INTRODUCTION TO BOOK-KEEPING AND ACCOUNTANCY

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Book-Keeping

❑ Meaning of Book-Keeping

Book-keeping is the art of proper and systematic identification, and recording business transactions (such as assets, liabilities, capital, revenue and expenses etc.) in appropriate book of accounts (such as journal, cash and subsidiary books, ledger, trial balance). It is often routine and clerical in nature.

❑ Process of book keeping involves the following steps

- Identifying accounting transactions (which may be money or money worth transactions with documentary evidence. Credit transactions are money worth transactions).
- Records Initial accounting transactions such as journal, cash and subsidiary books
- Preparation of ledger accounts
- Preparation of trial balance

Book-Keeping

The objectives of book-keeping are

i. to have permanent record of all the business transactions.

ii. to keep records of income and expenses in such a way that the net profit or net loss may be calculated.

iii. to keep records of assets and liabilities in such a way that the financial position of the business may be ascertained.

iv. to know the names of the customers and the amount due from them.

v. to know the names of suppliers and the amount due to them.

vi. to have important information for legal and tax purposes.

Meaning of Accounting:

Book-keeping does not present a clear financial picture of the state of affairs of a business. When one has to make a judgement regarding the finances of the firm, the information contained in the books of accounts has to be analysed and interpreted. It is with the purpose of giving such information that accounting came into being. Accounting is considered as a system which collects and processes financial information of a business. These information are reported to the users to enable them to make appropriate decisions.

American Accounting Association defines accounting as "the process of identifying, measuring and communicating economic information to permit informed judgements and decision by users of the information".

Meaning of Accounting contd.

All financial transactions which have documentary evidence are identified as business/accounting transactions. The financial transactions are processed to prepare:

- **Income statements to ascertain profit or loss of the business during accounting period.**
- **Position statements to asses the value of assets and liabilities of the business.**

Various other statements are prepared, and ratios are calculated to measure the actual performance of the business. Finally, results of the business transactions are communicated.

The main objectives of accounting are:

i. to maintain accounting records.

ii. to calculate the result of operations i.e. to calculate profit or loss

iii. to ascertain the financial position i.e. balance sheet

iv. to communicate the information to users

PROCESS OF ACCOUNTING

INPUT

Business Transactions

PROCESS

Identifying
Recording
Classifying
Summarising
Analysing
Interpreting
Communicating

OUTPUT

Information to users

PROCESS OF ACCOUNTING contd.

The main of accounting is to communicate information to the users . The process of accounting steps or functions

i. Identifying: Identifying the business transactions from the source documents such as vouchers.

ii. Recording: Recording all business transactions in a systematic and orderly manner soon after their occurrence in the journal or subsidiary books.

iii. Classifying: Classifying the recorded business transactions such that transactions of similar type are grouped at one place. i.e., in ledger accounts. In order to verify the arithmetical accuracy of the accounts, trial balance is prepared.

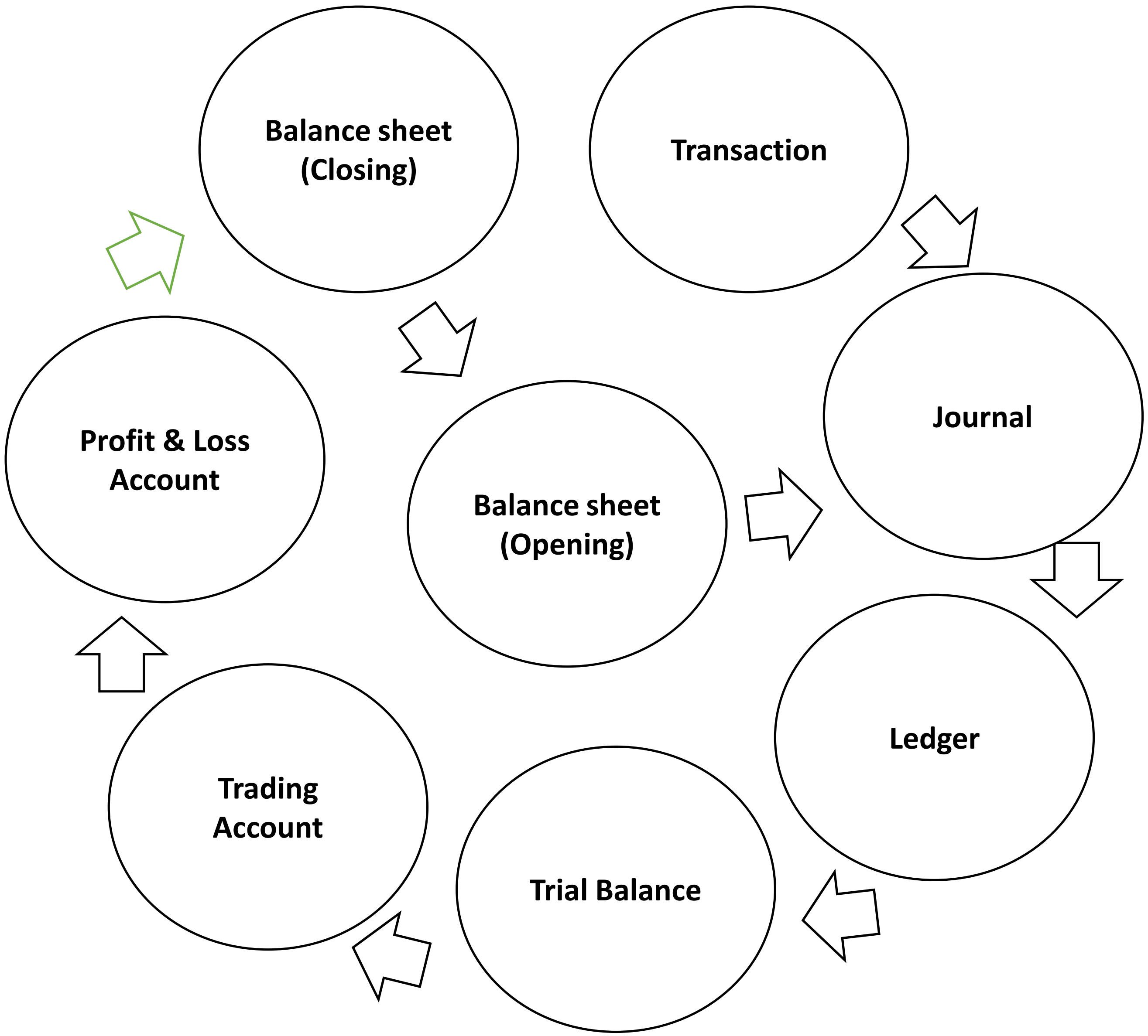
iv. Summarising : Summarising the classified information available in trial balance in order to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information.

