

# TOPIC: INTRODUCTION TO ACCOUNTING NOTES

## 1. What is accounts?

Recording of transactions in the books of accounts in a **systematic & Scientific manner**.

## 2. What is Accounting?

Accounting is the **process** of Identifying, measuring, recording, classifying, summarising, Analysis, interpreting and communicating the result thereof.

## 3. CHARACTERSTICS OF ACCOUNTING

Identification of Financial Transactions & Events



Measuring



Recording



Classifying



Summarising



Analysis & Interpretation



Communicating the result thereof

**Mnemonic: "IMRCSAC" "Intelligent Managers Record Correct Statements And Communicate."**

**I - Identification of Financial Transactions & Events**

**M - Measuring**

**R - Recording**

**C - Classifying**

**S - Summarising**

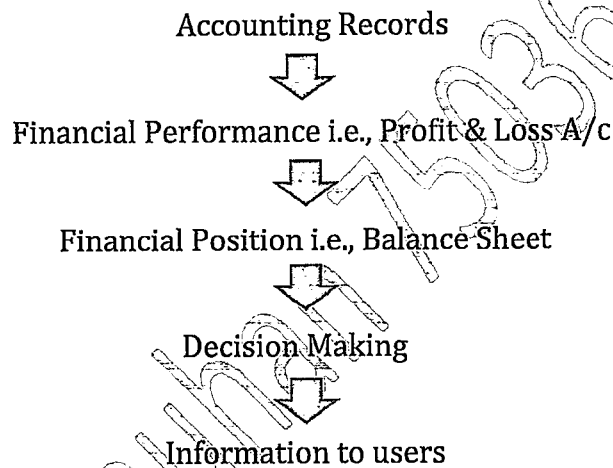
**A - Analysis & Interpretation**

**C - Communicating the Results**

- Identifying the transactions & Events:** Only those transactions and events will be recorded in the books which can be measured in terms of money.
- Measuring:** Transactions will be recorded in the currency of that country where the Business exist.

- c. **Recording:** Transactions will be recorded in the Books (**Journal Book**) in chronological order i.e. serial wise.
- d. **Classifying:** It is the grouping of Transactions known as **ledger**.
- e. **Summarising:** The data should be prepared & presented in such a manner so that it should be understandable to all the users. (**Balance Sheet**)
- f. **Analysis & Interpretation:** At this stage financial statements are analysed to check the performance & compared with similar type of organisations.
- g. **Communication:** It is the process of communicating the results of financial statements to its users. They can be Internal or External Users.

#### 4. OBJECTIVES OF ACCOUNTING



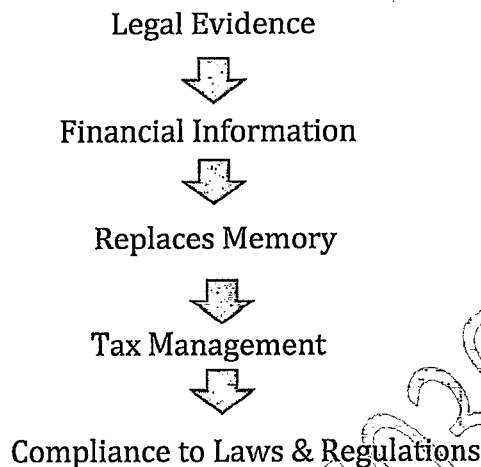
**Mnemonic: "AFFDI" "All Friends (Friend\*2) Decide Information"**

- ☞ **A - Accounting Records**
- ☞ **F - Financial Performance (Profit & Loss A/c)**
- ☞ **F - Financial Position (Balance Sheet)**
- ☞ **D - Decision Making**
- ☞ **I - Information to Users**

- a. **Maintaining Accounting Records:** Its main objective is to record all the transactions in a systematic manner as per the principles.
- b. **Computation of Profit & Loss:** Profit & Loss account is prepared with the help of accounting to check the performance of the business.
- c. **Assessing Financial Position:** Balance Sheet is prepared with the help of accounting to assess the financial position in terms of Liabilities, Capital & Assets as at particular date for users.

- d. **Decision Making:** It helps the management in Decision making, Budgeting and forecasting.
- e. **Information to Users:** One of the main objectives of accounting is to provide financial Information to its users.

## 5. ADVANTAGES OF ACCOUNTING



**Mnemonic: "LFRTC" "Lawyers Find Records To Comply."**

- ☞ L - Legal Evidence
- ☞ F - Financial Information
- ☞ R - Replaces Memory
- ☞ T - Tax Management
- ☞ C - Compliance to Laws & Regulations

- a. **Legal Evidence:** Proper accounting is generally acceptable as evidence in Relevant Departments. Ex. Income Tax Department.
- b. **Financial Information:** It provides financial Information such as Financial performance & Financial Position in form of Profit & Loss A/c and Balance Sheet.
- c. **Replaces Memory:** There is no need to remember the transactions occurred during the year.
- d. **Tax Management:** One can assess its Tax liabilities in advance and can manage itself.
- e. **Compliance of Laws:** Accounting can help a Business in compliance of Income Tax and Company Law Provisions.

