Business Management and Financial Accounting

Dr. Bharathi Rajan. R
(Asst. Professor, Dept. of Commerce)

Module –I

Module 1: Introduction to Management Principles Definition - Management - Role of managers - Organization and the environmental factors – Trends and Challenges of Management in Global Scenario. PLANNING Nature and purpose of planning - Planning process - Types of plans – Objectives - Managing by objective (MBO) Strategies - Types of strategies - Policies - Decision Making - Types of decision - Decision Making Process - Rational Decision Making

FUNDAMENTALS OF MANAGEMENT

Management

- Management
- 5Ms of Management

What is Management?

- *"Management is the process involving planning, organizing, staffing, directing and controlling human efforts to achieve stated objectives in an organization."*

Introduction

- Management is a universal phenomenon. It is a very popular and widely used term.

- All organizations - business, political, cultural or social are involved in management

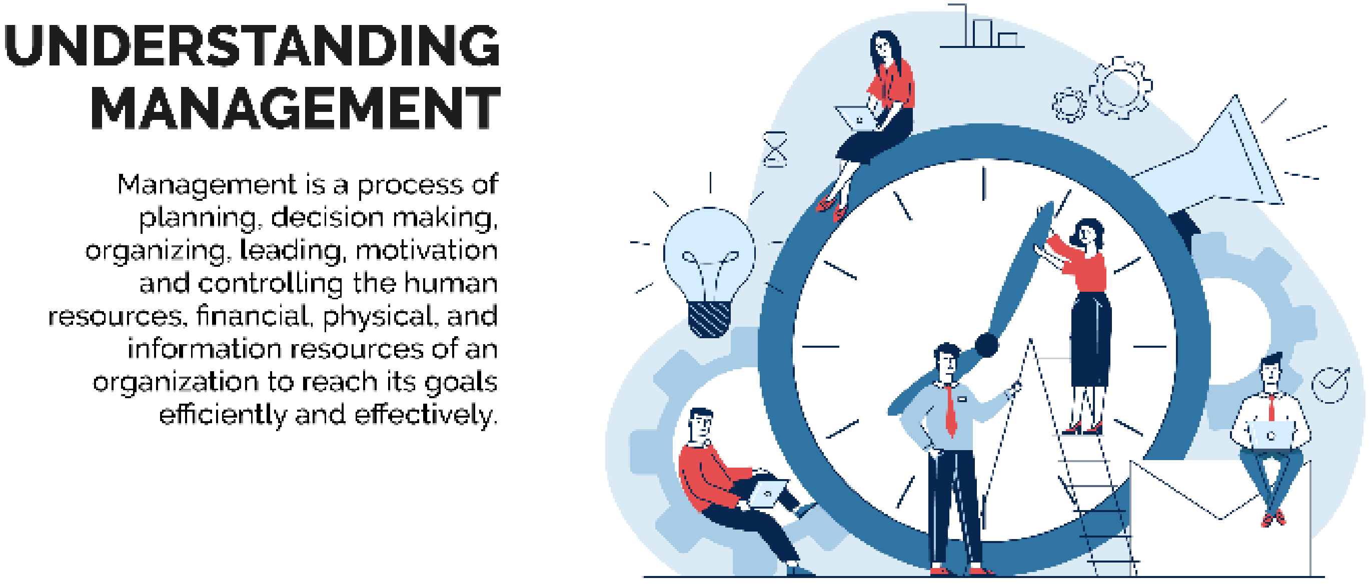
- It is something that *directs group efforts* towards the attainment of certain *pre - determined goals*.

- It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world.

Management

- According to **Harold Koontz**, "**Management** is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals".

- According to F.W. Taylor, "Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way".



Features / Nature of Management

- Management is an activity concerned with guiding human and physical resources such that organizational goals can be achieved. Nature of management can be highlighted as:-

1. **Management is Goal-Oriented:** The success of any management activity is assessed by its achievement of the predetermined goals or objective. Management is a purposeful activity.

2.Management integrates Human, Physical and Financial Resources: In an organization, human beings work with non-human resources like machines. Materials, financial assets, buildings etc.

3. **Management is Continuous:** Management is an ongoing process. It involves continuous handling of problems and issues.

4. **Management is all Pervasive:** Management is required in all types of organizations whether it is political, social, cultural or business because it helps and directs various efforts towards a definite purpose.

5. **Management is a Group Activity**: Management is very much less concerned with individual's efforts. It is more concerned with groups.

6. Intangible.

7. **An Art as well as Science.**

Objectives of Management

1. **Getting Maximum Results with Minimum Efforts** - The main objective of management is to secure maximum outputs with minimum efforts & resources.

2. **Increasing the Efficiency of factors of Production** - Through proper utilization of various factors of production, their efficiency can be increased

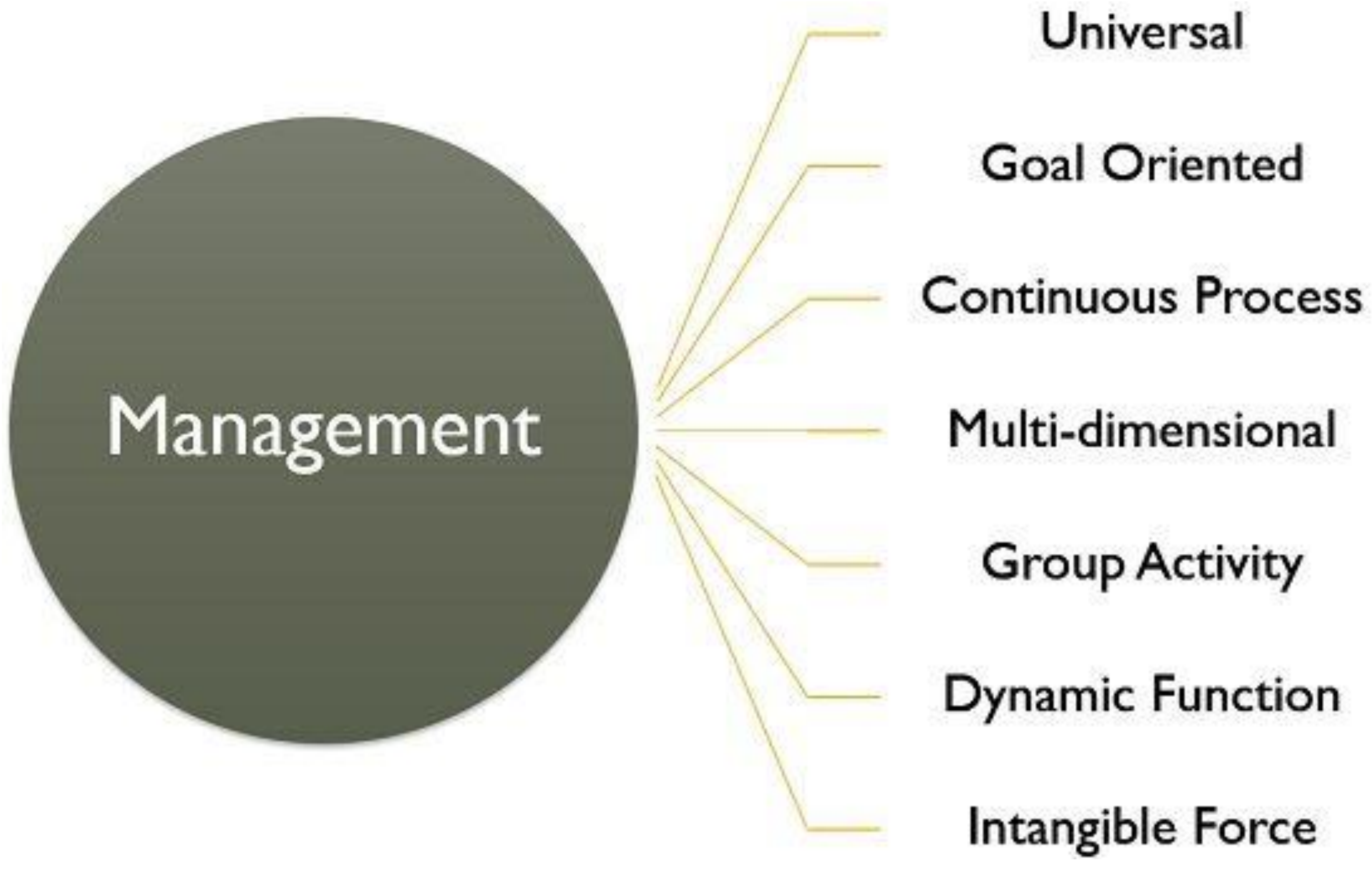
3. **Maximum Prosperity for Employer & Employees** - Management ensures smooth and coordinated functioning of the enterprise.

