# FINANCIAL ACCOUNTING AND MANAGEMENT

# ACCOUNTING: INTRODUCTION

In ancient times, need wants and demands of human were very less or limited due to which the Number of business transactions were also limited or less. There was no complexity in production and distribution of goods and services, and division of labour and specialization was not present, mostly people exchanged services and goods for other services and goods in return. As a result the Businessman used to remember all his transactions orally because of this small/limited size of business and trade and if required he used to record only limited transactions. So at that time no universal accounting and general principles of accounting are present. With the passage of time when money is invented.

The speed of production and distribution got pace, which has increase business activities with the progress in technology the means of transportation and communication have increase and developed which has raised the scope of trade and commerce in national level as international level.  Consequently it has bought many changes in the shape of business organizations. Because of changes and development of Industries, huge increment in population, changes in income , changes in technology, changes in tastes and preferences of consumer, the number of Business transactions has also increased in small as well as in large businesses/organizations.

- . The division of labour,  specialization  development in Banking, Insurance, development in transportation, and development of online transactions facilities etc., has expended the area of business and its transactions. These transactions began to occur not only in cash but also in credit. Thus it was very difficult for businessman to memorise all the transactions and recall it whenever required. It is human nature to forget the things (transactions). Hence it was not possible for every businessman to remember all the transaction for a long period of time.

- There is a proverb that says (first write then give and incase of error refer to the paper). In other words it was necessary to record the transactions before it is happened or made. In case of any mistake or error, it can be rectified with the help of records.

In present time accounting came into practice as an complete aid to human memory by maintaining a systematic records of business transactions. It was subsequently realize that accounting records containing a wide range of information regarding financial position/Health of the business, profit and loss of Business and debtors and creditor of business .

This information have the potentialities of being used as the basis for decision making. This realization came due to the fact that accounting is capable of providing the kind of information that mangers and other interested person ( ie. Owner, creditor, investors, banks, financial institutions, government etc.) need in order to make better business decisions.

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# DEVELOPMENT OF ACCOUNTING:

Accounting find references in the vedeas , Ramayana and Mahabharata.In ancient times, Accounting was responsible for its business owners but now it is responsible for all sections of socity.It is assumed that accounting was developed 4000 BC. The description of accounting can be traced out in history of Babylonia, Egypt .

In india accounting could be traced in the book Athashastra written by Kautilya . But it is said that the modern system of double entry system was invented in Italy at the end of $15^{th}$ century. In 1494 **fraLuca Pacioli**, the famous mathematician from venus city of Italy first described about book keeping in a part of his book entitled. ‘De computiset scripturise’ in which journal, ledger, their division and utility was described. The English version of it was made by **Hugh old Castle** in 1543, and this system was adopted in England prior to it.

During 17th century in western Europe in 1605 the book of stavin of Holland and Maliness of England published their books is the years 1622,1636,1656 and 1686 in which many changes in double entry system was made.

During 20th century many new experiments and investigations were made in the field of accounting. In india new direction was given in the field of accounting with the establishment of chartered accountants of India and cost and Works Accountant of India. During this period the concept of management Accounting, Human Resource accounting social Responsiblity Accounting etc., were also developed.

With the computer revolution of 21th century new stepping-stone were established  in the field of accounting.  Internet and E-business concept has tried to link the accounting with the machinery activities.  Nevertheless  it is not possible to change the old established rules of Accounting.

# Book keeping, Accounting and Accountancy

Book keeping is that branch of knowledge which educate about maintaining the financial record . Book keeping is a part of accounting and is concerned with the recording of financial transactions in the books of accounts.

Thus book keeping is concern with –

1. Identifying financial transactions and events.
2. Measuring them in terms of money.
3. Recording the financial transactions and events so identified in the books of Accounts.

# Meaning and definition of Accounting:

- Accounting is called the language of business because it is a process of recording financial transactions, summarizing them and communicating the financial information to user viz. the owners, creditors, Investors, Government agencies etc.

