Meaning of Accounting

Accounting is an act of recording, analyzing, interpreting, reporting & communicating the recorded data or transactions which have monetary value. It helps to find out profit and loss (result) and financial position about the business. It helps to provides necessary information to various users.

Accounting is the *language of business.* To help users make decisions about how to allocate their financial resources, quantitative information about economic entities is provided. Determinations regarding the distribution of financial resources encompass purchasing, vending, or retaining investments, granting credit, and producing or marketing goods. Accounting has its own symbols and conventions, much like any other language, and is learned and practiced conveying events about a business.

Procedural aspects of accounting

Accounting has certain procedural aspects or process or cycle. It starts with the primary entry of transactions in journal or subsidiary books and ends with the reporting of business result. The accounting process generally completes in each accounting year. The following figure of accounting cycle shows the steps of accounting process.

1. **Identification of transactions:** In the first step of the accounting process, transactions which have monetary value are identified with their supporting documents so that they can be recorded. Non- monetary events are not recorded under accounting.
2. **Recording of transactions:** This is an essential accounting function. Certain documentation, such as purchase bills, bank passbooks, sale bills, salary slips, etc., serve as proof of all transactions or events. Documentation is done in a journal book.
3. **Classification of transactions:** Data that has been recorded is analyzed methodically. In order to make informatics more useful, transactions or events of a similar kind are consolidated in one location at this stage. A ledger is a book that contains confidential information, such as a cash account, furniture account, salary account, etc.
4. **Summarization of transactions:** For users of financial data to meaningfully assess the financial performance (profit) and financial position of the business, financial data is analyzed and interpreted. Analysis facilitates more effective future planning. Numerous tools, such as ratio analysis, are used to accomplish it.
5. **Evaluation and interpretation:** To enable users to meaningfully assess the financial performance (profit) and financial position of the business, financial data is analyzed and interpreted. Analysis facilitates more effective future planning. It is one through a variety of instruments, such as ratio analysis.

6. **Communication:** There are specific procedural elements, cycles, or processes in accounting. It concludes with the reporting of business results. It begins with the main transaction entry in the journal or subsidiary books.

Features of Accounting

Accounting is an art of recording, classifying, summarizing, and reporting of transactions of an entity to show its financial health to various users. The following are the main features of accounting:

1. **Records the financial transactions only:** It deals with financial transactions that have a monetary value. Accounting, for instance, documents the cash purchase of goods but not the demotivation of the employee.
2. **Continuous process:** Accounting is a continuous, everlasting activity that is not limited to any one period of time. It entails recording transactions in real time as they happen.
3. **Analysis and interpretation:** Accounting goes beyond just recording; it also involves analyzing and interpreting financial data. This entails evaluating an entity's financial health as well as trends and patterns.
4. **Historical in nature:** Accounting focuses more on historical data than future projections, dealing primarily with past events and transactions.
5. **Based on generally accepted accounting principles:** GAAP, which stands for generally accepted accounting principles, gives companies a common language to record and share financial information in a way that makes it easy to understand and compare between various entities. It guarantees accuracy and openness in financial reporting.

Objectives of Accounting

Accounting is a process of providing quantitative information about economic entities to aid the users in making decisions. Its main objective are discussed below: -

1. **To maintain the records of transactions:** Finding the financial transactions and methodically recording them in the books of accounts is the main goal of accounting. As a result, without requiring much memory work, the true nature of each and every transaction is known.
2. **To ascertain the operating results:** At the conclusion of a given time period, every business concern is curious about its operating results. An income statement that includes ledger account balances of a revenue nature can be prepared to determine the amount of profit or loss for a specific period of a business concern.
3. **To support management:** Accounting can help management manage day-to-day business operations efficiently by analyzing an entity's financial data and offering interpretations in the form of reports.

4. **To supply economic data:** Giving all relevant parties access to economic data so they can promptly prepare financial statements, reports, and other documents is another admirable goal of accounting.
5. **To assist in tax fixation:** The income tax and VAT authorities view accounts prepared in accordance with accepted accounting principles as reliable, making it simple to determine and settle tax and VAT obligations.

