INTRODUCTION TO ACCOUNTING

Accounting

Accounting is the science of efficiently documenting, categorising, and summarising monetary transactions and evaluating the findings efficiently.

Functions of Accounting

- **Identifying**: The initial stage in accounting is to identify company transactions from multiple sources. It entails keeping track of all company activities and determining the deemed financial transactions.

- **Recording:** Only monetary transactions are documented in ledgers. It entails maintaining a precise record of them and recording them in a diary.

- **Classifying:** The transactions are categorised after being recorded. The term "classification" refers to all similar transactions in one location.

- **Summarising:** Trial balance is the process of bringing all account balances together in one place.

- **Communicating:** Accounting also entails communicating financial data such as financial statements to users, such as financial statements, who analyse them according to their needs.

Accounting's Objectives

- Maintain accurate records of company transactions by established procedures to reduce the risk of omission and fraud.
- Determine the net profit or loss resulting from the company's transactions during a specific period and the causes for profit or loss.
- Accounting information, such as a balance sheet is used to assess a company's financial condition.
- Determine business progress from year to year and detect errors and frauds.
- To give accounting information to various interested parties, including owners, creditors, banks, and workers, who conduct in-depth analyses based on the stakeholders' needs.

Accounting's Benefits

- Accounting keeps track of all corporate transactions and gives accurate data to stakeholders.
- Accounting shows a company's profit and loss over a specific period.
- Accounting allows for a comparison of many aspects of a firm, such as profit, sales, and purchases, with past years and assists in making decisions.
- Accounting is used to evaluate and enhance the performance of personnel, divisions, activities, and other entities.
- Accounting records are accepted as evidence in court proceedings.

Accounting's Limitations

- Accounting has many flaws, one of which is that it primarily considers monetary transactions. Accounting ignores non-monetary factors such as quality, honesty, and abilities.

- It solely evaluates previous transactions. Therefore the figures in the financial statement do not account for changes in price levels.
- Personal judgments impact it, and it is not free of personal prejudice, which lowers its trustworthiness.
- It is influenced by window dressing, which is the manipulation of accounting to make financial statements appear more favourable than they are.
- Because financial statements are merely records of past occurrences, they are inappropriate for predicting.

Accounting's Bookkeeping Base

The art of documenting transactions in books of accounts is known as bookkeeping. Only transactions with a monetary value are kept track of it. It's the initial stage in the accounting process. Its primary aim is to preserve records or maintain books of accounts; it is not to be confused with accounting.

Accounting Subfields

- **Accounting for Money:** The goal of this branch is to keep a systematic record of business activities, determine profit or loss, and portray the financial state using a balance sheet.

- **Accounting for Costs:** The primary goal of cost accounting is to determine the total and per-unit costs of goods and services produced by a company.

- **Accounting for Management:** The fundamental goal of this branch is to provide accounting data in such a way that it aids management in planning and directing corporate operations.

- **Accounting for Taxes**: For tax purposes, this branch is used. This accounting is used to calculate income tax and GST.

Accounting Information Qualitative Characteristics

Accounting data should be produced and presented for a clear picture of a company's operations.

- **Reliability:** It means that data must be accurate and observable. And free of mistakes.

- **Relevance:** Accounting data must be relevant to the business's objectives. The information must assist accounting information consumers in making decisions to be meaningful.

- **Understandability:** Accounting data should be presented so that its consumers, such as investors and workers, can understand it.

- **Comparability:** It's a helpful feature of accounting data. Previous year data should be included in financial statements to compare performance to prior results.

Accounting Terminology

- **Transaction in Business**: A business transaction is an economic activity that causes a company's financial position to change.

- **Account:** It's a list of all commercial transactions involving a person or thing. The proforma is T-shaped.

- **Capital:** It refers to the owner's amount of money put into a firm. The amount invested might be in cash, products, or other forms.

- **Drawing:** Drawings are any cash or items taken for personal use from business finances.

- **Profit:** It's the difference between a company's total revenue and total expenses. Revenue-Expenses = Profit
- **Loss:** Loss is defined as an excess of expenditures over associated revenue. Expenses-Revenue = Loss
- **Gain:** It is a monetary advantage stemming from business-related events or transactions, such as profit on the sale of fixed assets.
- **Stock:** It covers things that were unsold on a specific day.
- **Purchases:** It refers to the number of commodities purchased by a company for resale or manufacturing. It might be in the form of cash or credit.
- **Returns on purchases:** Purchase returns occur when purchased products are returned to suppliers.
- **Sales:** In the usual course of business, it refers to the exchange of products or services for money.
- **Return of a sale:** Sales returns refer to when buyers return the things they purchased.
- **Debtors:** These refer to those who have been sold products on credit but have yet to be paid.
- **Creditors:** It refers to those whose company purchases products on credit and has not yet paid for them.
- **Voucher:** A voucher is a written record of a transaction. A monetary memo, invoice, or receipt might be used. Auditing requires a voucher.
- **Income:** It's the distinction between income and expenditure.
- **Expense:** It's the money spent on making and selling goods and services.
- **Discount:** The vendor offers the customer a rebate. There are two kinds of discounts: cash and trade.
- **Money Off:** Customers are given a discount when they pay on time. It's always documented in ledgers.
- **Wholesale Price:** It is a predetermined percentage discount offered by merchants to their clients on the list price of items. It is also not recorded in the accounting books.
- **Bad Debts:** Amounts that a debtor has not paid despite numerous warnings and has no intention of payment in the future.

Asset

Assets are resources with economic value that a firm, individual, or corporation owns or controls with the expectation of getting future benefits.

Liabilities

The financial responsibilities of a firm are referred to as liabilities.

It represents the amount owed to others by a company. Creditors, loans, and the like are examples. There are two kinds of liabilities:

- **Non-Current Liabilities:** These refer to bills that have a big due date. Long-term loans are one example.

- **Current Liabilities:** It refers to bills that are due soon. Outstanding costs, Ex-Creditors.

Expenditure

It entails spending money or debt to acquire assets, products, or services. There are three kinds.

- **Expenditure on Revenue:** It refers to any expenditure from which the benefit is realized in a single accounting period.

- **Capital Investment:** It refers to an expense from which the benefit is gained over time.

- **Revenue Expenditure Deferred:** It refers to revenue-generating expenditures that will presumably reap benefits over many years. Example-Advertisement.