4. **Human betterment & Social Justice** - Management serves as a tool for the up-liftment as well as the betterment of society.

Importance of Management

1. **It helps in Achieving Group Goals** - It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals.
2. **Optimum Utilization of Resources** - Management utilizes all the physical & human resources productively. This leads to efficacy in management.
3. **Reduces Costs** - It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output.
4. **Establishes Sound Organization** - No overlapping of efforts (smooth and coordinated functions). To establish sound organizational structure is one of the objective of management
5. **Establishes Equilibrium** - It enables the organization to survive in changing environment. It keeps in touch with the changing environment.
6. **Essentials for Prosperity of Society** - Efficient management leads to better economical production which helps in turn to increase the welfare of people. Good management makes a difficult task easier by avoiding wastage of scarce resource.

Nature of Management is:



SCOPE OF MANAGEMENT

The scope of management is dynamic and may vary depending on the organization's size, industry, and specific managerial roles

- **FUNCTIONAL AREAS** (*covers functional areas within an organization, such as marketing, finance, operations, and human resources)*
- **PLANNING** (*Managers engage strategic planning*)
- **ORGANIZING** (allocate resources, and define roles and responsibilities)
- Leading (involves leading and motivating employees to achieve goals)
- **CONTROLLING** (Monitoring performance)

Continue….

- Decision-making (decisions at various levels)
- **COMMUNICATION** (Effective communication is vital in management)
- Stakeholder management (interact with various stakeholders)
- **Adaptation To The External Environment** (consider the external environment-PESTEL
- Ethical and social responsibility (responsible for ensuring ethical behavior)

LEVELS OF MANAGEMENT

The number of levels in management increases when the size of the business and work force increases and vice versa.

- Top level / **Administrative level**
- **Middle level** / **Executory**
- **Low level** / **Supervisory / Operative / First-line managers**

Levels Of Management

Top Level Management

- **The** top-level management is generally occupied by the ownership group.
- It is the highest level in the managerial hierarchy and the ultimate source of authority in the organisation.

Middle Level Management

- who are responsible for controlling and running an organization rather than making decisions about how it operates

- Middle-level management consists of departmental managers, deputy managers, foremen and administrative officers etc.

Lower Level or Supervisory Level Management

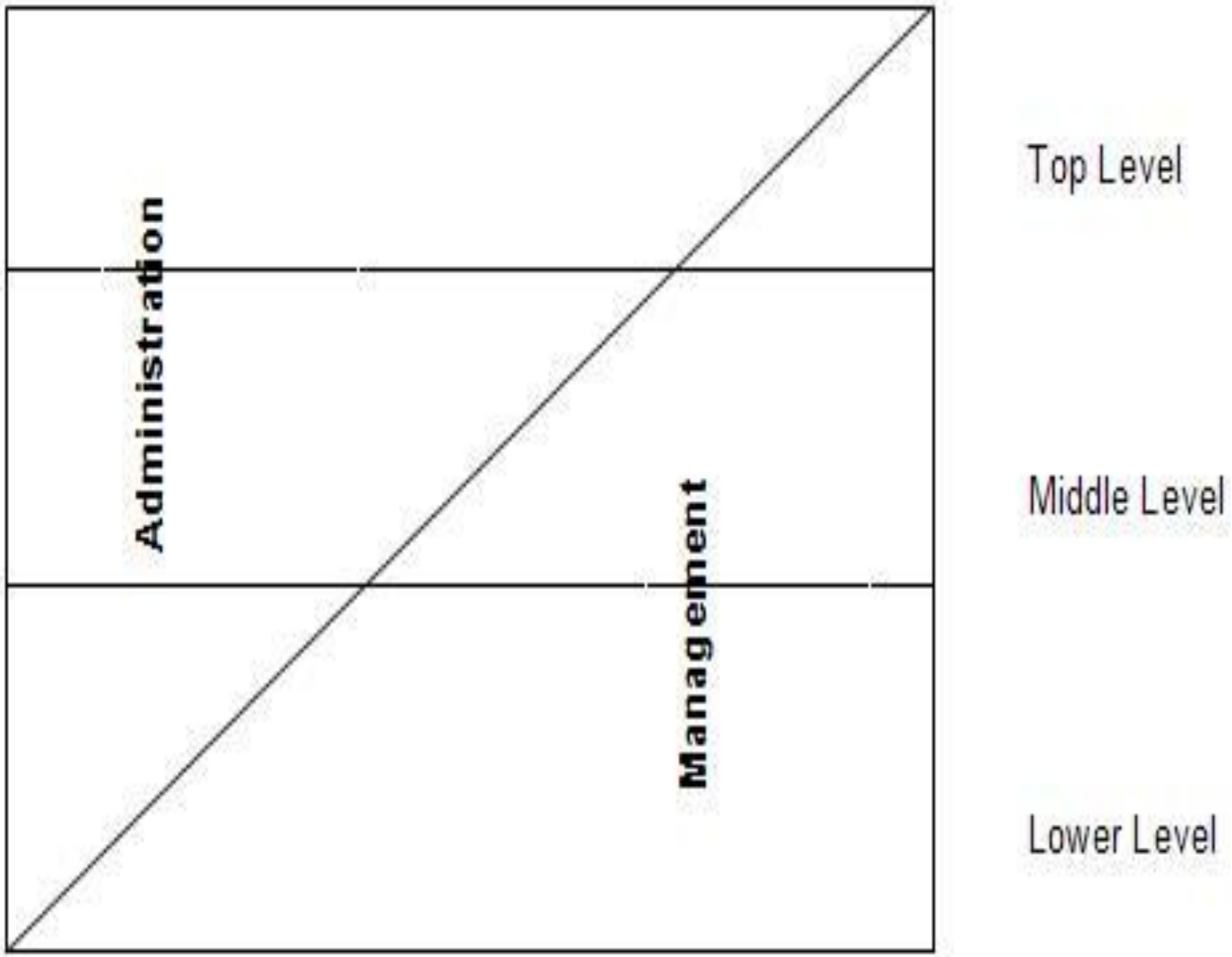
- It consists of factory supervisors, superintendents, foremen, sales supervisors, accounts officers etc.

