

FINANCIAL ACCOUNTING

UNIT 1

INTRODUCTION TO FINANCIAL ACCOUNTING



INTRODUCTION



Who is the Father of Accounting



MEANING OF BOOK KEEPING

- The art of recording business transactions in the books of accounts, in an orderly manner
- Book Keeper





MEANING OF ACCOUNTING

- The process of recording, classifying, summarizing and analyzing the financial transactions and communicating the result thereof to the persons interested in such information

DEFINITION OF ACCOUNTING

American Institute of
Certified Public Accountants



– “Accounting is 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”

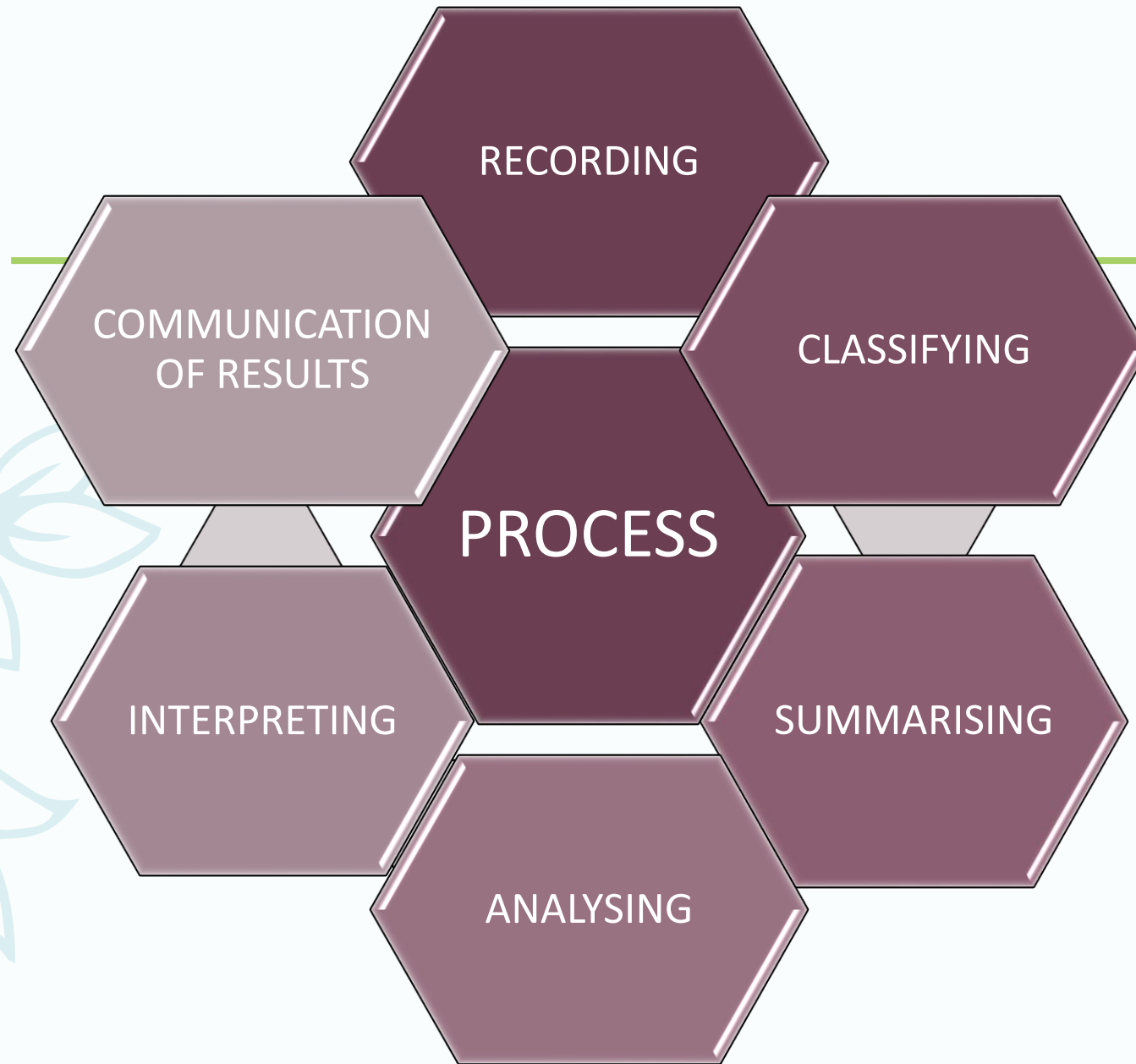
– *American Institute of Certified Public Accountants*

