THE ACCOUNTING FIELD

Accounting is divided into three main branches namely

1, financial accounting

2. Managerial Accounting

3. Cost Accounting

Financial Accounting

Financial accounting is the art of collecting, recording, classifying, summarizing and the interpretation of business transactions to enable the user of this information make sound judgements The main objective of financial accounting is to ascertain the results (profit or loss) of business operations during the particular period and to state the financial position (balance sheet) as on a date at the end of the period.

2. Managerial Accounting

Managerial or management accounting focuses on providing information for use by internal users, the management. This branch deals with the needs of the management rather than strict compliance with generally accepted accounting principles.

Managerial accounting involves financial analysis, budgeting and forecasting, cost analysis, evaluation of business decisions, and similar areas.

3. Cost Accounting

cost accounting refers to the recording, presentation, and analysis of costs of producing goods or services. Cost accounting is very useful in manufacturing businesses since they have the most complicated costing process.

Cost accountants also analyze actual costs versus budgets or standards to help determine future courses of action regarding the company's cost management.

FUNDAMENTAL ACCOUNTING CONCEPTS

fundamental accounting concepts are broad general assumptions which underline the periodic financial statements of business enterprises. The following are the important accounting concepts and conventions

1. Separate Business Entity Concept
2. Money Measurement Concept

3. Dual Aspect Concept
4. Going Concern Concept
5. Accounting Period Concept
6. Cost Concept
7. The Matching Concept
8. Accrual Concept
9. Realisation Concept

1. Separate Business Entity Concept

In accounting we make a distinction between business and the owner. All the books of accounts records day to day financial transactions from the view point of the business rather than from that of the owner. The proprietor is considered as a creditor to the extent of the capital brought in business by him. For instance, when a person invests money into a business, it will be treated that the business has borrowed that much money from the owner and it will be shown as a 'liability' in the books of accounts of business. Similarly, if the owner of a business take cash from the cash box for meeting certain personal expenditure, the accounts would show that cash had been reduced even though it does not make any difference to the owner himself. Thus, in recording a transaction the important question is how does it affects the business? For example, if the owner puts cash into the business, he has a claim against the business for capital brought in.

2. **Money Measurement Concept**

In accounting, only those business transactions are recorded which can be expressed in terms of money. In other words, a fact or transaction or happening which cannot be expressed in terms of money is not recorded in the accounting books. As money is accepted not only as a medium of exchange but also as a store of value, it has a very important advantage since a number of assets and equities, which are otherwise different, can be measured and expressed in terms of a common denominator.

3. **Dual Aspect Concept**

Financial accounting records all the transactions and events involving financial element. Each of such transactions requires two aspects to be recorded. The recognition of these two aspects of every transaction is known as a dual aspect analysis. According to this concept every business transactions has dual effect. For example, if a firm sells goods of sh 5,000 this transaction involves two aspects. One aspect is the delivery of goods and the other aspect is immediate receipt of cash (in the case of cash sales). In fact, the term 'double entry' book keeping has come into vogue and in this system the total amount debited always equals the total amount

4. **Going Concern Concept**

Accounting assumes that the business entity will continue to operate for a long time in the future unless there is good evidence to the contrary. The enterprise is viewed as a going concern, that is, as continuing in operations, at least in the foreseeable future. In other words, there is neither the intention nor the necessity to liquidate the particular business venture in the predictable future

5. **Accounting Period Concept**

This concept requires that the life of the business should be divided into appropriate segments for studying the financial results shown by the enterprise after each segment. A year is the most common interval on account of prevailing practice, tradition and government requirements. Some firms adopt financial year of the government, some other calendar year. Although a twelve-month period is adopted for external reporting, a shorter span of interval, say one month or three month is applied for internal reporting purposes. All the revenues and all the cost relating to the year in operation have to be taken into account while matching the earnings and the cost of those earnings for the any accounting period.

6**. Cost Concept**

According to this concept an asset is ordinarily entered on the accounting records at the price paid to acquire it. For example, if a business buys a plant for sh 5 million, the asset would be recorded in the books at sh 5 millions even if its market value at that time happens to be sh 6 millions . Thus, assets are recorded at their original purchase price and this cost is the basis for all subsequent accounting for the business. The assets shown in the financial statements do not necessarily indicate their present market values.

7**. The Matching concept**

This concept is based on the accounting period concept. In reality we match revenues and expenses during the accounting periods. Matching is the entire process of periodic earnings measurement, often described as a process of matching expenses with revenues. In other words, income made by the enterprise during a period can be measured only when the revenue earned during a period is compared with the expenditure incurred for earning that revenue. Only costs that have expired during an accounting period are considered as expenses On account of this concept, adjustments are made for all prepaid expenses, outstanding expenses, accrued income, etc., while preparing periodic reports.