- They directly guide and control the performance of workers. They issue orders and instructions and guide day to-day activities.

LEVELS OF MANAGEMENT

Management and Administration

Basis	Management	Administration
Meaning	Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals.	It is concerned with formulation of broad objectives, plans & policies.
Nature	Management is an executing function.	Administration is a decision-making function.
Process	Management decides who should as it & how should he dot it.	Administration decides what is to be done & when it is to be done.
Function	Management is a doing function because managers get work done under their supervision.	Administration is a thinking function because plans & policies are determined under it.
Skills	Technical and Human skills	Conceptual and Human skills
Level	Middle & lower level function	Top level function


Administration
Management
Top Level
Middle Level
Lower Level

Functions of Management

- According to Henry Fayol, "To manage is to forecast and plan, to organize, to command, & to control".
- Whereas Luther Gullick has given a keyword '**POSDCORB**' where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting.
- But the most widely accepted are functions of management given by KOONTZ and O'DONNEL i.e. **Planning**, **Organizing**, **Staffing**, **Directing** and **Controlling**.

PLANNING

- It is the basic function of management. It deals with **chalking out a future course of action & deciding in advance** the most appropriate course of actions for achievement of pre-determined goals.
- According to KOONTZ, "Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be".
- A plan is a future course of action. It is an exercise in problem-solving & decision-making.
- **Planning is systematic thinking** about ways & means for the accomplishment of pre-determined goals.

Organizing

- It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals.

Organizing as a process involves:

- Identification of activities.
- Classification of grouping of activities.
- Assignment of duties.
- Delegation of authority and creation of responsibility.
- Coordinating authority and responsibility relat

Staffing

- The main purpose o staffing is to put the right man on the right job

- Staffing involves:
  - Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).
  - Recruitment, Selection & Placement.
  - Training & Development.
  - Remuneration.
  - Performance Appraisal.
  - Promotions & Transfer.

Directing

- It means guiding, inspiring and supervising the people to work for the betterment of the organisation.

Direction has following elements:

- Supervision -implies overseeing the work of subordinates by their superiors.
- Motivation -means inspiring, stimulating or encouraging the sub-ordinates with zeal to work.
- Leadership -guides and influences the work of subordinates in desired direction.
- Communication -is the process of passing information, experience, opinion etc from one person to another.

Controlling

- The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur.
- According to *Theo Haimann*, “Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation”.
- According to Koontz & O’Donell “Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished”.

Module –III

Introduction to Accounting Meaning and definition of Accounting, Systems of book-keeping, Objectives of accounting, Users of accounting information, Basic terminologies. Accounting Principles- Accounting Concepts and Conventions, Accounting Standards, Accounting process - Double Entry System-Journal, Ledger, Trial balance.


ACCOUNTING

Meaning

- Accounting is known as the "language of business"
- Accounting is how your business records, organizes, and understands its financial information.
- **Accounting is a system of recording information about a business.**

Definition

- *"the art of identifying , recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of financial character, and interpreting the results thereof.“*

- **Accounting** Association (**AAA**) defined **accounting** as ‘’the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of information‘’.

Function of Accounting

“the function of accounting is to provide quantitative information, primarily of financial nature , about economic entities , that is needed to useful in making economic decision”

- Recording
- Classifying
- Summarizing
- Dealing with financial Information
- Analyzing and interpreting
- Communicating

Basic Accounting Terminology

1. Business
2. Proprietor/Owner
3. Capital
4. Drawing
5. Business Transactions
    1. Cash Transactions
    2. Credit Transactions
6. Account
7. Debit
8. Credit
9. Goods
10. Purchase
11. Sale
12. Purchase Return/Returns Inward
13. Sale Return/Returns Outward
14. Assets
    1. Fixed Assets
        1. Tangible Fixed Assets
        2. Intangible Fixed Assets
    2. Current Assets
        1. Tangible Fixed Assets
        2. Intangible Fixed Assets
    3. Fictitious Assets
15. Liabilities
    1. Fixed Liabilities
    2. Current Liabilities
    3. Contingent Liabilities

Monthly / Weekly Financial Planner

Day	Income/Pocket Money (A)	Food	Tea & Snacks	Entertainment	Educational related Exp.	Total Expenditure (B)
Monday						
Tuesday						
Wednesday						
Thursday						
Friday						
Saturday						
Sunday						
Weekly Balance (A-B)						

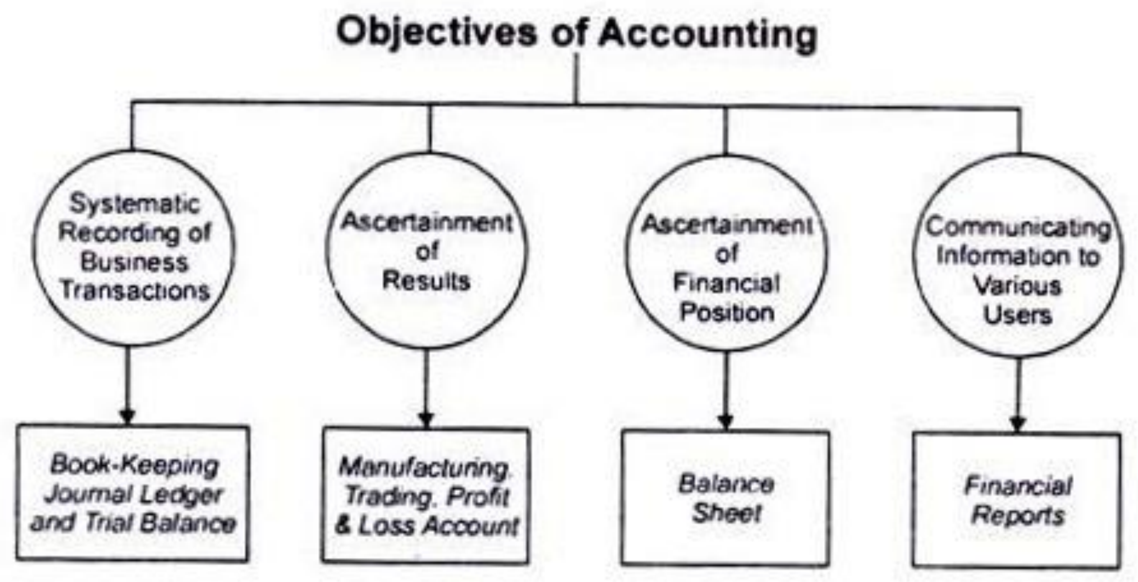
Comparisons of Accounting and Algorithms

Steps in Accounting:
Identify Transaction: Determine what type of transaction it is (e.g., sale, expense).
Record in Journal: Enter the transaction details into the journal.
Post to Ledger: Transfer the journal entries to the general ledger.
Prepare Trial Balance: Ensure debits equal credits to verify the accuracy.
Adjust Entries: Make necessary adjustments for accruals and deferrals.
Generate Financial Statements: Create the income statement, balance sheet, and cash flow statement.