Functions of Accounting

One of the crucial components of an organization is accounting. The following are some of accounting's function are as below: -

1. **Complete record:** Accounting requires that every business transaction be entered into various accounting books in a precise and organized manner. As a result, there's no need to commit every transaction made by a business organization to memory.
2. **Knowledge of financial positions:** Accounting's main function is to make the financial results of a company's operations visible. It provides information about whether the company made money or lost money, which aids in decision-making for expansion and improvement.
3. **Understanding of operation result:** One of accounting's main functions is to make the financial results of a company's operations transparent. It provides information about whether the company made money or lost money, which aids in decision-making for expansion and improvement.
4. **Error and fraud detection made easier:** Accounting keeps meticulous, scientific records of every business transaction, making it easier to identify errors and frauds. It also helps to prevent them.
5. **Information Accessibility:** It guarantees that financial information, such as what the company owns is readily available and comprehensible. The availability of this data facilitates decision-making, future planning, and comprehension of the company's overall financial health for investors, business owners, and other stakeholders.

Sub-Field of Accounting

There are different branches or sub-fields of accounting which are developed on the basis of the nature of business, information sought, and analysis required. The following are principal branches or sub-field of accounting.

1. **Financial accounting:** Financial accounting is the process of creating and presenting financial statements along with an accurate analysis. It is a language used to convey to the entity's stakeholders, in the form of a summary, the business's performance. The nature of financial accounting is historical. Since financial accounting involves recording and summarizing

previous transactions. Producing financial statements and reports that accurately reflect the entity's financial status is the primary goal of financial accounting. Making wise financial decisions is aided by it.

2. **Cost accounting:** Cost accounting is defined as "the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with preparation of periodic Statements and reports for ascertaining and controlling costs" by the Institute of Cost and Management Accountants of England. Cost accounting plays a major role in supporting management in decision-making regarding cost ascertainment and control. It consists of a variety of techniques to calculate the cost per unit of the entity. The primary distinction between cost accounting and financial accounting is that the former's output is utilized by external parties, while the latter's output is utilized by management.
3. **Management accounting:** This includes different approaches to information summarization and report generation that are tailored to the needs of management. Since management is in charge of effectively organizing, supervising, and carrying out business operations, they need a variety of reports to help them make wise decisions. The primary distinction between management accounting and financial accounting is that the latter is used for reporting to internal management while the former is focused on reporting to external stakeholders. Accounting, finance, and management are all combined in simple management accounting to successfully conduct managerial operations.
4. **Human resources accounting:** "HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties," according to the American Association of Accountants (AAA). Its primary goal is to determine the expenses related to human resources and the value of the output that the organization is getting out of them. Human resources are a major concern in the service sector. hiring, educating, and staffing human resources in a way that enables the business to use them to carry out its operations. The reports that HR accounting provides are necessary for these businesses to make informed HR decisions, which aids in the effective management of their human resources.
5. **Social responsibility accounting:** Accounting for social responsibility explains different ways to measure the social cost and social benefit of an enterprise's operations. "Social accounting aims to assess the impact of an organization or company on people—both the internal and external participant environments," according to the Information Systems Audit and Control Association (ISACA). It is beneficial for the stakeholders to understand how the organization's actions affect the environment and society.

Accounting information and Economic Decisions

The information that a concern's accounting system provides to its users is referred to as accounting information. The users need this information to make financial decisions.

Users of accounting information

1. **Internal users:** Management is the main concern of accounting information's internal users. Functional managers come in various forms, such as production managers, finance directors, marketing managers, and company officers. To effectively plan, organize, control, and operate the business, they require accounting information.
2. **External users:** External users are not affiliated with the organization and are not directly involved in the management or operations of a concern. They are closely connected to the company, so they are curious about how it operates, which is why they require accounting information.

   The external users of accounting information are.

   i. Present as well as potential stockholder/shareholders.
   ii. Bondholders, bankers, and other creditors.
   iii. Government agencies.
   iv. Other external users
      a. Public
      b. Employee
      c. Suppliers
      d. Customers

Qualitative characteristics of accounting information

The accounting information must be useful for decision making for which they should bear the following qualitative characteristics.

1. **Reliable:** Reliability is the assurance given to the user that the data presented accurately and impartially depicts the reported transactions and events. Accountants record assets at their original historical cost primarily for this reason. In order for accountants to document current market values, they must rely on increasingly speculative estimates, appraisals, or opinions.
2. **Relevance:** Information is considered relevant if it has the potential to affect users' financial decisions. For instance, the data might assist users in forecasting future occurrences, like future cash flows, and in identifying potential courses of action. If information aids in decision makers' assessment of previous choices, then it is also pertinent. Accordingly, relevant information is said to play both a confirmatory or feedback role and a predictive role.

3. **Understandability:** It goes without saying that users of general-purpose financial reports must be able to understand the information contained in those reports.
4. **Comparability:** The degree to which businesses apply accounting standards and policies uniformly over several financial periods is known as comparability. Assume that a company's financial statements from various years are similar to each other. In that instance, it aids the stakeholders in observing the business's performance and trends over time. The ability for financial statements to be compared to those of other businesses is also crucial since it gives stakeholders a better understanding of the general trends and prospects of the industry.