– “The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of information”

– *American Accounting Association*



PROCESS OF ACCOUNTING



OBJECTIVES OF ACCOUNTING

SYSTEMATIC RECORDING OF
TRANSACTIONS

ASCERTAINMENT OF RESULTS OF ABOVE
RECORDED TRANSACTIONS

ASCERTAINMENT OF THE FINANCIAL
POSITION OF THE BUSINESS

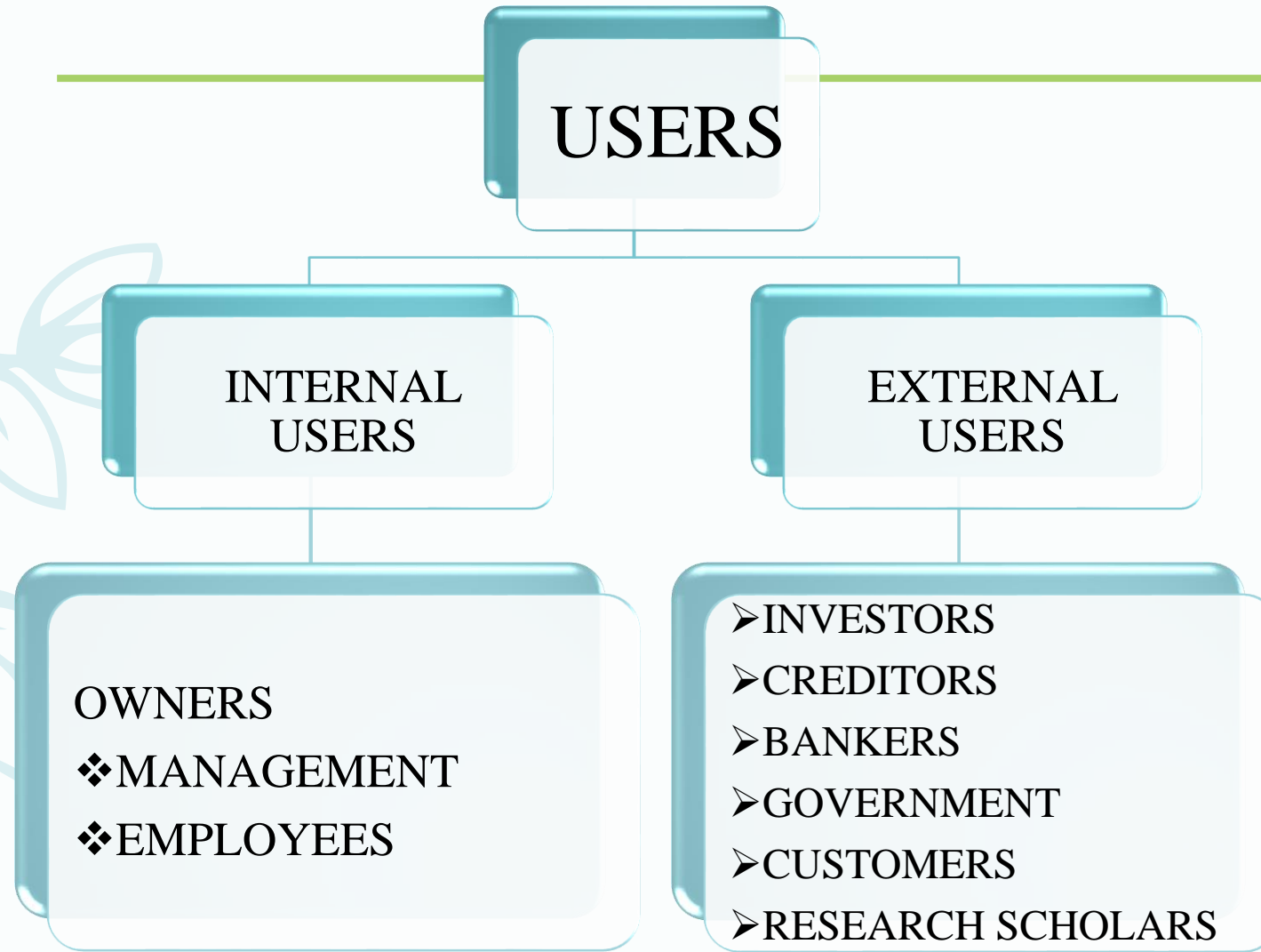
PROVIDING INFORMATION TO THE USERS
FOR RATIONAL DECISION MAKING

