

Class 11th | Accountancy



Meaning And Objectives Of Accounting

LECTURE - 4

MEANING OF ACCOUNTING

American Institute of Certified Public Accountants -

"Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money; transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."

BOOK
KEEPING

ACCOUNTING

ACCOUNTANCY

Accounting Process



Book Keeping

Accounting

Accountancy



Language of Business

→ BK

→ Accounting

→ Accountancy

↳ Rules & Reg.



① 
credit sales

 Sales
Return



No Non Bus. Trx.

cold
coffee

② 
K
friend

Yes Business ✓
Monetary ✓

3. No.

Business Trxn ✓
Non monetary

STRIKE



MEANING OF ACCOUNTING

④



4.

Loan
₹ 50000

No

Non Business X Vandy
monetary ~

Relative



MEANING OF ACCOUNTING

Identification
of transactions

①

Business &
monetary

Non Business & Non Monetary X

②

Measurement
(in terms of money)

Recording
(Journal Entry)

③

④

Classification
(Ledger Account)

Summarization
(Final Accounts)

⑤

PROCESS OF ACCOUNTING

Ledger

Jethalal			
Soda 1	30	Cash	70
Soda 2	60	Balance	140
Kuchure	50		
- -	70		
	<u>210</u>		<u>210</u>

✓ Anupama sales = 50000

Anupama a/c Dr. | 50000
(To Sales |
(Being goods sold) | 50000

MEANING OF ACCOUNTING



Summ

Final Accounts

↳ Trading a/c → Gross Profit

↳ Profit & Loss a/c → Net Profit

↳ Balance sheet

Assets & Liabilities

MEANING OF ACCOUNTING

Accountant



Identification

↓
Measurement

↓
Recording

↓
Classification

↓
Summarizing

↓
Analysis & Interpretation

↓
Communication

Book
Keeping

ACCOUNTING

MEANING OF ACCOUNTING

Accounting is a systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.

Since accounting is a medium of communication, it is called the language of business.

ACCOUNTANCY → Subject

(Accounting karna sikhata h)
Rules & Regulations

Accountancy is an entire body of theory & practice of accounting.

MEANING OF BOOK KEEPING

Book Keeping is a process of recording financial transactions and events in the books of account. It is a part of accounting.

Thus, Book Keeping involves:

- Identifying financial transactions and events,
- Measuring them in terms of money,
- Recording the identified financial transactions and events in the books of account, and
- Classifying recorded transactions and events, i.e., posting them into Ledger accounts.

MEANING OF ACCOUNTING

Accounting is a wider concept than Book Keeping. It starts where Book Keeping ends. In other words, Book Keeping is a part of accounting.

Accounting is concerned with Summarising the recorded transactions, interpreting them and communicating the results.

I
M
R
C
S
A/I
C

Accountancy

ACCOUNTING AND ACCOUNTANCY

Accountancy is knowledge whereas accounting is the action or process.

Accounting process is carried out on the basis of the rules and principles framed by accountancy.

Thus, it may be said that accountancy is knowledge of accounting and accounting is the application of accountancy.

Which has a wider scope.

~~Accounting~~

→ Accounting
→ Accountancy

CHARACTERISTICS OF ACCOUNTING

- ➡ Accounting is an Art as well as Science
- ➡ Identification of Financial Transactions & Events
- ➡ Measuring the Identified Transactions
- ➡ Recording
- ➡ Classifying
- ➡ Summarising
- ➡ Analysis and Interpretation
- ➡ Communicating

