

# **OBJECTIVES OF ACCOUNTING**

**To Maintain Systematic Record of Business Transactions:** As business transactions are increasing day by day so it is not possible to memorize all the transactions so accounting records all the business transactions which can be measured in terms of money. Required information can be obtained at a glance from these recorded transactions.

**Determining Profit or Loss of the Business:** While doing accounting we prepare profit and loss account for a accounting period in which we report all the items related to sale, purchase, expenses and income. By comparing the purchase and sale, expenses and income we can know about the profit or loss of the business.

.

## **Determining Financial Position of the Business:**

In accounting we prepare balance sheet at a particular date which shows the assets, liabilities and owner's capital of the business. With the help of assets, liabilities and capital we can ascertain the financial position of business.

**Facilitate Management:** the management often requires financial information for taking financial decisions, effective control, budgeting and forecasting. Accounting provides financial information to assist the management in discharging this function.

- **To Provide information to Various Users:**  
Another objective of accounting is to provide accounting information to users, both internal and external, who analyses them as per their needs.

# ADVANTAGES OF ACCOUNTING

- **A- Advantages to traders**
- Complementary to memory: Accounting is complementary to memory. There are numerous transactions in business in a day which is difficult to memorize so accounting makes it easy to remember such transactions.
- Provide Information: Accounting helps in providing valuable information such as nature and value of company assets, amount of income and expenses related to business etc., to the traders.

# ADVANTAGES OF ACCOUNTING

- Helpful in Tax Assessment: A businessman has to pay frequently income tax, Goods and Services tax, etc. Accounting helps in determining the correct amount of various taxes.
- Determination of profit&loss: A businessman invests money in the business in expectation of profit. Accounting easily provides information of profit or loss to the businessman.
- Helpful in comparative study: If accounting is done by following uniform methods and according to accounting standards, results of the current year can be compared with the results of previous years and it provides a basis to take appropriate and correct decisions for the business.

# ADVANTAGES OF ACCOUNTING

- Helpful in Borrowing: Properly maintained accounting records easily give the information about the financial health of the business, which facilitates raising debt for expansion, development, and diversification of business.
- Helpful in disposal of business: Systematic and proper accounting in business helps in determining economic status, which helps in taking decisions related to closure or sale of business.



# ADVANTAGES OF ACCOUNTING

- **B- Advantages to Management:**
- Helpful in Management: The manager requires various information such as purchase and sale, income and expenses , production , inventory in a year for taking right decisions at right time. Accounting helps them in providing such information.
- Helpful in Planning: Effective financial planning is required for the progress and success of business. Managers are able to prepare appropriate planning on the basis of accounting information.

# ADVANTAGES OF ACCOUNTING

- **C- Advantages to employees**: Accounting helps in determining the salary, perks, allowances, bonus, incentives etc. of the employees.
- **D- Advantages to investors**: With the help of accounting statements investors came to know about Financial Position, Profitability of firm and take the decisions to invest their money in business.

# ADVANTAGES OF ACCOUNTING

- **E- Advantages to government**: Accounting helpful for government in tax assessment and recovery from business, in granting License to business , to know the trend of commercial and industrial development, Price control and Revision of other business laws.
- **F- Advantages to Consumer**: A properly maintained accounts help in reducing the cost of goods due to which good quality product are available at reasonable price to consumers.

# LIMITATIONS OF ACCOUNTING

- **Accounting Ignores the Qualitative Elements**: In accounting we record only those transactions which can be measured in terms of money i.e. Accounting record only quantitative aspect of transitions and qualitative aspects such as efficiency of employees, quality of management ,industrial relations, competition in the market, public relations are totally ignored which can be very important otherwise.
- **Accounting is Not Fully Exact**: Accounting is not fully exact in spite of most of transactions are recorded on the basis of documentary evidence but even then in some of the cases we record the transactions on the basis of some estimation. Examples are : Market price of stock, estimating useful life of the asset, estimation for bad debts etc.

# LIMITATIONS OF ACCOUNTING

- **Accounting May Lead to Window Dressing**: Window dressing means manipulation of account in the form of concealment of vital facts and present the financial statement to show the better position than what it actually is. Because of window dressing in accounts income statement fails to provide the fair and true position of business .
- **Ignores the Effect of Price Level Change**: Assets are shown at their actual cost price .Market price is not given any attention use to which correct and actual status of firm can not be known. Unless price level changes are considered, accounting information will not show correct financial results.
- **To Show valueless assets**: There may be some assets which do not have real value like patents, preliminary expenses, discount on issue of shares and debentures, huge expenditure on advertisement etc. When we show these assets in balance sheet it will not provide true and fair picture of a enterprise.