TO KNOW THE SOLVENCY POSITION

FUNCTIONS OF ACCOUNTING

-
- MEASUREMENT
 - FORECASTING
 - DECISION MAKING
 - COMARISON AND EVALUATION
 - CONTROL
 - GOVERNMENT REGULATION AND TAXATION

USERS OF ACCOUNTING INFORMATION SYSTEM



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graph TD; A[BRANCHES OF ACCOUNTING] --- B[FINANCIAL ACCOUNTING]; A --- C[COST ACCOUNTING]; A --- D[MANAGEMENT ACCOUNTING]
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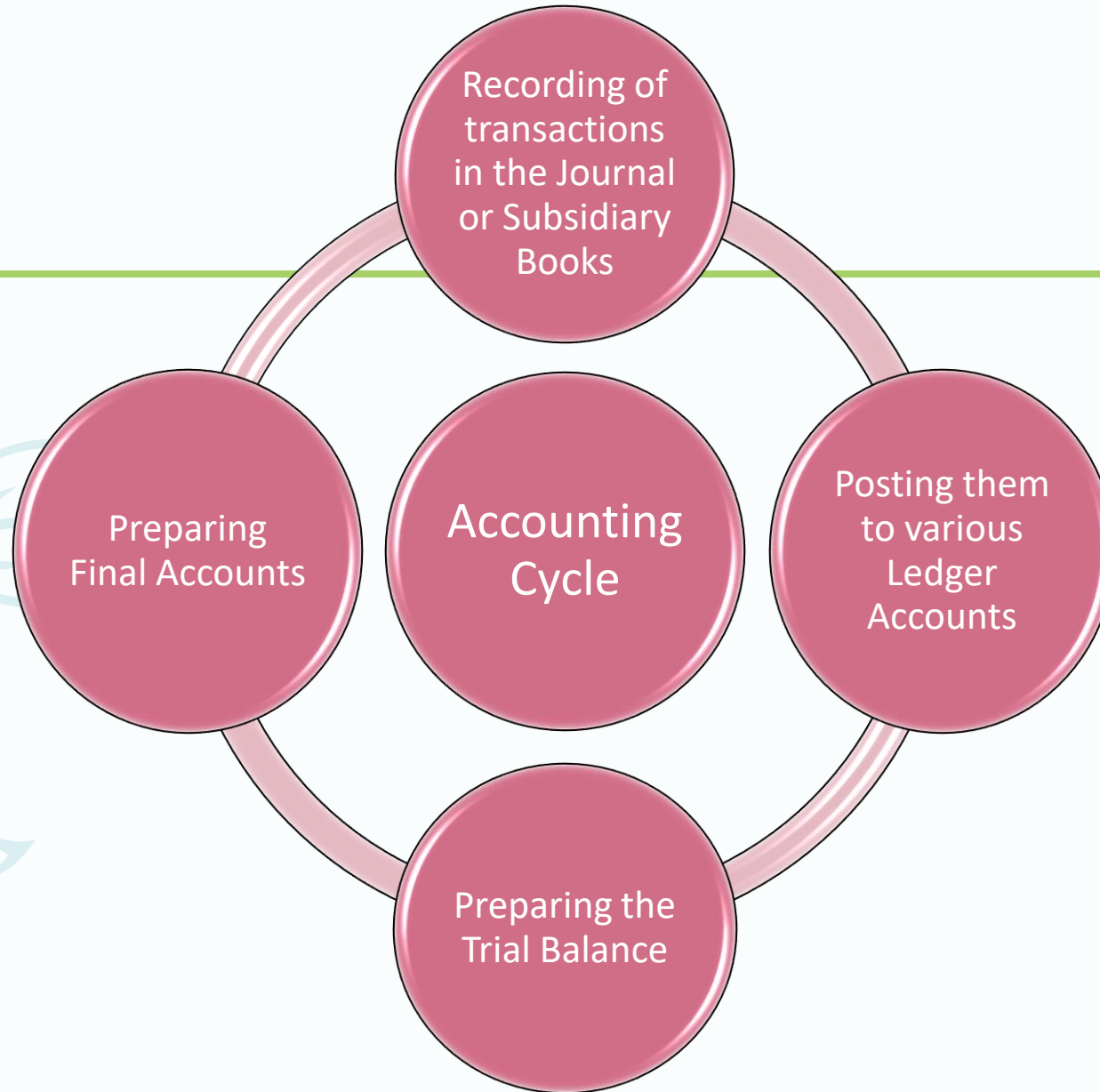
BRANCHES OF ACCOUNTING