Art → It is Based on
Skill & Creativity

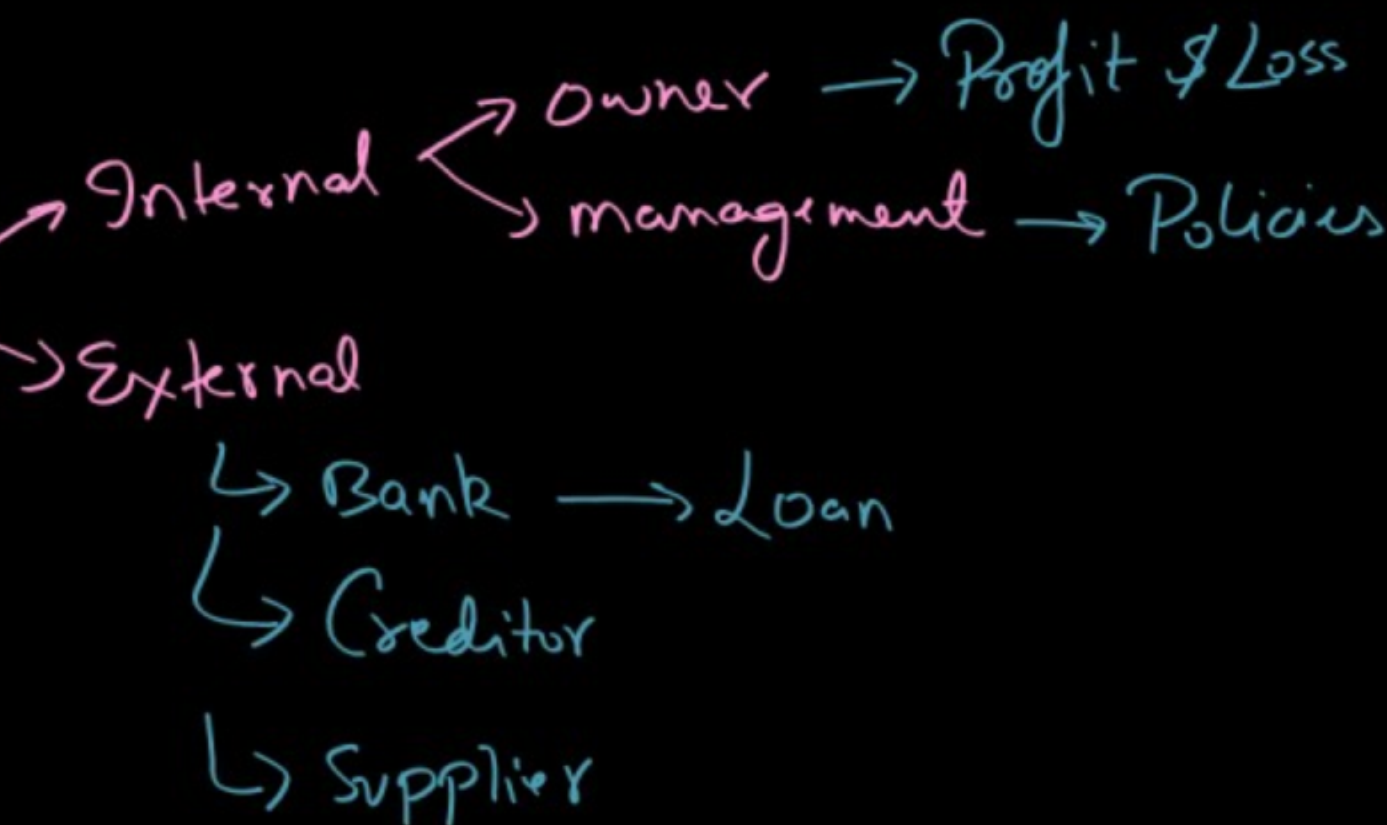
Science → It is based on
Principles

OBJECTIVES OF ACCOUNTING

- ➡ Maintaining Accounting Records
- ➡ Providing Accounting Information to Users
- ➡ Protecting Business Assets
- ➡ Determining Profit or Loss
- ➡ Determining Financial Position
- ➡ Facilitating Management

↳ Policies.

Position of
Assets & Liab.



OBJECTIVES OF ACCOUNTING

15 times

MAP PDF

- Maintaining Accounting Records
- Providing Accounting Information to Users
- Protecting Business Assets
- Determining Profit or Loss
- Determining Financial Position
- Facilitating Management

M → Maintaining Accounting Records.

A → Providing Acc. Info to users.

P → Protecting Business Assets

P → Det. P/L of Bus.

D → Det Fin. Position

F → Facilitating Mgmt.