Steps in a Programming Algorithm:
Input Data: Gather necessary input (e.g., transaction details).
Process Data: Execute code to process the data (e.g., validate transaction type).
Store Data: Insert the data into the relevant table (e.g., journal).
Update Records: Update related tables or records (e.g., ledger).
Check Consistency: Run checks to ensure data integrity (e.g., trial balance).
Output Results: Produce the final output (e.g., financial statements).

OBJECTIVES OF ACCOUNTING

- **To keep systematic records:** Accounting is done to keep a systematic record of financial transactions, like purchase of goods, sale of goods, cash receipts and cash payments. **To ascertain the net effect of the business operations i.e., profit or loss of business: P**rimary objective of business is to make profit and the businessman is very much interested in knowing the same. (Income Statement)
- **To ascertain the financial position of the business:** The businessman is not only interested in knowing the operating results, but also interested in knowing the financial position of his (Position Statement)
- To provide accounting information to interested parties**:** Apart from the owners, there are various other parties who are interested in knowing about the business firm, such as the management, the bank, the creditors, the tax authorities, etc. For this purpose, the accounting system has to furnish the required information.



Accounting Cycle

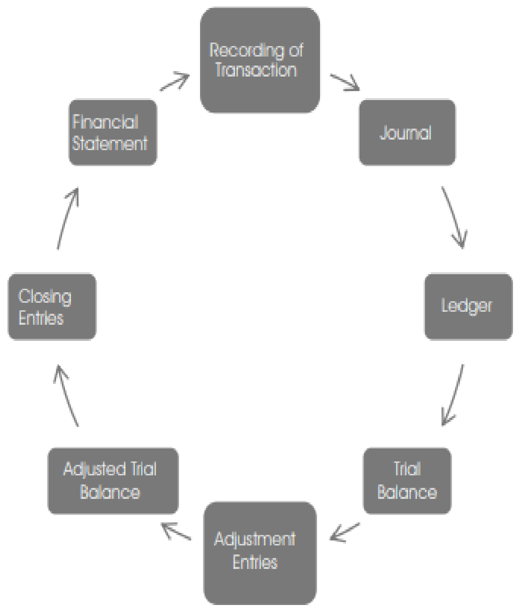
Accounting Cycle

a process designed to take in raw financial information and bring out accurate and consistent financial reports.

Steps/Phases of Accounting Cycle

The steps or phases of accounting cycle can be developed as under:

- **Recording of Transaction**
- **Journal**
- **Ledger**
- **Trail Balance**
- **Adjustment entries**
- **Adjust Trail Balance**
- **Closing Entries**
- **Financial Statement**



ACCOUNTING CYCLE

ADVANTAGES OF ACCOUNTING

- **Replaces memory:** Since all the financial events are recorded in the books, there is no need to rely on memory.
- **Provides control over assets:** Accounting provides information regarding balance of cash in hand and at bank, the stock of goods in hand, the amount receivable from various parties, the amount invested in various other assets, etc.
- **Facilitates the preparation of financial statements:** With the help of information contained in the accounting records, financial statements viz., Profit and Loss Account and Balance Sheet can be easily prepared.
- **Meets the information requirements:** Various interested parties such as owners, management, lenders, creditors, etc. get the necessary information at frequent intervals which help them in their decision-making.
- **Facilitates a comparative study:** The financial Statements prepared will enable the enterprise to compare its present position with that of its past, and with that of similar organisations. This helps them to draw useful conclusions and improve its performance.
- **Assists the management in many ways:** It is possible to identify reasons for the profit earned or loss suffered. The identification of reasons helps in taking necessary steps to increase profits further, or to avoid losses. Accounting information will also help in planning and controlling the activities of the business.
- **Difficult to conceal fraud or theft:** It is difficult to conceal fraud, theft, etc..as there is an automatic check in the form of periodic balancing of books of account.
- **Tax matters:** The Government levies various taxes such as customs duty, excise duty, sales tax, and income tax. Properly maintained accounting records will help in the settlement of tax matters with the tax authorities.
- **Ascertaining value of business:** In the event of sale of a business firm, the accounting records will help in ascertaining the value of business.

Advantages and Disadvantages of Accounting

Advantages

- Maintenance of business records
- Preparation of financial statements
- Comparison of results
- Decision making
- Evidence in legal matters
- Provides information to related parties
- Helps in taxation matters
- Valuation of business
- Replacement of memory

