

Chapter - 1

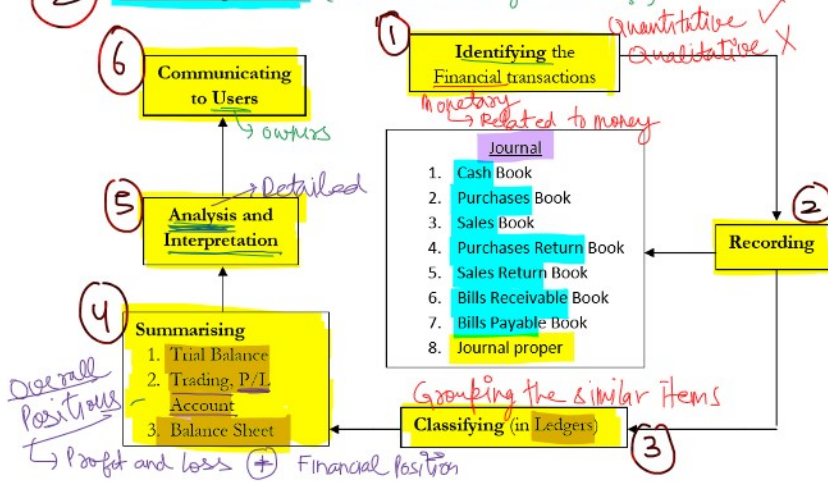


INTRODUCTION TO ACCOUNTING

① Accounting is the process of identifying, recording, classifying, summarising, analysing and communicating the financial information to users.



② Accounting Process (How Accounting works?)





→ Base main

③ **Characteristics/ Features of Accounting**

1. Identifying the Financial transactions
2. Recording
3. Classifying
4. Summarising
5. Analysis and interpretation
6. Communicating to Users

Objectives of Accounting (Accounting Kya Karte hai)

Purpose/Aim: P, L, A/C, Balance sheet

1. Determining Profits/Losses
2. Determining Financial transactions position
3. Communicating accounting information to users
4. Assisting the management
5. Record of financial transactions

→ Helps → employees (people who manage the business)

PFCA R

Functions of Accounting

1. Meeting Legal requirements
2. Communicating accounting information to users
3. Assisting the management
4. Record of financial transactions

LCAR

Merits/ Benefits

Advantages of Accounting

1. Financial information about Business
2. Assistance to management — people who manage the business/ employees
3. Replaces memory
4. Comparative Study
5. Facilitates settlement of Tax liabilities → tax is calculated on profits
6. Facilitate loans → payment
7. Evidence in court

Disadvantages/ Drawback

Limitations of Accounting

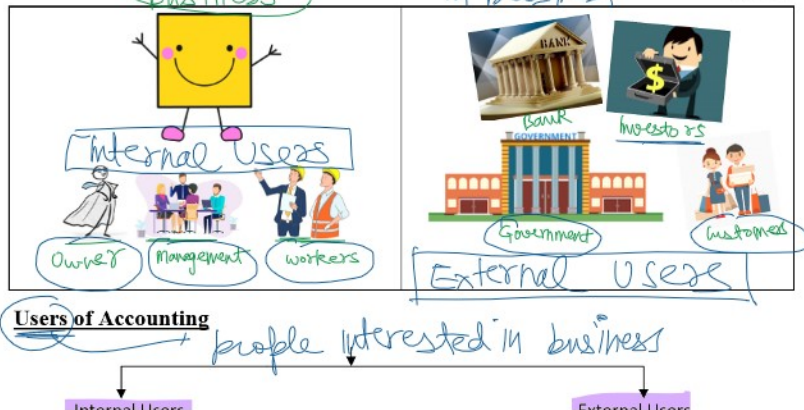
1. Accounting is not fully exact (because there are many assumptions in accounting)
2. Accounting ignores qualitative aspects
3. Accounting ignores price level changes (eg - /grosses change in foreign currency)
4. Accounting may lead to Window-dressing → means manipulation of accounts with aim of showing better position than actual.

