**BCA100 LECTURE NOTES**

**INTRODUCTION**

**Definition of accounting**

1. Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities.  
     
   2.  Accounting is the process of systematically recording, measuring, and communicating information about financial transactions. At its highest level, accounting sets up the basics of record keeping and a process to track financial accounts.  
     
   3.  Accounting is the systematic recording of the financial transactions of a business. Such recording can be split into three activities:  
        · Setting up a system of record keeping  
        · Tracking transactions within that system of record keeping  
        · Aggregating the resulting information into a set of financial reports

**Accounting and book keeping**

**Bookkeeping** is the recording of financial transactions, and is part of the process of [accounting](https://en.wikipedia.org/wiki/Accounting) in [business](https://en.wikipedia.org/wiki/Business). Transactions include purchases, sales, receipts, and payments by an individual person or an organization. Bookkeeping is the work of a bookkeeper who records the day-to-day financial transactions of a business. They usually write the [day books](https://en.wikipedia.org/wiki/Bookkeeping#Daybooks) and document each financial transaction, whether cash or credit, into the correct daybooks and ledgers. Thereafter, an accountant can create financial reports from the information recorded by the bookkeeper.

Bookkeeping refers mainly to the record-keeping aspects of accounting, and involves preparing source documents for all transactions, operations, and other events of a business.

The bookkeeper brings the books to the [trial balance](https://en.wikipedia.org/wiki/Trial_balance) stage: an accountant may prepare the [income statement](https://en.wikipedia.org/wiki/Income_statement) and [balance sheet](https://en.wikipedia.org/wiki/Balance_sheet) using the trial balance and ledgers prepared by the bookkeeper.

Accounting is the process by where an organisation’s financials are recorded, summarized, analyzed, consulted and reported on. Bookkeeping is the recording part of this process, in which all of the financial transactions of the business are entered into a data base.

**Functions of Accounting**

1. Maintaining systematic records: Business transactions are properly recorded, classified under appropriate accounts and summarized into financial statements– income statement and the balance sheet.
2. Communicating the financial results: Accounting is used to communicate financial information in respect of net profits (or loss), assets, liabilities etc., to the interested parties.
3. Meeting legal needs: The provisions of various laws such as Companies Act, Income Tax and Sales Tax Acts require the submission of various statements, i.e., annual account, income tax returns, returns for sales tax purposes and so on.
4. Protecting business assets: Accounting maintains proper records of various assets and thus enables the management to exercise proper control over them
5. Accounting assists the management in the task of planning, control and coordination of business activities.
6. Stewardship: In the case of limited companies, the management is entrusted with the resources of the enterprise. The managers are expected to act true trustees of the funds and the accounting helps them to achieve the same.
7. Fixing responsibility: Accounting helps in the computation of the profits of different departments of an enterprise. This would help in fixing the responsibility of departmental heads.

**Nature of Accounting**

1. Accounting as a service activity

Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions, in making reasoned choices among alternative courses of action. It means that accounting collects financial information for the various users for taking decisions and tackling business issues.

1. Accounting as a profession

A profession is a career that involves the acquiring of a specialized formal education before rendering any service. Accounting is a systematized body of knowledge developed with the development of trade and business over the past century. The accounting education is being imparted to the examinees by national and international recognised the bodies like the Institute of Certified Public Accountants of Kenya (ICPAK) etc.

3. Accounting as a social force

The society is composed of people as customer, shareholders, creditors and investors. The accounting information/data is to be used to solve the problems of the public at large such as determination and controlling of prices. Therefore, safeguarding of public interest can better be facilitated with the help of proper, adequate and reliable accounting information and as a result of it the society at large is benefited.

1. Accounting as a language

A language and accounting have common features as regards rules and symbols. Both are based and propounded on fundamental rules and symbols. In language these are known as grammatical rules and in accounting, these are termed as accounting rules. The expression, exhibition and presentation of accounting data such as a numerals and words and debits and credit are accepted as symbols which are unique to the discipline of accounting.

1. Accounting as science or art

Science is a systematised body of knowledge. It establishes a relationship of cause and effect in the various related phenomenon. It is also based on some fundamental principles. Accounting has its own principles e.g. the double entry system, which explains that every transaction has two fold aspect i.e. debit and credit. It also lays down rules of journalising. So we can say that accounting is a science.

Art requires a perfect knowledge, interest and experience to do a work efficiently. Art also teaches us how to do a work in the best possible way by making the best use of the available resources. Accounting is an art as it also requires knowledge, interest and experience to maintain the books of accounts in a systematic manner. Everybody cannot become a good accountant. It can be concluded from the above discussion that accounting is an art as well as a science.

