

Unit-1

Introduction to Accounting

What is Accounting?

Accounting is the process of:

1. Identifying financial transactions,
2. Measuring them in money terms,
3. Recording them in books,
4. Communicating this information to users.

It helps businesses track what they earn, spend, and own.

History of Accounting

Originated in ancient civilizations like Babylon, Egypt, and India.

Luca Pacioli (Italy, 1494) is called the "Father of Accounting" for explaining the double-entry system.

Economic Events

These are events that affect the business financially. Two types:

External Events: with outsiders (e.g. selling goods to customers)

Internal Events: within the business (e.g. using raw materials)

Steps in Accounting

1. Identification – Is it a financial event?
2. Measurement – Can it be measured in money?
3. Recording – Record it in a systematic way.
4. Communication – Share info with users via reports/statements.

Who Uses Accounting Info?

Internal Users: Managers, Owners, Employees.

External Users: Investors, Creditors, Government, Customers, Tax authorities.

They use this info to make decisions.

Types of Accounting

1. Financial Accounting – Tracks financial data & creates reports.
2. Cost Accounting – Calculates product/service costs.
3. Management Accounting – Helps in decision-making and planning.

Qualities of Good Accounting Info

1. Reliability – Should be accurate and free from bias.
2. Relevance – Should help in decision-making.
3. Understandability – Should be easy to grasp.
4. Comparability – Should help compare with past data or others.

Objectives of Accounting

1. Keep record of transactions.
2. Calculate profit or loss.
3. Show financial position (assets, liabilities).
4. Provide useful info to users.

Basic Terms in Accounting

Term	Meaning
Assets	What the business owns (cash, land, machinery)
Liabilities	What the business owes (loans, creditors)

Capital	Money invested by the owner
Revenue	Money earned by business (sales, commission)
Expenses	Costs to earn revenue (salary, rent)
Profit/Loss	Profit = Revenue > Expenses; Loss = Expenses > Revenue
Debtors	People who owe money to the business
Creditors	People to whom business owes money
Drawings	Money/goods taken by the owner for personal use

✦ Final Thought

Accounting = Language of Business

It helps record, report, and analyze financial data to make better business decisions.