CHAPTER 1

Introduction to Accounting

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Accounting	Accounting is the process of collecting, recording, classifying, summarising and communicating financial information to the users.
2. Book Keeping	Book Keeping is a process of recording financial transactions in a systematic manner and classifying them into ledger.
3. Accountancy	Accountancy is a systematic knowledge of accounting, *i.e.*, it educates about how the books of account are maintained.
4. Income Statement	Income Statement is Trading and Profit and Loss Account (Statement of Profit and Loss, in case of companies). It shows the profit earned or loss incurred by the enterprise during accounting year.
5. Position Statement, *i.e.*, Balance Sheet	Position Statement or Balance Sheet shows the financial position of the enterprise on a particular date.
6. Accounting Information	Accounting Information is used for forecasting, comparing and evaluating the earning capacity and financial position of the business.
7. Double Entry System of Accounting	Double Entry System of Accounting means a system of accounting whereby both, debit and credit, aspects of a transaction are recorded.
8. Single Entry System of Accounting	Single Entry System of Accounting is a system under which both, debit and credit aspects of the transactions are not recorded in all the cases. In some cases both aspects are recorded, while in others either one aspect is recorded or a transaction is not recorded at all. This is also known as **Incomplete Double Entry System**.

CHAPTER SUMMARY

- **Accounting.** *"Accounting is an art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof."* **—American Institute of Certified Public Accountants**
- *"Accounting is the process of identifying, measuring and communicating economic information to permit informed Judgement and decisions by users of Information."* **—American Accounting Association**
- **Difference between Book Keeping and Accounting.** Accounting is a wider concept which includes 'book keeping'. Book Keeping is mainly concerned with the recording of financial data which is one aspect of accounting. Accounting is the art of recording, classifying and summarising in terms of money, transactions and events of a financial character and interpreting the results thereof. Accounting begins where book keeping ends.
- **Functions of Accounting.** 1. Maintaining Systematic Records, 2. Preparing Financial Statements, 3. Analysis of financial statements 4. Communicating the Financial Results, 5. Meeting Legal Requirements, 6. Protecting Business Assets, 7. Assistance to Management, 8. Fixing Responsibility.

- **Characteristics of Accounting.** 1. Accounting is an art as well as a science. 2. Accounting records only those transactions and events which are of financial character. 3. Accounting records the transactions and events in terms of money. 4. Functions of Accounting: Identification, Recording, Classifying, Summarising and interpreting. 5. Service activity.
- **Objectives of Accounting.** 1. Maintaining Proper Accounting Records, 2. Determining Profit earned or Loss incurred, 3. Determining Financial Position, 4. Facilitating Management, 5. Providing Accounting Information to Users.
- **Accounting Cycle.** 1. Financial Transactions, 2. Recording, 3. Classifying, 4. Summarising, 5. Analysis and Interpretation, 6. Communicating.
- **Advantages of Accounting.** 1. Financial Information about Business, 2. Assistance to Management, 3. Replaces Memory, 4. Facilitates Comparative Study, 5. Facilitates Settlement of Tax Liability, 6. Facilitates Loans, 7. Evidence in Court, 8. Facilitates Sale of Business, 9. Assistance in the event of Insolvency, 10. Helpful in Partnership Accounts.
- **Limitations of Accounting.** 1. Accounting is not fully exact. 2. Accounting information is not realistic. 3. Accounting ignores the qualitative elements. 4. Accounting ignores the effect of price level changes. 5. Accounting may lead to window dressing.
- **Users of Accounting Information.** Internal users and External users.

Parties	***Areas of Interest***
1. **Owners or Investors**	(i) Profitability, (ii) Financial Position, (iii) Future Prospects.
2. **Management**	(i) Profitability in Relation to Investment, (ii) Managerial Decisions, (iii) Liquidity of the Concern.
3. **Suppliers or other Creditors**	(i) Profitability, (ii) Financial Position.
4. **Lenders**	(i) Profitability, (ii) Financial Position.
5. **Employees and Trade Unions**	Profitability.
6. **Government and its Authorities**	(i) Profitability, (ii) Financial Position, (iii) Tax Liability.
7. **Researchers**	(i) Accounting Theory, (ii) Business Practices, (iii) Future Profitability.
8. **Society or Public**	(i) Protecting Environment, (ii) Indirect Contribution for Betterment.

- **Branches of Accounting.** 1. Financial Accounting, 2. Cost Accounting, 3. Management Accounting.
- **Systems of Accounting.** 1. Double Entry System, 2. Single Entry System.