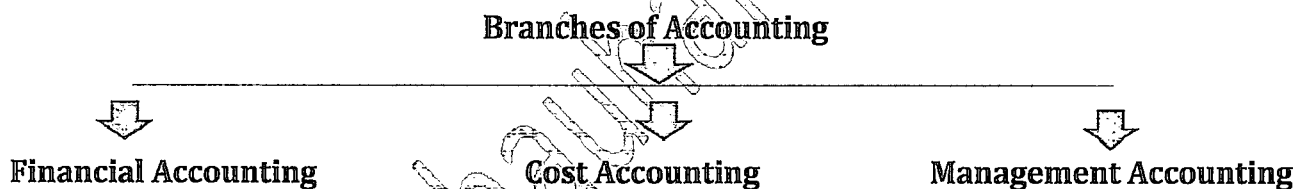
## 6. LIMITATION OF ACCOUNTING

**Mnemonic: "WAPIP" "Wise Accountants Prefer Important Principles."**

- ☞ W - Window Dressing
- ☞ A - Accounting is not fully Exact
- ☞ P - Price Fluctuations Ignored
- ☞ I - Ignores Qualitative Elements
- ☞ P - Personal Bias

- a. **Window Dressing:** Accounting may lead to window dressing. There are chances where accounting data can be manipulated to show better position. Ex Satyam Scam where financial figures were manipulated to attract more investors.
- b. **Accounting is not fully Exact:** Some transactions in accounting are not exact as they are estimated on the basis of evidences. Ex: Provision for Doubtful Debts, Provision for Warranty of Repairs.
- c. **Ignores the effect of Price Fluctuations:** It records the financial transactions on Historical basis. Hence it ignores any price fluctuation in the prices. This problem has been sort out by IND AS.
- d. **Ignores Qualitative element:** It is related to monetary terms only. As after the preparation of Financial Statements one can't judge whether the same has been prepared by the Accountant or Chartered Accountant (C.A.).
- e. **Personal Bias:** It is not free from personal Bias. As different persons can have different opinions for the valuations of life of an Asset.

**7. BRANCHES OF ACCOUNTING:**



- a. **Financial Accounting:** It refers to that branch of accounting which records the events and transactions which can be measured in terms of money to identify the profit earned or loss incurred and to present the financial position.
- b. **Cost Accounting:** It refers to that branch of accounting which is concerned with the ascertaining of cost of product & Processes.
- c. **Management Accounting:** It refers to that branch of accounting which deals with the presenting of financial information in such a manner that helps the management in planning & controlling the operations of Business.

**8. DIFFERENCE BETWEEN BOOK KEEPING & ACCOUNTING**

Points of Distinction	Book keeping	Accounting
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1. Definition	It is the process of identifying, recording & classifying the transactions	It is concerned with summarising & interpreting the result thereof.
2. Stage	It is primary Stage	It is secondary stage
3. Level of Management	It is done by Junior Staff .	It is done by Senior staff
4. Objective	Its main objective is to maintain proper Books of accounts.	Its main objective is to interpret & communicate the result thereof.
5. Nature of Work	Routine in Nature	Analytical and dynamic in nature.

## 9. QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION:

Mnemonic: "RRCU" Reliable Reports Create Understanding

☛ **R - Reliability**

☛ **R - Relevance**

☛ **C - Comparability**

☛ **U - Understandability**

**a. Reliability:** The information should be reliable from the user's point of view in reference to free from Bias and material Misstatement.

**b. Relevant:** It should meet the needs of users in the form of Decision Making.

**c. Comparability:** The financial information should be presented in such a manner so that the users can easily compare the Information i.e., Inter & Intra firm comparison.

**d. Understandability:** It means that the financial information should be provided in such a manner so that the users are able to understand it.

## 10. USERS OF ACCOUNTING

**a. Internal Users:**

i) **Owner:** Owner uses the accounting to assess the performance of the Business.

ii) **Management:** It uses the accounting data for Decision making and to simplify the business process to use the resources in efficient manner.

**b. External Users:**

- i) **Investors:** Investors are interested in financial statements to assess the return on Investment.
- ii) **Creditors:** They assess the business short term repayment capability whether the firm would be able to repay them.
- iii) **Government:** Government is keen to financial statement so as to make Monetary and other policies for the public.
- iv) **Employees:** They are interested in the financial statements of the business as the Bonus and other retire benefits are directly linked to Profit of the business.

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