✕
dearn

ADVANTAGES OF ACCOUNTING

- ➔ **Financial Information** about Business
- ➔ Assistance in the Event of **Insolvency**
- ➔ Replaces Memory
- ➔ Facilitates **Sale of Business**
- ➔ Facilitates Settlement of **Tax Liabilities**

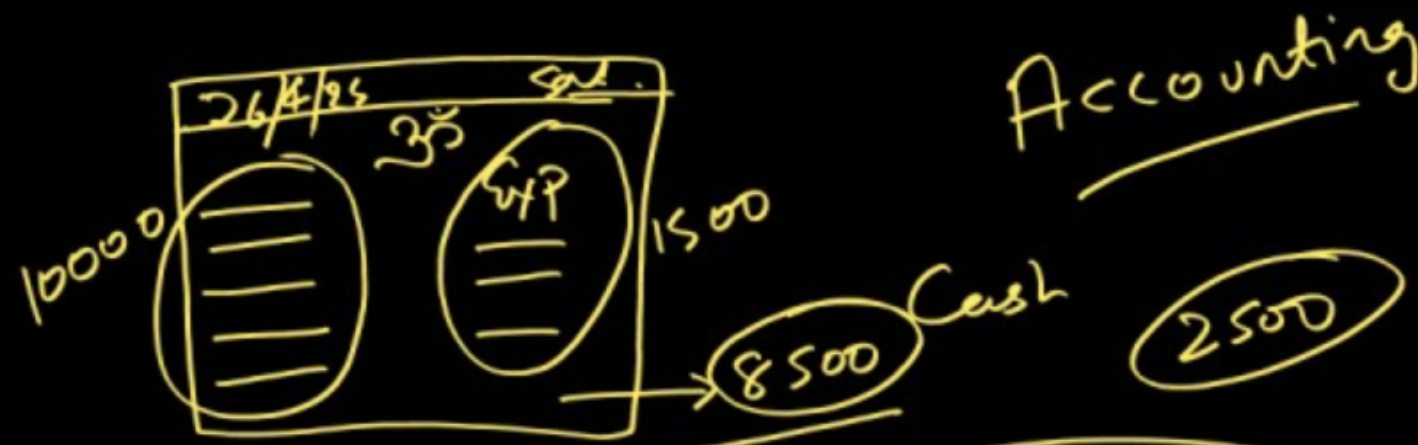
- ➔ Supports **Decision-making**

- ➔ Serves as **Evidence in Court**

- ➔ Facilitates **Comparative Study**

- ➔ Facilitates **Loans**

- ➔ **Assistance to Management**



Inter firm
comparison

Intra firm
comparison

Inter → Between two firms

Intra → 2022, 2023, 2024

→ FIRST CLASS

ADVANTAGES OF ACCOUNTING

15 Times

- ➡ Financial Information about Business
- ➡ Assistance in the Event of Insolvency
- ➡ Replaces Memory
- ➡ Facilitates Sale of Business
- ➡ Facilitates Settlement of Tax Liabilities

- ➡ Supports Decision-making
- ➡ Serves as Evidence in Court
- ➡ Facilitates Comparative Study
- ➡ Facilitates Loans
- ➡ Assistance to Management

