

ACCOUNTANCY

Chapter 1: Introduction To Accounting



Introduction To Accounting

Introduction to Book Keeping, Accounting and Accountancy

Understanding Meaning and Differences between Book Keeping, Accounting and Accountancy:

➤ Meaning of Book Keeping:

- According to R.N. Carter, "Book keeping is the science and art of recording correctly in the books of account all those business transactions that result in the transfer of money or money's worth."
- It is a part of accounting and therefore, involves identification of financial transactions, measurement of such transactions in monetary terms, recording of such transactions in the books of account and classifying the transactions and events by way of posting them into individual Ledger Accounts.

➤ Meaning of Accounting:

- According to American Institute of Certified Public Accountants, "Accounting is the 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 result thereof."
- Accounting is an art that records, classifies and summarises the financial transactions which helps in understanding the profitability and financial status of the business. It is also regarded as science as it follows a structured knowledge base that requires effective compliance of the basic accounting concepts and principles.

➤ Meaning of Accountancy:

- According to Kohler, "Accountancy refers to the entire body of the theory and practice of accounting."
- It is a systematic knowledge of accounting which helps to deal with various aspects of accounting. In addition to this, it educates the users on how to maintain the books of accounts and to summarise the accounting information that is to be communicated to the users.

➤ Understanding the relationship between Accounting and Accountancy:

- Accounting is a process and Accountancy is knowledge.
- Accountancy frames rules and principles which are to be followed and complied in the Accounting process.

- It is therefore said that accountancy is the knowledge of accounting and accounting is. the application of accountancy.
- Differences between Book Keeping and Accounting:**

Sr. no.	Basis	BookKeeping	Accounting
1	Meaning and Scope	It is a part of accounting, as it involves identification of financial transactions, measurement of such transactions in monetary terms, recording of such transactions in the books of account and classifying the transactions and events by way of posting them.	It is the art of recording, classifying and summarising in significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting results thereof.
2	Stage	First stage of accounting and is therefore, considered as a basis of accounting.	Second stage, starts where BookKeeping ends.
3	Purpose	Purpose is to maintain systematic records of the financial transactions.	Purpose is to ascertain net results of operations and financial position of the enterprise so as to communicate information to the interested parties.
4	Nature	It is of routine nature.	It is analytical and dynamic in nature.
5	Skills	It is mechanical in nature and therefore, does not require special skills.	It requires special skills and ability to interpret the information effectively.
6	Performed	It is performed by junior staff.	It is performed by senior staff.

Introduction to Accounting

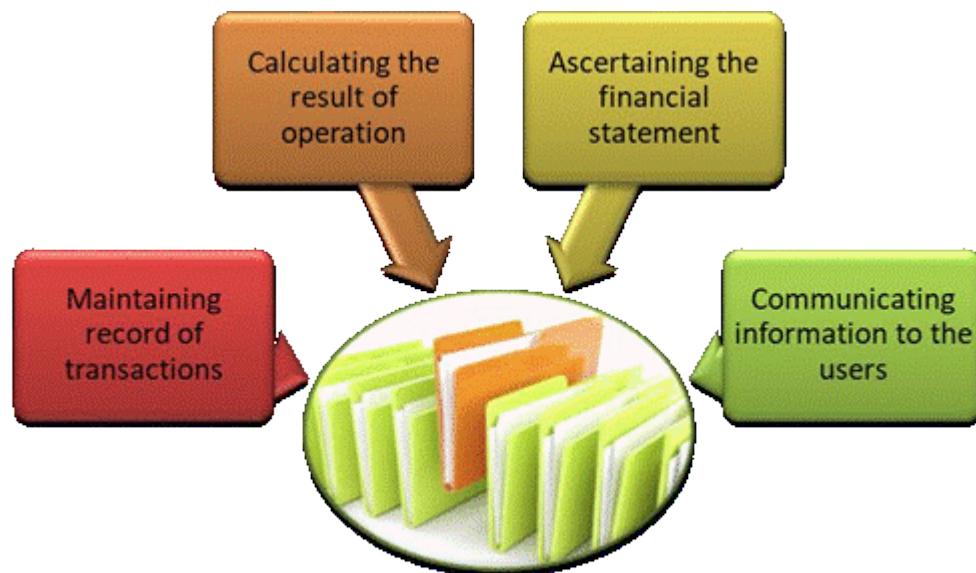
As per the American Accounting Association, “Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.”

Characteristics, Objectives, Process and Branches of Accounting:

➤ Characteristics or Attributes:

- **Identification of the economic events and financial transactions:** In order to record the transactions in the books of account, it is necessary to identify the transactions which are considered as a part of economic activity for the entity. This is done with the help of bills and invoices issued for the respective transactions.
- **Measurement in terms of money:** In order to measure all the identified transactions and events in terms of a common measurement unit, all the transactions are to be measured in terms of money. This is because, accounting records only those transactions which are measurable in monetary terms.
- **Recording of business transactions:** This is the process of entering the business transactions in the primary or original book of account i.e., Journal which is further divided into specific subsidiary books such Cash Book, Purchases Book, Sales Book, etc.
- **Classification of business transactions:** It is the process of classifying the identified transactions or entries of similar nature at one place. This is done by posting the entries from the Journal to the respective Ledger Accounts under which all the transactions of similar nature are collected.
- **Summarising business transactions:** This involves presenting the classified data in a manner that is useful and understandable to the users of financial statements. Summary is prepared by presenting the data in various statements like Trial Balance, Trading and Profit and Loss Account and Balance Sheet. These are collectively known as Final Accounts.
- **Analysing and Interpreting the business transactions:** In order to make valuable judgments and financial decisions, the information presented in various statements is analysed and interpreted in a systematic manner.
- **Communicating the results and conclusions to the interested users in the form of various statements:** Involves communicating the valuable accounting information to the interested users so as to aid them in taking important decisions.

