Class :- 9th TenderHeart High School
Subject! Commercial Studies
Teacher! Lokesh Arora

Date 21/10/2024
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Ch-19 :- Meaning, Objectives and Terminology of Accounting

Good Morning Students,
This lesson is of Class IX for the subject of Commercial Studies. The topic of today's lesson is Advantages, Limitations and process of Accounting, which is covered in chapter 19 'Meaning, objectives and terminology of Accounting' of your book 'Commercial Studies'.
This lesson is being submitted to you on 21.10.2024. and the voice is of Lokesh Arora.
All the students now please open page number 159 of your book and listen very carefully.

Now we will discuss advantages of Accounting.
Advantages of accounting can be explained with the help of following points!.

(1) Replacement of Memory!-
Human memory is limited and no businessman can remember all his transactions. Accounting provides a complete record of financial transactions.

(2) Settlement of Tax Liability!-
When proper accounts are maintained according to the principles of accounting, it becomes easy to ascertain the

amount of income tax and other taxes payable by the firm.

(3) Legal Evidence :-
Systematic records and accounts are accepted as documentary evidence (proof) in the court of law. As in a business, financial disputes are very common and in that case, these books of accounts and financial statements serve as a proof in the court of law.

(4) Sale of Business :- If a businessman wants to sell his running business, the accounts maintained by him will help ~~a~~ in deciding the reasonable value. Otherwise he will not be able to determine and realise correct value of his business.

(5) Realisation of Debts (money due from others)
Accounting helps a businessman in realising money from his debtors. Accounts serve as a proof of debt and he can enforce his claims in the court of law.

(6) Raising Loans :- Banks and other financial institutions give loan to ~~oth~~ only those businessmen who have maintained their books of accounts

as per principles of accounting. Therefore accounting helps in raising loans from banks

(7) Comparative Study :-
A systematic record of transactions enables a businessman to compare the current year's results with those of previous years. This will disclose the significant factors, as to why the profits is more or less in comparison to that of the previous year.

(8) Assistance to Management :
Accounting provides valuable information to the management. Such information helps the management in planning the business activities, in taking correct decisions and in controlling the business operations to ensure attainment of goals.

(9) Reduction in errors and frauds :-
Proper accounting system not only checks errors and frauds but also minimise them.

Now we will discuss limitations (disadvantages) of Accounting.

(1) Not Fully Exact :- Business transactions

are recorded on actual basis. But on many occasions estimates have to be made for calculating profit or loss. Deciding the useful life of an asset for depreciation purpose, valuation of stock are some examples of such estimates. There is no uniform basis and these estimates are based on personal judgement. These estimates may differ from person to person. Therefore, the amount of profit and loss based on these estimates cannot be treated as exact:

(2) Does not reflect True Worth :-
In the balance sheet assets are recorded at cost less depreciation because they are meant for use and not for ~~r~~ sale. Therefore, the balance sheet does not reflect the present worth or market value of the business on a particular date.

(3) Incomplete Picture :-
In accounting only those transactions which can be expressed in money. are recorded. Non-monetary transactions such as quality of goods, labour relations, loyalty of staff etc. are not recorded in the books of account. It is very difficult to predict the

future of the business firm without recording such important non-monetary information.

(4) Inaccuracy :-
Accounting statements may fail to reflect the correct picture due to errors and frauds. Changes in method of depreciation, valuation of stock, etc. can show a different financial picture. Sometimes management deliberately enters wrong figures to artificially inflate or deflate profits. Due to such 'window dressing' balance sheet fails to show the true and fair view of the financial position of the firm. Accounting information is not comparable when different firms follow different methods of depreciation or valuation of stock

(5) Ignoring Changing Value of Money :-
The purchasing power of money keeps on changing due to inflation or deflation. But accounts are prepared on the assumption that the value of money is stable. As a result, quality of accounting information suffers.

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Students now we will discuss the Accounting Cycle:

Accounting cycle refers to a complete sequence of accounting activities. It begins with recording of transactions and ends with the preparation of a Balance Sheet.

Accounting Cycle consists of the following stages.

(1) **Recording Financial Transactions in Journal:**

In the first step, financial transactions are recorded in the books of original entry, i.e., Journal. In a large enterprise, seperate journals are kept for recording different types of transactions. Cash Book, Purchase Book, Sales Book, Purchase Return Book, Sales Return Book and Journal Proper are used to record transactions. These books are called 'Subsidrary Books'.

(2) **Posting in Ledger:**

The entries recorded in Journal are transferred periodically to appropriate accounts in ledger. This is known as 'posting'. All are transactions of one nature are posted in one account. All the accounts are prepared in a book called 'ledger'. ledger is the 'Principal Book' of accounting.

(3) Trial Balance :-

The balance of various accounts appearing in the ledger are transferred to the trial balance. Trial balance is a statement containing balances of all the ledger accounts.

(4) Income Statement :-

At the end of the year an income statement is prepared from the trial balance. Trading and Profit and loss Account is prepared to determine the net profit or net loss during the year.

(5) Balance Sheet :-

Balance sheet is a statement of assets and liabilities on a specific date. It is prepared to know the financial position of business.

(6) Opening the New Books Next Year

The balance appearing in the Balance Sheet transferred in the new Journal of the next year. The same process is again repeated next year and year to year. Accounting cycle is therefore an ongoing Process.

Students now we will discuss Meaning and Classification of Accounts

Account : An account is a record of business transactions concerning a particular person/firm, asset or income/expense. ~~A~~ Account is a summary of all the transactions ~~to~~ with respect to a person or thing at one place.
For example, all the transactions relating to cash, will be shown in 'Cash account'. ~~Sam~~ All transactions relating to Ravi will be recorded in 'Ravi Account'. Similarly all the transactions relating to sales will be shown in 'Sales Account'.
An account may be classified into three categories

(1) Personal Accounts :- The accounts which relate to an individual, firm, company or an institution are called personal accounts.
Personal accounts are of two types:
(a) Natural Personal Accounts :-
Accounts related with human beings are known as natural personal accounts. For example, Mohan's account, Sohan's account, Ravi's account etc. All account's

relating to debtors and creditors are personal accounts. The capital account and drawing account of proprietor are also personal accounts.

(b) Artificial Personal Accounts:-
These accounts are related with the persons existing in the eyes of law only. For example, ABC and Co. account, Tender Heart School Account, Hospital account etc.
Debit side of personal accounts show how much money the firm is to receive from the person concerned. Similarly, the credit side of a personal account shows how much money the firm is to pay to the concerned person.

(2) Real Account:-
The accounts relating to tangible and intangible assets are called real accounts. Land and Building Account, Machinery Account, Furniture Account, Cash Account, Goodwill Account are examples of real accounts.
Real accounts always have a debit balance which shows how much of concerned asset is owned by the firm.

(3) Nominal Account:- Accounts relating to

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expenses, losses, incomes and gains are known as nominal accounts e.g. Wages Account, Rent Account, Salary Account, Discount Account, Interest Account etc.

Debit balance of a nominal account shows expenditure or loss while credit balance shows income or gain.

With this I am ending my topic here. I will give you some questions, all the students are required to write the answers in their note-books.

Qu 1. Explain various steps involved in the process of accounting.

Q 2. What are personal Accounts? Explain the two types of personal account.

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