- “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 financial character and interpreting the results thereof” (American institute of certified public Accountants)

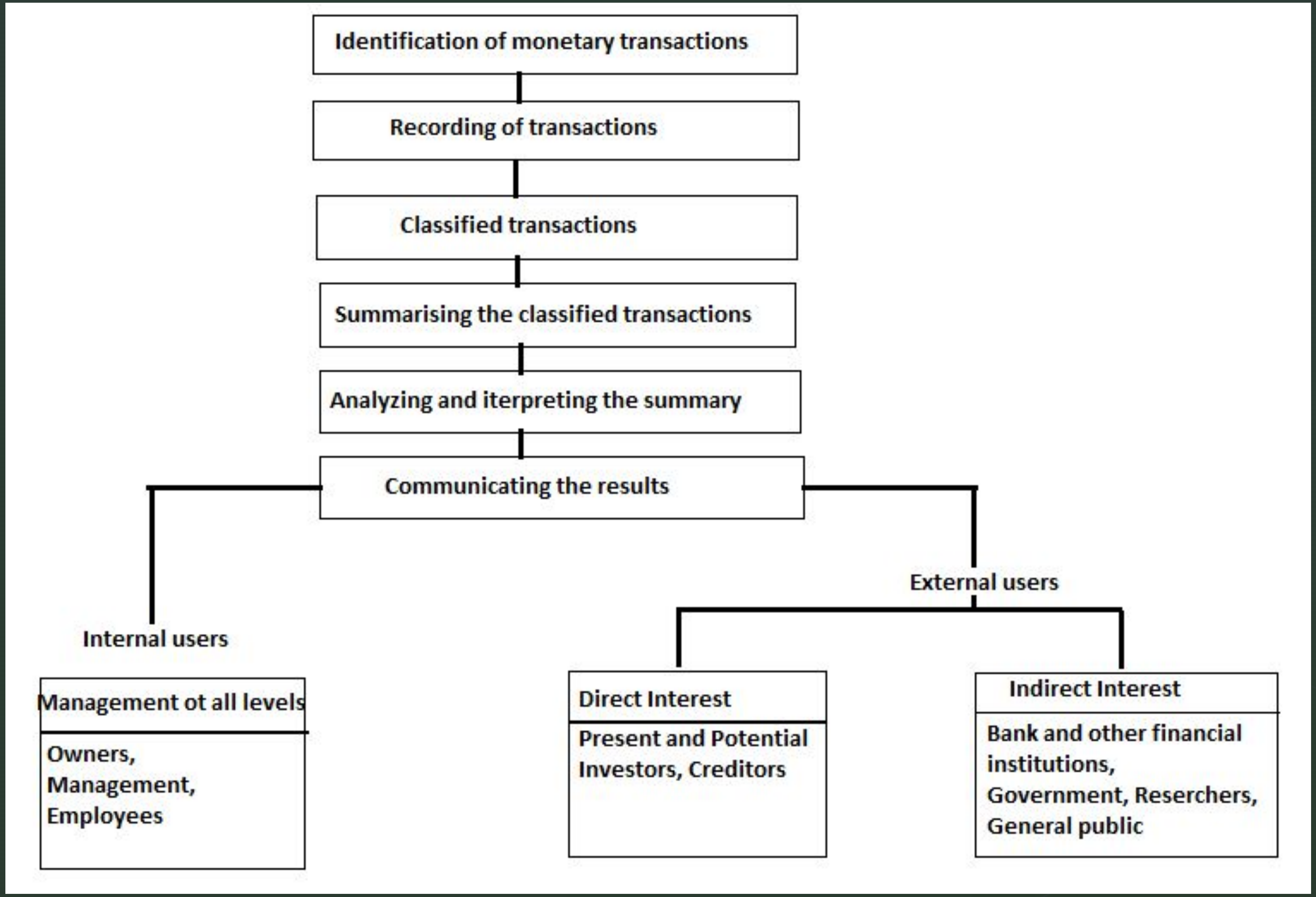
“Accounting is the process of identifying, measuring, recording, interpreting and communicating the results of economic events of a business (American Accounting Association).

“Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information (American Accounting Association).”

# Accountancy

- Accountancy refers to a systematic knowledge of accounting. It explains how to deal with various aspects of accounting . It educates us why and how to maintain the books of accounts and how to summarize the accounting information and communicate it to various users.

# Accounting proecss:



- **Identification of monetary Transactions:** First of all from all the business transactions, transactions which involve money or can be measured in terms of money will be identified.
- **Recording of transactions:** After identifying monetary transactions we will record these transactions in the book of original entry which is called ‘journal’.

- **Classifying the recorded transactions:** After recording of transactions we will make a group of related transactions on the basis of their nature ie. we put all the same nature of transaction at one place and such transaction are posted to the main book of account which is known as ‘ledger’.

- **Summarizing the classified transactions:** After classifying the transactions a summary is prepared to make this classified data in some understandable form. Summary is prepared in the form of following statements-

  a) Trial balance.

  b) Trading and profit and loss account.

  c) Balance sheet.

- **Analysing and interpreting the summary:** At this stage financial statement will be analysed and interpreted to give the meaning and significance of these financial statement so that judgment about the profitability and solvency  can be made by various interested groups of the business unit.

- **Communicating the result:** Finally the accounting process involves communicating the financial data to its users. The accounting information must be provided in time and presented to the users. So that appropriate decisions may be taken at the right time.

# Users of Accounting Information:

- Users of accounting information are of two categories ie.
- (1) Internal Users
- (2) External Users

**1. Internal Users:** When accounting information is needed to the person within the organization then they are called as internal users the internal users are-

**I). Owners:-** Owners invest money in the form of capital in the business and thus are exposed to maximum risk. They are interested in knowing the profit earned or loss incurred by the business. The financial statements gives the information about profit or loss and also financial position of the business.

II). **Management:-** In large Organization ownership and management are handled separately. Management takes responsibility of safe. Investment of owner's fund as well as they makes extensive use of accounting information for decision-making such as determination of selling price. Cost controls and reduction, investment in to new projects etc.

III) **Employees:-** Employees are always interested in growth and profitability of business because it the enterprise, where they are working is Growing and profits are also increasing then these would not be any problem in their jobs and they get regular wages and salaries and Bonus from the Enterprise.

- 2. **<u>External Users</u>:-** External users are those users who do not have any direct access to the business. They may have present or future interest in the business but are not part of the management. So they are always interested in published reports of business which are in the form of profit and loss account Balance sheet or cash flow statement.
- The External users are-

I). **<u>Investors and potential Investors</u>:-** Investors who have invested money in the business and potential investors who want to invest money. Both will have interested in the earning capacity of the business and its financial performance, safety of the Investment so they would be interested in the accounting information.

II). **<u>Bank and other financial Institutions</u>:-** Bank and financial Institutions are an essential part of any business as they provide loans to business. Naturally they watch the performance of the business to know whether it is making progress as projected to ensure the safety, service and recovery of the loan advanced. They assess it by analyzing the accounting information.

III). **Creditors:-** Creditors are the parties who supply goods or services on credit. It is a common business practice that a large amount of suppliers remains invested in business in the form of credit sales. Before granting Credit, Creditors satisfy themselves about the credit worthiness of business. The financial statements help these immensely in making such an assessment.

IV). **Government and its authorities:-** The government makes use of financial statement to compile national income accounts and other information. Government levies various taxes such as excise duty ,GST, Income Tax. The government authorities assess the correct tax dues from an analysis of financial statements.

V). **Researchers:-** Researchers use accounting information in their researches work. Stock brokers are also interested in the future profitability for the purpose of valuation of share price.

VI). **General public:-** General public is also interested in the accounting information which tells them about the financial statement of an organization. General public is interested because business is also a part of society so society person wants to know the contribution of Business towards the welfare of the society. General public is interested to know the employment opportunities provided by the business and is also wants that business should not adopt such methods of production which causes pollution to earn profit.