➤ Objectives:



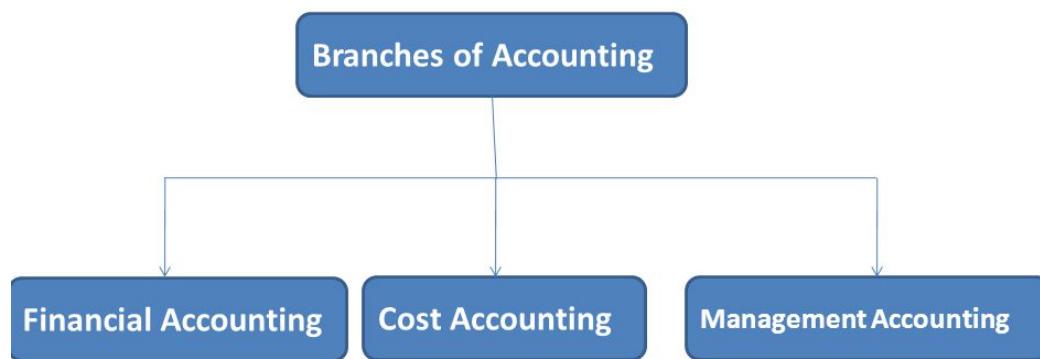
- It maintains a systematic record of all financial transactions in book of accounts.
- It gives an idea about the net results of the business operation periodically. The owner of business organisation can ascertain the profit earned or loss incurred during an accounting period based on the records maintained.
- It helps to determine the financial position of the business in terms of assets and liabilities on a particular date which is usually the last day of an accounting year. It also gives a proper account of assets held in the business and the liabilities due for payment.
- It provides valuable information to the users in the form of reports, statements, graphs and charts.
- It facilitates proper planning and effective decision making based on the detailed accounting information maintained.

➤ **Accounting Process:** Steps involved in an accounting process are based on the attributes of Accounting which are presented below in the form of a diagram:



➤ **Branches of Accounting:** Due to increased scale of business operations, the management function has become more complex now. We have specialized branches of accounting to handle these situations.

BRANCHES OF ACCOUNTING



- **Financial Accounting:** This branch of accounting records financial transactions, summarises and interprets them to present and communicate the financial results and performance to the interested users.
- **Cost Accounting:** This branch of accounting takes into account all the business operations, processes or activities in order to ascertain the cost of products and simultaneously reduce and control costs.
- **Management Accounting:** This branch of accounting is said to address the needs of a single user group i.e., the management, as it enables the management to gather information relating to funds, costs, profits, etc. which enables them to take proper decisions.

Functions, Advantages, Role and Limitations of Accounting:

➤ Functions:

- To maintain the accounting records in a systematic and organised manner so that it can be made available for any future purposes.
- To prepare the financial statements for a particular period which correctly determine the arithmetical accuracy, profitability and financial position of an entity for a particular period of time.
- To facilitate timely preparation and submission of forms, reports, etc. as are required to comply with the provisions of the Companies Act, Income Tax Act, GST Act, etc. These submissions can then be used as evidences in the court of law.
- To communicate correct financial information to the users of the financial statements based on which correct financial and investment decisions can be taken by them.
- To assist the management in maintaining the correct accounting records which helps them to improve their business performance and facilitate effective decision making for the organization.

➤ **Advantages:**

- Financial performance i.e., profit earned or loss incurred during an accounting period and the financial position at the end of an accounting period is clearly understandable from the accounting records.
- Management is able to make effective business plans and take appropriate decisions related to the business affairs based on the recorded accounting information.
- A systematic accounting record helps in settlement of income tax and GST liabilities because it is the evidence of the correctness of transactions.
- Banks and financial institutions grant loan on the basis of the profitability trends and growth potential that is evident from the statements maintained by the organization.
- Records and statements maintained by the organisation can be used as legal evidences in the event of any scrutiny or investigations.
- These records maintained are helpful in the event of admission or retirement of partners in case of a Partnership firm in order to distribute and allocate the respective shares to give effect to the adjustments made.

➤ **Role in Business:**

- The primary and most important role of accounting information is to maintain a systematic record of the business transactions which are to be used in preparing financial statements and also in determining the profitability of the business over a period of time.
- It assists the management of an entity by providing the required financial information which can be used in proper functioning and appropriate decision making for the organisation.
- It provides systematic financial information over a period of time which facilitates comparison of the financial performance of one year with that of other years.
- It is considered a valid evidence in the court of law in the event of a financial issue or case being filed.
- It is maintained systematically in order to avail financial loans and advances in the near future.
- It ensures that all the items are taken into consideration so that correct tax liabilities are determined. This facilitates timely payment of various taxes and duties and thereby avoid the interest and penalty charged thereon.

➤ **Limitations:**

- **Accounting records are not fully correct:** Transactions are recorded in the books of account on the basis of source documents such as sale invoice, purchase invoice, receipt of cash etc. In case there is any mistake in these documents, the records

maintained will also show incorrect information.

- **Accounting does not consider any of the qualitative elements:** As accounting statements are confined to monetary values only, qualitative elements are ignored.
- **Accounting ignores the price level changes:** Since, the accounting records are maintained at historical cost, the changes in the value of money are not considered while preparing financial statements. Unless price level changes are considered, accounting information will not present the original financial results.
- **Accounting information may not be realistic:** Since the accounting records are maintained based on the accounting concepts and conventions, it is possible that the information may not be realistic.
- **Accounting may be used to Window Dress the financial position:** In order to conceal the facts and present the financial statements in a better manner, books of account may be manipulated by using various tricks. In such case, the profitability is overstated and Balance Sheet does not give a true picture of its financial position.

