



Q3. Explain the development of and role of accounting.

Answer : Development of accounting

In ancient times, around 4000 B.C., accounting was used for recording wages and salaries, deposits and withdrawals of valuable goods (such as gold and silver) from the treasures of the king. Afterwards, it was used to record the receipts and payments and balancing of government financial transactions. During 1500 A.D., accounting was used by business firms for recording transactions related to business. In 1800 A.D., accounting was used to record transactions and also to provide information to various users of financial data.

Role of accounting- While in the earlier times accounting was merely concerned with recording the financial events (i.e. record-keeping activity); however, now-a-days, accounting is done with the rationale of not only maintaining records, but also providing an information system that provides important and relevant information to various accounting users.

1. Substitute of memory- As, it is beyond human capabilities to remember each and every business transaction, so accounting plays an important role in recording these transactions in the book of accounts.
2. Assistance to management- Management uses accounting information for short term and long term planning of business activities and to control various costs and budgets.
3. Comparative study- In order to ascertain the performance of the business, accounting enables comparison of current year's profit with that of previous years (intra-firm comparison) and also with other firms in the same business (inter-firm comparison).
4. Evidence in court- It acts as evidence that can be used or presented in the court, if any discrepancy arises in the future.

Q4. Define accounting and state its objectives.

Answer : Accounting is a process of identifying the events of financial nature, recording them in the journal, classifying in their respective accounts and summarising them in profit and loss account and balance sheet and communicating results to users of such information, viz. owner, government, creditor, investors, etc. According to American Institute of Certified Accountants, 1941, "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events that are, in part at least, of financial character and interpreting the results thereof."

In 1970, American Institute of Certified Public Accountants changed the definition and stated, "The function of accounting is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions."

Objectives of Accounting:

1. Recording business transactions systematically- It is necessary to maintain systematic records of every business transaction, as it is beyond human capacities to remember such large number of transactions. Skipping the record of any one of the transactions may lead to erroneous and faulty results.
2. Determining profit earned or loss incurred- In order to determine

the net result at the end of an accounting period, we need to calculate profit or loss. For this purpose trading and profit and loss account are prepared. It gives information regarding how much of goods have been purchased and sold, expenses incurred and amount earned during a year.

3. Ascertaining financial position of the firm-Ascertaining profit earned or loss incurred is not enough; proprietor also interested in knowing the financial position of his/her firm, i.e. the value of the assets, amount of liabilities owed, net increase or decrease in his/her capital. This purpose is served by preparing the balance sheet that facilitates in ascertaining the true financial position of the business.

4. Assisting management- Systematic accounting helps the management in effective decision making, efficient control on cash management policies, preparing budget and forecasting, etc.

5. Assessing the progress of the business-Accounting helps in assessing the progress of business from year to year, as accounting facilitates the comparison both inter-firm as well as intra-firm.

6. Detecting and preventing frauds and errors-It is necessary to detect and prevent fraud and errors, mismanagement and wastage of the finance. Systematic recording helps in the easy detection and rectification of frauds, errors and inefficiencies, if any.

7. Communicating accounting information to various users- The important step in the accounting process is to communicate financial and accounting information to various users including both internal and external users like owners, management, government, labour, tax authorities, etc. This assists the users to understand and interpret the accounting data in a meaningful and appropriate manner without any ambiguity.

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