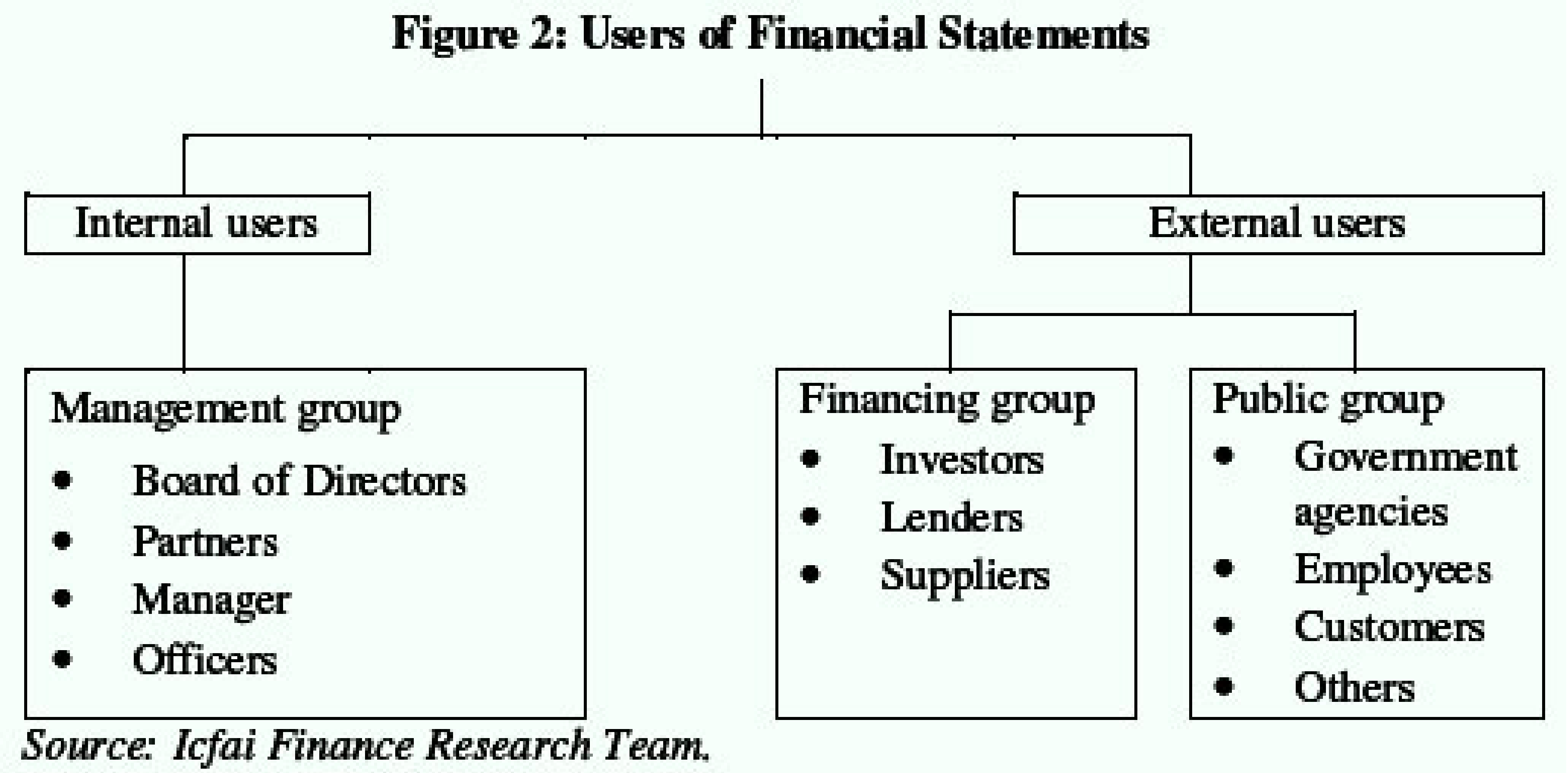
Disadvantages

- Expresses Accounting information in terms of money
- Accounting information is based on estimates
- Accounting information may be biased
- Recording of Fixed assets at the original cost
- Manipulation of Accounts
- Money as a measurement unit changes in value

Accounting Process

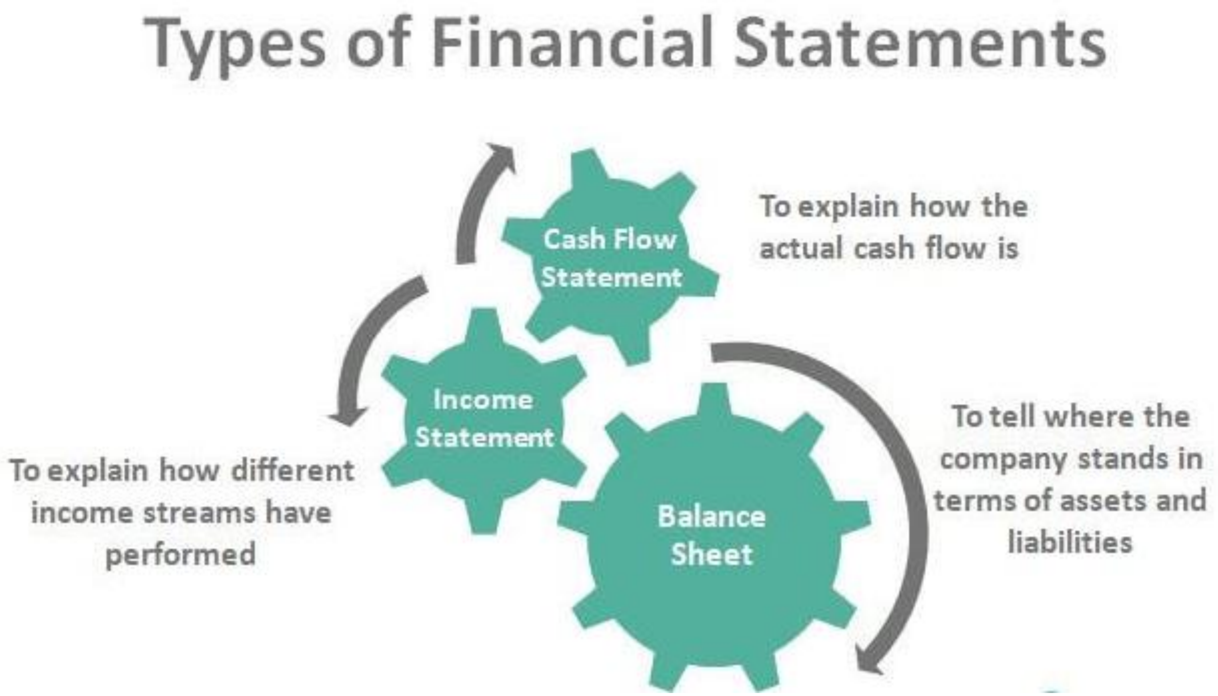
Users of Financial Information

- Internal Users
- External Users



Financial Statement

- Income Statement
- Balance Sheet
- Cash Flow Statement



BOOK-KEEPING, ACCOUNTING AND ACCOUNTANCY

- Accounting involves a series of activities, as listed out in the scope of accounting. These activities are; (1) identifying, (2) measuring. (3) recording, 40 classifying, (5) summarising, (6) analyzing, (7) interpreting, and 8) communicating the financial transactions and events.

- Book-keeping is a narrow term, which means record keeping or maintaining books of account. It only covers the first four activities (1 to 4 above) of accounting.