Introduction to Accounting Information

Meaning, Types, Characteristics and Users of Accounting Information:

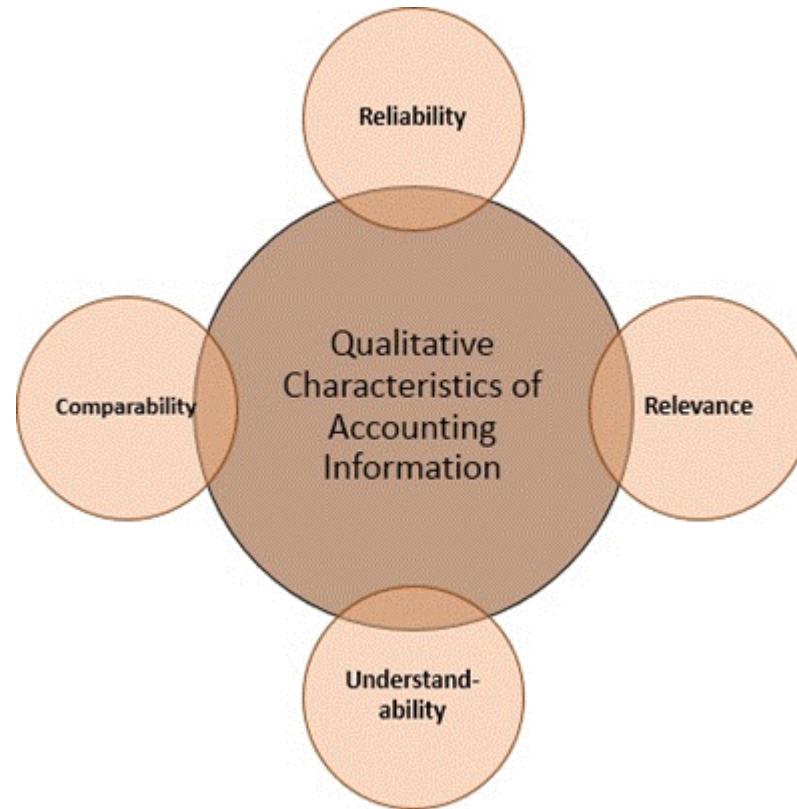
➤ Meaning:

- According to the Accounting Principle Board, “Accounting is a service activity. Its function is to provide qualitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.”
- Accounting information refers to the information in the financial statements prepared through the process of Book Keeping which helps the interested users to understand the profitability and financial position of the entity and take the appropriate financial decisions.

➤ Types: Accounting information available from the financial statements can be classified in the following types as information relating to:

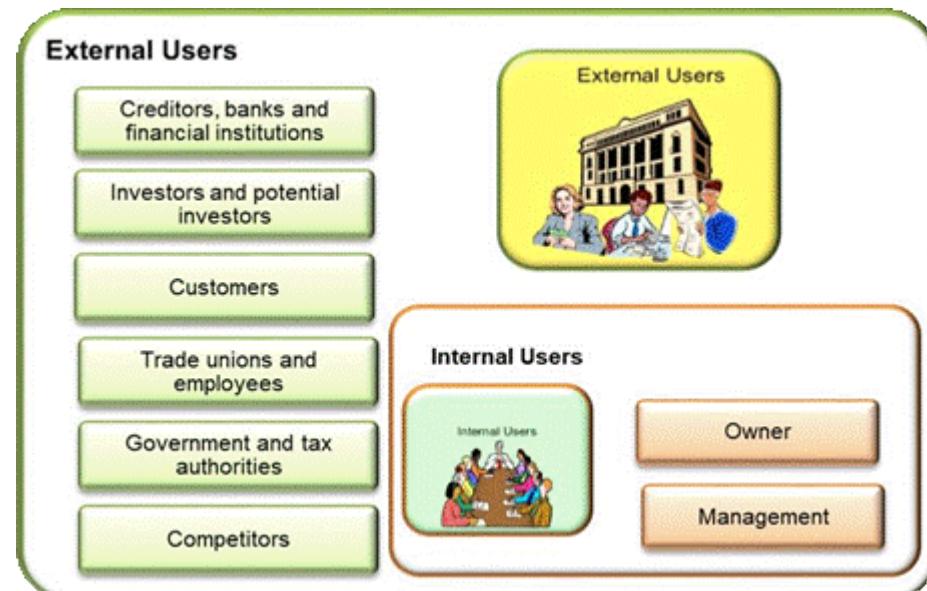
- **Profit or Surplus:** This is the information about the profit earned or loss incurred from the operating activities of the business entity during an accounting year.
- **Financial Position:** This is the information about the asset owned, amounts receivable and the cash and bank balance owned by an entity. In addition to this, information about the liabilities owed by the entity is also covered under this head.
- **Cash Flow:** This is the information about the cash inflows and outflows during a particular accounting period. Such information is used to take vital decisions like payment of dividend, expansion of business, etc.

➤ Qualitative Characteristics:



- **Reliability:** Accounting information should be verifiable and free from errors and any material error.
- **Relevance:** Accounting information should be relevant enough to meet the needs of the users and helps take some decisions.
- **Understandability:** Accounting information should be presented in such manner that it is understood by the users.
- **Comparability:** Accounting information should be such that it facilitates the intra-firm and inter-firm comparison.

➤ **Users:**



➤ **Internal Users:**

- **Owners:** These are those who contribute capital in the business. Since, they invest their money in the entity, they are interested in knowing the profits earned or losses incurred by the business which determines the returns they would earn on their investments.
- **Management:** They are the one who is responsible for the operations and decisions taken for the business entity. They are those who extensively use the accounting information to make decisions and plan further actions to improve the profitability of the operations.
- **Employees and workers:** These are those who are entitled to the salary, bonus, etc. which are directly linked to the profitability of the organisation. In order to determine whether the organisation is in a position to pay out such amounts, these employees and workers are interested to know the profitability and financial position of their organisation. Also, financial statements keeps them informed regarding compliance with various provisions related to the Provident Fund, Insurance, Gratuity, etc.

