

Class-11th

Subject- Accountancy

Chapter-1 Introduction to Accounting - Meaning, Objectives

Definition of Accounting

Accounting can be defined as a process of reporting, recording, interpreting and summarizing economic data. The introduction of accounting helps the decision-makers of a company to make effective choices, by providing information on the financial status of the business. Today, accounting is used by everyone and a good understanding of it is beneficial to all. Accountancy act as a language of finance. To understand accounting efficiently it is important to understand the aspects of accounting.

Economic Events- It is a consequence of a company has to undergo when the number of monetary transactions is involved. Such as purchasing new machinery, transportation, machine installation on-site, etc.

Identification, Measurement, Recording, and Communication- The accounting system should be outlined in such a way that the right data is identified, measured, recorded, and communicated to the right individual and at the right time.

Organization-In refers to the size of activities and level of a business operation.

Interested Users of Information- It is about communicating important financial information to the customers, according to which they will make the correct decision.

Fundamentals of Accounting

Assets- The economic value of an item which is possessed by the enterprise is referred to as Assets. To put it in other words, assets are those items that can be transformed into cash or that generates income for the enterprise shortly. It is useful in paying any expenses of the business entity or debt.

Liabilities- The economic value of an obligation or debt that is payable by the enterprise to other establishment or individual is referred to liability. To put it in other words, liabilities are the obligations that are rising out of previous transactions, which is payable by the enterprise, through the assets possessed by the enterprise.

Owner's Equity- Owner's equity is one of the 3 vital segments of a sole proprietorship's balance sheet and one of the main aspects of the accounting equation: $Assets = Liabilities + Owner's Equity$. It depicts the owner's investment in the trade minus the owner's withdrawal from the trade + the net income since the business concern commenced.

Objectives of Accounting

Main objectives of accounting are:

- **To maintain a systematic record of business transactions-** Accounting is used to maintain a systematic record of all the financial transactions in a book of accounts. For this, all the transactions are recorded in chronological order in Journal and then posted to principle book i.e. Ledger.
- **To ascertain profit and loss-** Every businessman is keen to know the net results of business operations periodically.
- **To check whether the business has earned profits or incurred losses-** we prepare a "Profit & Loss Account".
- **To determine the financial position-** Another important objective is to determine the financial position of the business to check the value of assets and liabilities. For this purpose, we prepare a "Balance Sheet".
- **To provide information to various users-** Providing information to the various interested parties or stakeholders is one of the most important objectives of accounting. It helps them in making good financial decisions.
- **To assist the management-** By analysing financial data and providing interpretations in the form of reports, accounting assists management in handling business operations effectively.

Characteristics of Accounting:

Following attributes or characteristics can be drawn from the definition of Accounting:

- (1) **Identifying financial transactions and events-** Accounting records only those transactions and events which are of financial nature. So, first of all, such transactions and events are identified.
- (2) **Measuring the transactions-** Accounting measures the transactions and events in terms of money which are considered as a common unit.
- (3) **Recording of transactions-** Accounting involves recording the financial transactions in appropriate book of accounts such as Journal or Subsidiary Books.
- (4) **Classifying the transactions-** Transactions recorded in the books of original entry – Journal or Subsidiary books are classified and grouped according to nature and posted in separate accounts known as 'Ledger Accounts'.

(5) **Summarising the transactions-** It involves presenting the classified data in a manner and in the form of statements, which are understandable by the users. It includes Trial balance, Trading Account, Profit and Loss Account and Balance Sheet.

(6) **Analysing and interpreting financial data-** Results of the business are analyzed and interpreted so that users of financial statements can make a meaningful and sound judgment.

(7) **Communicating the financial data or reports to the users-** Communicating the financial data to the users on time is the final step of Accounting so that they can make appropriate decisions.

Following are the main branches of accounting:

(a) **Financial accounting:**

Financial Accounting is that branch of accounting which involves identifying, measuring, recording, classifying, summarising the business transactions i.e. it involves the steps from Identifying, Recording of transactions to Summarisation, and communicating the financial data.

(b) **Cost accounting:**

Cost Accounting is that branch of accounting which is concerned with the process of ascertaining and controlling the cost of products or services.

(c) **Management accounting**

Management Accounting is that branch of accounting which is concerned with gathering and processing information relating to funds, cost, profit etc. to simplify the decision-making process of management.

Steps of the Accounting Process:

(1) Identification & Recording- For recording, we use 'Journal' or Subsidiary Books.

(2) Classification of transactions- Classification means segregation of transactions on the basis of nature and posting them in a format known as Ledger Account.

(3) Summarisation- It includes preparation of Trial Balance and Financial Statements.

(4) Analysis & Interpretation- It includes an assessment of the financial reports and making some meaningful conclusions.

(5) Communicating information to the users- It includes sharing the financial reports and interprets results to the users of financial statements.

Assessment questions-

Multiple Choice Questions

Q.1- Which of the following is the first step in accounting?

- a. Communicating to the interested parties.
- b. Analysing
- c. Measurement of transactions
- d. Identification & recording of Financial transactions and events

Q.2- Which of the following is not a business transaction?

- a. Purchases of goods from Amit of `5,000
- b. Paid salaries `250.
- c. Purchase a Car of `5,25,000 from his personal account.
- d. Purchase a Laptop of `50,500 for Business.

Answer key

1-d, 2-c

Q3. Write definition of accounting.

Q4. What is meant by assets?

Q5. What is meant by liabilities?

Q6. What is accounting events?

Q7. What is owenrs equity?

Q8. Write objectives of accounting.

Q9. Explain various branches of accounting.

Q10. Explain steps in accounting process.