

- # Book value
- # Creditors
- # Debtors
- # Equity
- # Inventory
- # Depreciation
- # Accounting period
- # Overhead
- # Variable Cost
- # Fixed cost
- # Capital Expenditure
- # Capital Revenue

## I Users of Accounting Information

- (i) Owners
- (ii) Managers
- (iii) General Public / NGO's
- (iv) Creditors
- (v) Tax / Regulatory Agencies
- (vi) Research / Market Analysts / Financial Press
- (vii) Suppliers
- (viii) Customers
- (ix) Employees
- (x) Internal Auditors

(i) Owners :- The primary objective of accounting is to provide necessary information to the owner relating to their business. For example :- The shareholders of a company are interested in accounting information with a view to ascertaining the profitability and financial strength of the company.

- Tracking their investment and monitoring their return on investment.
- Observing their capital investment and evaluating its upward or downward move.
- Keeping an eye on the overall well-being of the business.

(ii) Managers :- In larger organizations there is a separation of the ownership and the management functions. The management of such concerns are more concerned with the ~~accounting~~ <sup>accounting</sup> accounting information because of their accountability to the owners for better performance of their concerns.

- Budgeting, forecasting, analysis and taking important financial decisions.
- Investment decisions, identification of warning and opportunity signals.
- Taking informed and evaluated decisions.
- Compliance with all statutory, regulatory and any other external body requirements.

(iii) Creditors :- Trade creditors, debenture holders, bankers, and other lending institutions are interested in knowing the short-term as well as long-term position of the company. The financial statements provide the required information for ascertaining such position.

- Evaluation of short-term and long-term financial stability of a business.
- An insight into the liquidity, profitability etc. with the help of ratio
- Assessment of the creditworthiness with the help of financial ratios and scrutiny of the three main

## Financial statements in accounting.

### (iv) Regulatory Agencies :-

Various governments and other agencies use accounting reports not only as a basis for tax assessment but also in evaluating how well various business concerns are operating under regulatory framework.

→ To keep a check and ensure that the firm is following all required accounting principles, standards, rules and regulations.

→ The ultimate intent is to protect business integrity and safeguard investors.

→ ~~the~~ Tax department as one of the users of accounting information assures accurate tax calculation by the companies.

(v) Government :- Governments all over the world are using financial statements for compiling statistics concerning business units, which, in turn help in compiling national accounts. The government is a separate type of external user that is also interested in company's performance, mainly for purpose of collecting the proper amount of tax, but also for other regulatory purpose. In fact, a single company may be reporting to several state and local governments and even to foreign governments, depending on where they are doing business.

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(vi) Employees :-

Employees are interested in the earnings of the enterprise because their pay hikes and payment of bonus depend on the size of profits earning.

- Checking the overall financial health of the company as it affects their remuneration and job security.
- Decision making in case of shares based payment such as ESOPs offered by the employers.
- Examining if the employer is depositing all required funds to the appropriate authorities such as the provident fund etc.

(vii) Customers :-

Does the company offer useful product at fair prices? Will the company survive long enough to honor its product warranties? Customers are buyers of goods or services and may exist at any stage of a business cycle. They may be producers, manufacturers, retailers, etc.

- Checking the continuous inflow of stock and the pace of overall production.
- Assessing the financial position of its suppliers which is essential to maintain a stable source of supply.

(iii) Suppliers :-

- Inspecting the credibility of their customers by evaluating their repayment ability.
- Setting up credit limit and payment terms with their customers.

### (ix) Public :-

The general public is also among users of accounting information. They are keen to know the financial health of a business to get a fair idea of the firm's niche market, business environment, and economic atmosphere of the country. Is the company providing useful products and gainful employment for citizens without causing serious environmental problems?

### (x) Potential Investors :-

Investors use the information in accounting reports to a greater extent in order to determine the relative merits of various investment opportunities. Has the company earned satisfactory income on its total investment? Should an investment be made in this company? Should the present investment be increased, decreased or retained at the same level?

## I Limitation of Financial Accounting

- Not helpful in price fixation
- Not classification of expenses and accounts
- No data for comparison and decision making
- No analysis of losses
- Provides no safeguards against material losses
- No insight for labour cost control
- No cost comparison data
- Incapable of classifying losses due to sale facilities
- Only monetary information

- Insufficient insight for fixing optimum inventory level.
- Provides only historical data
- No records for wastages
- No standards to assess performance
- No insight about tax planning and investment efficiency.

## I Accounting Concepts & Conventions

### Concepts :-

- (i) Money Measurement Concept (Transactions measured with money will be recorded)
- (ii) Business Entity Concept (2 independent entities)
- (iii) Going Concern (Continue all time to come)
- (iv) Cost Concept (Any purchase will be recorded regardless of its actual amount)
- (v) Dual Aspect Concept (Any transaction will affect two a/c's with debit & credit)
- (vi) Accounting Period Concept (Record financial statement at the end of every period)
- (vii) Matching Concept (Revenue or expense should be recorded at the same time when they happened)
- (viii) ~~Realization~~ Realization Concept / Revenue Recognition Concept
- (ix) Objective Concept (Transaction should be recorded with proof like voucher or receipt)
- (x) Accrual Concept (Revenue or expense should be recorded whether cash is given or not)

### (viii) Revenue Recognition Concept

→ Revenue earned from any business transaction should be included in the accounting records only when it is realized.

### Conventions :-

- (i) Full Disclosure [ <sup>(Transparency)</sup> Revealing all potentially and relevant information to all ]
- (ii) Consistency [ Using same rules and practices / not changing rules ]
- (iii) Conservatism [ Showing minimum profit ]
- (iv) Materiality [ Similar to Full Disclosure, Totally disclose all material facts of the organization. ]

## Concepts

- ① Money Measurement Concept (Money Related Recording)
- ② Cost Concept (Record any purchased item)
- ③ Dual Aspect Concept (Debit Credit)
- ④ Business Entity Concept (2 Individuals)
- ⑤ Going Concern (Nonstop Business)
- ⑥ Accrual Concept (Transaction should be recorded <sup>whether cash is received or not</sup> ~~at the time of~~ <sup>when it occurs</sup>)
- ⑦ Recognize Concept (Revenue or Expense Transaction should be recorded <sup>when it occurs</sup>)
- ⑧ Accounting Period Concept (Record financial statement)
- ⑨ Objective Concept (Profits)
- ⑩ Matching Concept (Record at the same time)

## Accounting Process

- ① Identify Transaction
- ② Record Transaction in Journal
- ③ Posting to the Ledger
- ④ Unadjusted Trial Balance
- ⑤ Worksheet
- ⑥ Adjusting Journal Entries
- ⑦ Financial Statement
- ⑧ Closing the Book

## Types of A/c

### Personal A/c

Natural  
Personal  
A/c

Artificial  
A/c

Representative  
A/c

Ex: - D/S wages,  
D/S Interest  
Prepaid exp

### Non-Personal A/c

Real A/c

↓  
Tangible / Nontangible

Nominal A/c

↓  
Income / Expense  
Gain / Loss

## 5 Types of Accounts in Accounting

- ~~Expenses A/c~~ Expenses A/c
  - ~~Revenue A/c~~ Revenue A/c
  - ~~Assets A/c~~ Assets A/c
  - ~~Liability A/c~~ Liability A/c
  - ~~Equity A/c~~ Equity A/c
- P/L A/c's
- Balance Sheet