v. Analysing: the financial statements such as profit and loss account and balance sheet are analysed is to identify the financial strength and weakness of the business. It provides the basis for interpretation.

vi. Interpreting: Interpretation is concerned with explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.

vii. Communicating: The results obtained from the summarised, analysed and interpreted information are communicated to the interested parties.

ACCOUNTING CYCLE



An accounting cycle is a complete sequence of accounting process, that begins with the recording of business transactions and ends with the preparation of final accounts.

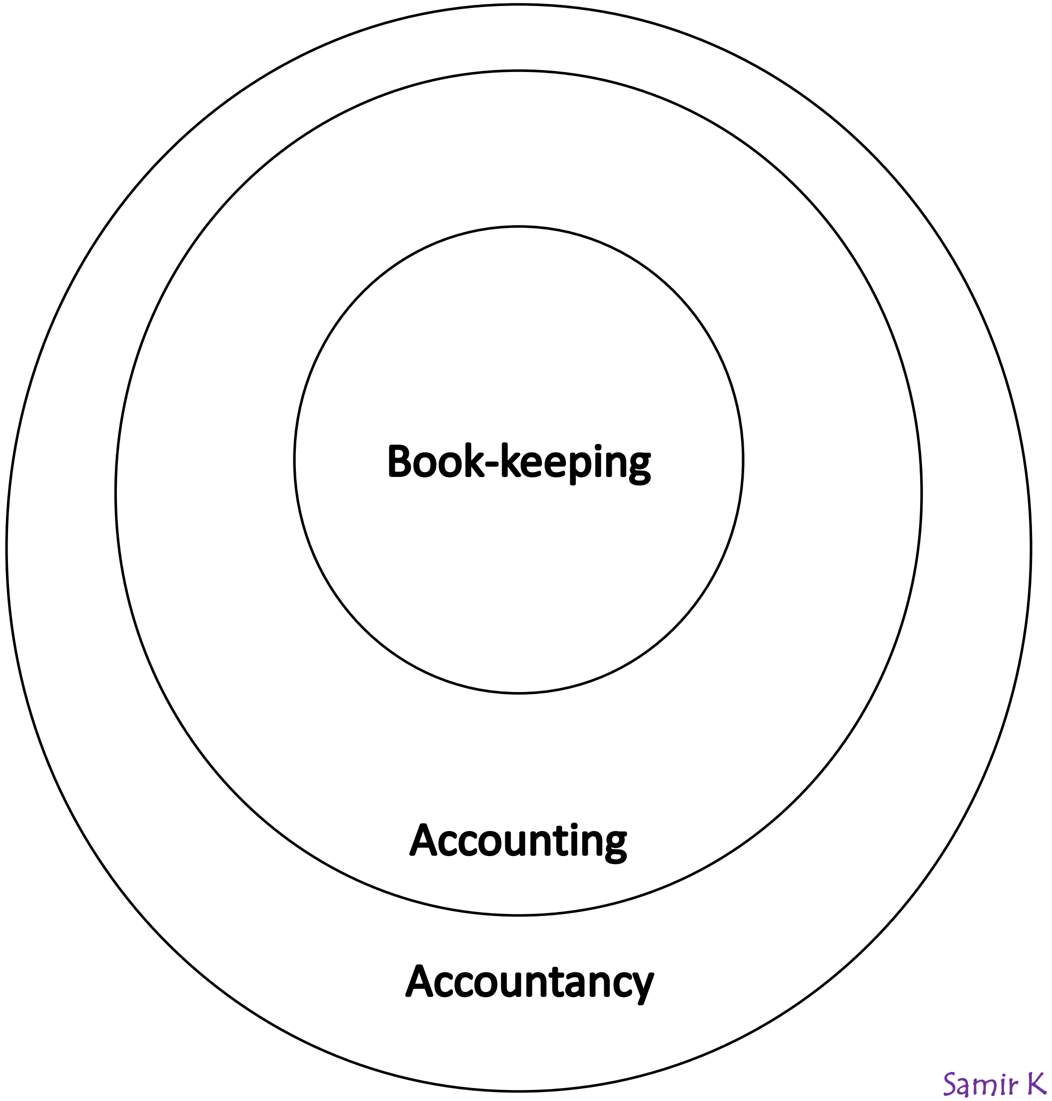
ACCOUNTANCY, ACCOUNTING AND BOOK-KEEPING

