

TENDER HEART HIGH SCHOOL

Subject: ~~Commercial~~ Studies

Class: 9th

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myCOMPANION

Ch-19, Meaning, Objectives and Terminology of Accounting

Good Morning Students

Today we will discuss Meaning, Objectives and Terminology of Accounting which is Chapter 19 of your book of Commercial Studies.

Students please open page number 156 of your book. and listen carefully.

Students you have already studied in chapter 1 that business is concerned with exchange of goods and services. This exchange takes place with the help of money or money's worth. Such exchange is known as a transaction. When the size of business is small, it is easy to remember all the transactions. But when the size of business increases number of transactions also increase, but human memory is limited, he cannot remember all the transactions. Therefore, there is a need to prepare a systematic and written record of all the transactions. This written record is part of accounting.

Students now we will discuss what Accounting is?

Accounting simply means keeping an

account of money received and money spent. It is the art of recording financial transactions in a set of books, classifying and summarising the recorded information and presenting it in a suitable manner to the concerned parties.

Therefore,

'Accounting is an art of recording, classifying and summarising 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.'

The above definition reveal the following features of accounting:-

1. Art as well as Science!:- Accounting is both an art and a science. It is an art of correctly recording the day-to-day business transactions. It is a science of maintaining business records in a regular and proper manner as to ascertain the business results easily and correctly. It is an art because the records are designed to suit the particular requirements. Accounting is science because it has well defined principles which are widely accepted like



principles of science.

(2) Financial Transactions :-

Accounting records transactions and events of financial nature only. If a transaction cannot be measured in terms of money, it will not be recorded. For example, a conflict between production department and sales department may affect the earnings of the business. But it is not recorded because it cannot be expressed in terms of money.

(3) Recording:- Accounting involves recording of business transactions in a systematic manner. Recording is done in book called 'Journal'. But when the size of business increases it is not possible to record all the transactions in Journal. Therefore, recording is done in various subsidiary books such as Cash Book, Purchase Book, Sales Book, Purchases Return Book, Sales Return Book etc. The ~~number~~ number of subsidiary books to be kept depends upon the nature and size of business.

(4) Classifying:- Classifying means the process of grouping the entries or transactions of one nature at one place.

This is done by opening accounts in a book called 'ledger' which contains

all the accounts of the firm. Similar transactions relating to a particular account for a given period are recorded at one place in the ledger. For example, all transactions involving receipts and payments of cash are recorded in the cash account.

(5) Summarising :- It means the process of presenting the classified data in a manner useful to the users of accounts. This involves ~~pre~~ preparing of final accounts in the form of Trading Account, Profit and Loss Account and Balance Sheet.

(6) Analysis and Interpretation :- The accounting statements are analysed and interpreted with the help of ratios, comparative statements etc. Such analysis helps the management and others to judge the performance and financial position of the business.

Children now we will discuss about Book Keeping.

Book Keeping and Accounting are some times used interchangeably. But these two are not same.

Book-keeping is the science and art of correctly recording in books of accounts

all those business transactions that result in the transfer of money or money's worth.'

Book-keeping is ~~con~~ concerned with systematic recording of business transactions in the books of original entry and posting to ledger.

It is just a part of accounting. It is first stage of accounting. Accounting starts where book-keeping ends.

The following are the steps in the process of accounting.

1. Recording in Journal
2. Classification in ledger
3. Preparation of Trial Balance
4. Preparation of Trading and Profit and loss account
5. Preparation of balance sheet.
6. Analysis and Interpretation.

The first two steps form the part of book-keeping and the remaining steps are of accounting.

Therefore, we can say book-keeping is just a part of accounting. Accounting starts where book-keeping ends.

Book-keeping and accounting, however, are complementary to each other.

DISTINCTION BETWEEN BOOK-KEEPING AND ACCOUNTING

S.No.	Basis of Distinction	Book-Keeping	Accounting
1.	Nature	The job of a book-keeper is clerical in nature.	The job of an accountant is analytical and imaginative.
2.	Scope	Book-keeping is concerned mainly with the recording of transactions.	Accounting involves classifying, summarising, analysis and presentation of information.
3.	Stage	Book-keeping is the primary stage of maintaining accounts.	Accounting is the secondary stage of maintaining accounts. It starts where book-keeping ends.
4.	Results	Book-keeping merely reflects the transactions as they occur and do not provide any conclusions.	Accounting shows the net results and financial position of the business.
5.	Basis	In book-keeping, the transactions are recorded according to the principles of accountancy.	Accountancy determines its own principles.
6.	Authority Level	The work of book-keeping is performed by the junior staff with comparatively less authority.	The work of accounting is performed by the senior staff having comparatively more authority.

Book-keeping and Accounting are, however, complementary to each other. Book-keeping provides the basis for accounting because analysis and interpretation are not possible until the transactions are recorded. But without accounting, book-keeping is meaningless because mere recording of transactions is of no use until you know the profit or loss of the business.

Objectives of Accounting.

The main objectives of Accounting are as follows:-

1) To Maintain Records of Business! The



Primary objective of accounting is to maintain a systematic and up-to-date record of all financial transactions. It involves identifying the transactions, of financial nature, measuring them in terms of money, recording them in the books of accounts and classifying them under appropriate heads.

2. Calculation of Profit or loss:-

Another main objective of accounting is to ascertain the net results of day-to-day transactions during a specific period of time. Every business firm wants to know whether it has earned a profit or suffered a loss during the period. For this purpose, a statement called 'the Income Statement' or 'Profit and Loss Account' is prepared.

3. Depiction of Financial position:-

A business firm also wants to know its financial position at the end of a particular period. For this purpose, a statement called the 'Balance Sheet' is prepared. It shows the assets, liabilities and capital of the firm. Like a doctor can know the health of a person by feeling his pulse, similarly, an accountant

can know the financial health of a business by looking at the balance sheet.

4. To make the information available to various users:-

Another purpose of accounting is to communicate the financial facts about the firm to various interested parties e.g. owners, investors, creditors, employees, tax authorities, government etc. On the basis of such information these users of accounting can take sound and realistic economic decisions.

Students, I am ending this topic here. Now, I will give you some questions. All the students are required to answer these questions in their notebooks.

Answer the following questions:-

1. What is Accounting?
2. Define Book-keeping.
3. Explain various objectives of Accounting.
4. Explain the features of Accounting.
5. Explain the difference between Book-keeping and Accounting.