ACCOUNTING

Meaning:

Accounting is the process of identifying, measuring and communicating economic information to permit informed decisions and judgement.

Babylonia: City of commerce

Important terms:

* Economic events
* Identification
* Measurement
* Recording
* Communication

1. Economic events:

It is known as a happening of consequence to a business organisation which consists of transaction and which is measurable in monetary terms

* Transaction between outsider and organisation is called external events
* Transaction between the internal wings is called internal events

1. Identification:

To identify which events are to be recorded

1. Measurement:

It means quantification of business transaction into financial terms by using monetary unit.

1. Recording:

After the above two steps the events are recorded in monetary terms in chronological order.

1. Communication:

The information is communicated in the form of accounting reports.

Organisation:

It refers to a profit business enterprise, whether for profit or non profit motive.

Users:

* Internal: chief executive, vice president
* External: investors, creditors

Accounting as a source of information:

The information should ensure to:

* Provide information to make economic decisions
* Serve users who rely on financial statement
* Provide information useful for predicting and evaluating amount
* For judging management ability
* Provide factual information
* Provide information about activities affecting society

Branches of Accounting

* Financial accounting:

It assists keeping a systematic record of financial transactions.

Serves as a stewardship function and is monetary in nature.

Profit earned or loss sustained can be worked out.

Financial position can be ascertained.

Financial information can be provided.

* Cost accounting:

It assists in analysis of expenditure for ascertaining the cost of various products manufactured or services rendered by the firm and fixation of prices

Controlling costs

Provides costing information for decision making

* Management accounting:

It helps by providing information for planning and controlling business operations.

Sales forecast, cashflow etc.,

Qualitative characteristics:

* Reliability
* Relevance
* Understandability
* Comparability

Objectives:

* Maintenance of records in business transactions
* Calculation of profit and loss
* Depiction of financial position
* Providing accounting information to users

Role of Accounting:

* As a language
* As a historical record
* As current economic reality
* As an information system
* As a commodity

Basic terms:

1. Entity: It means a reality that has a definite individual existence
2. Transaction: An event involving same value between two or more entities
3. Assets: Assets are economic resources which can be expressed in monetary terms
4. Liabilities: They are obligations or debts that an enterprise has to pay at some time in future
5. Capital: Amount invested by owner in the firm
6. Sales: Total revenue from goods or services sold or provided to customer
7. Revenue or income: The amount of the business earned by selling its products or providing services to customer.
8. Expenses: Costs incurred by a business in a process of earning revenue
9. Expenditure: Spending money or incurring a liability for some benefit is called expenditure

Less than 1 yr. = expenses

More than 1 yr. = asset

1. Profit: The excess of revenue of a period over its related expenses during an accounting year

profit

1. Gain: A profit that arises from events or transactions which are incidental to business such as

sale of fixed assets

1. Loss: The excess of expenses of a period over its related revenue is termed as loss.
2. Discount: Deduction of price of the goods sold

* Trade discount: Offering deduction of agreed percentage of list price at the time of selling goods is called trade discount
* Cash discount: After selling the goods on credit basis the debtors may be given certain deduction in amount due in case if they pay the amount within the stipulated time.

1. Voucher: Documentary evidence in support of a transaction
2. Goods: It refers to the products in which the business unit is dealing
3. Drawings: Withdrawal of money/goods by owner for personal use
4. Purchases: Total amount of goods purchased by a business on credit and on cash for use or

sale

1. Stock: It is measure of something on hand goods spare items in business

* Closing stock: Stock on hand is amount of goods which are lying unsold as an end of accounting period
* Opening stock: Is the amount of stock at beginning of accounting period.

1. Debtors: The persons or other entities who owe to an enterprise an amount for buying

goods and services on credit

1. Creditors: The persons who have to be paid by the enterprise

*Summary with Reference to Learning Objectives*

1. *Meaning of Accounting*: Accounting is a process of identifying, measuring,

recording the business transactions and communicating thereof the required

information to the interested users.

2. *Accounting as a source of information*: Accounting as a source of information

system is the process of identifying, measuring, recording and communicating

the economic events of an organisation to interested users of the information.

3. *Users of accounting information*: Accounting plays a significant role in society

by providing information to management at all levels and to those having a

direct financial interest in the enterprise, such as present and potential

investors and creditors. Accounting information is also important to those

having indirect financial interest, such as regulatory agencies, tax authorities,

customers, labour unions, trade associations, stock exchanges and others.

4. *Qualitative characteristics of Accounting*: To make accounting information

decision useful, it should possess the following qualitative characteristics.

• Reliability • Understandability

• Relevance • Comparability

5. *Objective of accounting*: The primary objectives of accounting are to:

• maintain records of business;

• calculate profit or loss;

• depict the financial position; and

• make information available to various groups and users.

6. *Role of accounting*: Accounting is not an end in itself. It is a means to an

end. It plays the role of a:

• Language of a business

• Historical record

• Current economic reality

• Information system

• Service to users