

BBA(VOCATIONAL)

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- FINANCIAL ACCOUNTING-

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Behind every good
Business man
is a great ACCOUNTANT

Notes

public is included. The financial statements are supplied to the external users for the necessary information. In brief, following are the objectives of accounting:

1. **To maintain the systematic records of the business:** The primary objective of the accounting is to maintain the records of all transactions of the business. As the memory of human being is very limited and short, it would be very difficult to remember all the transactions especially if there is a huge amount of transaction. So it is very necessary to record all business transactions properly to determine the amount of profit or loss and the financial position of the business on a particular date.
2. **To ascertain the profit or loss of the business:** The main objective of the business is to earn a profit. Exact profit can be ascertained with the help of financial accounting which helps to determine the net profit or loss of the business over a period. For the determination of the amount of profit or loss, a trading and profit and loss account is prepared at the end of a period. If there is excess of revenue for a period over the expenses incurred to earn that revenue, it is said to be a profit. And if there is excess of expenses over the revenue, it is said to be a loss. In the case of profit the management can take the decisions relating to selling price and output etc. In the case of loss, the causes of such a loss are investigated and remedial action is taken by the management.
3. **To present the financial position of the business:** The objective of the accounting is not only recording of the financial transactions of the business and determination of profit or loss but also to present the financial position of the business. To present the financial position, financial accounting helps in the preparation of balance sheet. Balance sheet is the statement of assets and liabilities of the business. It also gives the information about the borrowed capital as well as owned capital along with different assets such as fixed assets, current assets and miscellaneous. Balance sheet is the reflector of the financial position of a business (solvency and insolvency).
4. **To provide the financial information to the various users:** One more objective of the accounting is to provide the required financial information to the different users - internal as well as external users. Internal users of the financial statements are owners, shareholders, management and external users of the financial statements are debenture holders, creditors, investors, employees, government, etc.
5. **For Decision Making:** These days accounting has taken upon itself the task of collection, analysis and reporting of information at the required points of time to the required levels of authority in order to facilitate rational decision-making.

1.1.3 Need of Financial Accounting

A well known author of Accounting, [Prof. R.R. Gupta, Principal, Poddar College, Nawalgarh (Rajasthan)] wrote in"First write/record before one delivers 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 error."

Recording of business transactions is necessary from owners' point of view and other interested party as well. The persons included in the second category are the suppliers of the materials, products and services to the business, the government and the society at large. The creditors (suppliers who are willing to take their payment later) are interested to know whether the business will be able to pay them later (solvency of the business) whereas the government wants to know whether the business has paid whatever was due to them in terms of taxes, fees, etc.



Did u know? **What are the purposes of preparing financial statements?**

1. Accounting provides necessary information for decisions to be taken initially and it facilitates the enterprise to pave way for the implementation of actions.

2. It exhibits the financial track path and the position of the organization.
3. Being business in the dynamic environment, it is required to face the ever changing environment. In order to meet the needs of the ever changing environment, the policies are to be formulated for the smooth conduct of the business.
4. It equips the management to discharge the obligations at every moment.
5. Obligations to customers, investors, employees, to renovate/restructure and so on.

1.1.4 Scope of Accounting

The Scope of accounting is divided into following two parts:

1. Branches of Accounting
2. Accounting as a science or an art

Branches of Accounting

The main objectives of accounting are to record the business transactions and to provide the necessary information to the internal and external users of the financial statements. In order to achieve the above objectives, the accounting is classified into followings branches:

1. **Financial Accounting:** It is the original form of accounting. It refers to the recording of daily business financial transaction. Recording of the transaction is done in such a way that the profit of the business may be ascertained after a definite period and the picture of the financial position of the business may be presented.
2. **Cost Accounting:** As the name indicates, this accounting is related with the ascertainment of cost of the product in a period. Under this system, record of raw materials used in production, wages and labour paid and other expenses incurred on production are kept to control the costs.
3. **Management Accounting:** The accounting which provides the necessary information to the management is called management accounting. Under this, the analysis and interpretation of the accounts, prepared by financial accounting, are done in a manner so that the managers may forecast, plan for future and frame the policy.
4. **Tax Accounting:** Under tax accounting, the accountants prepare the accounts as per the provisions of taxation. The accounts prepared as per taxation provisions may differ from the accounts prepared as per financial accounting.
5. **Inflation Accounting:** The financial statements are prepared on the basis of historical cost which do not present the true picture of the financial position and correct profit or loss of the business due to inflation. Thus the fresh financial statements are prepared keeping in mind the price level changes under inflation accounting.
6. **Human Resource Accounting:** Human Resource Accounting means the accounting for human being as now in an organization human being is treated as an asset like other physical assets. It is recorded in the books like other assets. HRA deals with the measurement of costs on recruiting, selecting, hiring, training, placing and development of the employees in one side and on the other side it deals with the present economic value of the employees. For the determination of the value of human being different methods are used under HRA.
7. **Responsibility Accounting:** Responsibility accounting is a special technique of management under which accountability is established according to the responsibility delegated to the