1. Accounting as an information system

The accounting system is an information system designed to provide relevant financial information on the resources of a business and the effect of their use. Information is relevant and valuable if the decision makers can use it to evaluate the financial consequences of various alternatives As an information system, accounting links an information source or transmitter (generally the accountant), a channel of communication (generally the financial statements) and a set of receivers (external users).

**OBJECTIVES OF ACCOUNTING**

1. To keep systematic records

Accounting is done to keep a systematic record of financial transactions. In the absence of accounting there would have been terrific burden on human memory which in most cases would have been impossible to bear

1. To protect business properties

Accounting provides protection to business properties from unjustified and unwarranted use. This is possible on account of accounting supplying the following information to the manager or the proprietor: (i) The amount of the proprietor's funds invested in the business. (ii) How much the business have to pay to others? (iii) How much the business has to recover from others? (iv) How much the business has in the form of (a) fixed assets, (b) cash in hand, (c) cash at bank, (d) stock of raw materials, work-in-progress and finished goods? Information about the above matters helps the proprietor in assuring that the funds of the business are not necessarily kept idle or underutilised.

1. To ascertain the operational profit or loss

Accounting helps in ascertaining the net profit earned or loss suffered on account of carrying the business. This is done by keeping a proper record of revenues and expense of a particular period.

1. To facilitate rational decision making

Accounting has taken upon itself the task of collection, analysis and reporting of information at the required points of time to the required levels of authority in order to facilitate rational decision-making.

1. Information System

Accounting functions as an information system for collecting and communicating economic information about the business enterprise. This information helps the management in taking appropriate decisions.

USERS OF ACCOUNTING

Internal Users

1. Owners.

The owners provide funds for the operations of a business and they want to know whether their funds are being properly used or not. They need accounting information to know the profitability and the financial position of the concern in which they have invested their funds. The financial statement prepared from time to time from accounting records depicts them the profitability and the financial position.

1. Management.

The managers are regarded as the agents of the owners of the organizations since they are in charge of the day-to-day activities of the establishments. They essentially run the organizations through a variety of managerial functions .Each of these functions is related to the financial and economic framework of the organization and thus, the managers and directors require accounting information in order to determine whether the organization is working towards its objectives

3. Employees. Employees are interested in the financial position of a concern they serve particularly when payment of bonus depends upon the size of the profits earned. They seek accounting information to know that the bonus being paid to them is correct.

External Users of Accounting Information

1. Investors

Those who are interested in investing money in an organisation are interested in knowing the financial health of the organisation ie know how safe the investment already made is and how safe their proposed investment will be. To know the financial health, they need accounting information which will help them in evaluating the past performance and future prospects of the organisation. which they are interested to make that investment by making a study of the accounting information given in the financial statements of the organisation.

1. Creditors.

These are supplier of goods and services on credit. They want to know the financial position of a concern before granting credit. They want to be sure that the concern will not experience difficulty in making their payment in time i.e. liquid position of the concern is satisfactory.

1. Financial institutions

These are the parties that provide alternative capital sources to the organizations. These usually provide the organization with debt capital and usually get a return in the form of interest. Examples include debenture holders in companies, banks and other financial institutions that grant loans. They need to have accounting information on the economic performance and financial position of organizations is in order to assess whether the entities are sufficiently profitable to pay the interest on loans and whether the organizations possess enough resources to pay back the principal amount when the amount becomes due.

1. Members of Non-profit Organisations. Members of non-profit organisations such as schools, colleges, hospitals, clubs, charitable institutions etc. need accounting information to know how their contributed funds are being utilised and to ascertain if the organisation deserves continued support or support should be withdrawn keeping in view the bad performance depicted by the accounting information and diverted to another organisation. In knowing the performance of such organisations, criterion will not be the profit made but the main criterion will be the service provided to the society.

5 .Government.

Governments are interested in the accounting information because they want to know earnings or sales for a particular period for purposes of taxation. Income tax returns are examples of financial reports which are prepared with information taken directly from accounting records. Governments also need accounting information for compiling statistics concerning business which, in turn helps in compiling national accounts.

1. Consumers.

Consumers need accounting information for establishing good accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy. Sometimes, prices for some goods are fixed by the Government, so it needs accounting information to fix reasonable prices so that consumers and manufacturers are not exploited. Prices are fixed keeping in view fair return to manufacturers on their investments shown in the accounting records

7.. Trade unions They want to agitate for better pay and working conditions on behalf of their members. they examine the financial Statement of the employing organisation to establish its revenue and expenditure and whether it is making profits or losses or surpluses or deficits. If it is making profits or surpluses, they will use the Income Statement to agitate for better pay.