I. Meaning of Financial A/C

→ Financial A/c is a branch of accounting which records each financial information and analyse it to determine financial position of the company.

→ It is a process of recording, summarising, analysing, and presentation of all financial transactions of a business in the form of financial statement.

→ Financial A/c involves the prepration various financial statements like income statement, cash flow statement, balance sheet etc, using financial principles.

→ These financial statements are prepared on a routine basis by companies and presented to all its stakeholders.

→ Financial accounting aims at delivering the fair and accurate image of financial affairs of business to all its stakeholders.

→ It is done in accordance with rules provided by GAAP or IFRS.

→ Financial accounting has an important role in increasing profitability and efficiency as it helps in managing all financial resources of the business.

Scope of Financial Accounting

① Records financial transactions
② Summarize Information
③ Prepares Financial Statements
④ Interprets (Explains) Financial Information
⑤ Communicates All Outcomes
⑥ Determines Financial Position

① Records Financial Transactions

Financial accounting record each and every financial transaction taking place in the business organisation. It maintains a clear and systematic record of all information in the form of journals and various subsidiary books. It avoids any confusion or loss because if any problem arises these records can be easily checked. All transactions cannot be just memorized by humans without recording them and that makes the financial accounting important part of every business.

② Summarize Information

Information collected and recorded by financial accounting is properly categorized according to their nature. Financial accounting involves classifying and summarizing all financial information recorded at the initial step. All transactions of similar nature are grouped together under one head by making accounts like Sales, Purchase, Rent, Salaries, interest etc. Grouping of same nature

transactions together adds convenience in undertaking of information collected.

③ Prepares Financial Statements

Financial accounting prepares financial statements like cash flow statement, income statement, balance sheet etc. These financial statements depict the true financial position of business. Financial statements are the result of various information collected and analysed in overall process of financial accounting. All financial strengths and weakness of business are determined by preparation of financial statements.

④ Interprets Financial Information

Financial accounting interprets information from several analysis conducted and financial statements prepared. It understands and explains the results of several relationships established by analysis to different users for easy understanding and decision making. It simplifies the accounting information so that it is well understood by persons having limited or no knowledge of accounting subject.

⑤ Communicates All Outcomes

Financial accounting serves the needs of all external stakeholders by delivering them true and accurate picture of company's financial affairs. It communicates them all financial information by providing them with financial reports routinely. All interested

parties to business are fully aware of all business financial matters and this helps them in making conclusions. It helps them in knowing profitability and future growth aspects through these reports.

⑥ Determines And Maintains Financial Position

Financial accounting determines fair and accurate image of financial position of business. Finance is termed as lifeline of business activities and its management is quite important for every organization. Mismanagement of financial resources may have adverse effects on the company's performance. Financial accounting records and analyse each financial aspect of business. It delivers all information to internal management team from time to time for their decision making.