Financial accounting pdf for bca

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Accounting is the process of recording, classifying, summarizing, analyzing and interpreting the financial transactions of the business for the benefit of management and those parties who are interested in business such as shareholders, creditors, bankers, customers, employees, and government. Thus, it is concerned with financial reporting and decision making aspects of the business The term 'Accounting' unless otherwise specifically stated always refers to 'Financial Accounting'. Financial Accounting is commonly carrying on in the general offices of a business. It is concerned with revenues, expenses, assets, and liabilities of a business house. Financial Accounting has the two-fold objective, viz, To ascertain the profitability of the business, andTo know the financial position of the concern. #Scope of Financial Accounting: Financial accounting is a useful tool to manage and to external users such as shareholders, potential owners, creditors, customers, employee, and government. It provides information regarding the results of its operations and the financial status of the business. The following are the functional areas of financial accounting:- Dealing with financial transactions: Accounting as a process deals only with those transactions which are measurable in terms of money. Anything which cannot be expressed in monetary terms does not form part of financial accounting however significant it is.Recording of information: Accounting is an art of recording financial transactions of a business concern. There is a limitation for human memory. It is not possible to remember all transactions of the business. Therefore, the information is recorded in a set of books called Journal and other subsidiary books and it is useful for management in its decision-making process.Classification of Data: The recorded data is arranged in a manner so as to group the transactions of similar nature at one place so that full information of these items may be collected under different heads. This is done in the book called 'Ledger'. For example, we may have accounts called 'Salaries', 'Rent', 'Interest', Advertisement', etc. To verify the arithmetical accuracy of such accounts, the trial balance is prepared.Making Summaries: The classified information of the trial balance is used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information. The final accounts are prepared to find out operational efficiency and financial strength of the business.Analyzing: It is the process of establishing the relationship between the items of the profit and loss account and the balance sheet. The purpose is to identify the financial strength and weakness of the business. It also provides a basis for interpretation.Interpreting the financial information: It is concerned with explaining the meaning and significance of the relationships established by the analysis. It should be useful to the users, so as to enable them to take correct decisions.Communicating the results: The profitability and financial position of the business as interpreted above are communicated to the interested parties at regular intervals so as to assist them to make their own conclusions. #Limitations of Financial Accounting: Financial accounting is concerned with the preparation of final accounts. The business has become so complex that mere final accounts are not sufficient for meeting financial needs. Financial accounting is like a post-mortem report. At the most, it can reveal what has happened so far, but it cannot exercise any control over the past happenings. The limitations of financial accounting are as follows:- It records only quantitative information.It records only the historical cost. The impact of future uncertainties has no place in financial accounting.It does not take into account price level changes.It provides information about the whole concern. Product-wise, process-wise, department-wise or information of any other line of activity cannot be obtained separately from the financial accounting.Cost figures are not known in advance. Therefore, it is not possible to fix the price in advance. It does not provide information to increase or reduce the selling price.As there is no technique for comparing the actual performance with that of the budgeted targets, it is not possible to evaluate the performance of the business.It does not tell about the optimum or otherwise of the quantum of profit made and does not provide the ways and means to increase the profits.In case of loss, whether loss can be reduced or converted into profit by means of cost control and cost reduction? Financial accounting does not answer this question.Does it not reveal which departments are performing well? Which ones are incurring losses and how much is the loss in each case?It does not provide the cost of products manufacturedThere are no means provided by financial accounting to reduce the wastage.Can the expenses be reduced which results in the reduction of product cost and if so, to what extent and how? No answer to these questions.It is not helpful to the management in taking strategic decisions like replacement of assets, an introduction of new products, discontinuation of an existing line, expansion of capacity, etc.It provides ample scope for manipulation like overvaluation or undervaluation. This possibility of manipulation reduces the reliability.It is technical in nature. A person not conversant with accounting has little utility of the financial accounts. Nature of Financial Accounting: Contents: The end product of the financial accounting process is the financial statements that communicate useful information to decision-makers. The financial statements reflect a combination of recorded facts, accounting conventions and personal judgments of the preparers. There are three primary financial statements for a profit-making entity in India, viz., the Income Statement (statement of revenues, expenses, and profit), and the Balance Sheet (like the statement of assets, liabilities and owner's equity) and cash flow statement. The accounting information generated by financial accounting is quantitative, formal, structured, numerical and past-oriented material.Accounting System: The accounting system includes the various techniques and procedures used by the accountant (preparer) in measuring, describing and communicating financial data to users. Journals, ledgers and other accounting techniques used in processing financial accounting information depend upon the concept of the double-entry system. This technique includes generally accepted accounting principles (GAAP). The standard of generally accepted accounting principles includes not only broad guidelines of general application but also detailed practices and procedures.Measurement Unit: Financial accounting is primarily concerned with the measurement of economic resources and obligations and changes in them. Financial accounting measures in terms of monetary units of a society