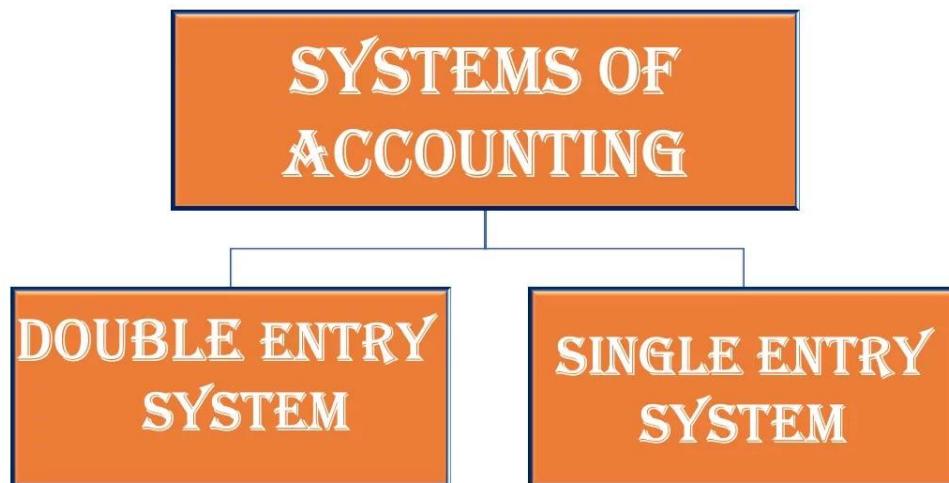
➤ **External Users:**

- **Creditors:** The parties who supply raw material/goods/services on credit based on the credibility and past experiences with that particular entity. In order to decide whether to supply anything on credit to a particular party or not, these creditors analyse the financial statements to determine the liquidity and solvency of that party to ensure timely payment for the supplies made on credit.
- **Banks and financial Institutions:** They provide timely financial assistance for the business activities in the form of loans, credit facilities, etc. In order to decide whether to sanction such financial assistance for a particular business, Banks and financial institutions analyse financial statements to satisfy themselves about the credit worthiness of the company and ensure timely repayment of loans and the interest thereon.
- **Investors and Potential Investors:** They do not have direct control on the business affairs and thus rely on the accounting information available in the financial statements. They are basically concerned about the returns earned on their investments. The profitability and earning capacity of the business is the only area of their concern.
- **Customers:** Consumers or the users are concerned about the prices of the goods they buy and therefore, want to establish good accounting control so that the cost of production may be reduced with the resultant reductions in the prices of the products they buy.
- **Government and tax authorities:** They use the financial information of the business to compile national income accounts and other information so as to take

some policy decisions. Also, with the help of accounting information, it becomes clear if the business entity has complied all the necessary tax requirements related to excise duty, GST, income tax, etc.

- **Researchers:** They use the financial information in their research work and therefore, analysis and interpretation of the information in financial statements becomes necessary for such users.
- **Public:** They are interested in knowing the substantial contribution that an entity makes to the economy as a whole in terms of employment, development, etc. Accounting information helps them to understand such contribution towards the economy.

Introduction to Systems of Accounting



Understanding Meaning, Features, Stages and Advantages of Double Entry System:

➤ Meaning:

- It is a complete system of recording transaction in the books of accounts.
- Each transaction reveals two aspects:
 - i. receiving or incoming or expenses/loss aspect known as debit aspect and.
 - ii. giving or outgoing or income/gain aspect known as credit aspect.

➤ Features:

- It maintains a complete record of each transaction by recognizing two-fold aspect of every transaction i.e., the receiving and giving aspect.
- It follows the rule of debit and credit and therefore, for every transaction, one aspect is debited and the other aspect is credited.

- It ensures that for every debit there is a corresponding credit and therefore, at the end of a particular period the total of all debits will be equal to the totals of all credits which ensures the arithmetical accuracy of the records maintained.

➤ **Stages:**

- Record all the financial transactions in the Journal.
- Classify the recorded transactions by posting them to the appropriate ledger accounts.
- Prepare a Trial Balance using the debit and credit balances of all the ledger accounts.
- Close the books and prepare the final accounts comprising of the necessary statements.

➤ **Advantages:**

- It is scientific system of recording transactions which helps in attaining the accounting objectives.
- It is a complete record of transactions as it takes into consideration both debit and credit aspects of every transaction.
- It ensures arithmetical accuracy of accounting records by preparing a Trial Balance.
- It determines correct profit or loss for a particular accounting period by preparing Profit and Loss Account.
- It provides correct information of the financial position of an entity on a particular date by preparing Balance Sheet on that date.
- It facilitates comparison of an entity's financial performance over a period of time.
- It assists the management in taking correct functional and financial decisions.
- It helps in detecting errors and frauds and thereby prevents the wastage of resources.

Understanding Meaning, Features and Advantages Single Entry System:

➤ **Meaning:**

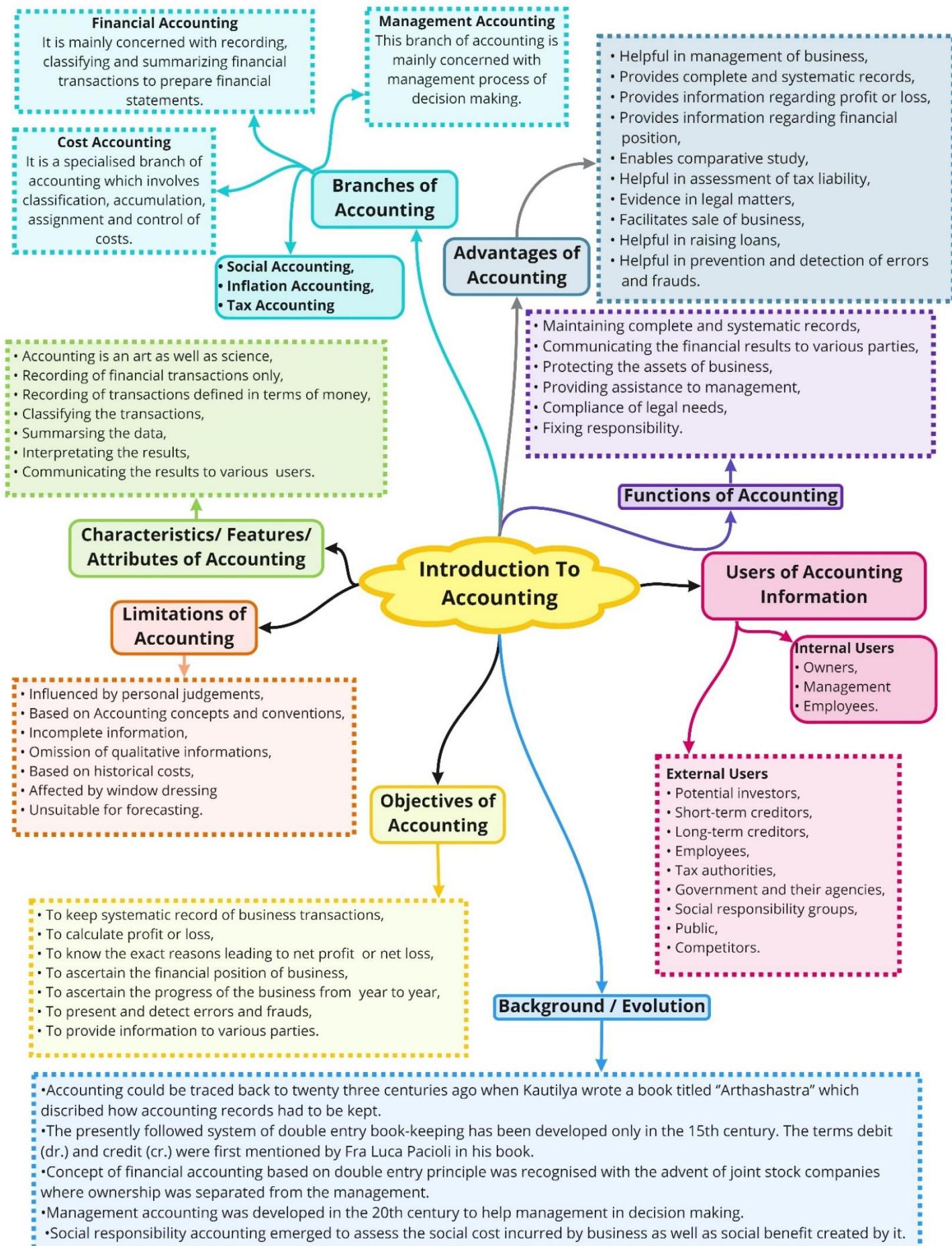
- It is a simple form of book keeping and accounting in which each financial transaction is recorded with a single entry in a journal.
- It does not record both the aspect of the transaction. It records single aspect of the transaction and therefore it is an incomplete system of recording financial transaction.
- It maintains only personal accounts and cash book. The amount of each cash inflow or outflow is entered with the description of transaction.

