

# chapter :1

INTRODUCTION TO FINANCIAL ACCOUNTING

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# OBJECTIVE

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- **Meaning of Accounting**
- **Definition Accounting**
- **Meaning of Book-Keeping**
- **Difference between Book-Keeping & Accounting**
- **Objectives of Accounting**
- **Function of Accounting**
- **Branches of Accounting**
- **Advantage of Accounting**
- **Limitation of Accounting**

## OBJECTIVE

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- **Accounting & Other Fields of Specialization**
- **Accounting Process**

# Meaning of Accounting

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- All of us do some accounting , often without realizing it. It is a part of our life, and in business , it is a more serious matter.
- In simple words, accounting merely means , recounting.
- The American Institute of certified Public Accountants defines accounting as “the art of recording , classifying and summarizing in a significant manner and in terms of money transaction and events which are in part at least, of a financial character , and interpreting the results thereof.

# Definition of Accounting

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- Accounting is a more complex concept that means reflection of the result of transactions according to the principles Standards and statutory requirements in the financial statements and other business reports.
- Accounting refers to the process of recording, classifying , Summarizing.
- And analyzing the information gathered or collected in monetary terms .
- And there of interpreting the results to the users who are interested in such information.
- Accounting is both art & Science.

# Meaning of Book- Keeping

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- Book- Keeping is the recording of financial transaction. Transaction include sales, Purchase, income, and payment by an individual or organization .
- It is usually performed by a bookkeeper.
- It should not be confused with accounting.

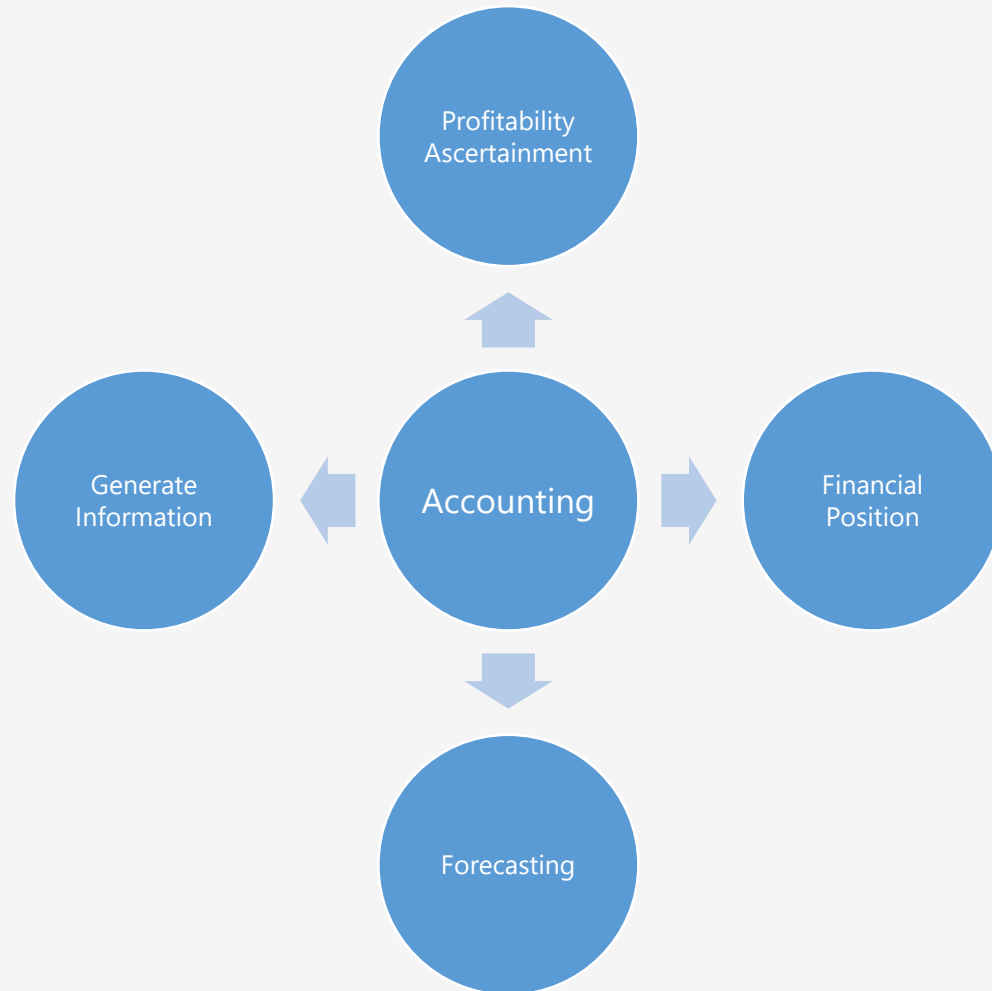
# Difference between Book-keeping & Accounting