Relationship of accounting with other Disciplines

Accounting and management

Because management depends entirely on accounting, the two have very close ties. On using accounting for information to inform financial decision-making. Accounting offers a wide range of financial data for project planning and business concern execution. Management is thus in a position to make decisions about project planning and execution with ease. The field of management encompasses not only individual life but also diverse domains of social life. The general evolution of government, semi-government, trading, and non-trading

Accounting and Mathematics

Accounting and Economics have a very close relationship. Economics is the study of how people use their limited resources to meet demands. Economics examines how individuals make and spend money, how buyers and sellers act in various situations, etc. On the other hand, accounting keeps track of financial transactions involving income and expenses and gives buyers and sellers the pertinent data they need to make decisions. Economics examines how buyers and sellers behave. Accounting gives individual buyers and sellers all the financial data they need to make an informed financial decision. Thus, these two topics are connected. The idea of social sciences is being used in this perspective to create a link between the concepts of accounting and economics.

Accounting and Statistics

Accounting and statistics share the common goal of making arithmetical figures understandable and logical for decision-making. Statistics collects and analyzes quantitative data from various events, presenting the results in concise reports. In accounting, after completing transaction processes, final accounts and financial statements are prepared, providing crucial information for owners and directors to make informed decisions. Both disciplines contribute to simplifying and presenting data in a usable form, facilitating effective planning and decision-making in organizations.

Accounting And Law

Accounting and law share a closely intertwined relationship, collaborating to uphold ethical, legal, and transparent financial practices in organizations. Accounting meticulously records and reports financial information according to established standards, while law establishes legal frameworks, such as the Sarbanes-Oxley Act, to govern financial activities and mandate transparent reporting. Tax compliance, crucial to both fields, involves accounting for tax obligations in alignment with tax laws. Corporate governance, internal controls, and fraud prevention are areas where accounting aligns with legal requirements, establishing accountability and transparency mechanisms. In contractual agreements, accounting records financial transactions, while legal principles enforce contract validity and terms. Forensic accounting, a specialized field, combines accounting and legal expertise to investigate financial irregularities and support legal proceedings when needed. Overall, the collaboration between accounting and law ensures the integrity of financial practices, forming the basis for organizational accountability and ethical conduct.

Limitations of Accounting

The limitations of accounting are given as follows: -

1. **Records monetary transactions only:** It implies that the accounting system or process is specifically concerned with documenting and tracking financial transactions involving money. In this context, it suggests a narrow scope that excludes non-monetary transactions or events. Essentially, the emphasis is on the financial aspects, and the recording and reporting focus solely on activities that involve monetary values, such as buying and selling goods or services, receiving or paying cash, and other financial transactions. This restriction helps maintain clarity and precision in financial accounting by concentrating on the monetary elements of business activities.
2. **No considerations for price level changes:** It suggests that the accounting approach being referred to does not account for fluctuations in the general price level. In other words, it does not adjust financial figures to reflect changes in the purchasing power of money over time. This absence of consideration for price level changes can impact the accuracy of financial reporting, as it doesn't take into account the potential effects of inflation or deflation on the value of monetary units.
3. **Subjectivity:** The term "Subjectivity" in the context of accounting refers to the presence of personal judgments, opinions, or interpretations in financial reporting. It implies that certain accounting measures or decisions are influenced by individual perspectives rather than being purely objective or based on verifiable facts. Subjectivity in accounting introduces an element of personal interpretation that may vary among different individuals or entities, potentially affecting the reliability and consistency of financial information.

4. **Limited analysis:** "Limited analysis" means that there is a restriction on how much detailed examination or understanding can be done. It implies that not much in-depth study or interpretation is happening, which could restrict the insights or conclusions we can draw from the information available. It's like saying we're not looking at things very closely, so our understanding might be somewhat restricted.
5. **Difficult in knowing the behaviour of costs:** Financial accounting makes it challenging to understand how costs behave since costs are not attributed to the product at every stage of production. Expenses cannot be categorized as controllable or uncontrollable since they are not divided into direct and indirect categories.

