

# I Semester MBA – Accounting for Manager

## Subject Code: 16MBA13

# Introduction to Accounting

## Unit I

## Introduction

- Wherever money is involved, accounting is required to it.
- Accounting is often called the language of business.
- The basic function of any language is to serve as a means of communication.
- Accounting also serves this function.

### **Accounting helps answering questions like:**

- Am I earning or losing money from my business?
- How much am I worth?
- Should I put more money in my business or sell it and start another business?
- How much is owed to me, and how much do I owe?
- How can I change the way I operate to make more profit?

**Accountancy:** refers to systematic knowledge of accounting. It includes why to do, and how to do of various aspects of accounting.

**Accounting:** refers to the actual process of preparing and presenting accounts. Putting the academic knowledge of accountancy into practice.

**Book-keeping:** is a part of accounting and is concerned with recording and summarizing business transactions. It is often routine and clerical in nature. The difficulty of remembering vast business transactions gave rise to book keeping.

Book-keeping is part of accounting and Accounting is a part of Accountancy.

- Basic objective of Book-keeping is to maintain systematic record of financial transactions.
- Basic objective of Accounting is to ascertain net results of business and financial position and to communicate information to the concerned parties.

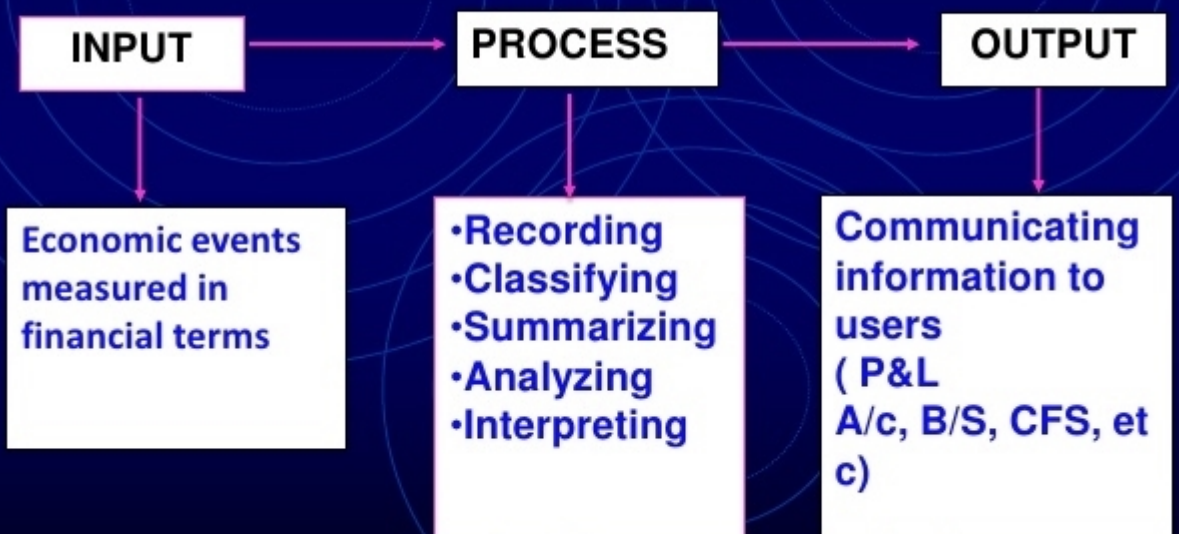
# Accounting

Is the process of recording, classifying, summarising, analysing, interpreting, the financial transactions and communicating the results to the persons interested in such information.

## Involves:

- Recording
- Classifying
- Summarising
- Analysing
- Interpreting
- Communicating

## The Accounting Information System



## Definition of Accounting

- *The American Institute of Certified Public Accountants (AICPA) defines accounting as “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 a financial character, and interpreting the results thereof”.*

## Need for Accounting

- Keeping systematic record.
- Ascertain the results of the operation.
- Ascertain the financial position of the business.
- Portray the liquidity position.
- To protect the business properties.
- To communicate the information to the users.
- To facilitate rational decision making.
- To satisfy the requirements of law.

## Types of Accounting

### Financial Accounting

- The accounting system is concerned only with the financial state of affairs and financial results of business operations.
- It is the original form of accounting.
- It is mainly concerned with the preparation of financial statements for the use of outside parties such as creditors, debenture holders, investors and financial institutions.

## Cost Accounting

- In view of the limitations of financial accounting in respect of information relating to the cost of individual products, cost accounting was developed.
- It is that branch of accounting which is concerned with accumulation and assignment of historical costs to unit of product and department, primarily for the purpose of valuation of stock and measurement of profits.
- Cost accounting seeks to ascertain the cost of goods produced and sold or the services rendered by a business unit with a view to exercising control over costs to assess profitability and efficiency of the enterprise.
- It involves an estimation of future costs to be incurred based on the data provided by the financial accounting.

## Management Accounting

- It is the presentation of accounting information in such a way as to assist management in the creation of policies for the day-to-day operation.
- It covers all arrangements and combinations and adjustments of the traditional information to provide the Chief Executive with the information from which he can control the business e.g. Information about funds, costs, profits etc.
- Management accounting is not only confined to the area of cost accounting but also covers other areas (such as capital expenditure decisions, capital structure decisions and dividend decisions) as well.

## USERS OF ACCOUNTING INFORMATION

### Internal Users:

#### Management group:

- Board of Directors
- Partners
- Managers
- Officers

### External Users:

#### ➤ Financing group:

- Investors (*present and potential*)
- Lenders
- Suppliers

#### ➤ Public Group:

- Govt and Regulatory Authorities
- Employees and Trade Union
- Customers
- Rating Agencies
- Others:
  - ❖ Security Analysts
  - ❖ Academicians
  - ❖ Researchers



## **Generally Accepted Accounting Principles - Meaning**

- Accounting principles may be defined as the set of conventions, rules, and procedures necessary to define universally accepted accounting practice at a particular time.
- These principles enable to a certain extent standardization in recording and reporting of information.

## Classification of Accounting Principles

- **Accounting Concepts:**
  - Postulates i.e. basic assumptions or conditions upon which the science of accounting is based.
- **Accounting Conventions:**
  - Circumstances or traditions which guide the accountant while preparing the accounting statements.

## **ACCOUNTING PRINCIPLES**

### **A/CING CONCEPTS**

1. Business entity concept
2. Money measurement concept
3. Going concern concept
4. Cost concept
5. Dual aspect concept
6. Accounting period concept
7. Matching concept
8. Realization concept
9. Objective evidence concept
10. Accrual concept

### **A/CING CONVENTIONS**

1. Consistency
2. Full disclosure
3. Conservatism
4. Materiality

## Accounting Equation

- Resources = Sources of Finance
- Total Assets = Total Equities
- Assets = Internal Equity plus External Equity
- **Assets = Capital plus Liabilities**
- Capital = Assets – Liabilities

How to develop an accounting Equation?

- Step 1. Ascertain the variables (Assets ,Liabilities or Capital) involved in a transaction.
- Step 2. Find out the effect (increase or decrease) of the transaction on the variables.
- Step 3. Show the effect on the appropriate side of an accounting equation and ensure that the total of right hand side is equal to the total of left hand side.