating to a particular head. It records not only the amount of transactions
- but also reflect the direction of the account.

TERMS USED IN ACCOUNTING

- ENTRY
- A transaction and event when recorded in the books of accounts is known as an Entry

TERMS USED IN ACCOUNTING

- Transaction
- It is a financial happening entered into by two or more willing parties.
- It effects a change in the asset, liability, or net worth account.
- It is recorded first in journal and then posted into the ledger Examples of a transaction are sale of goods, purchases of goods, receipt from debtors, payment made to creditors, purchase or sale of fixed assets, payment of dividend, etc.

TERMS USED IN ACCOUNTING

- Proprietor
- is the person who makes the investment and bears all the risks and rewards of the business

TERMS USED IN ACCOUNTING

- Debtor is
- a person or firm or company which owes amount to the enterprise on account of credit sale of goods or services.
- The amount due from him is a debt.
- The amount due from a person as per the books of the account is called a book debt.

TERMS USED IN ACCOUNTING

- Drawings

- It is the amount of money or the value of goods which the proprietor or a partner takes for his domestic or personal use.
- Drawing reduces the investment (or capital) of the owners.
- It appears only in the accounts of sole proprietorship firms and partnership firms.

TERMS USED IN ACCOUNTING

- Purchases
- The term purchases are used only for purchases of goods.
- Goods are those items which are purchased for resale or
- for manufacture of products which are also to be sold.
- It includes both cash and credit purchases

TERMS USED IN ACCOUNTING

- Depreciation
- It is a fall in the value of an asset
- because of usage; or
- with passage of time; or
- obsolescence; or
- accident

TERMS USED IN ACCOUNTING

- Purchases Return:
- Goods purchased may be returned due to any reason, say, they are not as per specifications or are defective.
- Goods returned are termed as Purchases Return or Returns Outward.

TERMS USED IN ACCOUNTING

- Sale
- This term is used for the sale of goods dealt by the enterprise.
- The term ‘Sales’ include both Cash and Credit Sales.
- When goods are sold for cash, they are cash sales
- When goods are sold and payment is to be received at a later date, they are credit sales.

TERMS USED IN ACCOUNTING

- Sales Return or Returns Inwards
- It means Goods sold returned by the purchaser .

TERMS USED IN ACCOUNTING

Discount

- A reduction in the price of goods is Discount.

Trade Discount

- It is a discount allowed to a customer on the basis of quantity of goods purchased.

Cash Discount

- It is a discount allowed to a customer for making prompt or timely payment.

TERMS USED IN ACCOUNTING

- Capital
- It means the amount (in terms of money or assets having money value)
- Which the proprietor has invested in the business
- and can claim from it.
- It is a liability of the business towards the owner.
- It is so because of Business Entity Concept.
- Capital = Assets – Liabilities

TERMS USED IN ACCOUNTING

- Gain
- It is a profit that arises from transactions which are incidental to business such as
- sale of investments or fixed assets
- at more than their book values.
- Gain may be operating gain or non-operating gain.

TERMS USED IN ACCOUNTING

- Cost
- It is the amount of expenditure
- incurred on or
- attributable to
- a specified article, product or activity.

TERMS USED IN ACCOUNTING

- Creditor is
- a person or firm or company to whom the enterprise owes amount on account of Credit purchase of goods or services.

TERMS USED IN ACCOUNTING

- Assets:
- Assets are property or legal rights
- owned by an individual or business
- to which money value can be attached.
- In other words, anything which will enable the firm to get cash or a benefit in the future,

TERMS USED IN ACCOUNTING

- Bad Debt
- It is the amount that has become irrecoverable
- It is a business loss, and
- Thus, is debited to Profit and Loss Account.

TERMS USED IN ACCOUNTING

- Insolvent
- Insolvent is a person or an enterprise which is not in a position to pay its debts.

TERMS USED IN ACCOUNTING

- Assets:
- Assets are property or legal rights
- owned by an individual or business
- to which money value can be attached.
- In other words, anything which will enable the firm to get cash or a benefit in the future,

TERMS USED IN ACCOUNTING

- Liabilities
- Liabilities means the amount
- which the business owes to outsiders,
- excepting the proprietors.
- Liabilities can be classified in
- (i) Long-Term Liabilities (ii) Current Liabilities,
- This can be expressed as: Liabilities = Assets – Capital

TERMS USED IN ACCOUNTING

- Goods
- They refer to items forming part of the stock-in-trade of an enterprise,
- which are purchased or manufactured with a purpose of selling.
- In other words, they refer to the products in which an enterprise is dealing.

TERMS USED IN ACCOUNTING

- Stock or Inventory
- Stock is the tangible property held by an enterprise
- for the purpose of sale in the ordinary course of business or
- for the purpose of using it in the production of goods
- meant for sale or services to be rendered.
- Stock may be opening stock or closing stock.

TERMS USED IN ACCOUNTING

- Profit
- Profit is the surplus of revenues of a business over its costs.
- Profit is categorised into:
- (i) Gross Profit: Gross Profit is the difference between sales revenue or the proceeds of goods sold and/or services rendered over its direct cost.
- (ii) Net Profit: Net Profit is the profit made after allowing for all expenses. In case expenses are more than the revenue, it is Net Loss.

TERMS USED IN ACCOUNTING

- Loss
- Loss is excess of expenses over its related revenues which may arise from normal business activities.
- It decreases the owner's equity.
- It also refers to money or money's worth lost (or cost incurred) against which the enterprise receives no benefit, e.g., cash or goods lost in theft.
- It also arises from events of non-recurring nature, e.g., loss on sale of fixed assets

TERMS USED IN ACCOUNTING

- Expense
- An expense is the amount spent in order to produce and sell the goods and services which produce the revenue.
- Expense is the cost of the use of things or services for the purpose of generating revenue.
- Expense is that part of the expenditure which has been consumed during the current accounting period.
- Examples of expense are payment of salaries, wages, rent, etc.

TERMS USED IN ACCOUNTING

- Expenditure:
- An expenditure is the amount spent or liability incurred for the value received
- Expenditure may be categorised into: (i) Capital Expenditure (ii) Revenue Expenditure
- An expenditure is a payment (or a money sacrifice) for a benefit received.

TERMS USED IN ACCOUNTING

- Capital Expenditure
- It is the amount spent in purchasing assets which will give benefit over more than one accounting period.
- It means expenditure incurred to acquire fixed assets or its improvement..
- Capital expenditure is debited to particular asset account.
- They appear at the assets side of the Balance Sheet.

TERMS USED IN ACCOUNTING

- Revenue Expenditure
- It is the amount spent to purchase goods and services that are consumed during the accounting period.
- It is shown in the debit side of the Profit and Loss Account

TERMS USED IN ACCOUNTING

- Revenue
- It is the gross inflow of cash, receivables or other consideration
- arising in the ordinary course of business activities
- from the sale of goods, rendering of services,
- and use by others of enterprise resources yielding interest, royalties and dividends

TERMS USED IN ACCOUNTING

- Income:
- Income is the profit earned during an accounting period.
- In other words, the difference between revenue and expense is called income.
- Income = Revenue – Expense