Roles of Accountant in the society

An accountant is a person who records, organizes, and summarizes data to produce meaningful information such as profit and loss for an organization's time period. An accountant's experience, expertise, and knowledge are crucial to the expansion of a company. An accountant's role is crucial to any organization. The roles of accountant in the society are as follows: -

1. **Maintenance of books of account:** An accountant's job is essential to calculating an accounting period's net profit or loss and an entity's financial position as of a specific date. This is done by keeping systematic records of financial transactions. It is crucial for the entity to keep accurate books of accounts in the way stipulated by law and its accounting policies. The entity's books of accounts aid in the planning of its future business operations.
2. **Auditing of accounts:** Assist organizations' internal decision-making, budgeting, and strategic planning by providing vital financial data and analyses.
3. **Taxation:** Ensure adherence to tax laws and regulations by preparing accurate tax returns, helping organizations fulfill their fiscal obligations while minimizing tax liabilities.
4. **Consultancy services:** An accountant's main duties include long-term planning, reporting internal controls to management, and providing advice on how an entity should operate. Additionally, an accountant offers management consulting services in the areas of expense control, appraisal technique evaluation, and management information systems.

Generally Accepted Accounting Principles (GAAP)

Accounting is the measurement, processing, and dissemination of a company's or organization's financial data. It is directed by a collection of accounting principles that aid in producing suitable outcomes.

Therefore, these guidelines—commonly referred to as "Generally Accepted Accounting Principles" or "GAAP"—are a collection of guidelines, practices, or standards that businesses employ when combining their financial statements for the relevant fiscal year. The Financial Accounting Standards

Board (FASB) and the Securities and Exchange Commission (SEC) establish and enforce these regulations.

The components of GAAP are as follows:

Accounting Concepts/Assumptions

Accounting principles are built upon accounting concepts. Here are the fundamental guidelines for comprehending the financial accounting process.

1. **Business Entity Concept:** This idea acknowledges that a company is an independent entity apart from its owners. It suggests that business dealings are recorded separately from the owners' private dealings. Distinguishing between the financial activities of the business and its owners allows for transparent and precise financial reporting.
2. **Money Measurement Concept:** According to the money measurement concept, all accounting events and transactions should be expressed in a single unit of measurement, usually the currency of the nation in which the business is located. This idea makes complicated transactions easier to understand and makes it possible to combine a variety of activities into a financial statement that makes sense.
3. **Going Concern Concept:** The going concern idea assumes that a company will carry on with its activities for some time to come. The preparation of financial statements is predicated on this assumption, which states that assets will be used to create revenue rather than being liquidated. It encourages stability and long-term planning by supporting the valuation of assets based on their potential to contribute to future earnings.
4. **Accounting Period Concept:** The idea of an accounting period is breaking down an organization's financial life into discrete, manageable time periods, usually quarters or fiscal years. This idea makes it possible to measure financial performance on a regular basis and report the results to stakeholders. It makes it easier to compare and analyze data over defined time periods.

Accounting Principles

Accounting principles are recognized as a common set of accounting standards and procedures.

1. **Cost Principle:** The cost principle, sometimes referred to as the historical cost principle, mandates that almost everything the business controls or owns (assets) be valued at the time of acquisition. Since it represents the amount agreed upon when purchasing the asset from the vendor, this value is typically simple to ascertain.
2. **Revenue Principle:** This principle states that revenue should be recorded as earned on the day that products are sold, or services are provided to clients in exchange for money or claims to

money. Stated differently, the revenue concept posits that revenue is attained upon the receipt of cash or the creation of the right to receive cash from the sale of goods or services, or both.

3. **Matching Principle:** The matching principle aligns with the idea that expenses should be recognized in the same period as the revenues they help generate. It emphasizes the importance of associating costs with the revenues they contribute to, promoting accurate measurement of profitability and adherence to the accrual basis of accounting.
4. **Full Disclosure Principle:** The full disclosure principle mandates the inclusion of all relevant information in financial statements and related footnotes. This principle ensures transparency by providing stakeholders with a complete picture of an entity's financial position and performance. It encourages businesses to disclose any significant details, potential risks, and contingencies that might impact decision-making.

Accounting Conventions

Accounting conventions are a set of guidelines for complex and ambiguous business transactions. Accounting conventions preserve consistency in financial statements even though they are not legally or generally binding.

1. **Materiality:** The convention on materiality acknowledges that information is not all created equal. When deciding if a statement or omission will affect users' ability to make decisions, accountants use their judgment. This convention prevents the needless disclosure of immaterial information while allowing attention to be focused on pertinent and important details.
2. **Consistency:** The consistency convention places emphasis on the significance of employing consistent accounting procedures and methods throughout time. It implies that an accounting method or principle should be applied consistently from one period to the next once it has been adopted. By ensuring comparability and removing the uncertainty caused by frequent changes in accounting rules, this convention enables stakeholders to evaluate financial information.
3. **Conservatism:** The convention of conservatism, sometimes referred to as the doctrine of prudence, is the practice of projecting potential future losses but not potential future gains in accounting. Companies "play safe" because of this policy, which tends to understate net assets and net income rather than overstate them. Examples include setting aside money for bad debts, giving debtors a discount, and valuing inventories at a lower cost or market price.

