BAL BHARATI PUBLIC SCHOOL, PITAMPURA

CLASS-11 (SESSION 2020-21)

ACCOUNTANCY

CHAPTER 1 : INTRODUCTION TO ACCOUNTING

DEFINITION OF ACCOUNTING

Accounting can be defined as a process of identifying, recording, classifying, summarizing and communicating economic data. The introduction of accounting helps the decision-makers of a company to make effective choices, by providing information on the financial status of the business. Today, accounting is used by everyone and a good understanding of it is beneficial to all. Accountancy acts as a language of finance.

OBJECTIVES OF ACCOUNTING:

1. To maintain a systematic record of business transactions

Accounting is used to maintain a systematic record of all the financial transactions in a book of accounts.

For this, all the transactions are recorded in chronological order in Journal and then posted to principle book i.e. Ledger.

2. To ascertain profit and loss

Every businessman is keen to know the net results of business operations periodically.

To check whether the business has earned profits or incurred losses, we prepare a "Profit & Loss Account".

3. To determine the financial position

Another important objective is to determine the financial position of the business to check the value of assets and liabilities.

For this purpose, we prepare a "Balance Sheet".

4. To provide information to various users

Providing information to the various interested parties or stakeholders is one of the most important objectives of accounting.

It helps them in making good financial decisions.

5. To assist the management

By analysing financial data and providing interpretations in the form of reports, accounting assists management in handling business operations effectively.

CHARACTERISTICS OF ACCOUNTING:

Following attributes or characteristics can be drawn from the definition of Accounting:

(1) Identifying financial transactions and events

Accounting records only those transactions and events which are of financial nature.

So, first of all, such transactions and events are identified.

(2) Measuring the transactions

Accounting measures the transactions and events in terms of money which are considered as a common unit.

(3) Recording of transactions

Accounting involves recording the financial transactions inappropriate book of accounts such as Journal or Subsidiary Books.

(4) Classifying the transactions

Transactions recorded in the books of original entry – Journal or Subsidiary books are classified and grouped according to nature and posted in separate accounts known as 'Ledger Accounts'.

(5) Summarising the transactions

It involves presenting the classified data in a manner and in the form of statements, which are understandable by the users.

It includes Trial balance, Trading Account, Profit and Loss Account and Balance Sheet.

(6) Analysing and interpreting financial data

Results of the business are analysed and interpreted so that users of financial statements can make a meaningful and sound judgment.

(7) Communicating the financial data or reports to the users

Communicating the financial data to the users on time is the final step of Accounting so that they can make appropriate decisions.

STEPS OF THE ACCOUNTING PROCESS:

(1) Identification & Recording

For recording, we use 'Journal' or Subsidiary Books.

(2) Classification of transactions

Classification means segregation of transactions on the basis of nature and posting them in a format known as Ledger Account.

(3) Summarisation

It includes preparation of Trial Balance and Financial Statements.

(4) Analysis & Interpretation

It includes an assessment of the financial reports and making some meaningful conclusions.

(5) Communicating information to the users

It includes sharing the financial reports and interprets results to the users of financial statements.

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

Qualitative characteristics are the attributes of accounting information, which enhance its understandability and usefulness:

1. Reliability: Reliability implies that the information must be free from material error and personal bias.

2. Relevance: Accounting information must be relevant to the decision-making requirements of the users.

3. Understandability: Information should be disclosed in financial statements in such a manner that these are easily understandable.

4. Comparability: Both intra-firm and inter-firm comparison must be possible over different time periods.

BOOKKEEPING, ACCOUNTING AND ACCOUNTANCY.

Bookkeeping:

Book Keeping is a part of Accounting and it is the process of identifying, measuring, recording and classifying the financial transactions.

Accounting

Accounting is a wider concept and actually, it begins where Book Keeping ends. It includes summarizing, interpreting and communicating the financial data to the users of financial statements.

Accountancy

Accountancy refers to systematic knowledge of the principles and the techniques which are applied in Accounting.