

## **Unit :1**

### **Introduction to accounting**

#### **Unit at a Glance:-**

- Introduction
- Book keeping
- Meaning of accounting
- Difference between book keeping and accountancy
- Economic events
- Changing role of accountancy
- Process of accounting
- Users of financial statements
- Branches of accounting
- Objectives of accounting
- Basic accounting terms

**“There's no business like show business, but there are several businesses like accounting.”**

#### **Introduction:**

Accounting has greater discipline than book keeping. It includes conceptual knowledge of the subject and applications also.

**BOOK KEEPING:-**It involves journal, ledger, cash book and other subsidiary books, it cannot disclose the results of Business.

**Meaning of Accounting:-**It is process of identifying, measuring, recording and communicating the financial information.

#### **Difference between Bookkeeping and accountancy:**

Book keeping does not show the net result and accountancy shows net result of the business.

#### **Economic Events:-**

All events which can be measured in monetary Terms are known as Economic events. (Salary paid to employees, Goods purchased from creditors, cash withdrew from bank)

#### **CHANGING ROLE OF ACCOUNTANCY**

1. As a language to communicate information an enterprises.
2. To provide valuable information for judging management ability.
3. To provide quantitative information this is useful in economic decision.

#### **Process of accounting**

1. Identification of the economic events. (Selection of important event)



2. Classification of the business transaction (Assets, liability, expenses, income).
3. Measurement in terms (Monetary value transaction.),
4. Recording of business transactions (As per accounting principal)
5. Summarizing the business transaction (Journal, ledger, trial balance and Balance sheet.)
6. Analysis and interpreting the business transactions. (Various reports, ratio etc.)
7. Communication (provide information to internal and external users.)

#### **Users of financial statements:**

1. Internal users :- (Owners, shareholders, investors, creditors, employees, customers, management.)
- 2 External users: - (Regulatory agencies, labor union, stock exchange, public and others)

#### **BRANCHES OF ACCOUNTING**

1. Financial accounting (Book Keeping + preparation of financial statement).
2. Cost accounting (Determines the unit cost at different level of production).
3. Management accounting (It blends financial and cost accounting to get maximum profit at maximum cost).
4. Tax accounting (Sales tax and income tax).
5. Social responsibility (Focus on social benefits)

#### **Objectives of Accounting**

1. Provides information in systematic way.
2. Enables to get profit or loss of business during certain profit.
3. Shows the actual position of the business.

#### **BASIC ACCOUNTING TERMS**

1. Entity:- It means existence of an individual which includes two things 1.Business entity
2. Non business entity.
2. Transactions: - Exchange of goods and services for consideration.
- 3.Assets:- These are properties or economic resources of an enterprises which can be expressed in monetary terms it can be divided in two parts 1.Fixed assets( more than 1 year period) 2. Current assets(less than 1 year period)
4. Liabilities:-These are certain obligations or dues which firm has to pay.
5. Capital: It is an essential investment for commencement of every business.
6. Sales: It can be credit or cash, in which goods are delivered to customers.
7. Revenues:-It is the amount which is earned by selling of products.
8. Expenses:-It is known as cost of assets consumed or services which used.
9. Expenditure:-It means spending money for some benefit.
10. Profit: - Excess of revenues over expenses is called profit.
11. Gain: - It generates from incidental transaction such as sales of fixed asset, winning of court case.
12. Loss: - Excess of expenses over income is termed as loss.



13. Discount:-It is defined as concession or deduction in price of goods sold.
14. Voucher:-It is known as evidence in support of a transaction.
15. Goods: - It refers all the tangible goods (Raw material, work in progress, finished goods.)
16. Drawings: - Amount of goods or cash which is withdrawn from business for personal use.
17. Purchases: - It means of procurement of goods on credit or cash.
18. Stock: - It is a part of unsold goods. It can be divided into two categories.
- 1. Opening stock
  - 2. Closing stock.
- 19 Debtors: - There are persons who owe to an enterprise an amount for buying goods and services on credit.
20. Creditors: - These are persons who have to be paid by an enterprise an amount for providing the enterprise goods and services on credit.

**Questions:**

1. Write any two users of financial statements.  
ANS: - 1.Public 2.Regulatory agencies
2. Write any one advantage of accounting.  
ANS: - Provide information in systematic order
3. Write any one example of voucher.  
ANS: cash memo
4. Write any two examples of current assets.  
Ans. 1.Stock 2.Debtor

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