FIRST

CLASS

Objc of Acc

M

A

P

P

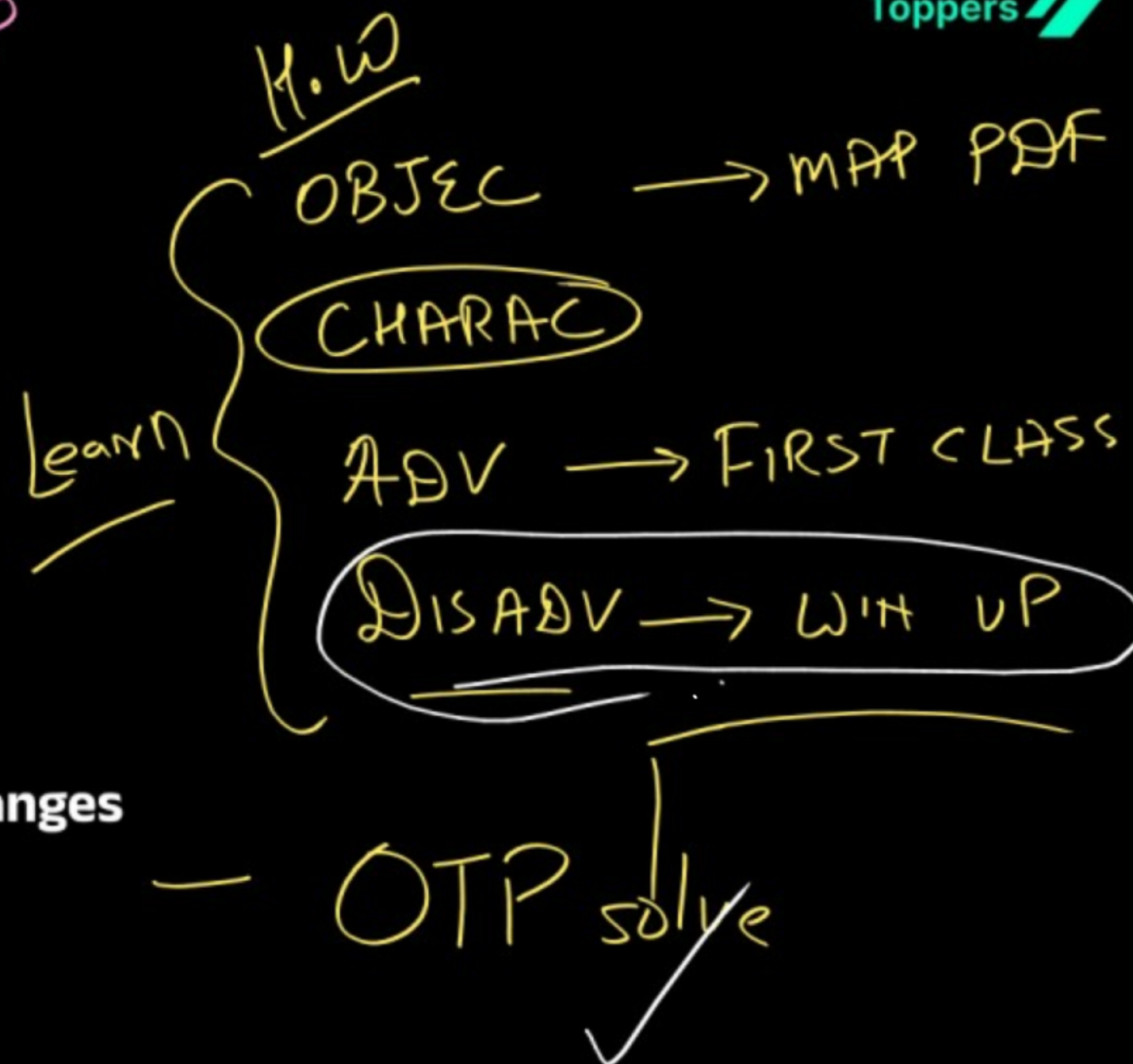
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F

DISADVANTAGES OF ACCOUNTING

- ➡ Accounting May Lead to Window Dressing
- ➡ Accounting Ignores the Qualitative Elements
- ➡ Accounting is not Fully Exact
- ➡ Unrealistic Information
- ➡ Accounting Ignores the Effect of Price Level Changes

Win Up



250000

50000 p.y.
Depreciate

300000

6yrs Estimate

DISADVANTAGES OF ACCOUNTING

WIN UP

- ➡ Accounting May Lead to Window Dressing → Manipulation in Accounts.
 - ➡ Accounting Ignores the Qualitative Elements → Presenting Financial statements in better position than it actually is.
 - ➡ Accounting is not Fully Exact → Bcz it is based on estimates.
 - ➡ Unrealistic Information → Quality & skills of management are not accounted. Public relations are ignored.
 - ➡ Accounting Ignores the Effect of Price Level Changes
- Ex: Estimating useful life of an asset.

DISADVANTAGES OF ACCOUNTING

- Accounting May Lead to Window Dressing
- Accounting Ignores the Qualitative Elements
- Accounting is not Fully Exact
- Unrealistic Information
- Accounting Ignores the Effect of Price Level Changes

Accounting ignores
Inflation.

