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BBA(VOCATIONAL)

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- FINANCIAL ACCOUNTING-

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Behind every good
Business man
is a great ACCOUNTANT

Notes

Objectives

After studying this unit, you will be able to:

- Understand needs and objectives of accounting
- Know branches of accounting
- Know users and difference between book-keeping and accounting
- Describe meaning, importance and rules of double entry system

Introduction

Accounting is a business language which elucidates the various kinds of transactions during the given period of time.

Accounting is broadly classified into three different functions *viz.*

- Recording
- Classifying and
- Summarizing

American Institute of Certified Public Accountants Association defines the term accounting as follows “Accounting is the process of recording, classifying, summarizing in a significant manner of transactions which are in financial character and finally results are interpreted.”

The main object of a business house is to earn profit. Accounting is the medium of recording the business activities and it considered as a language of business. To find out the results of a business, the information relating to the cost of the products and revenues from the products is collected. Then the costs and revenues are compared to find out the profit or loss of the business. If volume of sales of the products is high and the number of transaction of the business is very high, it is impossible to keep all these transactions in the mind of a business man. Thus a need of recording of all these business transactions rose. The recording of business transactions or activities is done through a process of accounting. There is an old quotation of a well known author of accounting Prof. R.R. Gupta, First write or record before one deliver the goods or renders the services and if there is any disagreement in future, use the writing or record as an evidence to resolve the misunderstanding or rectifying the errors.

Today the business activities are recorded not only to find out the profit or loss of the business, but are also to judge the financial position of the business. Accounts of the business are prepared from the point of view of owner and also serve the purpose of outsiders. Creditors and investors want to know how safe their investment is—Labours in conducting the negotiations for wages and government to determine the economic policies etc. Thus accounts of a business are the evidence on the basis of which the financial decisions are taken.



Caution Accounting is not an equivalent function to book keeping. Accounting is broader in scope than the book keeping; the earlier cannot be equated to the latter.

1.1 Meaning and Definition of Accounting

Accounting is treated as the language of business. It records all the transactions which can be measured in money and have occurred in a particular period. Accounts of a business provide useful information to its users.

There are many definitions of accounting. Some of the most important definitions are given below:

1. As per Robert N. Anthony – “Accounting system is a means of collecting, summarizing, analyzing and reporting, in monetary terms, information about the business”.
2. The American Accounting Association (AAA) has defined accounting as, “the process of identifying, measuring and communicating economic information to permit informal judgments and decisions by users of information”.
3. The Committee on Terminology of American Institute of Certified Public Accountants gave a generally accepted definition of accounting – “Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.”

On the basis of above definitions we conclude that accounting is a science as well as an art of recording of activities of the business which can be measured in money and analyzing and interpreting them.

1.1.1 Characteristics of Accounting

On the basis of above definitions, the characteristics of accounting may be drawn as follows:

1. **Accounting is the art of recording of financial transactions of the business:** All those transactions of business which are financial in nature are recorded in accounting and those which are not of financial nature are not recorded in accounting. As the honesty of the workers cannot be measured in money, it cannot be recorded into accounting.
2. **Classifying and summarising of recorded data is done in accounting:** In accounting the financial transactions are recorded in the journal. With the help of journal, the recorded data are classified into ledger under appropriate heads. Then with the help of ledger the trial balance and financial statements are prepared.
3. **Data are recorded in terms of money:** In accounting, the financial data are recorded in a definite term i.e. money. No other unit is accepted to record the business transaction. If there is sale of 100 articles at the rate of ₹50 per article, only the monetary value of these articles i.e. ₹,000 (100 x ₹50) is recorded.
4. **Accounting is a science also:** On account of recording of business transactions in a systematic manner, it is also called a science. First the business transactions are recorded in the primary books i.e. journal, for classification the ledger is prepared. With the help of ledger the trial balance, profit and loss account and balance sheet is prepared. Profit and loss account is prepared after a period to find the result of the business and balance sheet to know the financial position of the business.
5. **Analysing and interpretation of the results is done in accounting:** It not only record classifies and summaries the business data but also analyse and interprets the results for the future decisions. On the basis of data forecasting regarding profit, sales, etc., may be done.

1.1.2 Objectives of Accounting

The main purpose of book-keeping and accounting is to furnish the necessary financial data to the persons interested in the business. These persons can be the internal users of the business and external users of the business. Among the internal users all the managers at lower, middle and top level are included. While among the external users, investors, creditors, government and