INDIAN SCHOOL DARSAIT

DEPARTMENT OF COMMERCE

Sub.: Accountancy	INTRODUCTION TO ACCOUNTING	Worksheet : 1
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Class and Div. XI C & D		

1. Define Accounting.

"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting, the results thereof."

2. What are the attributes/Features/Functions of Accounting?

(a) Identifying Financial Transactions.

Accounting records only those transactions and events which are of financial character. If a transaction has no financial character then it will not be measured in terms of money and will not be recorded. For example, the quarrel between the production Manager and the sales manager affects the earnings of the company but it is not recorded because it has no financial character, no economic value and no exchange value. Thus only the transactions expressed in terms of money are recorded in the accounting books of the business.

(b) Recording.

Accounting is considered an art of recording business transactions in a systematic way. Recording is done in the books called journal. This book may be further sub-divided into various subsidiary books. The number of subsidiary books to be maintained depends upon the size and nature of business and type of transaction.

(c) Classifying:

Classifying is the process of grouping of transactions or entries of one nature at one place. This is done by opening accounts in a book called Ledger. Ledger contains all the accounts of the business.

(d) <u>Summarizing:</u>

Summarizing is the art of presenting the classified data (ledger) in a manner which is understandable and useful to management and other interested parties. This involves preparation of final accounts which includes Trading and profit and loss accounts and Balance sheet.

(e) <u>Analysis and interpretation</u>.

For purposes of analysis, the accounting record must be in such a way as to be able to portray the significance of all transactions and events individually and collectively. Thus the analysis of accounting statements will help the management to judge the performance of business operations and for preparing the future plans.

3. What is an Accounting Cycle?

An Accounting Cycle is a complete sequence beginning with the recording of the transactions and ending with the preparation of the Final Accounts.

4. Explain briefly the Branches of Accounting.

(a) <u>Financial Accounting</u>:

The accounting system concerned only with the financial state of affairs and financial results of operations.

(b) <u>Cost Accounting</u>:

It is an account to analyse the expenditure involved to ascertain the cost of various products manufactured and fix their prices.

(c) <u>Management Accounting.</u>

It is the accounting for management that provides necessary information to the management for discharging its functions.

5. Distinguish between Book-keeping and accounting.

Basis	Book-keeping	Accounting
Object	To prepare original books of accounts, restricted to journal, subsidiary books and ledger accounts only	The object is to record, analyse and interpret business transactions.
Staff	This work is done by junior staff	This work is done by senior officers
Scope	Limited in scope and concerned with the recording of business	Has wider scope
Sequence	Book-keeping comes first.	Accounting starts where book-keeping ends.
Result	It does not show the net result of the financial position of the business	It shows the net result of the business.
Principles	Accounting concepts and conventions are exactly followed by all firms.	The method of reporting and interpretation may vary from firm to firm.

6. What are the objectives of Financial Accounting?

a. <u>To maintain records of business</u>.

Accounting is a language in which most business transactions and events are expressed. Its main objective is to keep a systematic record of these financial transactions. This objective has assumed importance owing to the limitations of human memory which cannot possibly maintain a record of a fairly large number of day-to-day transactions.

b. Calculation of Profit and Loss.

The chief objective of accounting is to ascertain the net results of the day to day transactions for a period and for this purpose a statement called the Income statement or profit and loss account is prepared.

c. Depiction of financial position.

For a businessman, it is not sufficient only to ascertain the profit or loss, it is also necessary to know the financial health of the firm. For this purpose a statement listing assets, liabilities and the owner's capital is prepared which is known as the Balance Sheet

d. To make the information available to various groups and users:

This function of accounting is to communicate the financial facts about an enterprise to the various interested parties like owners, investors, creditors etc. The purpose is to enable these interested parties to take sound and realistic economic decisions.

7. What is Accounting information System? Explain its types.

It is the process of identifying, measuring, recording and communicating the economic events of the organization to interested users in making useful economic decisions.

