

B.com: - IST Year

Subject: Commerce

Paper: - Financial Accounting

Dr. Rakesh Kumar Mehta

Department of Commerce

Email-id: drmehta.rk1961@gmail.com

Mobile No: 9450248705



Chapter 1: Financial Accounting – Meaning, Principles, Objective and Limitations.

Meaning of financial accounting – Accounting is an art of recording, classifying, summarizing of business transaction in terms of money and entering the result there of. It is also called the historical transaction of business.

Definitions of Accounting:

According to **Smith and Ashburn**, “Accounting is the science of recording and classifying business transactions and events, primarily of a financial character and the art of making significant summaries, analysis and interpretations of these transactions and events and communicating the results to persons who must take decisions or form judgements.”

According to **American Institute of Certified Public Accountants**, “Accounting is the art of recording, classifying and summarizing 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 result thereof.”

From the above it is clear that only recording of transactions is related to book-keeping. Hence accounting may be considered as beginning where book-keeping leaves off...

Principles Accounting

Meaning – Accounting principles are general laws or rules adopted or professed as a guide to action. Broadly accounting principles are divided into two- Accounting concepts and Accounting conventions.

Accounting concepts– Accounting concepts are based on cause and effects or based on logic. These are mainly following:

1. Separate entity concept.
2. Money measurement concept.
3. Cost concept.
4. Going concern concept.
5. Dual aspect concept.
6. Accounting Period concept.
7. Realization concept.
8. Matching concept.
9. Accrual concept.

Accounting conventions - Followings are the main accounting conventions:

1. Convention of consistency.
2. Convention of conservatism.
3. Convention of materiality.
4. Convention of disclosure.

Objectives of Accounting

These are the following main objectives of accounting:

1. To keep systematic and complete record of all financial transactions.
2. To ascertain profit or loss of the business.
3. To ascertain the financial position of the business.
4. To provide information to various groups and users.
5. To facilitate the decision making.
6. To meet legal requirement.

Types of Accounting

These are the following types of accounting:

1. Financial accounting.
2. Cost accounting.
3. Management accounting.
4. Income tax accounting.
5. Government accounting.
6. Social accounting.
7. Inflation accounting.
8. Human resource accounting.

Limitations of Accounting

These are the following limitations of Accounting:

1. Monetary transactions only.
2. Historical transactions.
3. Personal judgment.
4. Not reflect true picture of the business
5. Not a good tool of management.
6. Conflicts between accounting principles.

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Long Answer Type Questions: -

1. What do you understand by accounting concepts? Discuss the various accounting concepts.
2. What do you mean by accounting assumptions? Explain and illustrate fully.

Short Answer Type Questions: -

1. What is meant by basic principle of accounting?
2. What is separate business entity concepts?
3. What is the going concern assumptions?

END

