



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 1

Sub: ACCOUNTANCY

Class 11

Chapter: Unit 1: Introduction to Accounting

Date: 29/06/2020

Topic: Accounting 1

Meaning of Accounting

Accounting may be defined as the process of collecting, recording, summarizing and communicating financial information. Accounting is an 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.

Objectives of Accounting

The objectives of accounting are :

- (i) To keep a systematic record of financial transactions that affect the business enterprise.
- (ii) To ascertain the profit earned or losses incurred by the business unit during a particular accounting period.
- (iii) To ascertain the financial position of the business unit at the end of the accounting period.
- (iv) To exercise control over business assets and properties.
- (v) To facilitate business decision making.

Advantages of Accounting

The advantages of accounting are :

- (i) It provides information useful for making economic decisions.
- (ii) It serves primarily those users who have limited authority, ability or resources to obtain information and who rely on financial statements as their principal sources of information about an enterprises economic activities.
- (iii) It provides information useful to investors and creditors for predicting, comparing and evaluating potential cash flows in terms of amount, timing and related uncertainty.
- (iv) It supplies information useful in judging the management's ability to utilize enterprise resources effectively in achieving primary enterprise goals.
- (v) It provides factual and interpretative information about transactions and other events which are useful for predicting, comparing and evaluating the enterprise's earning power.

Limitations of Accounting

The limitations of accounting are:

- (i) Accounting is historical in nature, it does not reflect the current financial position or worth of a business.
- (ii) The Profit & Loss Account tends to match current revenues with historical costs (expenses) rather than current costs.
- (iii) Accounting standards do not show the impact of inflation.
- (iv) The Profit & Loss Account does not reflect those increases in net asset values which are not considered to be realized.
- (v) Accounting principles are not static - alternative accounting procedures are often equally applicable. Therefore, accounting statements do not always present comparable data.

Accounting Information

Meaning

Accounting information is a statement which provides quantitative information about the effect of transaction and other events on an accounting entry. Accounting information is used for predicting, comparing and evaluating the earning power and financial position of a business enterprise. It also serves the needs of the users who rely on accounting statements as their principal source of information for decision making.

Users of Accounting Information

Users of accounting information are classified in two categories such as internal users and external users. External users are again classified in two categories such as financing group and public group. It serves primarily those users who rely on financial statements as their principal source of information about an enterprise's activities.

Internal Users (i.e. Management Group)

- Board of Directors
- Partners
- Managers
- Officers

External Users

Finance Group

- Investors
- Lenders
- Suppliers

Public Group

- Government Agencies
- Labour Union
- Employees
- Customers

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