INTRODUCTION TO FINANCIAL ACCOUNTING

Meaning of Financial accounting:-

Financial accounting is a specific branch of accounti-ng involving a process of recording, summarizing and reporting the transaction resulting from business operations over a period of time these transactio are summarized in the preparation of financial statements including the balance sheet, income statement and cash flow statement that record the company's operating performance over a specified period

Definition:-

→ A widely accepted definition of accounting has provided by the American Accounting Association. According to this definition "Accounting is the process of identifying, measuring, communicating economic information to permit informed judgements and decisions by users of account"

→ American Institute of certified Public Accountant, "a service activity whose function is to provide quantitative information primarily financial in nature about economic entities that intended to be useful in making economic decisions"

Scope of financial accounting:-

1. Records financial transaction:-
Financial accounting record each and every financial transactions taking place in the business organisati

It maintains a clear and systematic record of all information in the form of journals and various subsidiary books. It avoids any confusion or loss because if any problem arises these records can be ~~memorized by~~ easily checked. All transaction cannot be just memorized by humans without recording them and that makes the financial accounting important part of every business.

2. Classify and summarize information:-

Information collected and recorded by financial accounting is properly categorized according to their nature financial accounting involves classifying and summarizing all financial information recorded at the initial step all transaction of similar nature are grouped together under one head by making accounts like sale, purchase, rent, salaries, interest etc. Grouping of similar nature transaction together adds convenience in understanding of information collected.

3. Analysing :-

It is the process of establishing the relationship b/w the item of the profit and loss a/c of the balance sheet. also the purpose is to identify the financial strength and weakness of the business it also provides the basis for interpretation. ~~so~~

4. Interpreting financial information:-

It is concerned with explaining meaning and specificance of the relationship established by the analysis. It should be useful to the users to enable them to take correct decision.

5 Communicating the result :-
The profit ability, financial position of the business as interpreted about position of the communicated to the interested parties at regular intervals to assist to make their conclusion.

6 Determines and maintains financial position :-
Financial accounting determines fair and actual image of financial position of business finance is termed as life line of business activities and its management is quite importmant for every organisation mismanagement of financial resources may have adverse effects on the company's performance it delivers all information to internal management team from time to time for their decision making this helps in maintaining a proper financial position for every business.

Objectives of financial accounting :-

1. Identification and Recording of transaction :-
The primary object of accounting is to identify the financial transaction and to record those systematically in the books of accounts. As a result, the true nature of each and every transaction is known without much exercise of memory.
The transaction are primarily recorded in general and in a special journal and later on permanently various acount are kept in the ledger.

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2. Ascertainment of result :-
Every Business concern is interested to know its operating result at the end of a particular period. The amount of profit and loss for a particular of period of a Business concern can be ascertained by preparing an income statement with the help of Ledger A/c, Balance of Revenue A/c, Surplus / Deficit of Revenue for a particular period of a non trading concern also be ascertained by preparing income and expenditure A/c or

3. Ascertainment of financial affairs :-
Ascertainment of debts - liabilities, property and asset that total financial affairs of an organisation at a particular date is another important object of accounting financial affairs of concern at a particular date can be ascertained by preparing a balance sheet.

6/11/21 4. Keeping A/cs of cash :-
Cash book is a prominent book of the books of a/cs. Cash receipts and cash payments are accounted for, in this book. A number of daily cash receipts, payments, cash in hand and cash at bank can be known from this book.
Fraud, forgery and misappropriation of money are reduced by keeping cash book scientifically and accurately.

5. Control over assets and liabilities :-
For running a business successfully a businessman is to acquire various assets like land, buildings

machinery etc., He is to face various debts and liabilities like accounts payable, notes payable, loan, bank overdraft etc, side-by-side with their acquisition of assets.
The actual position of these debts - liabilities, property and assets can be ascertained through the proper keeping of a/cs.
A businessman can take the right steps for controlling the quantity of assets decrease and liability increase.

6. **Providing economic data:-**
Other noble object of accounting is to provided the consent parties with all economic information. Preparing financial statements and reports in time.