in which it operates. For example, the common denominator or yardstick used for accounting measurement is the rupee in India and dollar in the U.S.A. The assumption is that the rupee or the dollar is a useful measuring unit.Users of Financial Accounting Information: Financial accounting information is intended primarily to serve external users. Some users have the direct interest in the reported information. Examples of such users are owners, creditors, potential owners, suppliers, management, tax authorities, employees, customers. Some users need financial accounting information to help those who have the direct interest in a business enterprise. Users or Role of the Financial Accounting: The most basic objective of financial accounting is the preparation of general purpose financial statements, which are financial statements meant for use by stakeholders external to the entity, who do not have any other means of getting such information, i.e. people other than the management. These stakeholders include: Investors and Financial Analysis: Investors need the information to estimate the intrinsic value of the entity and to decide whether to buy, hold or sell the entity's shares. Equity research analysts use financial statements to conduct their research on earnings expectations and price targets.Working as Employee groups: Employees and their representative groups are interested in information about the solvency and profitability of their employers to decide about their careers, assess their bargaining power and set a target wage for themselves.Lead as Lenders: Lenders are interested in information that enables them to determine whether their loans and the interest earned on them will be paid when due.Suppliers and other trade creditors: Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due and whether the demand from the company is going to increase, decrease or stay constant.One of the Customers: Customers want to know whether their supplier is going to continue as an entity, especially when they have a long-term involvement with that supplier. For example, Apple is interested in the long-term viability of Intel because Apple uses Intel processors in its computers and if Intel ceases operations at once, Apple will suffer difficulties in meeting its own demand and will lose revenue.His also Governments and their agencies: Governments and their agencies are interested in financial accounting information for a range of purposes. For example, the tax collecting authorities, such as IRS in the USA, are interested in calculating the taxable income of the tax-paying entities and finding their tax payable. Antitrust authorities, such as the Federal Trade Commission, are interested in finding out whether an entity is engaged in monopolization. The governments themselves are interested in the efficient allocation of resources and they need financial accounting information of different sectors and industries to decide on federal and state budget allocation, etc. The bureaus of statistics are interested in calculating national income, employment, and other measures.Also as Public: the public is interested in an entity's contribution to the communities in which it operates, its corporate social responsibility updates, its environmental track record, etc. Definition of Management Accounting Management Accounting, also known as Managerial Accounting is the accounting for managers which helps the management of the organisation to formulate policies and forecasting, planning and controlling the day to day business operations of the organisation. Both the quantitative and qualitative information are captured and analysed by the management accounting. The functional area of management accounting is not limited to providing a financial or cost information only. Instead, it extracts the relevant and material information from financial and cost accounting to assist the management in budgeting, setting goals, decision making, etc. The accounting can be done as per the requirement of the management, i.e. weekly, monthly, quarterly, etc. and there is no format set on the basis of which it is to be reported. Key Differences Between Financial Accounting and Management Accounting The following points explain the major differences between financial accounting and managerial accounting: Financial Accounting is the branch of accounting which keeps track of all the financial information of the entity. Management Accounting is that branch of accounting which records and reports both the financial and nonfinancial information of an entity.Users of financial accounting are both the internal management of the company and the external parties while the users of the management accounting are only the internal management.Financial accounting is to be publicly reported whereas the Management Accounting is for the use of the organisation and hence it is very confidential.Only monetary information is contained in financial accounting. As against this, management accounting contains both monetary and non-monetary information such as the number of workers, the quantity of raw material used and sold, etc.Financial Accounting is done in the prescribed format, whereas there is no prescribed format for the Management Accounting.Financial Accounting focuses on providing information about the functioning of the entity's business to its users, whereas Management Accounting focuses on providing information to help them in evaluating the performance and devising plans for the future.The Financial Accounting is mainly done for a specific period, which is usually one year. On the other hand, the management accounting is done as per the needs of the management say quarterly, half yearly, etc.Financial accounting is a must for any company for auditing purposes. On the contrary, management accounting is voluntary, as no editing is done.Financial accounting information is required to be published and audited by statutory auditors. Unlike, management accounting, which does not require information to be published and audited, as they are for internal use only. In drawing up accounting statements, whether they are external "financial accounts" or internally-focused "management accounts", a clear objective has to be that the accounts fairly reflect the true "substance" of the business and the results of its operation. The theory of accounting has, therefore, developed the concept of a "true and fair view". The true and fair view is applied in ensuring and assessing whether accounts do indeed portray accurately the business' activities. To support the application of the "true and fair view", accounting has adopted certain concepts and conventions which help to ensure that accounting information is presented accurately and consistently. Accounting Conventions The most commonly encountered convention is the "historical cost convention". This requires transactions to be recorded at the price ruling at the time, and for assets to be valued at their original cost. Under the "historical cost