FINANCIAL
ACCOUNTING

COST
ACCOUNTING

MANAGEMENT
ACCOUNTING

ACCOUNTING CYCLE



ACCOUNTING PRINCIPLES



– “The word principle is used to mean a general law or rule adopted or preferred as a guide to action and a settled ground or bases of conduct or practice”

– *Terminology Committee of AICPA*

– Rules of action or conduct which are derived from experience & practice & when they prove useful, they become accepted as principles of accounting

– *Generally Accepted Accounting Principles (GAAP)*



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graph TD; A[ACCOUNTING PRINCIPLES] --- B[ACCOUNTING CONCEPTS]; A --- C[ACCOUNTING CONVENTIONS]
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**ACCOUNTING
PRINCIPLES**

**ACCOUNTING
CONCEPTS**

**ACCOUNTING
CONVENTIONS**

ACCOUNTING CONCEPTS

1. Business Entity Concept

2. Money Measurement Concept

3. Accounting Period Concept

4. Going Concern Concept

5. Dual Aspect Concept

6. Historical Record Concept

7. Revenue Recognition Concept

8. Matching Concept

9. Realization Concept

10. Objectivity Concept

11. Cost Concept

12. Accrual Concept

13. Legal Aspect Concept

ACCOUNTING CONVENTIONS

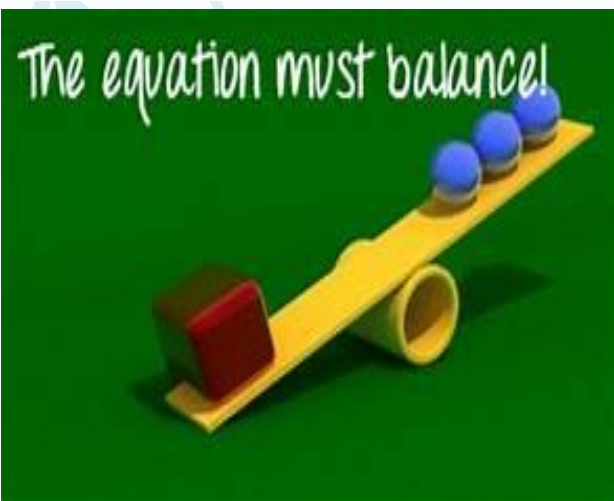


1. Convention of Consistency

2. Convention of Disclosure

3. Convention of Conservation

4. Convention of Materiality



ACCOUNTING EQUATION

Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$



- $\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$
- $\text{ASSETS} - \text{LIABILITIES} = \text{CAPITAL}$
- $\text{ASSETS} - \text{CAPITAL} = \text{LIABILITIES}$