7. **Helping tax fixation:-**
A/cs prepared on the basis of generally accepted accounting principles [GAAP] is considered reliable to the income tax and VAT authorities for easy determination and settlement of tax and VAT

8. **Determination and evaluation of policy:-**
The object of accounting is to help the management in determining and evaluating the management policy in running the business successfully by suppling necessary information, interpreting and analysing the financial statements.

9. **Testing the arithmetical accuracy of a/cs:-**
One of the main objects of scientific methods of accounting is to make sure that a/cs have been kept in a proper way. The arithmetical accuracy

of a/cs kept in the ledger can be assured by preparing a trial balance.
Agreement of a trial balance is the proof of the arithmetical accuracy of a/cs. The advantage of taking loans due to the insufficiency of capital, borrowing capital from outsiders is felt necessary to run a business.
Loan givers, are not willing to give a loan without knowing the financial position of a business. The financial statement of a business concern reflects the solvency or loan repayment capability of that concern

10. Acceptability to others:-
Banks or financial institution are interested to know the accurate financial position of business concern for sanctioning loans. On the other hand, government or other authorities may also ask also ask about the financial position of business concern for various reasons. In these cases, the a/cs maintained in a disciplined way become easily acceptable to the interested institution or authority

11. Creation of values and accountability:-
The object of a/cs maintained in an acceptable way is to create higher values among individuals and organisations and thereby creating awareness in preventing money defalcation, misappropriation of funds and cost control by ensuring transparency and accountability

12. Following legal bindings and prohibition:-
As all kinds of business organisations have to

abide by some legal bindings and prohibition, they are to maintain their a/cs accurately.
For ex:- Partnership Law, Income tax law, Company law etc., compel business organisation to maintain their a/cs in an appropriate manner.

Definitions of Accounting:-

"Accounting is an information system that identifies, records and communicates the economic events of an organisation to interested users"
- Weygandt, Kieso and Kimmel.

"Accounting may be defined as the identifying, measuring, recording and communication of financial information".
- H. Bierman and AR Dorbin.

9/11/21 Functions of accounting :-

1. **Keeping financial records:-**
Accounting helps businesses main an accurate and upto record of the day-to-day financial transactions of the company, such as supply purchases, product sales, receipts and payments.

2. **Monitoring financial transactions:-**
Accountants may track multiple financial transactions related to payments due to the company to ensure it receives the revenue and remains profitable.

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3. Making bill payments :-
Accounting involves checking invoices to ensure the legitimacy of charges, setting payment dates and paying the bills that the company owes to various vendors and suppliers.

4. Paying employee salaries :-
Companies can use accounting to make payroll payme-nts from company funds, manage employee benefits and issue employee work related bonuses.

5. Keeping digital records :-
Accounting may involve creating, maintaining and updating digital accounting systems to store and calculate the company's financial data.

6. Writting financial reports :-
Accounting involves repairing detailed quarterly and annual financial reports about the company's assets, profits and losses for interial and external stake holders.

7. Maintaining fiscal history :-
Accountants asist with creating, documenting and storing the fiscal history of the company's transactions and making it available for audits and assisments.

8. Acheiving business goals :-
An Accountant can analyse financial data to formulate and implement comprehensive financial policies and strategies to advance the companyes

business goals.

9. Preparing Budgets :-
The a/cs department may refer the company's financial data to prepare the overall company budget, the department budgets and project budgets

10. Making financial projections :-
Accounting involves analysing the company's availabl financial resources, expected revenues and business goals and using this information to predict futur business expansion and growth.

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11. Auditing finances :-
Accountants may conduct financial audits of the comp-any, identify accounting discrepancies and implement corrective solutions.

12. Assessing financial resources :-
Companies can use accounting to identify the financial weaknesses and strengths of organisation, determine how to counter weaknesses and boost strengths and implement appropriate strategies.

13. Reviewing performance :-
Accounting involves performing regular financial review of the company departments to assess their performan and make changes to reduce waste, increase productivi-ty and stream line expenses.

14. Complying with legal requirements :-
Accountants make sure company complies with

industry and government rules and regulation and policies relate to taxation, financial reporting and employee wages.