convention", therefore, no account is taken of changing prices in the economy. The other conventions you will encounter in a set of accounts can be summarised as follows: Monetary measurement Accountants do not account for items unless they can be quantified in monetary terms. Items that are not accounted for (unless someone is prepared to pay something for them) include things like workforce skill, morale, market leadership, brand recognition, quality of management etc. Separate Entity This convention seeks to ensure that private transactions and matters relating to the owners of a business are segregated from transactions that relate to the business. Realisation With this convention, accounts recognise transactions (and any profits arising from them) at the point of sale or transfer of legal ownership – rather than just when cash actually changes hands. For example, a company that makes a sale to a customer can recognise that sale when the transaction is legal – at the point of contract. The actual payment due from the customer may not arise until several weeks (or months) later – if the customer has been granted some credit terms. Materiality An important convention. As we can see from the application of accounting standards and accounting policies, the preparation of accounts involves a high degree of judgement. Where decisions are required about the appropriateness of a particular accounting judgement, the "materiality" convention suggests that this should only be an issue if the judgement is "significant" or "material" to a user of the accounts. The concept of "materiality" is an important issue for auditors of financial accounts. Accounting Concepts Four important accounting concepts underpin the preparation of any set of accounts: Going Concern Accountants assume, unless there is evidence to the contrary, that a company is not going broke. This has important implications for the valuation of assets and liabilities. Consistency Transactions and valuation methods are treated the same way from year to year, or period to period. Users of accounts can, therefore, make more meaningful comparisons of financial performance from year to year. Where accounting policies are changed, companies are required to disclose this fact and explain the impact of any change. Prudence Profits are not recognised until a sale has been completed. In addition, a cautious view is taken for future problems and costs of the business (the are "provided for" in the accounts" as soon as their is a reasonable chance that such costs will be incurred in the future. Matching (or "Accruals") Income should be properly "matched" with the expenses of a given accounting period. Key Characteristics of Accounting Information There is general agreement that, before it can be regarded as useful in satisfying the needs of various user groups, accounting information should satisfy the following criteria: Understandability This implies the expression, with clarity, of accounting information in such a way that it will be understandable to users – who are generally assumed to have a reasonable knowledge of business and economic activities Relevance This implies that, to be useful, accounting information must assist a user to form, confirm or maybe revise a view – usually in the context of making a decision (e.g. should I invest, should I lend money to this business? Should I work for this business?) Consistency This implies consistent treatment of similar items and application of accounting policies Comparability This implies the ability for users to be able to compare similar companies in the same industry group and to make comparisons of performance over time. Much of the work that goes into setting accounting standards is based around the need for comparability. Reliability This implies that the accounting information that is presented is truthful, accurate, complete (nothing significant missed out) and capable of being verified (e.g. by a potential investor). Objectivity This implies that accounting information is prepared and reported in a "neutral" way. In other words, it is not biased towards a particular user group or vested interest Accounting Standards in India Accounting standards codify the generally accepted accounting principles. They lay down the norms of accounting policies and practices by way of codes or guidelines to direct as to how the items appearing in the financial statements should be dealt with in the books of account and shown in the financial statements and annual reports. They present the general principles to be put to application using professional judgment. The main purpose of accounting standards is to provide information to the user as to the basis on which the accounts have been prepared. They make the financial statements of different business units or the financial statements of the same business unit comparable. In the absence of accounting standards, comparison of different financial statements may lead to misleading conclusions. Accounting standards bring about uniformity of assumptions, rules and policies adopted in financial reporting and thus they ensure consistency and comparability in the data published by the business enterprises. Accounting Standards in India: Realizing that there was a need of accounting standards in India and keeping in view the international developments in the field of accounting, the Council of the Institute of Chartered Accountants of India constituted the Accounting Standards Board (ASB) in April, 1977. The Accounting Standards Board is performing the function of formulating the accounting standards. While doing so, it takes into account the applicable laws, customs, usages and business environment. It gives adequate representation to all the interested parties; the Board consists of representatives of industries, Central Board of Direct Taxes and the Comptroller and Auditor General of India. The Institute of Chartered Accountants of India has so far issued thirty two accounting standards. They are as follows: The IASC and the ICAI, both, consider Going Concern, Accrual and Consistency as fundamental. In other words, it will be assumed, without the fact having to be stated, that the financial statements have been drawn up on accrual basis, without any change in the accounting policies and without there being any necessity or intention to liquidate or wind up the firm or a substantial part of it. The going concern assumption is very important; only on its basis can fixed assets be stated at cost less depreciation and their realizable value can be ignored. Also, some liabilities (such as gratuities, retrenchment compensation) arise only when the firm is liquidated. These can be ignored as long as the firm is a going concern. One can see that if the going concern assumption is not valid, the financial statements as ordinarily drawn up, will not be true at all. AS I issued by the ICAI in November, 1979 is given below. The standard has become mandatory with effect from 1.4.1991.

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