MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Accounting** — Accounting is a systematic process of identifying, measuring, collecting, recording, classifying, summarising, analysing, interpreting and communicating financial information to the users.

2. **Book Keeping** — Book Keeping is the process of recording financial transactions in a systematic manner and classifying them into ledgers. Book Keeping, thus, involves:
   (*i*) Identifying financial transactions and events,
   (*ii*) Measuring them in terms of money,
   (*iii*) Recording the identified financial transactions and events in the books of account, and
   (*iv*) Classifying, *i.e.*, posting them into ledger accounts.

3. **Accountancy** — Accountancy is a systematic knowledge of accounting, *i.e.*, it educates how to maintain the books of account.

4. **Trading and Profit & Loss Account (Income Statement)** — Trading and Profit & Loss Account (Statement of Profit & Loss, in case of companies) (Income Statement) shows the profit earned or loss incurred by the enterprise during the accounting year.

5. **Balance Sheet (Position Statement)** — Balance Sheet or Position Statement is the statement which shows the financial position of the enterprise on a particular date.

6. **Accounting Information** — Accounting Information is used for forecasting, comparing and evaluating financial performance and position. It also helps in taking economic decisions.

7. **Double Entry System of Accounting** — Double Entry System of Accounting means a system of accounting whereby both, debit and credit, aspects of a transaction are recorded.

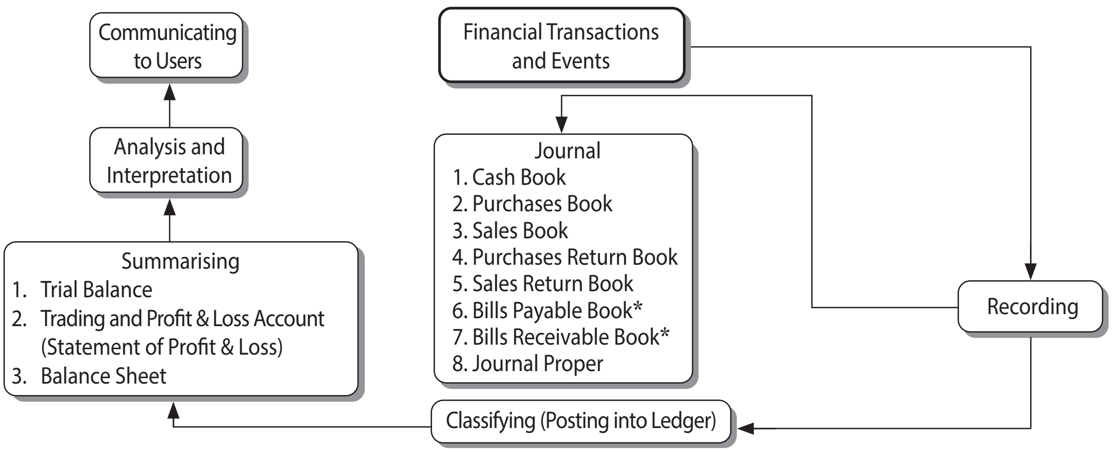
8. **Accounts from Incomplete Records (Single Entry System of Accounting)** — Accounts from Incomplete Records or Single Entry System of Accounting is a system under which both aspects of the transactions are not recorded in all the cases. In some cases both aspects are recorded, while in others either one aspect is recorded or a transaction is not recorded at all.

CHAPTER SUMMARY

- **Meaning of Accounting:** Accounting is a systematic process of identifying, measuring, recording, classifying and summarising in terms of money, transactions and events of a financial nature, analysing, interpreting and communicating the results thereof to the users.
- **Attributes of Accounting:** 1. Identification of Financial Transactions and Events, 2. Measuring the Identified Transactions and Events, 3. Recording, 4. Classifying, 5. Summarising, 6. Analysis and Interpretation, 7. Communicating.
- **Process of Accounting:** Process of Accounting refers to the sequence of accounting procedure for recording, classifying and summarising transactions.

  Recording is the process of entering the financial transactions in the books of original entry (*i.e.*, Journal) in the chronological manner, *i.e.*, date-wise, *classifying* is the process of posting of entries in the ledger so that the transactions of similar nature are accumulated at one place and *summarising* is concerned with the preparation of Financial Statements such as Income Statement and Balance Sheet. *Analysing* and *Interpreting* is the next stage of the accounting process.

Accounting Process



*Not in Syllabus.

- **Difference between Book Keeping and Accounting:** Accounting is a wider concept which includes Book Keeping. Book Keeping is mainly concerned with the recording of financial data which is one aspect of accounting. Accounting is an art of recording, classifying and summarising financial data and interpreting the results thereof to the users. Accounting begins where Book Keeping ends.
- **Objectives of Accounting:** 1. Maintaining Systematic Records of Transactions, 2. Determining Profit or Loss, 3. Ascertaining Financial Position, 4. Facilitating Management, 5. Providing Accounting Information to Users, 6. Protecting Business Assets.
- **Accounting Information:** Accounting information is the information of financial nature relating to entities. It is useful in taking decisions. Accounting information is provided to the users through financial statements.

- **Users of Accounting Information:** Internal users and External users.

Parties	*Areas of Interest*
Internal Users	
1. **Owners or Investors**	(*i*) Profitability, (*ii*) Financial Position, (*iii*) Future Prospects.
2. **Management**	(*i*) Profitability in Relation to Investment, (*ii*) Managerial Decisions, (*iii*) Liquidity of the Concern.
External Users	
3. **Employees and Workers**	(*i*) Profitability.
4. **Banks and Financial Institutions**	(*i*) Performance, (*ii*) Profitability, (*iii*) Financial Position.
5. **Investors and Potential Investors**	(*i*) Earning Capacity, (*ii*) Safety.
6. **Creditors**	(*i*) Profitability, (*ii*) Financial Position.
7. **Government and its Authorities**	(*i*) Profitability, (*ii*) Financial Position, (*iii*) Tax Liability.
8. **Researchers**	(*i*) Accounting Theory, (*ii*) Business Practices, (*iii*) Future Profitability.
9. **Consumers**	(*i*) Pricing.
10. **Public**	(*i*) Protecting Environment, (*ii*) Indirect Contribution for Betterment.

- **Advantages of Accounting:** 1. Financial Information about Business, 2. Assistance to Management, 3. Replaces Memory, 4. Facilitates Comparative Study, 5. Facilitates Settlement of Tax Liability, 6. Facilitates Loan, 7. Evidence in Court, 8. Facilitates Sale of Business, 9. Assistance in the event of insolvency, 10. Helpful in Partnership Accounts and 11. Helpful in Decision-making.
- **Limitations of Accounting:** 1. Accounting is not Fully Exact because estimations also have to be made. 2. Accounting does not Indicate the Realisable Value. 3. Accounting Ignores the Qualitative Elements. 4. Accounting Ignores the Effect of Price Level Changes. 5. Accounting may Lead to Window-Dressing.
- **Systems of Accounting:** 1. Double Entry System, and 2. Single Entry System.