Lecture-1

Introduction to Accounting

Accounting

Definition: Accounting is a subject by studying which, the various financial activities of an organization can be correctly recorded in the books of accounts and their actual results can be determined after a certain period.

According to AW Johnson, "Accountancy may be defined as the collection and systematic recording of business transactions in terms of money, the preparation of financial report, the analysis and interpretation of these reports for the information and guidance of management."

Objectives of Accounting

1. Proper recording of transactions
2. Determination of profit or loss
3. Ascertainment of financial position
4. Presentation of financial information
5. Providing accounting information to its users
6. Prevention of defalcation of money and control of expenditure
7. Assistance the management by providing the financial information.

Scope of Accounting

Accounting in business organizations: The prime objective of business is to earn profit. Financial transactions of a business concern are recorded in the books of accounts to ascertain operating results and financial position.

Accounting in personal life: The financial transactions which occur in individual life of a person are recorded properly in the books of accounts with a view to ascertaining receipts- payments and assets-liabilities.

Accounting in non-trading concerns: Keeping accounts in non-trading concerns like, school,-college, hospital, madrasa, mosque, temple, church, club, association etc. is essential because financial transactions occur in these institutions also.

Scope of Accounting

Accounting in Government Offices: System of accounts is prevalent in govt. offices, courts and state-owned organizations for determining income-expenditure and proper running of administration.

Accounting in professionals: Professionals like doctors, engineers, advocates, actors, actresses earn by their professions. They also maintain their accounts of income and expenditure.

Importance of Accounting in Business Organization

1. Accounting supplies innumerable information to the institution relating to its management and administration.
2. Exact and correct result of the activities of the institution is disclosed through accounting.
3. Over-all financial status of the institution can be ascertained with the help of accounting.
4. The financial picture of one period of the organization can be compared with the same of the previous and following periods of the organization.
5. Accounting makes the institution credible to the third party.

Importance of Accounting in Business Organization

6. Income-tax, Value added tax and Sales tax are assessed on the basis of accounting records.
7. Accounting is needed to fix the price of goods and services produced by the organization.
8. It is possible to check unnecessary expenditure with the help of accounting.
9. Accounting is also needed to ascertain exact value of assets and liabilities of the organization.
10. Books of Accounts and related papers of the institution can be used as valuable documents of the said institution

Users of Accounting Information

Accounting information helps users to make better financial decisions. Users of financial information may be both internal and external to the organization-

Internal users (Primary Users):

Management: for analyzing the organization's performance and position and taking appropriate measures to improve the company results.

Employees: for assessing company's profitability and its consequence on their future remuneration and job security.

Owners: for analyzing the viability and profitability of their investment and determining any future course of action.

Users of Accounting Information

External users (Secondary Users):

Creditors: For determining the credit worthiness of the organization. Terms of credit are set by creditors according to the assessment of their customers' financial health. Creditors include suppliers as well as lenders of finance such as banks.

Tax Authorities: For determining the credibility of the tax returns filed on behalf of the company.

Investors: For analyzing the feasibility of investing in the company. Investors want to make sure they can earn a reasonable return on their investment before they commit any financial resources to the company.

Customers: For assessing the financial position of its suppliers which is necessary for them to maintain a stable source of supply in the long term.

Regulatory Authorities: For ensuring that the company's disclosure of accounting information is in accordance with the rules and regulations set in order to protect the interests of the stakeholders who rely on such information in forming their decisions.

Branches of Accounting

Financial Accounting: Financial accounting involves recording and classifying business transactions, and preparing and presenting financial statements to be used by internal and external users.

Management Accounting: This branch of accounting provides information to management for better administration of the business.

Cost Accounting: The objective of cost accounting is to help the management in fixing the prices and controlling the cost of production.

Auditing: Auditing is a branch of accounting where an external certified public accountant known as Auditor inspects and certifies the accounts of a business for their accuracy and consistency.

Branches of Accounting

Tax Accounting: Tax accounting helps clients follow rules set by tax authorities. It includes tax planning and preparation of tax returns.

Fund Accounting: Fund accounting is used for nonprofit entities, including governments and not-for-profit corporations.

Forensic Accounting: Forensic accounting involves court and litigation cases, fraud investigation, claims and dispute resolution, and other areas that involve legal matters.

Fiduciary Accounting: It is the accounting and evaluation of a third party's business and property maintained under the guardianship of another person.