(a)Information about the performance of the Enterprise:

Income statement is a statement that matches the revenue and expenses of the period and reports the net position in the form of net profit or loss.

(b) Information about financial position.

This is primarily provided by the balance sheet which has two elements, liabilities and Assets.

(c) Information about Retained earnings:

This information is a statement that reports the impact of net income and its distribution as a dividend on the financial position of the enterprise.

(d)Information about Cash inflows and Cash outflows:

This is obtained with the help of Income statement, Balance sheet and additional information. A statement of cash flows which summarises the cash inflows and outflows that have taken during time span as a result of operating, investing and financing activities of an enterprise.

8. What are the Qualitative characteristics of accounting information?

(a)Understandability:

An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose users are assumed to have a reasonable knowledge of business and economic activities and accounting.

(b) Relevance.

Information must be relevant to the decision making needs of users. Information has a quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations.

(c)Reliability.

To be useful, information must be reliable. It has the quality of reliability when it is free from material error and bias.

(d)Comparability:

Statements prepared must have comparability over time and with statements of other enterprises. This is possible only when the measurement and display of the financial effect of like transactions and other events are carried out in a consistent way.

9. Name and explain the parties interested in Accounting information.

Parties/users	**Purpose /interest of Accounting Information**
Short-term Creditors	i) To determine whether the amount owing to them will be paid when due. ii) To ensure liquidity in the firm.
Long-term Creditors	i) To determine whether the principal amount owing to them will be paid when due. ii)Whether firm is capable of making payment of interest regularly iii) To ensure solvency of the firm.
Potential Investor	i) They have an interest operational efficiency and profit earning capacity of the business unit. ii) Safety and security of their investments.
Present Investors/ shareholders	i) To determine whether they should buy, hold or sell their shares. ii) They want to know about the profitability and future prospects of the enterprise.
Management	To consider: - i)Short-term solvency ii)Long-term solvency iii)Profitability in relation to turnover iv) Profitability in relation to investment. v) Effective utilization of resources.
Worker/ Employees	i) They are interested in profitability of the business ii) To ensure regular wages and additional benefits.

10. What are the advantages and Disadvantages of Accounting?

Advantages

(a) Assistance to Management:
It provides such information to the management that will enable the management to do its work properly. The information helps in planning, decision making and controlling.

(b) Replacement of memory:
No business can remember about his business since human memory has limitations. Hence it is necessary to record transactions.

(c) Comparative Study:
A systematic record will enable a business man to compare one year's result with those of other year's and locate significant factors leading to the change if any.

(d) Settlement of taxation liability:

If accounts are maintained properly, they will be of great assistance when the firm is assessed to income tax or Sales tax.

(d) Evidence in Court:
Systematic record of transactions is often treated by the court as good evidence.

(e) Sale of Business:
If someone wants to sell his business, the accounts maintained by him will enable the ascertainment of the proper purchase price.

(f) Assistance to an Insolvent person.
In case one becomes insolvent, one has to explain many things about the past. Proper account ting helps him to do that.

Demerits:

(a) Financial accounting is not fully exact.
Although most of the transactions are recorded on actual basis such as sale or purchase or receipt of cash, some estimates must also be made

for ascertaining profit or loss, the useful life of an asset, possible bad debts, the probable market price of the stock of goods etc

(b) Financial Accounting Does not indicate what the business will Realize, if sold:

The Balance sheet should not be taken to show the amount of cash which the firm may realize by the sale of all the assets. This is because many assets are not meant to be sold.

(c) Financial Accounting does not tell the whole story:

It is known that in the books of account only such transactions and events are recorded as can be interpreted in terms of money. There are, however, many other important factors which are not recorded in the books of account. Unless such factors are kept in mind, it would be very difficult to assess the future of the firm.

(d) Accounting Statements may be Drawn up Wrongly:

Due to a different method being employed for valuing closing stock or following different methods of depreciation, it is possible to arrive at different figures of profit and to give a different financial picture. One should, therefore, always apply some checks to establish whether or not the financial statements can be taken to be reasonably correct. It is better to get them audited.

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