

SUBJECT: FINANCIAL ACCOUNTING

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INTRODUCTION TO ACCOUNTING

* MEANING AND DEFINITION OF ACCOUNTING

Accounting has rightly been termed as the language of the business. It records, classifies, analyses and communicates all the business transactions that have taken place during a particular period. It is a system of recording and reporting business transactions in financial terms, to interested parties. According to American Institute of Certified Public Accountants "Accounting is the art of recording, classifying and summarizing in a significant manner in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof." Thus accounting is the art of recording, classifying, summarizing, analyzing and interpreting the financial transactions and communicating the results thereof to the interested person.

* Features or characteristics or nature of Accounting

Following are the features of accounting:-

- (1) Accounting is an art.
- (2) Accounting is a science.
- (3) Recording of Business transactions.
- (4) Classifying business transactions.

- (5) Summarizing the classified data.
- (6) Analyze and Interpret the summarized data
- (7) Communicating information to the interested parties.
- (8) Record transaction and events which are financial character.

* Objectives of Accounting or Functions of Accounting

The following are the main objectives:

1. To keep systematic records.
2. To ascertain the operational profit or loss.
3. To ascertain the financial position of the business.
4. To make information available to various users.
5. To protect business properties.
6. To facilitate rational decision making.
7. To ascertain the cost of production and selling price.
8. To control expenditure of business.
9. To satisfy the requirements of law.
10. To calculate the amount due to and due from others.

* Importance of accounting (uses or advantages)

Accounting brings the following advantages:

1. It serves as a historical record.
2. It facilitates the preparation of financial statements.
3. It supplies information to interested persons.
4. It helps the management in taking important business decisions.
5. It facilitates comparative study of the performance of business over different periods.
6. It provides evidence in case of disputes.
7. It helps to forecast the future.
8. It provides information for judging the efficiency of business.

9. It is useful in getting loans.
10. It helps in valuation of good will.
11. It helps in controlling expenses.
12. It helps in controlling employees.
13. It helps in prevention and detection of errors and frauds.

* Scope of Financial Accounting

Following activities are included within the framework of financial accounting:

- (1) Book-keeping
- (2) Financial Statements
- (3) Analysis and interpretation of financial statements.
- (4) Financial reporting.
- (5) Accounting principles.
- (6) Accounting standards.

* Limitations of Accounting

Accounting suffers from the following limitations:

1. It is historical in nature.
2. Transactions of non-monetary nature will not be recorded in accounting.
3. Information recorded in accounts is influenced by the personal judgment of the accountant.
4. In accounting valueless assets are also shown.
5. In accounting price changes are not considered.
6. It is not an exact science.
7. Use of different accounting methods reduces the reliability of accounts.
8. Account records show only actual cost figures.