ADVANTAGES OF ACCOUNTING

- ❖ Replacement of Memory
- ❖ Evidence in Court
- ❖ Settlement of Taxation Liability
- ❖ Comparative Study
- ❖ Sale of Business
- ❖ Assistance to the Insolvent Person
- ❖ Assistance to various parties
- ❖ Facilitate in Raising Loans
- ❖ Assistance to Management
- ❖ Facilitates Control over Asset





LIMITATIONS OF ACCOUNTING

- ❖ Records only Monetary Transactions
- ❖ Effect of Price level changes not considered
- ❖ No realistic information
- ❖ Permits alternative treatments
- ❖ Profit no real test of managerial performance
- ❖ Historical in nature
- ❖ Window dressing in Balance Sheet

Accounting Standards

- ❖ Issued by “Institute of Chartered Accountants of India” (ICAI).
- ❖ Uniform accounting rules and guidelines
- ❖ Uniform accounting practices to be adopted for preparing uniform and consistent financial statements.
- ❖ Written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, treatment, measurement, presentation and disclosure of accounting transactions and events in the financial statements



Definition of Accounting Standards



- “written documents, policies, procedures issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statement”.

- ICAI (*Institute of Chartered Accountants of India*)

- A written statement issued from time to time by institutions of accounting profession, in which it has sufficient involvement which are established expressly for this purpose.

- *Jawaharlal*

- Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally.

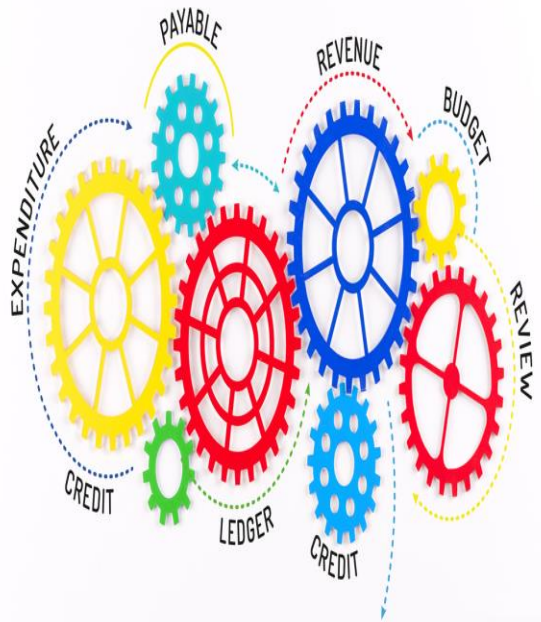
- *Kohler*

Objectives of Accounting Standards

- Standardize the diverse accounting policies.
- To eliminate to the extent possible the non-comparability of financial statements.
- It adds the reliability to the financial statements.
- It increases the arithmetic accuracy of financial statements.
- Accounting standards helps to understand accounting treatment in financial statement.




Significance of AS



Accounting

- ✓ Ensures Uniformity and Comparability
- ✓ More Accurate
- ✓ Improves Credibility and Reliability
- ✓ Helps to adopt sound accounting policies and practices.
- ✓ Helps to analyze and interpret the financial results of a concern.
- ✓ Helps the company auditor in verification of financial statements and to prepare a final audit report.
- ✓ Helps to check the liquidity, profitability and solvency of the business concern.
- ✓ Helps the investors to know the risk and returns involved the investors to know the risk and returns involved.
- ✓ Tries to incorporate latest trends in international accounting standard.
- ✓ Helps to expand the business activities of an organization in foreign countries.

Accounting Standards in Indian Context

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- In India, accounting standards are issued by the Accounting Standards Board of the Institute of Chartered Accountants of India in consultation with the National Advisory Committee on Accounting Standards.
 - Accounting Standard Board (ASB) on 21st April 1977.
 - International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) which is also recognized as Global Accounting Standards. The Government of India also expressed its commitment to converge (a process of having IFRS customized to Indian environment) with IFRS.
 - The Institute of Chartered Accountants of India has formulated IFRS – converged standards known as Indian Accounting Standards (Ind AS) which has been notified by the ministry of Corporate Affairs under Companies (Indian Accounting Standards) Rules, 2015.