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,Understability

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

Limitation of Accounting

1 measurability
> cannot measure event/things that has non monetary value
2 no future assessment
> financial statement show financial position of firm on date of preperation
> user interested in future of condition of firm (in short/long term)
> it doesnt estimate such thing
3 historical data
> financial statement prepared using historical data
> do not take into account of factors like inflation,price change etc
4 error and fraud
> made by human so error is possible
> possible manipulation of account to cover up fraud since it is planned so difficult to spot
5 verifiability
> no guarantee of correctness of financial statement even after having an audit
> auditor can assure it is free from error as per his knowledge and skill

User of Accounting Information

1 proprietor
> profitability and financial soundness is important to proprietor who have invested in the business
2 management
> to determine the selling price, other price etc
> to compare with other similar business of the same industry to plan for future expansion or reduction
3 creditor
> to decide whether to continue or restrict flow of credit to a specific firm
> to know paying capability of firm
> to know if what owed will be paid in due time
4 prospect investor
> to know profitability and financial position of a firm they interested to invest in
5 government
> interested on account of taxation,labour,corporate law
6 employee
> to know about various profit and bonus sharing scheme of firm they work in
> more interested if they own that shares
7 citizen
> to know financial health of a business to get a fair idea of business environment and economic atmosphere of country

GAAP (Generally Accepted Accounting Principles)

→ refers to common set of accounting rules,standards and procedures issued by FASB (Financial Accounting Standard Board)

objective
1 create uniform standard for financial statement
2 transparency
3 clean
4 easily understood
5 easily verifiable by auditors and other parties

IFRS (International Financial Reporting Standard)
→ Accounting Standard that govern how various type of transaction /events should be reported in financial statement

objective
1 create common law
2 aid in analysis
3 assist in preparing reliable financial statement
4 comparibility
5 transparency
6 flexibility in reporting

Acconting Standard (AS)
→ common set of principle,standard and procedure that define the basis of financial accounting policies and practices

objective
1 improve reliability of financial statement
2 transparency
3 comparable
4 consistency
5 easily verifiable by auditors and other parties

Ethical issues in Accounting

Based on interviews and questionnaire responses, the authors identify the main ethical issues faced by accountants as:

- Misleading or inaccurate reporting, including inaccuracy, incompleteness and questionable re-categorisation
- Fraud and tax evasion
- Lack of transparency in accounting decisions
- Breaches of confidentiality
- Misrepresenting expertise
- Overcharging fees or over-servicing clients
- Bribery. [P. 14]

The main sources or causes of these ethical issues were

- Pressure from the client
- Conflict of interests
- Pressure from the employing organisation’s management or leadership.

The most frequent response practices were reported to be:

- Saying ‘no’ to external pressures
- Seeking advice
- Educating either fellow professionals or clients.