

INTRODUCTION OF ACCOUNTING

1. What are the benefits of Accounting?
2. What are the limitations of Accounting?
3. Who are the primary users of accounting information?
4. What are the qualitative features of accounting information?
5. Explain the different systems of accounting.
6. What is Financial Accounting?
7. What is the difference between bookkeeping and accounting?
8. What is Cost accountancy?
9. What is called Accounting?
10. What is the main objective of accounting?
11. What are the names of the three functions of accounting?

Answers

Answer 1.

Following are the main benefits of accounting:

1. Provide information about financial performance :

Accounting provides factual information about financial performance during a given period of time. Like, profit earned or loss incurred over a period and financial position at a particular point of time.

2. Provide assistance to management :

Accounting helps management in business planning, decision making and in exercising control. For this, it provides financial information in the form of reports.

3. Facilitates comparative study :

By keeping systematic records and preparation of reports at regular intervals, accounting helps in making a comparison.

4. Helps in settlement of tax liability :

Systematic accounting records help in settlement of various tax liabilities. Such as – Income Tax, GST, etc.

5. Helpful in raising loan :

Banks and Financial Institutions grant a loan to the firm on the basis of appraisal of the financial statement of the firm.

6. Helpful in decision making :

Accounting provides useful information to the management for taking decisions.

Answer 2.

Following are the limitations of accounting :

1. Accounting is not precise:

Accounting is not completely free from personal bias or judgment.

2. Accounting is done on historic values of assets:

Accounting records assets at their historical cost less depreciation. It does not reflect their current market value.

3. Ignore the effect of price level changes:

Accounting statements are prepared at historical cost. So changes in the value of money are ignored.

4. Ignore the qualitative information:

Accounting records only monetary transactions. It ignores the qualitative aspects.

5. Affected by window dressing:

Window dressing means manipulation in accounting to present a more favourable position of the business than the actual position.

Answer 3.

Users may be categorised into internal users and external users.

(A) Internal Users

1. Owners:

Owners contribute capital in the business and thus they are exposed to maximum risk. So, they are always interested in the safety of their capital.

2. Management:

Accounting information is used by management for taking various decisions.

3. Employees:

Employees are interested in the financial statements to assess the ability of the business to pay higher wages and bonuses.

(B) External Users

1. Banks and financial institutions:

Banks and Financial Institutions provide loans to business. So, they are interested in financial information to ensure the safety and recovery of the loan.

2. Investors:

Investors are interested to know the earning capacity of business and safety of the investment.

3. Creditors:

Creditors provide the goods on credit. So they need accounting information to ascertain the financial soundness of the firm.

4. Government:

The government needs accounting information to assess the tax liability of the business entity.

5. Researchers:

Researchers use accounting information in their research work.

6. Consumers:

They require accounting information for establishing good accounting control, which will reduce the cost of production.

Answer 4.

Qualitative characteristics are the attributes of accounting information, which enhance its understandability and usefulness:

1. Reliability:

Reliability implies that the information must be free from material error and personal bias.

2. Relevance:

Accounting information must be relevant to the decision-making requirements of the users.

3. Understandability:

Information should be disclosed in financial statements in such a manner that these are easily understandable.

4. Comparability:

Both intra-firm and inter-firm comparison must be possible over different time periods.

Answer 5.

System of accounting :

There are following two systems of recording transactions in the books of accounts:

1. Double Entry System

2. Single Entry System

1. Double-entry system :

The double entry system is based on the Dual Aspect Principle.

Every transaction has two aspects, 'a Debit' and 'a credit' of an equal amount.

This system of accounting recognises and records both aspects of the transaction.

2. Single entry system :

Under this system, both aspects are not recorded for all the transactions.

Either only one aspect is recorded or both the aspects are not recorded for all the transactions.

Answer 6.

Financial Accounting is one of the most crucial branches of accounting. It is involved in the process of identifying, evaluating, recording, organizing, and summarizing financial transactions. This data is further communicated to the relevant segments of an enterprise for quick and effective decision making.

Answer 7.

Bookkeeping is concerned with the recording of the financial transactions whereas accountancy is all about its interpreting, categorizing, analyzing, summarizing, and reporting.

Answer 8.

Cost accounting deals with the process of recording and analyzing the manufacturing costs of a company. The prime motive of this branch is to predict future costs and minimize current expenditures. It also helps in determining the future cost management strategies.

Answer 9.

Accounting is called the language of business.

Answer 10.

The main objective of accounting is keeping accounting records and determine the financial results of the organization.

Answer 11.

The three functions of accounting are

Identification

Classification

Communication