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Bookkeeping	Accounting
Bookkeeping is a foundation/base of accounting.	Accounting uses the information provided by bookkeeping to prepare financial reports and statements.
Bookkeeping is one segment of the whole accounting system.	Accounting starts where the bookkeeping ends and has a broader scope than bookkeeping.
The result of the bookkeeping process is providing input for accounting.	The result of accounting is preparing financial statements for making informed decisions and judgments.
The purpose of bookkeeping is to maintain a systematic record of financial activities and transactions chronologically.	The purpose of accounting is to report the financial strength and obtain the results of the operating activity of a business.
The objective of bookkeeping is to summarise the effect of all financial transactions of a business for a given period.	The objective of accounting is to interpret and analyse financial information for informed decisions.
The person responsible for bookkeeping is called a bookkeeper.	The person responsible for accounting is called an accountant.

# Objective of Accounting

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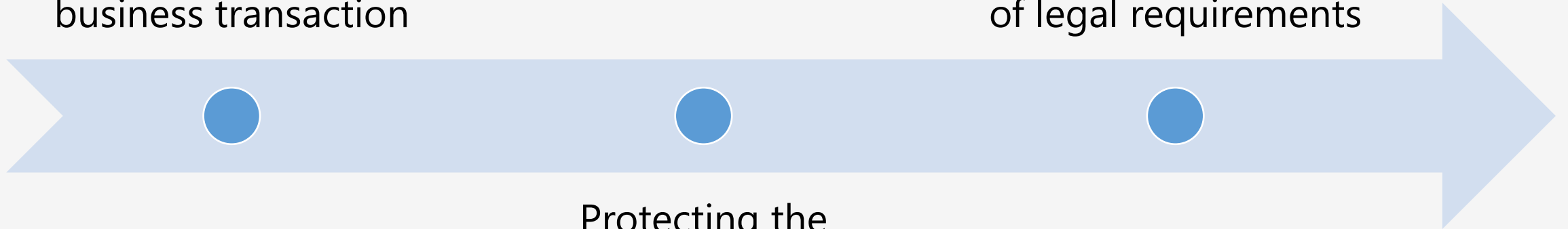
# Functions of Accounting

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Systematic record of  
business transaction

Communication of  
result and compliance  
of legal requirements

Protecting the  
property of the  
business



# Uses of Accounting Information

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## **EXTERNAL USERS:**

- Lenders
- Consumer Groups
- Shareholders
- External Auditors
- Governments
- Customers

## **INTERNAL USER:**

- Managers
- Sales Staff
- Officers
- Budget officers
- Internal Auditor
- Controllers

# Branches of Accounting

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Financial Accounting

Cost Accounting

Management Accounting

# Branches of Accounting

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## Financial Accounting

- Journal
- Subsidiary Books
- Ledger
- Trial Balance

## Cost Accounting

- Cost sheet
- Material Cost
- Labour cost
- Other expenses Cost

## Management Accounting

- Trend Analysis
- Ratio Analysis
- Fund Flow Statement Analysis
- Cash flow Statement of Analysis

# Advantage of Accounting

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- Accounting Replaces Human Memory
- Accounting helps in knowing profit
- It helps in knowing financial position of organization
- It helps in paying taxes
- It helps in raising more funds by supplying information of investors and creditors
- It helps in planning for expansion
- It helps in getting bank loans