Accounting records assets at HISTORICAL COST

market value X

10 Lakh

250000

50000 p.y.
Depreciate

300000
Board

6yrs
Estimate

Jitne me kharida

USERS OF ACCOUNTING INFORMATION

Internal Users

Owners

Management

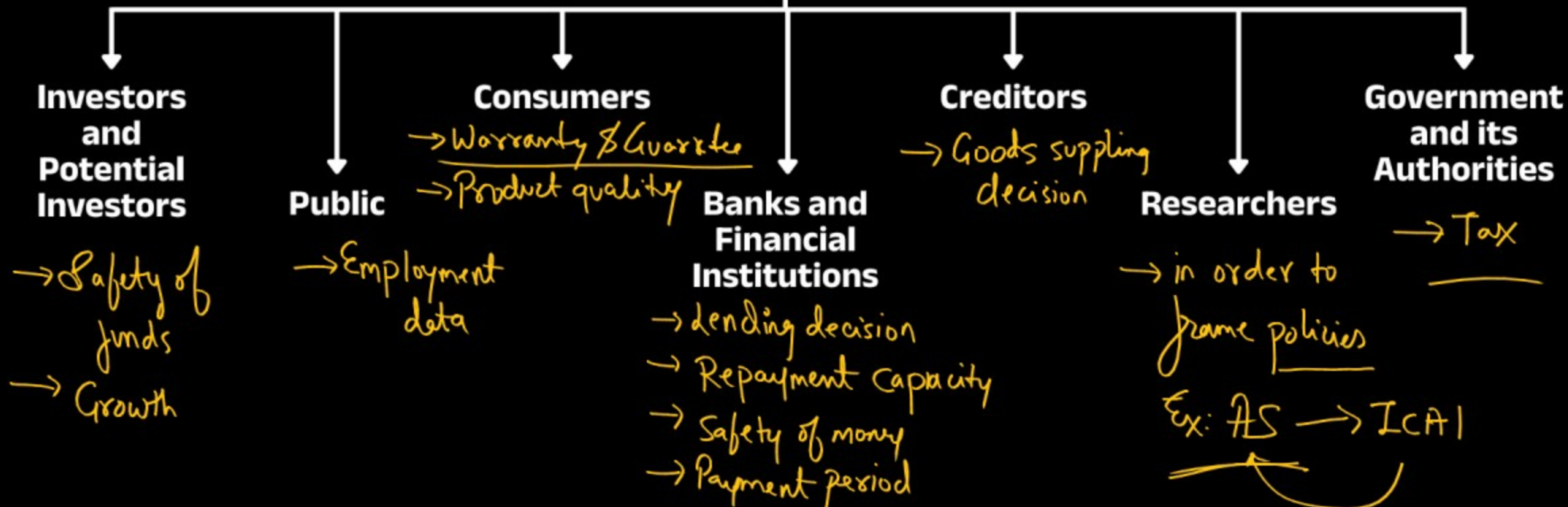
- PROFIT & LOSSES
- INVESTMENT DECISION → More Capital/Withdrawal
- Safety of money

- Determination of Selling Price, Cost Control.
- Comparison → inter firm
→ intra firm
- Policy formation for future.

USERS OF ACCOUNTING INFORMATION



External Users



BRANCHES OF ACCOUNTING

Financial Accounting

It involves identification, money measurement, Recording, classifying, Summarizing, Analysing and communicating results of financial transactions.

Cost Accounting

→ It deals with determining Profit & Loss and financial position of business.

Management Accounting

BRANCHES OF ACCOUNTING

Financial Accounting

Cost Accounting

Management Accounting

Deals with ascertaining cost of manufactured goods or rendered services.

→ Helps management in Pricing decisions.

<u>Mc.D</u>		
Veggies.	5	
Aloo tikki	8	
Bun	13	
Sauces.	4	
	<u>20 + 10</u>	⇒ 30
		↑
		<u>MRP ⇒ 55</u>
		↓
		65

BRANCHES OF ACCOUNTING

**Financial
Accounting**

**Cost
Accounting**

**Management
Accounting**

→ It helps management to take decisions & frame policies regarding costs, profits, arrangement of funds, etc.

DIFFERENCE BETWEEN BOOK KEEPING AND ACCOUNTING

Basis	Book Keeping	Accounting
Scope	Book Keeping is concerned with identifying financial transactions; measuring them in money terms; recording them in the books of account and classifying them.	Accounting is concerned with summarising the recorded transactions, interpreting them and communicating the results.
Stage	It is a <u>primary stage</u> . It is the basis for accounting.	It is a <u>secondary stage</u> . It begins where Book Keeping ends.
Objective	The objective of Book Keeping is to maintain <u>systematic records</u> of financial transactions.	The objective of Accounting is to ascertain <u>net results of operations and financial position</u> and to communicate information to the interested parties.
Performance	It being a routine work is performed by <u>junior staff</u> .	It being a specialised function is performed by <u>senior staff</u> .
Special Skills	Book Keeping is mechanical in nature and, thus, <u>does not require special skills</u> .	Accounting requires <u>special skills and ability</u> to analyse and interpret.

→ How should be your Books of Accounts?

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

Reliability

- Verifiable
- Free from bias

Understandability

→ Information should be easily understandable.

