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 mean 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 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 prof

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

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

Book-keeping: is a part of accounting and is concerned we keeping which is often routine and clerical in nature. The difference remembering vast business transactions gave rise to book keeping.

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

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

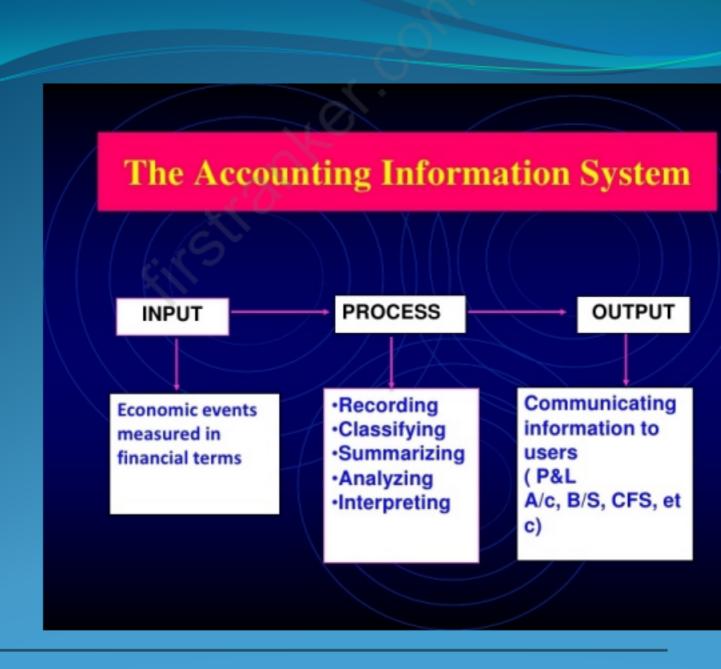


Accounting

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

Involves:

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



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 we financial state of affairs and financial result operations.
- It is the original form of accounting.
- It is mainly concerned with the preparate financial statements for the use of outside creditors, debenture holders, investors and finstitutions.



Cost Accounting

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

Management Accounting

- It is the presentation of accounting information in s way as to assist management in the creation of polic the day-to-day operation.
- •It covers all arrangements and combination adjustments of the traditional information to provid Chief Executive with the information from which he control the business e.g. Information about funds, profits etc.
- •Management accounting is not only confined to the of cost accounting but also covers other areas (su capital expenditure decisions, capital structure decisions) as well.



USERS OF ACCOUNTING INFORMATION Internal Users: **External Users:** Management group: Financing group: Investors (present and potential) Board of Directors Lenders Partners Suppliers Managers Public Group: Officers 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 Capin a transaction.
- Step 2. Find out the effect (increase or decrease) transaction on the variables.
- Step 3. Show the effect on the appropriate side of an equal and ensure that the total of right hand side is equal the total of left hand side.