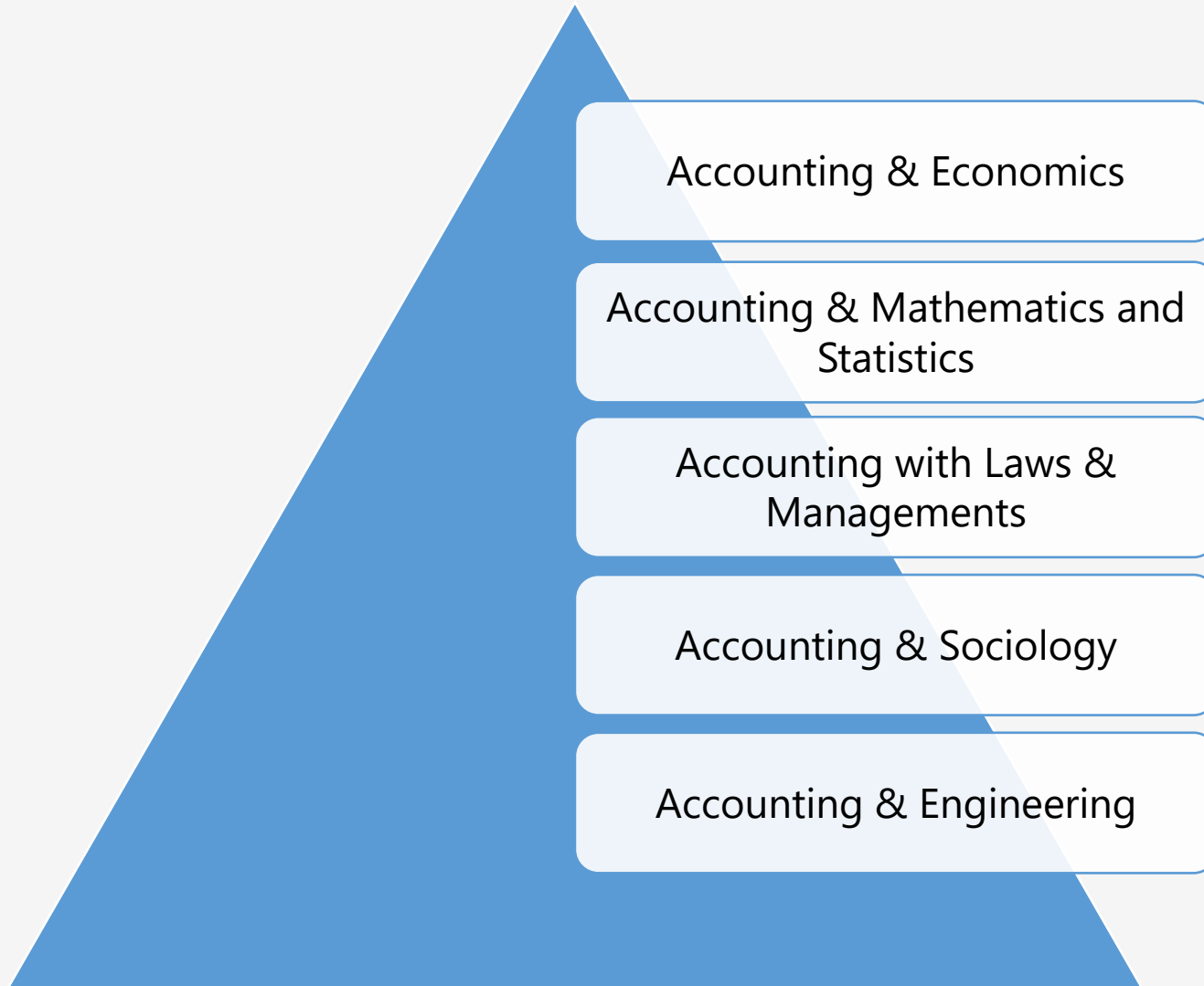
# Limitation of Accounting

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- Records only Monetary transactions
- Effects of price level Changes not considered
- Personal bias of accountant affects the accounting statements.
- Permit alternative treatments
- Profit no real test of managerial position

# Accounting and other Fields of specialization

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# The Accounting Process

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Step 1: Identification of transaction.

Step 2. Preparation of Business Documents

Step 3: Recording for Transaction in Journal

Step4:Posting of Ledger

Step 5: Preparation of Unadjusted Trail Balance

Step 6 : Passing of Adjustment Entries

Step 7 :Preparation of Trial Balance

Step 8: Profit &Losses

Step 9: Balance sheet



Thank you