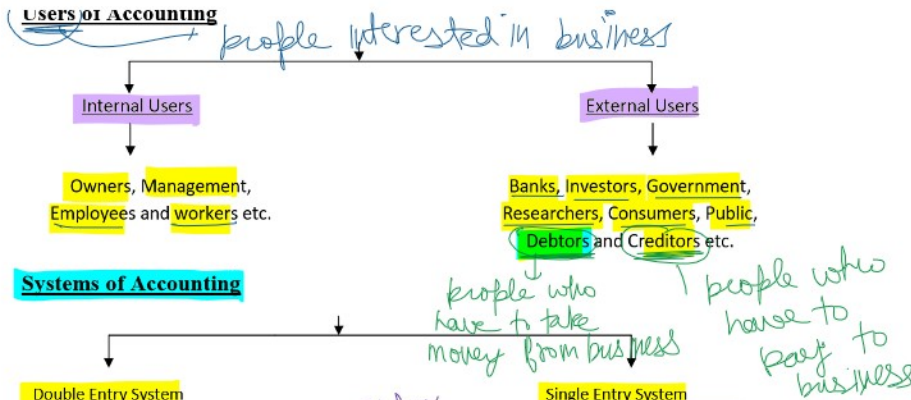


Raymonds

USERS

→ people interested in business





↓ people who have to take money from business



↓ people who have to pay to business

- Systems of Accounting**
- Double Entry System**
 - Two aspects of every transaction are recorded- debit and credit.
 - Complete record
 - Arithmetical accuracy
 - Used in all the countries.
 - Many Merits
 - Single Entry System**
 - Also known as Accounts from incomplete Records.
 - These are maintained by small businessman.
 - Final accounts cannot be prepared.



Advantages of Accounting

↑ Maths

<p>1) Double Entry System</p> <p>↳ All transaction have 2 impacts → Debit & Credit</p>  <p>Big Business (Proper Accounting)</p>	<p>2) Single Entry System - Accounts from incomplete Records</p>  <p>Tailor Barber Vendor (Accounting incomplete)</p>
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Book Keeping

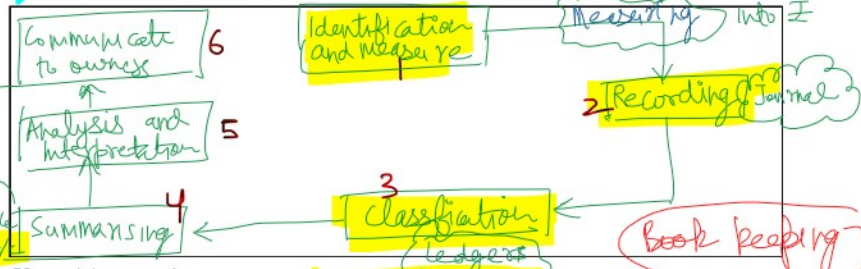
Book Keeping is the process of identifying, recording, classifying the financial transactions.

Book keeping is a part of Accounting

✓ Imp
Read

Basis	Accounting	Book keeping
Meaning	Accounting is the process of identifying, recording, classifying, summarising, analysing and communicating the financial information to users.	Book Keeping is the process of identifying, recording, classifying the financial information.
Nature	Analytical <i>Analysis</i>	Routine <i>Easy work</i>
Objective	Ascertain net profit and financial position <i>Trading P/L</i>	Maintain records and classifying them in Ledgers
Performed by	Senior staff <i>Balancing sheet</i>	Junior Staff
Stage	Secondary stage	Primary stage
Special skills	required	Not Required