Accountancy refers to a systematic knowledge of accounting. It tells us why and how to prepare the books of accounts and how to summarize the accounting information and communicate it to the interested parties.

Accounting refers to the actual process of preparing and presenting the accounts. In other words, it is **the art of putting the academic knowledge of accountancy into practice.**

Book-keeping is a part of accounting and is concerned with record keeping or maintenance of books of accounts.

Book-keeping provides the basis for accounting. Accounting begins where book-keeping ends. Accountancy includes accounting and book-keeping. The terms Accounting and Accountancy are used synonymously.



USERS OF ACCOUNTING INFORMATION

The basic objective of accounting is to provide information which is useful for persons and groups inside and outside the organisation. The users and their need for information are as follow

Users Need for Information	Users Need for Information
Internal Users (individuals or groups who are within the organisation)	
i. Owners	i. To know the profitability and financial soundness of the business.
ii. Management	Ii To take prompt decisions to manage the business efficiently.
iii. Employees and Trade	iii. To form judgement about the earning capacity of the business since their remuneration and bonus depend on it
External (individuals or groups who are outside the organisation)	
i. Creditors, banks and other lending institutions	i. To determine whether the principal the interest thereof will be paid in when due.
ii. Present investors	ii. To know the position, progress and prosperity of the business in order to ensure the safety of their investment.
iii. Potential investors	iii. To decide whether to invest in the business or not.
iv. Government and Tax	iv. To know the earnings in order to assess authorities the tax liabilities of the business.
v. Regulatory agencies	v. To evaluate the business operation under the regulatory legislation.
vi. Researchers	vi. To use in their research work.

DISTINCTION BETWEEN BOOK-KEEPING AND ACCOUNTING

Basis of Distinction	Book-keeping	Accounting
Scope	Recording and maintenance of books of accounts	It is not only recording and maintenance of books of accounts but also includes analysis, interpreting and communicating the information.
Stage	Primary stage.	Secondary stage
Objective	To maintain systematic records of business transactions	To ascertain the net result of the business operation
Nature	Often routine and clerical in nature.	Analytical and executive in nature.
Responsibility	Book-keeper is responsible for recording business transactions	An accountant is also responsible for the work of a book-keeper.
Supervision	The book-keeper does not supervise and check the work of an Accountant.	An accountant supervises and checks the work of the book-keeper
Staff involved	Work is done by the junior staff of the organisation.	Senior staff performs the accounting work

BRANCHES OF ACCOUNTING

Increased scale of business operations has made the management function more complex. This has given raise to specialised branches in accounting. The main branches of accounting are Financial Accounting, Cost Accounting and Management Accounting.

Financial accounting : The purpose of this branch of accounting is to keep a record of all financial transactions so that:
(a) the profit earned or loss sustained by the business during an accounting period can be worked out,
(b) the financial position of the business as at the end of the accounting period can be ascertained, and
(c) the financial information required by the management and other interested parties can be provided.

Cost Accounting : The purpose of cost accounting is to analyse the expenditure so as to ascertain the cost of various products manufactured by the firm and fix the prices. It also helps in controlling the costs and providing necessary costing information to management for decision-making.

Management Accounting : ***Management accounting*** **deals with the provision of necessary accounting information to people within the organisation to enable them in decision-making, planning and controlling business operations. Management accounting draws the relevant information mainly from financial accounting and cost accounting which helps the management in budgeting, assessing profitability, taking pricing decisions, capital expenditure decisions and so on. Besides, it generates other information (quantitative and qualitative, financial and non-financial) which relates to the future and is relevant for decision-making in the organisation.**

Such information includes: sales forecast, cash flows, purchase requirement, manpower needs, environmental data about effects on air, water, land, natural resources, flora, fauna, human health, social responsibilities, etc.