Relevance

→ It should help user in decision making.

Comparability

Inter firm comparison
(between 2 firms)

Intra firm comparison
(different periods)
2022 ⇔ 2024

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

► Reliability

Accounting information should be reliable. Reliability of information means it is verifiable, free from bias and material error

► Relevance

Accounting information must be relevant to the user. Information is relevant if it meets the needs of the users in decision-making.

► Understandability

Understandability means that the information provided through the financial statements must be presented in a manner that the users understand it.

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

► Comparability

Comparability means that the users should be able to compare the accounting information of an enterprise of;

The period either with that of other periods, known as intra-firm comparision.

Ex: Comparing sales of
may, june, july
Comp. profits of 2022 with 2024

The accounting information of other enterprise, known as inter-firm comparision.

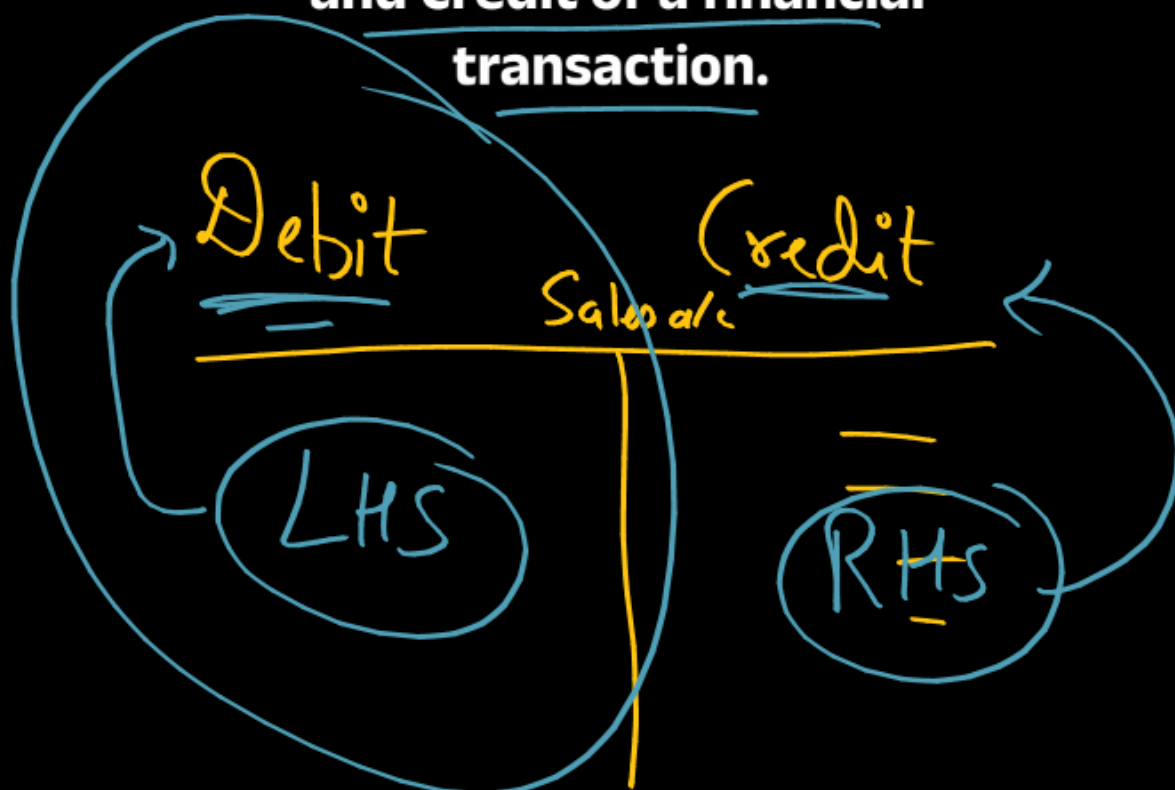
Zudio ↔ Tata trends

SYSTEM OF ACCOUNTING

The systems of recording transactions in the book of accounts are

Double Entry System

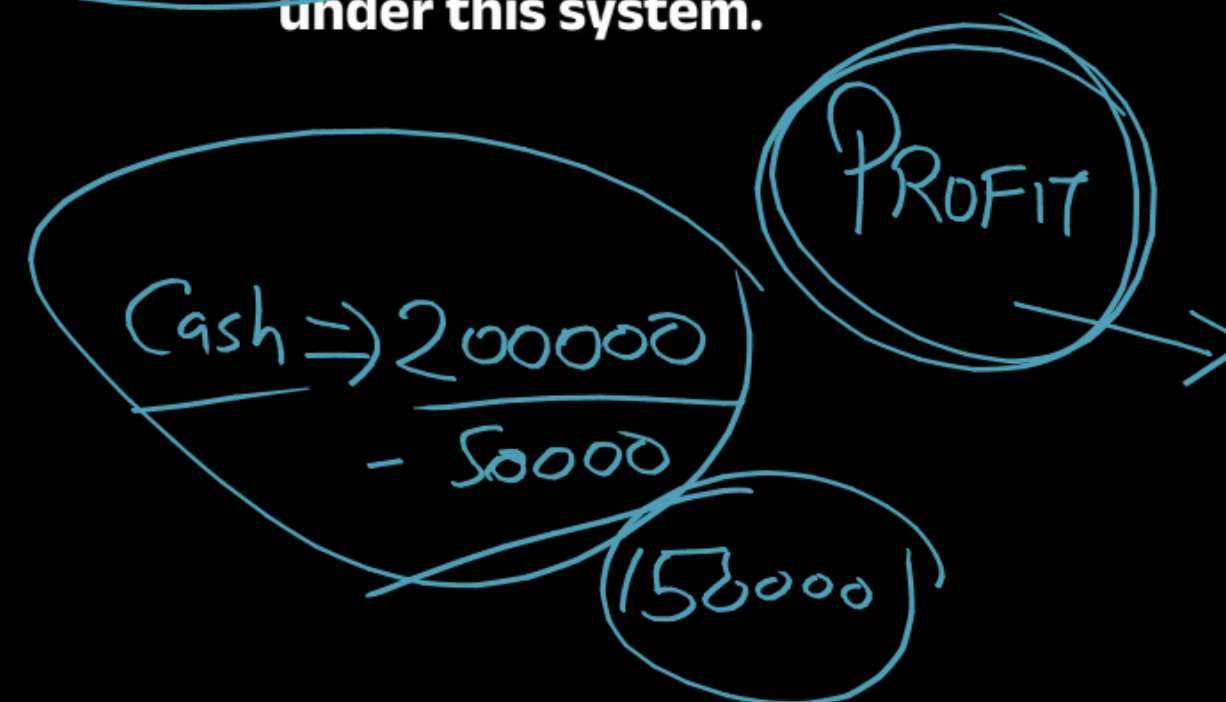
Double Entry System is the system of accounting which recognises and records both aspects-Debit and Credit of a financial transaction.



Single Entry System

(Accounts from Incomplete Records)

In this system, all transactions are not recorded on double entry basis. Instead of maintaining all the accounts, only Personal Accounts and Cash Book are maintained under this system.



