

UNIT – 1
INTRODUCTION TO ACCOUNTING

2 Marks

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1. Define accounting.

Definition of Accounting:

American Accounting Association has defined accounting “**the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.**”

2. List any two functions of accounting.

The main functions of accounting:

- a) Measurement
- b) Forecasting

1. Measurement: The main function of accounting is to keep systematic record of transactions, post them in the ledger and ultimately prepare the final accounts.

2. Forecasting: With the help of the various tools of accounting, future performance and financial position of the business enterprises can be forecasted.

3. What are the steps involved in the process of accounting?

Steps involved in the process of accounting

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.

4. Who are the parties interested in accounting information?

Parties interested in accounting information

1. **Internal users:** Owners, Management and Employees.
2. **External users:** Creditors, Investors, Customers, Tax authorities, Government, Researchers and General Public.

5. Name any two basis of recording accounting information.

Basis of recording accounting information

1. Cash basis
2. Accrual or mercantile basis

3 Marks / 5 Marks

1. Explain the meaning of accounting.

Meaning of Accounting

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

- i. The resources available
- ii. How the available resources have been employed and
- iii. The results achieved by their use.

2. Discuss briefly the branches of accounting.

The main branches of accounting are:

1. Financial Accounting: It involves recording of financial transactions and events.

2. Cost Accounting: It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purpose of cost control and managerial decision making.

3. Management Accounting: It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day – to – day operations of an enterprise.

4. Social Responsibility Accounting: It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them.

5. Human Resources Accounting: It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.

3. Discuss in detail the importance of accounting.

The importance of accounting is:

1. Systematic records: All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts.

2. Preparation of financial statements: Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements.

3. Assessment of progress: Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses.

4. Aid to decision making: Management of a firm has to make routine and strategic decisions while discharging its functions.

5. Legal evidence: Accounting records are generally accepted as evidence in courts of law and other legal authorities in the settlement of disputes.

4. Why are the following parties interested in accounting information?

Parties interested in accounting information

- a. Investors
- b. Government

1. Investors:

- a) Persons who are interested in investing their funds in an organisation should know about the financial condition of a business unit while making their investment decisions.
- b) They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

2. Government:

- a) The scarce resources of the country are used by business enterprises.
- b) Information about performance of business units in different industries helps the government in policy formation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc.

5. Discuss the role of an accountant in the modern business world.

Role of an accountant is:

1. Record keeper: The accountant maintains a systematic record of financial transactions.

2. Provider of information to the management : The accountant assists the management by providing financial information required for decision making and for exercising controls.

3. Protector of business assets: The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.

4. Tax managers: The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time

5. Public relation officer: The accountant provides accounting information to various interest users for analysis as per their requirements.