



CORE CONCEPT OF
FINANCIAL ACCOUNTING

1. What is accounting? Briefly explain.
2. Point out the elements of accounting?
3. What do you understand by recording, classifying & summarizing? Please explain.
4. Illustrate the money measurement, interpreting & communication?
5. Differentiate the book keeping and accounting.
6. Briefly illustrate the book keeping?
7. Define financial accounting and point out its concept. What are the main reasons for the increasing importance of financial accounting?

Meaning of Accounting :-

Accounting has rightly been termed as the language of the business. The basic function of a language is to serve as a means of communication. Accounting also serves this function. It communicates the results of business operations to various parties who have some stake in the business viz., the proprietor, creditors, investors, Government and other agencies. The main purpose of accounting is to ascertain profit or loss during a specified period, to show financial condition of the business on a particular date and to have control over the firm's property. Such accounting records are required to be maintained to measure the income of the business and communicate the information so that it may be used by managers, owners and other interested parties. Accounting is a discipline which records, classifies, summarises and interprets financial information about the activities of a concern so that intelligent decisions can be made about the concern.

Accounting was practiced in India twenty three centuries ago as is clear from the book named "Arthashastra" written by Kautilya, King Chandragupta's minister.

the modern system of accounting based on the principles of double entry system owes its origin to Luca Pacioli who first published the principles of Double Entry System in 1494 at Venice in Italy.

Definition of Accounting :-

“ Accounting is the art of recording, classifying and summarizing 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 ”



Elements of Accounting :-

(i) **Recording:** It is concerned with the recording of financial transactions in an orderly manner, soon after their occurrence in the proper books of accounts.

(ii) **Classifying:** It is concerned with the systematic analysis of the recorded data so as to accumulate the transactions of similar type at one place. This function is performed by maintaining the ledger in which different accounts are opened to which related transactions are posted.

(iii) **Summarizing:** It is concerned with the preparation and presentation of the classified data in a manner useful to the users. This function involves the preparation of financial statements such as Income Statement, Balance Sheet, Statement of Changes in Financial Position, Statement of Cash Flow, Statements of Value Added.

(iv) **Money measurement:** It refers only those elements are to be recorded which are evaluated in terms of money like assets, plants, furniture etc. Those elements are not recorded which can not be evaluated in terms of money. Like feelings, relationship etc

(v) **Interpreting :** Nowadays, the aforesaid three functions are performed by electronic data processing devices and the accountant has to concentrate mainly on the interpretation aspects of accounting. The accountants should interpret the statements in a manner useful to action. The accountant should explain not only what has happened but also (a) why it happened, and (b) what is likely to happen under specified conditions.

(vi) **Communication:** After the analysis and Interpretation of record it must be maintained properly so that to communicate the books of account to the end-users like , management, creditors ,investors, bankers government etc.

DISTINCTION BETWEEN BOOK-KEEPING AND ACCOUNTING

Book-keeping is a part of accounting and is concerned with the recording of transactions which is often routine and clerical in nature, whereas accounting performs other functions as well, viz., measurement and communication, besides recording. An accountant is required to have a much higher level of knowledge, conceptual understanding and analytical skill than is required of the book-keeper.

An accountant designs the accounting system, supervises and checks the work of the book-keeper, prepares the reports based on the recorded data and interprets the reports. Nowadays, he is required to take part in matters of management, control and planning of economic resources.



Book-Keeping	Accounting
<ul style="list-style-type: none">• Book-Keeping is the art of maintaining account in a systematic manner• Book-Keeping can be done by unskilled employees• The employees who carry on this job are called Book-Keeper• There is no need of separate books for each and every accounts• This work is done by junior level employees • It is primary function• Pattern should be same in book-keeping	<ul style="list-style-type: none">• Accounting includes analysis and interpreting of financial statement• Accounting should be done by only skilled employees• The employees engaged in accounting are called accountant• Each and every separate books are to be maintain as per the nature of transaction• The person at a higher level carry out this work• It is a secondary function• This work will have its own design (format)

DR. S.K. SINGH