V.V. JNP

BASES OF ACCOUNTING

Cash Basis

Transactions are recorded in the books of account on cash being received or paid.



Accrual Basis

Transaction is recorded in the books of account when entered, whether cash is received/paid or not.



BASES OF ACCOUNTING

Cash Basis

Transactions are recorded in the books of account on cash being received or paid.



Income
Cash received
Expense
Cash paid

Accrual Basis

Transaction is recorded in the books of account when entered, whether cash is received/paid or not.



O
K
Jethalal

Sales
[T.V.]

O
K
Abhishek

1 month later

Cash
X

Accrual
✓

Sales

Credit X

(7)

O
K
Dolly
Choi

Abhishek

Cash basis

Record X

CASH BASIS OF ACCOUNTING

Transactions are recorded in the books of account on cash being **received** or **paid**.

- Revenue is recognised on receipt of cash.
- Expenses are recorded when they have been paid.
- The difference between the total incomes and total expenses represents **Profit** or **Loss** of a business for the accounting period.

ACCRUAL BASIS OF ACCOUNTING

Transaction is recorded in the books of account when entered, whether cash is received/paid or not.

- Accounting income is recorded as income when it is **earned** or **accrued**.
- If an expense has been incurred but payment has not been made, it will be recorded as an expense.
- Accrual Basis of Accounting is based on **Revenue Recognition Principle** and **Matching Principle**. Thus, under the Accrual Basis of Accounting, outstanding and prepaid expenses are adjusted. Similarly, accrued income and income received in advance are recognised for ascertaining correct profit or loss for the accounting period.