8. **Accrual Concept**

   IAccrual concept makes a distinction between the receipt of cash and the right to receive it, and the payment of cash and the legal obligation to pay it. This concept provides a guideline to the accountant as to how he should treat the cash receipts and the right related thereto. Accrual principle tries to evaluate every transaction in terms of its impact on the owner's equity. The essence of the accrual concept is that net income arises from events that change the owner's equity in a specified period and that these are not necessarily the same as change in the cash position of the business. Thus, it helps in proper measurement of income.

9. Realisation Concept

   According to realisation concept revenue is recognized when sale is made. Sale is considered to be made at the point when the property in goods passes to the buyer and he becomes legally liable to pay. This implies that revenue is generally realised when goods are delivered or services are rendered. The rationale is that delivery validates a claim against the customer. However, in case of long run construction contracts revenue is often recognised on the basis of a proportionate or partial completion method.

THE ACCOUNTING EQUATION

The accounting equation also called book keeping equation is expressed as follows.

Assets = Liabilities + Capital

Assets are resources (tangible and intangible) that a business owns, and that can provide it with future economic benefit. They add value to a business, they can help a business meet its commitments and increase its finances.

Assets are divided into two

1. Fixed or Non-Current Assets
2. Current assets

Fixed or Non-Current Assets

Fixed or Non-Current Assets are assets that cannot be easily and readily converted into cash and cash equivalents. Examples of fixed assets include:

- Land
- Building
- Machinery
- Furniture
- Vehicles
- Fixtures and fittings

Current asset

Current assets are assets that can be easily converted into cash and cash equivalents (typically within a year). Current assets are also termed liquid assets and examples of such are:

- Cash in hand
- Cash at bank
- Stock
- debtors

Liabilities are the business' debts or obligations they need to fulfil in the future this is what a business owes outsiders

Liabilities are divided into two

1, long term liabilities

Long term liabilities are debts which are repayable within a long period in most cases more than one year for example loans

2, current liabilities

Long term liabilities are debts which are repayable within a short period in most cases less than one year

Example

Creditors

Bank overdraft

Capital is the value of the investment in the business by the owner(s). It is what the business owes the owner

SOURCE DOCUMENTS

the source document is the first document that exists relating to a transaction.The source document is essential to the bookkeeping and accounting process as it provides evidence that a financial transaction has occurred. During an accounting or tax audit, source documents back up the accounting journals and general ledger as an indisputable transaction trail.

1. Receipt:

Receipt is an evidence of making the payment on account of any business transaction. This source document is prepared for showing the proof of giving any cash to the party (who receives the cash) on account of any business transaction. At least two copies are made of any receipt.

The original copy is prepared for giving it to the party who makes the payment and another copy is kept for record. The details about the business transaction on account of which the cash is received viz. date, amount, name of the party and the nature of payment etc. are given in this source document.Receipt is an evidence of making the payment on account of any business transaction. This source document is prepared for showing the proof of giving any cash to the party (who receives the cash) on account of any business transaction. At least two copies are made of any receipt.

2. Invoice and Bill:

Invoice or bill records the credit transactions related to sale or purchase. This is prepared when a firm purchases or sells the goods on credit. At the time, when the goods are sold by the business enterprise on credit, sales invoice is prepared in which all details of the credit sales viz. the quantity, rate and total amount etc. are mentioned.

Usually, invoices are made in duplicate, the main copy (original) is sent to the purchaser and the another is kept by the business enterprise for record and future reference. Similarly, when goods are purchased on credit, the supplier prepares the invoice in duplicate. When the main copy is received by the purchaser, it becomes a bill.

3. Credit Note – A credit note is a document which shows that the business enterprise has given the credit to the party to whom this document is sent in respect of any business

transaction other than credit purchase. When a business enterprise receives back the goods sold earlier then it makes a credit note in favour of the purchaser showing that his account has been credited in the books of business enterprise.

used by a business/supplier to correct an overcharge in the invoice

4. Debit Note – A debit note is a document which shows that the business enterprise has raised debit against the party to whom this document is sent in respect of any business transaction other than the credit sale. Business enterprise may make a debit note against the supplier for an amount which is to be recovered from him, when the business enterprise returns some goods which are defective in nature or not as per specifications.

   It is used by a business/supplier to correct an undercharge in the invoice

5. Pay in Slip:
This document serves the purpose of providing an evidence that on particular date, a specific amount has been deposited in the bank. When a depositor deposits money in the bank account, he fills up a form provided by the bank containing the information about the date, amount to be deposited and the name of the depositor etc.

6, Cheque:

A cheque in an unconditional order, drawn upon a specified banker, signed by the maker, directing the banker to pay on demand a certain sum of money only to the order of a person or the bearer of the instrument.

A cheque is an instrument drawn upon a banker and payable on demand. The bank issues a booklet containing cheque forms to its account holders. Digits mentioned on the bottom of the cheques denote code of 'State', 'Bank', 'Branch', 'Cheque' and 'Type of Account' respectively.

7. Vouchers
A voucher is a document which can be used as proof that a monetary transaction has occurred between two parties. In business, a payment voucher can be used for a variety of purposes,

sometimes taking the place of cash in a transaction, acting as a receipt, or indicating that an invoice has been approved for payment.