Bookkeeping vs. Accounting

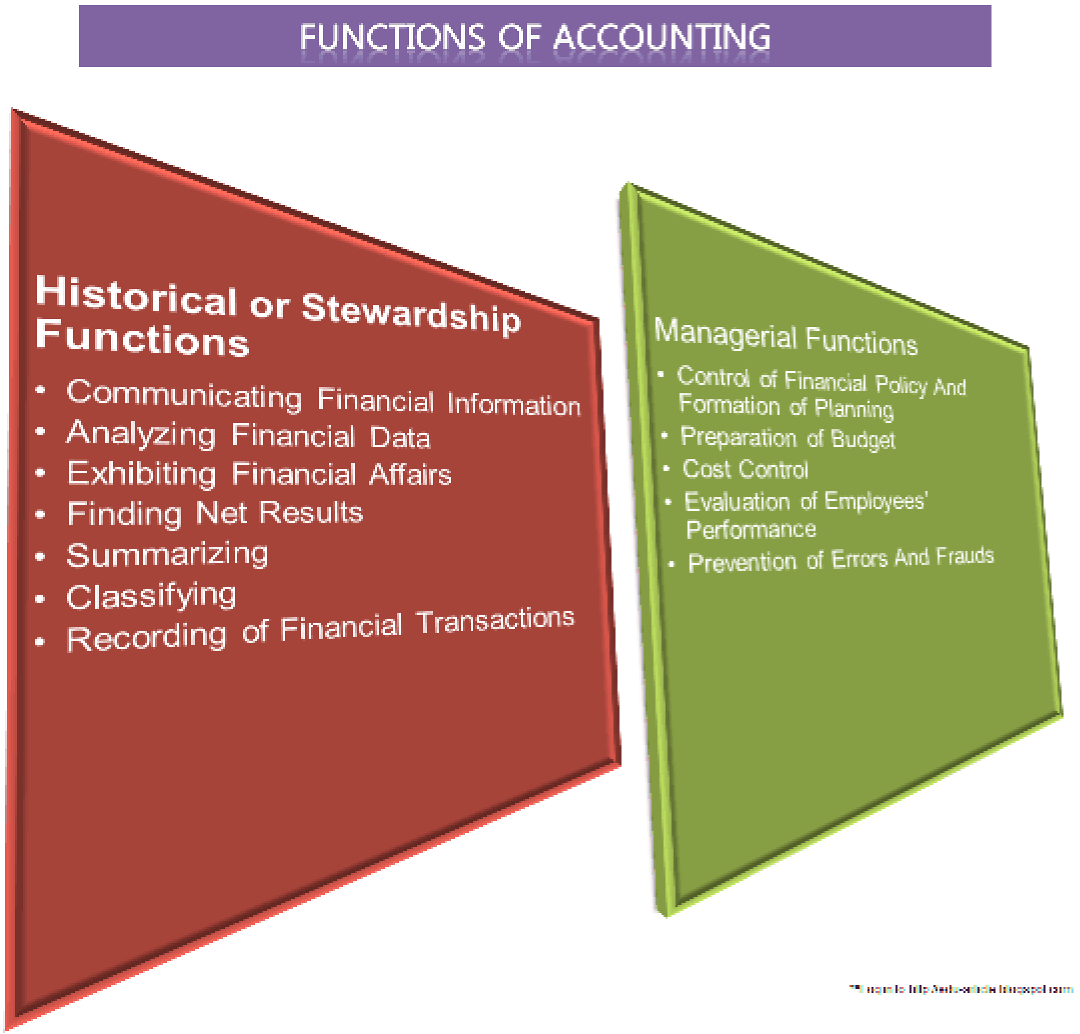
Key Differences

BOOKKEEPING TASKS	ACCOUNTING TASKS
Record and categorize daily payments and expeses	Prepare adjusting entries
Send customer invoices and record payments received	Analyze the cost of operations
Conduct bank reconciliations every month	Advise business owner during financial decision making
Generate monthly financial statements	Review and analyze financial statements
Process payroll	Assess financial health and make financial forecasts
Prepare the books for the accountant	Perform audits
Provide year-end financials and tax documents to the accountant	File tax returns, conduct tax planning, and provide tax advisory

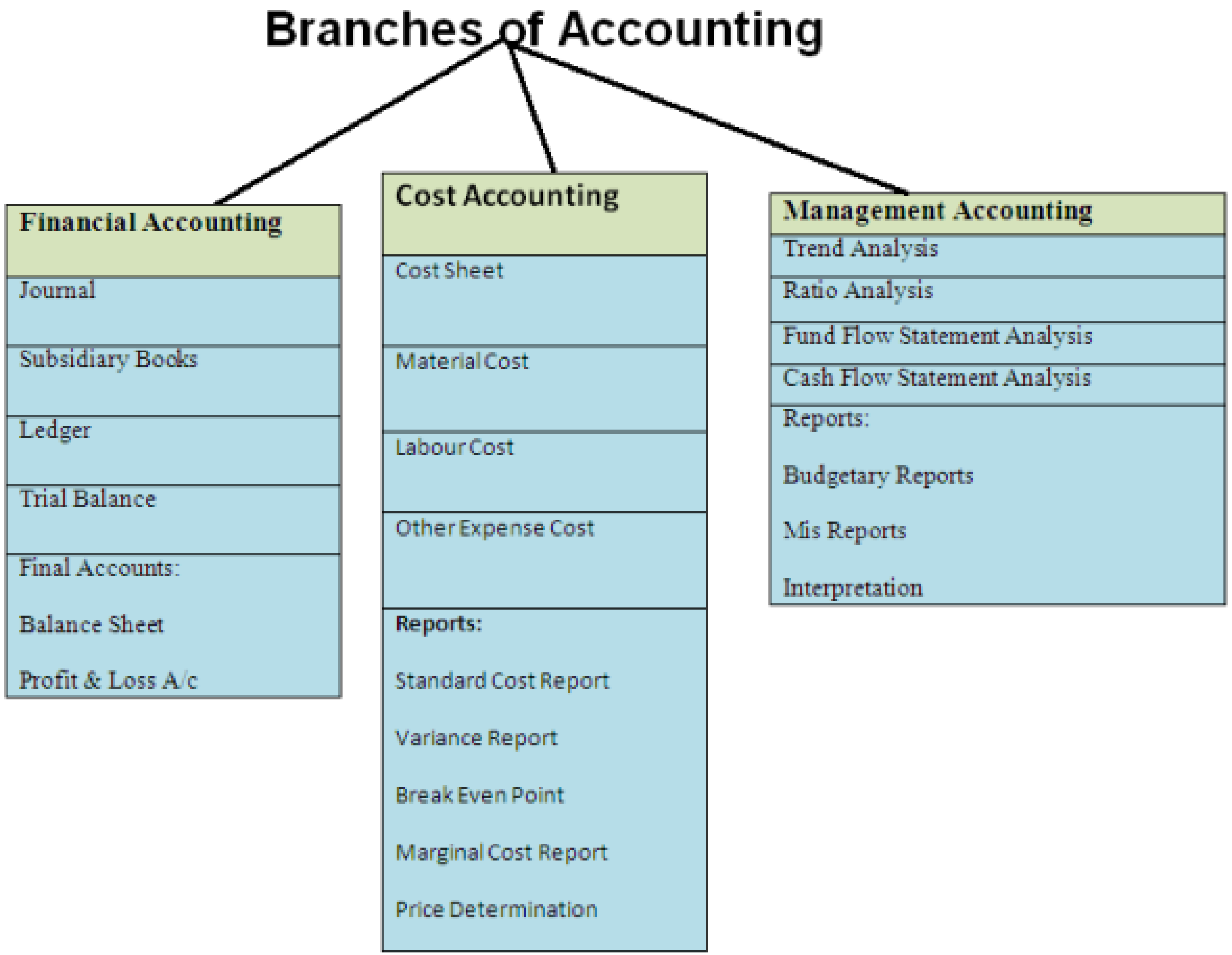
Role of Accounting

- Language of Business
- Decision-Making tool
- Create Accountability and control
- As an information system

FUNCTIONS OF ACCOUNTING



BRANCHES OF ACCOUNTING



Financial Accounting:

The purpose of this branch of accounting is to keep a record of financial transactions and events so that:

- The net result of the operations of the business (profit or loss) during an accounting period can be ascertained;
- The financial position (assets, liabilities and capital position) of the business as at the end of the period can be ascertained;
- And relevant financial information can be provided to management and other interested parties.