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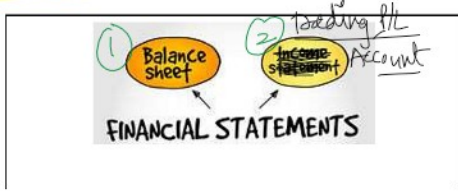
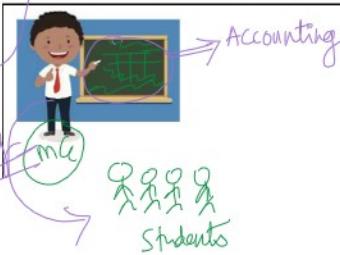


Total Balance
Trading P/L
Balance sheet

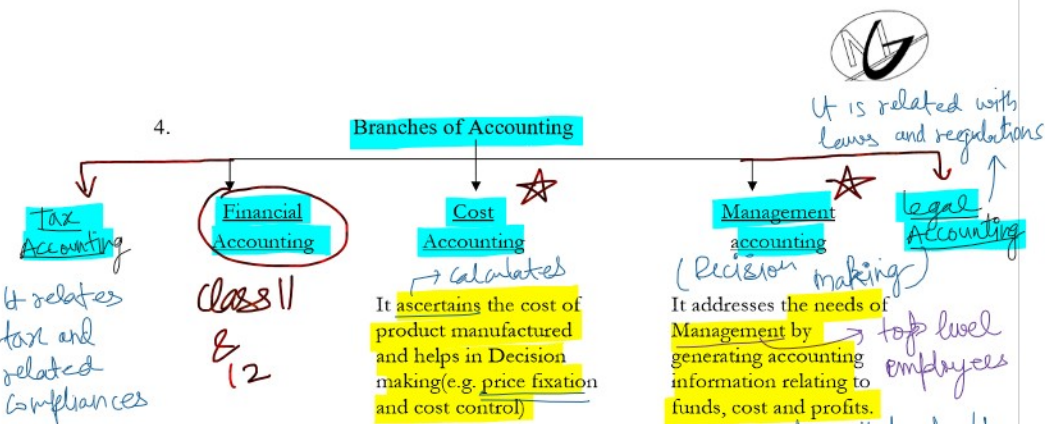
Notes / Assumptions:

- Accountancy refers to systematic knowledge of Accounting. (It educates us how to do accounting)
- Art is the technique which helps us to achieve our desired objectives. Science is any organised knowledge based on certain principles. Hence, Accounting is an Art as well as a Science.
- Trading, Profit and Loss Account and Balance sheet are collectively known as Final Accounts or Financial statements.

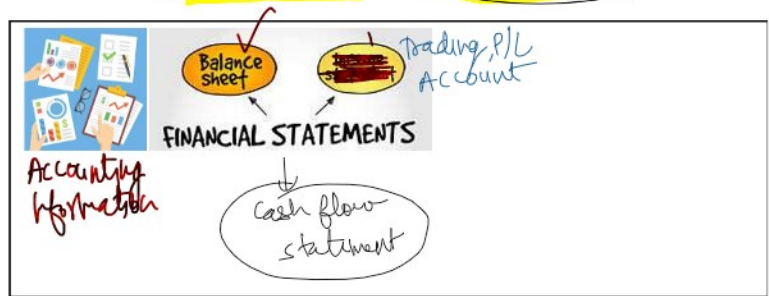
Kun Accounting Karte h...
Accountancy padhe h



Accountancy



5. **Accounting Information**
- a. Accounting Information refers to financial statements generated through the process of Accounting.
- b. **Types of Accounting information**
- Information related to Profit and Loss- Trading, Profit and Loss Account
 - Information related to Financial Position- Balance Sheet
 - Information related to Cash flow- Cash Flow Statement
- c. **Characteristics**
- Reliability - dependable/trustworthy
 - Relevance - no bakwas
 - Comparability
 - Understandability
- RRCU**



Accountancy ⇒ Study of Accounting
 46/1 2

Accounting ⇒ करन 9/ 2

Accounts ⇒ ledgers

Accountant = Person doing accounting