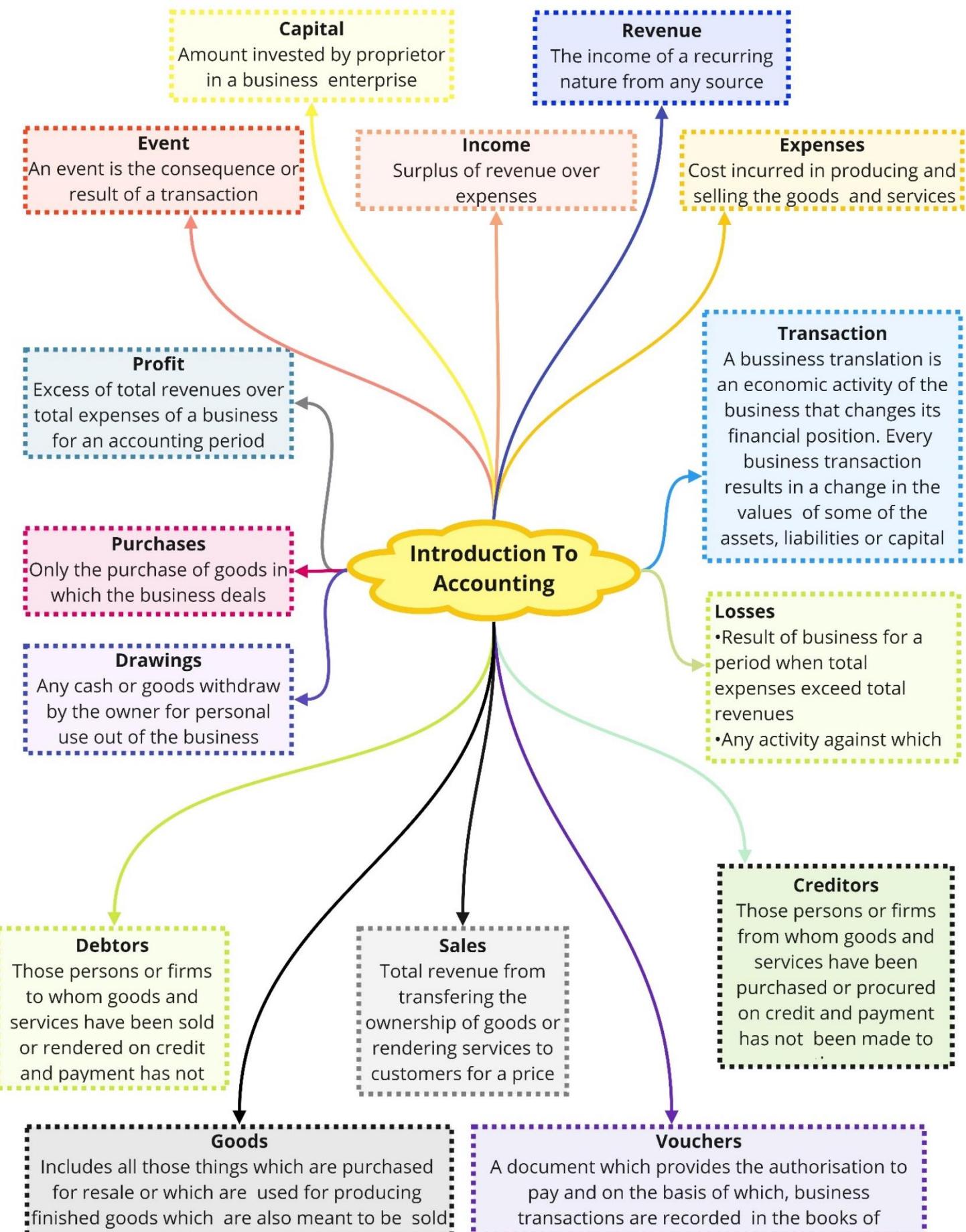
➤ **Features:**

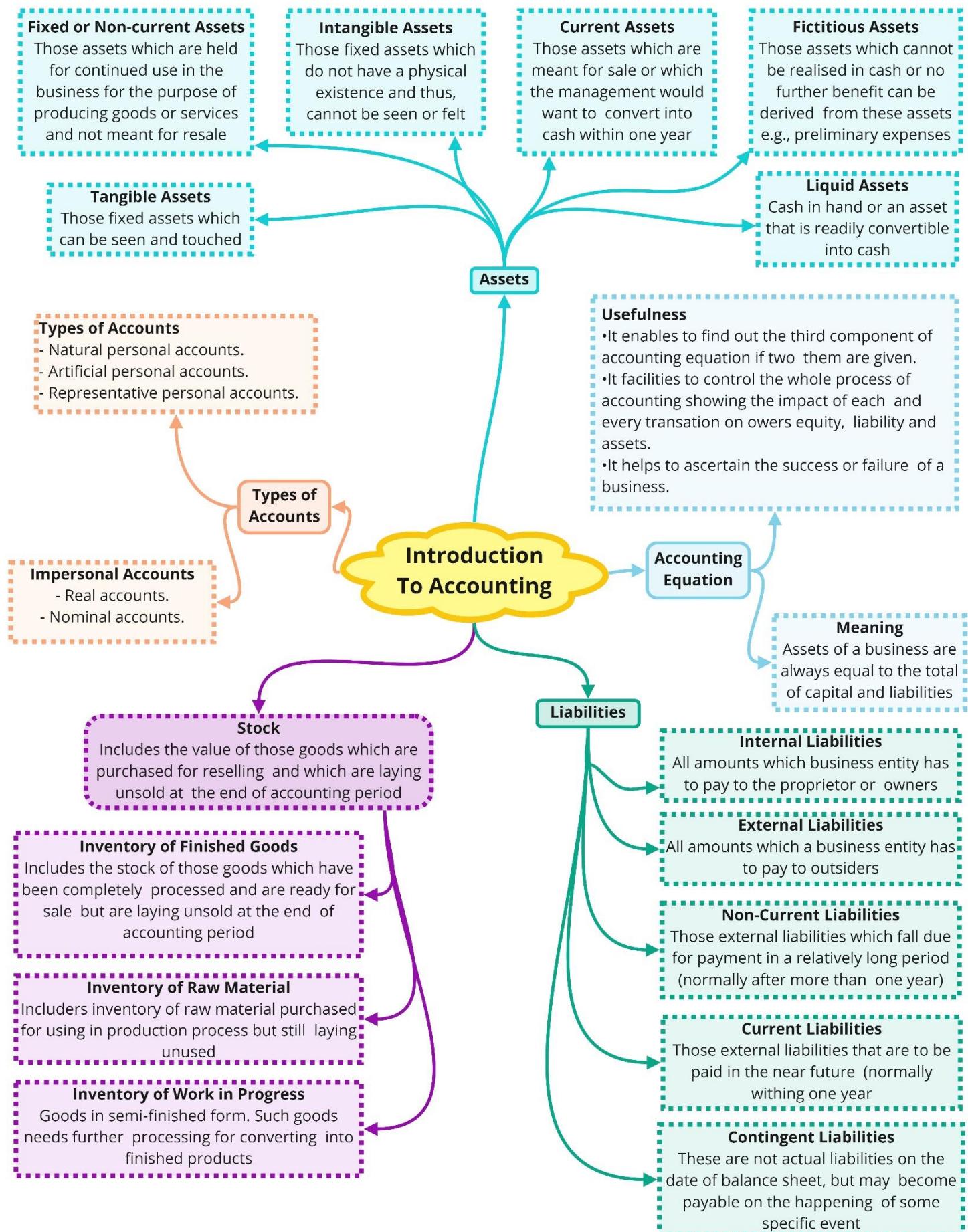
- **Suitable for small-size business:** It is considered suitable for small-size business having less number of transactions.
- **No Uniformity:** It is a mere adjustment to double entry system of accounting based on the requirements and convenience. Therefore, it may differ from firm to firm.
- **Personal Accounts Only:** It maintains only personal accounts and ignores preparation of real and nominal accounts.
- **Cash Book:** It maintains cash book which mixes the business and personal transactions.
- **Information based on Vouchers:** It takes into consideration information available from the respective vouchers.
- **Difficult to prepare final accounts:** It is very difficult to prepare final accounts as no complete record is available to ascertain the correct profitability and determine the exact financial position of the entity.

➤ **Advantages:**

- **Simple:** It is a simple method of maintaining books of accounts and therefore, ascertaining profit or loss also becomes very easy.
- **Economical:** It does not require preparation of multiple accounts and statements and therefore, is a conventional and economical system of accounting.
- **Less time consuming:** It records only one effect as there is no need to record the corresponding second effect and therefore, it is less time consuming.
- **No expertise required:** Since, this method does not follow the prescribed concepts and conventions, expert knowledge and professional experience is not required to follow this system of accounting.







Important Questions

Multiple Choice Questions-

Question 1. Which of the following is not a business transaction?

- (a) Bought furniture of Rs. 10,000 for business
- (b) Paid for salaries of employees Rs. 5,000
- (c) Paid sons fees from her personal bank account Rs. 20,000
- (d) Paid sons fees from the business Rs. 2,000

Question 2. Deepti wants to buy a building for her business today. Which of the following is the relevant data for his decision?

- (a) Similar business acquired the required building in 2000 for Rs. 10,00,000
- (b) Building cost details of 2003
- (c) Building cost details of 1998
- (d) Similar building cost in August, 2005 Rs. 25,00,000

Question 3. Which is the last step of accounting as a process of information?

- (a) Recording of data in the books of accounts
- (b) Preparation of summaries in the form of financial statements
- (c) Communication of information
- (d) Analysis and interpretation of information

Question 4. Which qualitative characteristics of accounting information is reflected when accounting information is clearly presented?