Cost Accounting:

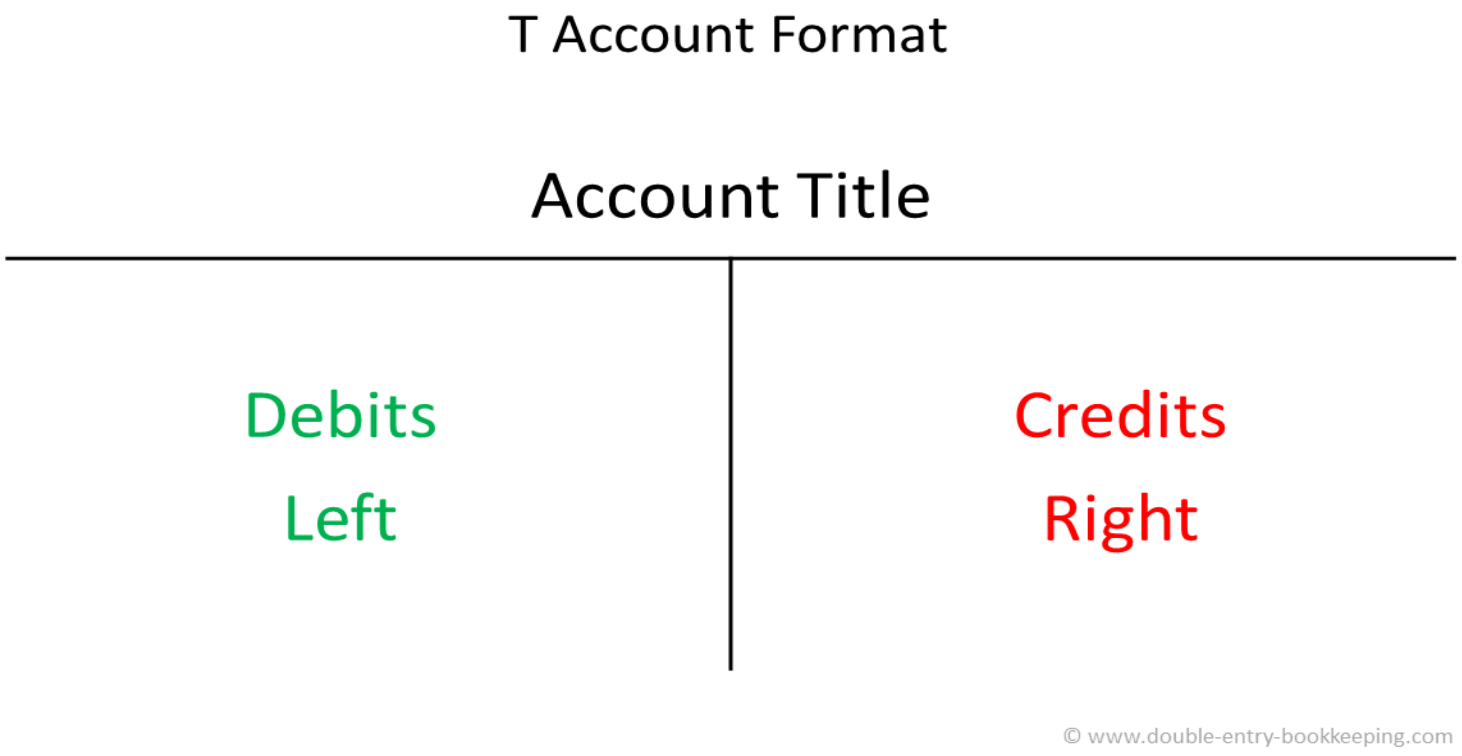
- The purpose of cost accounting is to analyse the expenditure so as to ascertain the cost of each product, operation, service, etc. The price of an article is nothing but the cost plus a certain amount of profit. Unless cost is known, price cannot be fixed rationally. **Cost accounting** helps not only in **ascertaining the costs** but also assists the management in **controlling the costs**.

Management Accounting:

- The purpose of management accounting is to assist the management in taking rational policy decisions and to evaluate the impact of its decisions and actions. Examples of such decisions are: pricing decisions, capital expenditure decisions, etc. This branch of accounting is primarily concerned with presenting information that may be needed by management in such decision-making.

WHAT IS AN ACCOUNT?

- Account is a summarised record of the effect of all transactions relating to a particular person or an item. Let us now learn more about this term.
- An account is vertically divided into two and resembles the shape of the English alphabet ‘T’ as under:



Dr.	Cash Account				Cr.
Date	Description	Amount	Date	Description	Amount

In the Book of ABC Ltd.
Simple Cash Book

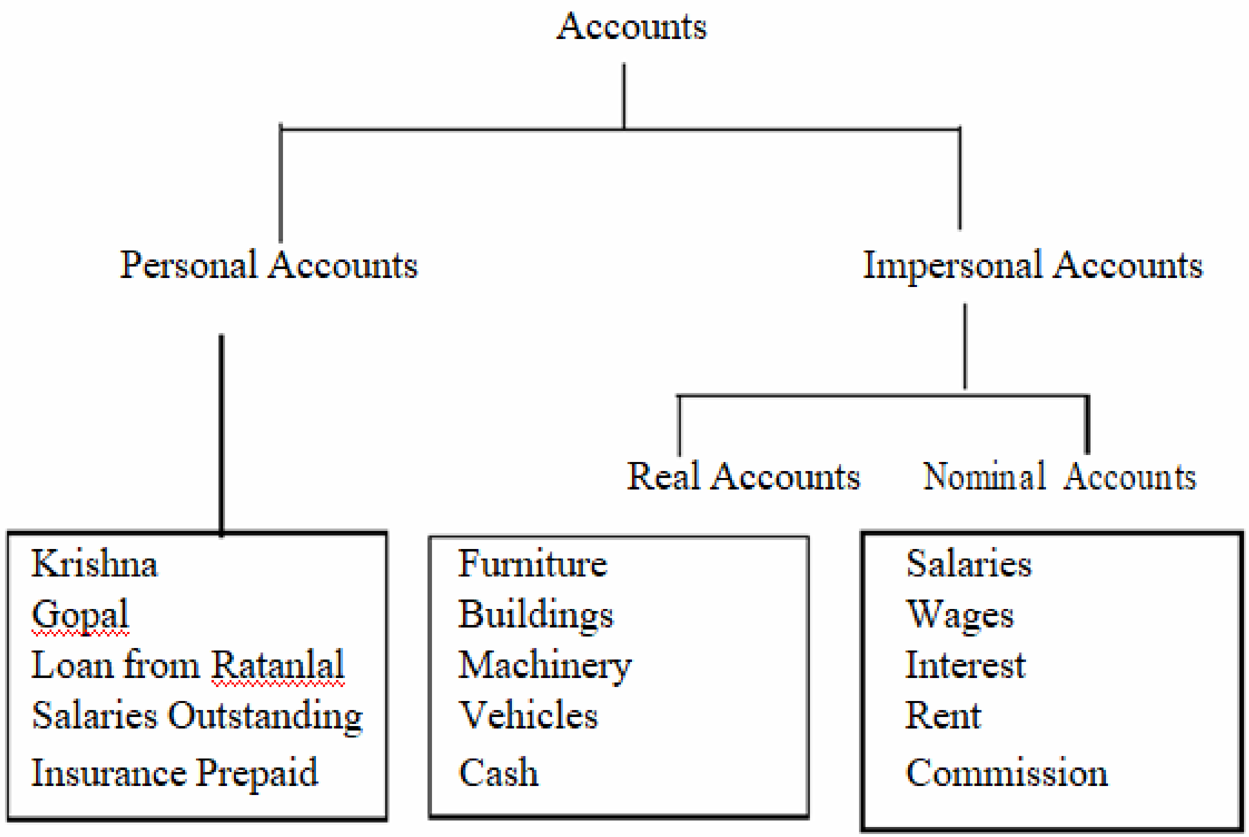
Dr. *Cr.*

Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
July 2018				July 2018			
01	To Balance b/d		30000				
				03	By Salary A/c		5000
09	To Bank A/c		8000				
10	To Sales A/c		7000				
				15	By Purchases A/c		15000
				17	By Carriage A/c		1000
				19	By Repairs A/c		3000
22	To H A/c		2000				
				31	By Rent A/c		1000
				31	By Balance c/d		22000
			47000				**47000**
August 2018							
01	To Balance b/d		22000				

CLASSIFICATION OF ACCOUNTS

- All business transactions broadly be classified into three categories:
- (i) those relating to persons,
- (ii) those relating to property (assets), and
- (iii) those relating to incomes and expenses.

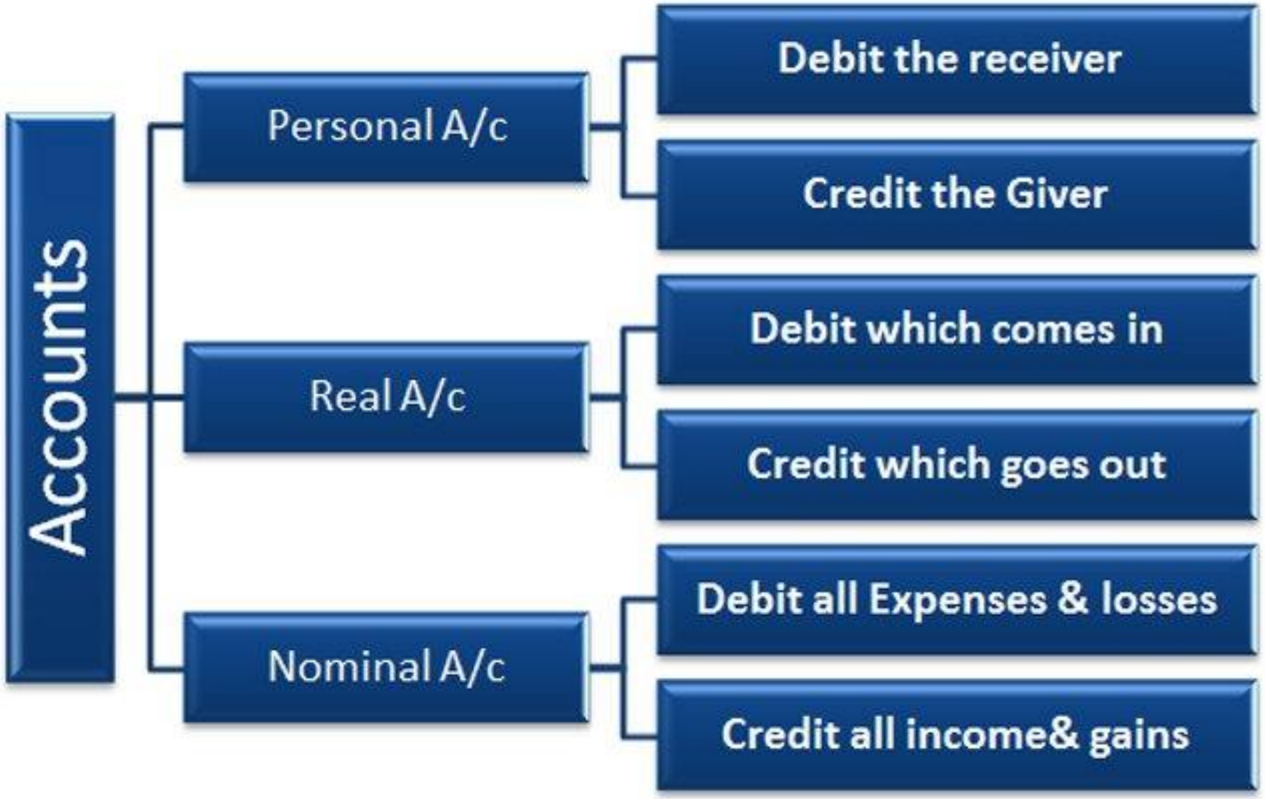
CLASSIFICATION OF ACCOUNTS



Rules of Debit and Credit

Rules of Debit and Credit		
Class of Account	**Debit**	**Credit**
Personal Accounts	The Receiver	The Giver
Real Accounts	What comes in	What goes out
Nominal Accounts	Expenses and Losses	Income and Gains

Rules of Debit and Credit



STEPS IN JOURNALISING

- 1. Take up the transaction, one by one. Read and analyze the transaction carefully from the business entity point of view, and identify the two accounts that are being affected by the transaction
- 2. After identifying the two accounts that are affected by the transaction, you must determine, in respect of each account, whether it is a personal account or a real account or a nominal account
- 3. Now, apply the relevant rules and decide which account is to be debited and which is to be credited.

Journal Practice Question 1

Journal Entry Preparation

1. Alex started the business with a capital contribution of Rs.3,00,000
2. Purchased goods for Cash Rs.50,000
3. Total cash sales is Rs.1,00,000
4. Salary paid RS.5500
5. Electricity bill paid to KSEB Rs.1,800
6. Incentives/ commissions received in the form of cash Rs.500
7. Purchase goods from Mr. Arun Rs.15,000
8. Sold goods to Amal for Rs.6,000
9. Rent Paid Rs.10,000
10. Rent received for part of the office premises Rs.7000

Practice Question 2

1. John started the business with a capital contribution of Rs.4,00,000.
2. Purchased goods for Cash Rs.60,000.
3. Total cash sales is Rs.1,20,000.
4. Salary paid Rs.6,500.
5. Electricity bill paid to KSEB Rs.2,000.
6. Incentives/commissions received in the form of cash Rs.1,000.
7. Purchase goods from Mr. Ravi Rs.20,000.
8. Sold goods to Priya for Rs.8,000.
9. Rent Paid Rs.12,000.
10. Rent received for part of the office premises Rs.9,000.