

# Accounting

American Accounting Association

→ It is the process of identifying, measuring and communicating economic information to permit informed judgment and decision by user of the information

American Institute of Certified Public Accountant

→ It is an art of recording, classifying and summarizing in a significant manner in term of money, transaction and events which are in part at least of financial character and interpreting the result their of

## Needs of Accounting

1. Record Business Transaction

→ keep systematic record of organizational financial information, up to record help users compare current financial info with historical data

2. Facilitates Decision making for management

→ Accounting is important for internal user (planner, organizer etc), management team needs accounting for making important decision

3. Communicating results

→ communicate company results to various users primarily investor, lender and creditor

4. Meeting Legal Requirements

→ ensures legal and accurate report of company financial information

## Types of Accounting

1. Financial Accounting

→ Prepares accurate financial statement of company

2. Managerial Accounting

→ Analyze information gathered from financial accounting to make strategic and tactical decision

## Function of Accounting

1. Recording

→ NA

2. Classifying

→ Analyze the record data and accumulate the transaction of similar type at one place. Performed by maintaining the ledger by opening different accounts

3. Summarizing

→ Prepare and present financial statement in a manner useful to user. (cash flow statement, income statement, Balance Sheet)

4. Interpreting/analyzing

→ Interpret the statement in a manner useful to action, what why and what will happen

5. Communicating

→ NA

## Book Keeping

→ systematic record of business transaction in an organized account on a daily basis

## Objective of Accounting

1. To keep systematic records  
→ NA
2. To protect business properties  
→ protect business properties from unjustified and unwarranted use
3. To ascertain (find out) operational profit and loss
4. To ascertain the financial position of business  
→ what owns and owes and where it stand
5. To make rational decision  
→ NA
6. Information system  
→ Collect and Communicate financial info and help in making decision

## Qualitative characteristic of accounting

→ Reliable, Relevant, Comparability, Understandability

## Principle of Accounting

→ Rules and regulation or guidelines followed by accountant universally for recording financial transaction

### Accounting Concept (assumption)

1. separate entity concept  
→ business and I are separate
2. going concern concept  
→ business will continue for a long time
3. money measurement concept  
→ include in accounting only if the transaction is in monetary term
4. cost concept  
→ asset value, acquired value or historic value will remain the same
5. Dual aspect concept  
→ every transaction has dual effect (asset and liabilities)
6. Accounting period concept  
→ divide business lifespan into interval (1 year)
7. Periodic matching of cost and revenue  
→ match expense with income
8. Realization concept  
→ consider revenue only when goods are sold or asset liquidated

### Accounting Convention (tradition)

1. conservatism  
→ recognize expense and loss as soon as possible in a particular situation, anticipate no profit but provide for loss

2.consistency

→ one method of accounting should be use from 1 year to next and so on

3.full disclosure

→ all necessary financial info of a business should be reported in financial statement

4.materiality

→ all material of business should be properly reported in financial statement,only info which is relevant