- (a) Understandability
- (b) Relevance
- (c) Comparability
- (d) Reliability

Question 5. Use of common unit of measurement and common format of reporting promotes.

- (a) Comparability
- (b) Understandability
- (c) Relevance
- (d) Reliability

Very Short Questions –

Question 1 Mention 3 functions of Accounting.

Question 2 Define Book-keeping.

Question 3 Who are the users of Accounting?

Question 4 Mention the types of accounting.

Question 5 What is the traditional function of accounting?

Question 6 Mention 2 qualitative characteristics of accounting information.

Question 7 What is the end product of financial accounting?

Short Questions –

Question 1. Define Accounting.

Question 2. Mention 2 Differences between accounting and accountancy.

Question 3. What are the 3 advantages of accounting?

Question 4. What are the 5 roles of accounting?

Question 5. Confidence and trust that the reported information is a reasonable representation of the actual items and events, that have occurred, indicate which qualitative characteristic of accounting information.

Question 6. State whether a large order of supply of goods received by the firm be recorded in books.

Question 7. Appointment of a new managing director is not recorded in the books of accounts.

Why?

Question 8. What is a person to whom money is owed by a firm called?

Long Questions –

Question 1. Is accounting an art or a science?

Question 2. Accounting information refers to financial statements. The information provided by these statements can be categorised into various types. Briefly describe them.

Question 3. Distinguish between financial accounting, cost accounting, and management accounting.

Question 4. Distinguish between book-keeping, accounting, and accountancy..

Question 5. Basic objective of accounting is to provide useful information to various users. Besides these, there are many other objectives of accounting. Explain any four of them.

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

Sen and Shetty are two friends who both have just attended their first class of

accountancy. The friends were intrigued by the different branches of accounting and their widespread application. Sen personally liked the branch of accounting in which fund flow statement and budgetary control is used and that branch helps in planning and controlling of operations. As the concept of accounting was further explored, they began discussing the different users of accounting. Sen said that he finds it interesting that even the employees demand information relating to business. Shetty said he finds more interesting the fact that even competitors want information on the relative strengths and weaknesses of the enterprise and for making comparisons. Shetty further said that even accounting helps owners to compare one year's costs, expenses, and sales with those of other years. However, they were quite shocked by the fact that the management-worker relations was not taken into consideration in the accounting. Meanwhile, Sen and Shetty had an argument at the end of the discussion. Sen was saying that accounting is an art whereas Shetty was saying that accounting is a science. Their teacher came in and said something to them which made them stop the argument.

Questions:

1. What might have their teacher said to solve their argument?
 - (a) Sen, please understand, Shetty is correct in this situation
 - (b) Shetty, please understand, Sen is correct in this situation
 - (c) Both are correct
 - (d) None is correct
2. Shetty talked about which type of users of accounting?
 - (a) Internal users
 - (b) External users
 - (c) Both (a) and (b)
 - (d) None of these
3. Which limitation of accounting is being talked by them?
 - (a) Influenced by personal judgement
 - (b) Omission of qualitative information
 - (c) Incomplete information
 - (d) Based on historical costs
4. Which advantage of accounting is being talked by Shetty in last part of first para?
 - (a) Provides information regarding profit and loss
 - (b) Provides complete and systematic record
 - (c) Enables comparative study
 - (d) Evidence in legal matters
5. Which branch of accounting is liked by Sen?

- (a) Financial accounting
- (b) Cost accounting
- (c) Management accounting
- (d) Tax accounting

2. Read the following hypothetical text and answer the given questions: -

Ben and Jones started with Cash ₹ 10,000 and Machinery ₹ 1,00,000. They decided to set up a production line for PPE kits for the protection from Covid 19 virus. As their demand expanded, they decided to purchase one more machinery. For the same, they took bank overdraft and purchased the machinery. The quality of the company's product was very high and therefore, it could develop a reputation for itself in the market and business was flourishing. After 1.5 years, their old machinery turned obsolete so they decided to sell the same. They sold it and got some cash proceeds. To further increase the brand presence among the concerned stakeholders, they decided to run advertisements from the cash proceeds of machinery sold. As more and more customers demanded their product, they decided to launch a discount for bulk purchases. The discount was not to be recorded in the books of accounts. This campaign was successful and they earned lot of profits from the same.

Questions:

1. Which type of discount is being discussed in the last part of passage?
 - (a) Trade discount
 - (b) Cash discount
 - (c) Both (a) and (b)
 - (d) Can't be determine
2. Which asset is discussed in the line, "The quality of the company's product was very high and therefore, it could develop a reputation for itself in the market and business was flourishing" ?
 - (a) Tangible
 - (b) Intangible
 - (c) Current
 - (d) Both (a) and (c)
3. Which type of liability is discussed in the passage?
 - (a) Non-current
 - (b) Current
 - (c) Both (a) and (b)
 - (d) Can't be determined
4. What was the capital initially invested?

(a) ₹ 10,000
 (b) ₹ 1,00,000
 (c) ₹ 1,10,000
 (d) Can't be determined

5. The passage involves capital receipts (apart from initial capital invested).
 (a) True
 (b) False
 (c) Partially true
 (d) Can't say

MCQ Answers –

1. Answer: (c) Paid sons fees from her personal bank account Rs. 20,000
2. Answer: (a) Similar business acquired the required building in 2000 for Rs. 10,00,000
3. Answer: (c) Communication of information
4. Answer: (a) Understandability
5. Answer: (a) Comparability

Very Short Answers –

1. Answer: Functions of accounting are:
 - Communicating financial information
 - Budget preparation
 - Preventing errors and frauds
2. Answer: According to J.R. Batliboi, 'Book-keeping is an art of recording business dealing in a set of books.'
3. Answer: The users may be categorised into 2 groups. Namely,
 - Internal users
 - External users
4. Answer: There are 5 types of accounting. Namely,
 - Financial Accounting
 - Cost Accounting
 - Management Accounting
 - Tax Accounting
 - Social responsibility Accounting
5. Answer: Recording of financial transactions.