Accounting Standards

An accounting standard is a chosen set of accounting rules or general recommendations about the values and approaches that should be used, or a range of options. Standards adhere to relevant legal requirements as well as usages, customs, and business environments. Therefore, there are no standards that are accepted by everyone.

Objectives of Accounting Standards

1. To harmonize diverse accounting policies and practices.
2. To ensure uniformity, comparability, and qualitative improvement in the preparation and presentation of financial statements.
3. To describe the accounting principles, the valuation techniques, and the methods of applying the accounting principles in the preparation and presentation of financial statements.
4. To promote the dissemination of timely and useful financial information to different parties having an interest in companies' economic performance.

Advantages of Accounting Standards

1. **Reduction in variation:** Standards reduce to a reasonable extent or eliminate confusing variations in the accounting treatments used to prepare financial statements.
2. **Disclosure beyond that required by law:** There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
3. **Facilities Comparisons:** Using standards makes it easier to compare financial statements of companies globally or within a country, aiding better understanding.

Accounting Standard in Nepal

In Nepal, there's a group called the Accounting Standard Board (ASB). It's like a rule- making team that decides how companies should prepare their financial statements.

The Institute of Chartered Accountants of Nepal (ICAN) created the ASB in March 2003 to develop these accounting rules. They changed the ICAN Act in 1997 to make it happen. The ASB's job is to make accounting standards that follow the International Financial Reporting System (IFRS) set by the International Accounting Standards Board (IASB).

The ASB has the freedom to decide on the technical details of these standards. They figure out where everyone needs to follow the same rules and then create draft standards by talking to people from different sectors.

Objectives

1. **Clear Policies:** Set criteria for choosing and altering accounting policies. Also, outline how to disclose changes and corrections for better financial clarity.
2. **Reliable financial statements:** Improve the reliability and relevance of a company's financial statements. Make it easier to compare statements over time and with other companies.

3. **Transparency in disclosures:** Specify requirements for accounting policies (except changes) in Nepal Accounting Standard (NAS 01) Presentation of Financial Statements, promoting transparency.

Scope

The scope of Accounting Standard in Nepal is presented below: -

1. This Standards apply to all companies including public sector business entities in selecting and applying accounting policies, and accounting, for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.
2. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with NAS 09 Income Taxes.

Accounting Polices

Accounting policies refer to the distinct procedures established by a company's management to formulate its financial statements. Unlike accounting principles, which are regulations, accounting policies serve as the guidelines for applying those regulations. It's important to note that accounting policies can be employed to lawfully influence earnings. Nonetheless, these policies must align with generally accepted accounting principles (GAAP).

Considerations in the selection of Accounting Policies

1. **Prudence:** Prudence is a concept that involves preparing financial statements with due care, particularly while making estimates or provisions for uncertain conditions. The objective is to ensure that neither the assets nor the income are overstated, and neither the liabilities nor the expenses are understated.
2. **Substance over form:** Financial statements should reflect the actual transactions that occurred, not just the legal formalities. Substance over form is a concept that emphasizes that accounting treatment and presentation in financial statements should be based on the economic/financial reality of a transaction, rather than just its legal form. For instance, if a piece of land has been sold, but the documentation and legal formalities are pending at the year-end, the transaction should still be recorded, using the concept of substance over form. This helps in presenting an accurate and transparent picture of the financial health of the Company.
3. **Materiality:** Materiality refers to the importance of a particular item in influencing the decisions of users of financial statements. Financial statements should disclose all material items that might affect the decision-making process of users. Determining materiality is

subjective and based on a case-by-case analysis. It's typically evaluated based on whether the item could substantially influence the process of decision-making by users.

Changes in Accounting Polices

As per Nepal Accounting Standards 02, an entity shall change an accounting policy only if the change:

a. Is required by a Standard; or
b. Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

The following are not changes in accounting policies:

a. The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
b. The application of new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

Disclosure of Accounting Policies

An "accounting disclosure" refers to a declaration that acknowledges the financial practices adopted by a company. This declaration delineates the expenditures and earnings during a specific timeframe. The accounting policy statement is revealed to both current stakeholders and prospective investors. It encompasses the methodologies and accounting approaches employed within the business. Additionally, this disclosure encompasses Financial Statements, encompassing balance sheets, income statements, cash flow statements, and the statement of stockholder's equity.