6. Answer:

- Reliability
- Comparability

7. Answer: End product of financial accounting is 'Financial Statements'.

Short Answers –

1. Answer: According to the American Institute of Certified Public Accountants, Accounting is, 'It 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.'

2.

Accounting	Accountancy
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	Accountancy is a body of knowledge prescribing definite rules to be observed while recording, classifying and summarising of transactions.
It relies on Book-keeping.	It relies on both Book-keeping and Accounting.

3. Advantages of accounting are,

- Helpful in business
- Helpful in decision making
- Helpful in controlling

4. Roles of accounting are:

- Acting as the language of business
- Providing financial information to stakeholders
- Role in creation of budget
- Role in decision making

- Role in determining profit and loss

5. It indicates the qualitative characteristics of reliability.
6. No, it is not a transaction.
7. it cannot be recorded because it is impossible to measure it in monetary terms.
8. The person to whom the firm owes money is called 'Creditor'.

Long Answers –

1. Answer:

Accounting is both an art as well as a science. It can be seen in the following points :

- Accounting as an Art : As an art it is the technique of achieving some pre-determined objectives. Accounting is an art of recording, classifying and summarising financial transactions of the business. It helps us in ascertaining the net profit and financial position of the business enterprise.
- Accounting as Science: Science is an organised body of knowledge based on certain basic principles. Therefore, accounting is also a science as it is an organised body of knowledge based on certain accounting principles.

2. Answer:

Types of Accounting Information

Accounting information refers to the information provided in financial statements of the business, generated through the process of book keeping and summarising. By using the accounting information, the users are in a position to take the correct decision. The financial statements so generated are the income statement i.e., profit and loss account and the position statement i.e., balance sheet and a Cash Flow Statement. The information made available by these statements can be categorised into the following categories:

- 1) Information Related to Profit or Loss during the year: Information about the profit earned or loss incurred by the business during an accounting period is made available through the income statement of the business i.e., the profit and loss account. Trading account provides information about gross profit or gross loss whereas the profit and loss account provides information about the net profit or net loss during the year. It also gives details of all the expenses and incomes during the year.
- 2) Information Related to Financial Position of the business :Information about the financial position of the enterprise is determined through its position statement i.e., the balance sheet.

It provides information about the assets and liabilities of a business on a particular date. The difference between the two is represented by capital i.e., amount due to owners. In the case of not-for-profit organisation, difference between assets and liabilities is termed as general fund.

- 3) Information about Cash Flow during the year : Cash flow statement is a statement that shows inflow and outflow of cash during a specific period. It helps in making various

decisions such as payment of liabilities, payment of dividend and expansion of business, etc., as all these are based on availability of cash. It gives a clear picture of the liquidity of the business.

3. Answer:

Basis	Financial Accounting	Cost Accounting	Management Accounting
Meaning	Financial accounting is a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income statement or a balance sheet.	Cost accounting is an accounting method that aims to capture a company's costs of production by assessing the input costs of each step of production as well as fixed costs, such as depreciation of capital equipment. Cost accounting will first measure and record these costs individually, then compare input results to output or actual results to aid company management in measuring financial performance.	Management accounting, also called managerial accounting or cost accounting, is the process of analyzing business costs and operations to prepare internal financial report, records, and account to aid managers' decision making process in achieving business goals. In other words, it is the act of making sense of financial and costing data and translating that data into useful information for management and officers within an organization.
Objects	Record transaction and determine financial position & profit or loss	Ascertainment, allocation, accumulation and accounting for the cost	To assist the management in decision making & policy formulation
Nature	Concerned with historical data	concerned with both past and present recorded (historical in nature)	Deals with a projection of data for the future (futuristic in nature)
Principle followed	Governed by GAAP	certain principles followed for recording cost	No set principles are followed in it
Data Used	Qualitative aspects are not recorded	Only quantitative aspects are recorded	Uses both qualitative and quantitative concepts

4. Answer:

Bookkeeping is the activity of recording the financial transactions of the company in a systematic manner while Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period while accountancy is to summarize, classify and accordance of every financial activity into a system. Book-keeping is a primary and basic function in the process of accounting and concerned with recording and maintenance of books of accounts only. Accounting is the secondary function and it starts where function of book-keeping ends. Accountancy is a study of systematic knowledge and contains those rules, regulations, procedures, principles, concepts, conventions and techniques, which are to be applied in the process of accounting. In this sense, we can say that accountancy is a broader term that acts as a guide for the preparation of books of accounts, summarisation of information and communicating the results to all the concerned parties.

5. Answer:

The objectives of accounting are as follows:-

Identification and recording of the transactions of the business: Accounting enables business firms to maintain systematic records of all financial transactions. Various properties and possessions, as well as obligations, are also recorded. As a result, the true nature of each and every transaction is known without much exercise of memory. With this end in view, the transactions are primarily recorded in general and in a special journal and later on permanently various accounts are kept in the ledger. So that there is no unauthorised use or disposal of property of business.

Calculation of Profit or Loss: A businessman would be interested in knowing at periodical intervals the net result of business operations, i.e. how much profit has been earned or how much loss has been incurred. The amount of profit or loss for a particular period of a business concern can be ascertained by preparing income statement with the help of ledger account balances of revenue nature. Surplus or deficit of revenue for a particular period of a non-trading concern can also be ascertained by preparing income and expenditure account or statement.

Depiction of position: A proper record is maintained of all assets and liabilities to show the value of the firm's possessions and the amount the firm is owing to others at the end of the particular period. With the help of this systematic record, the accountant prepares the balance sheet of the firm which provides information about the financial position.

Comparison of results: Systematic maintenance of business records enables the accountant to compare profit of one year with those of earlier years to know the significant facts about the changes. This helps the business to plan its future affairs accordingly.

Case Study Answer-**1. Answer:**

1. (c) Both are correct
2. (c) Both (a) and (b)
3. (b) Omission of qualitative information

4. (c) Enables comparative study
5. (c) Management accounting

2. Answer:

1. (a) Trade discount
2. (b) Intangible
3. (b) Current
4. (c) ₹ 1,10,000
5. (a) True