

## Revision Notes

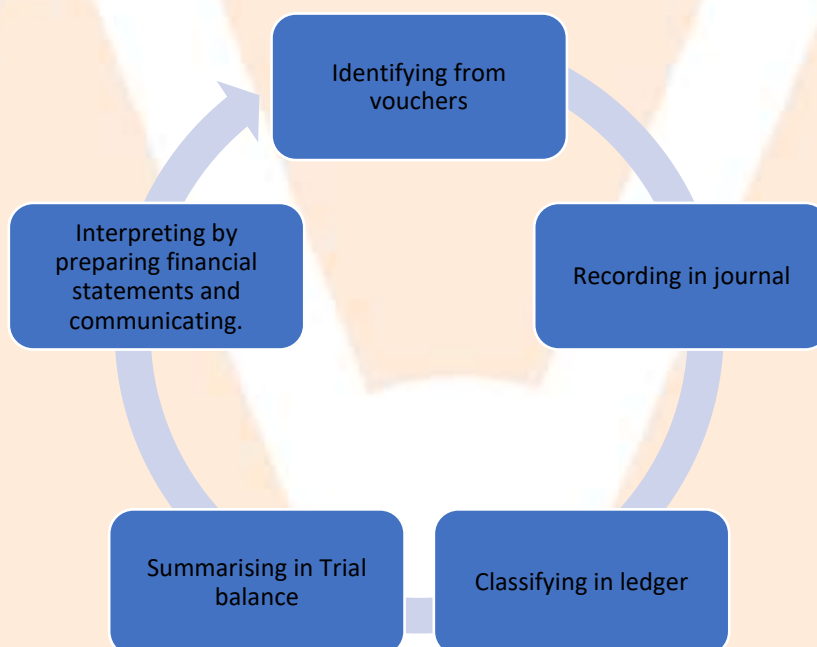
### Class 11 Accountancy Part 1

#### Chapter 1 - Introduction To Accounting

##### Accounting

Accounting is an art of recording, classifying and summarizing the monetary transactions in an efficient manner and interpreting the results.

##### Functions of Accounting



- **Identifying:** Identifying the business transactions from various sources is the first step of accounting. It involves observing all business activities and identifying those which are considered as financial transactions.
- **Recording:** Only those transactions are recorded in books of accounts which can be measured in terms of money. It involves recording them in a journal and keeping a systematic record of all of them.
- **Classifying:** After recording the transactions they are classified. Classification refers to the grouping of all the transactions of same nature at one place.
- **Summarising:** It is the process of putting the balances of all accounts at one place i.e. Trial balance.
- **Communicating:** Accounting also includes the communication of financial data like financial statements to the users who analyse them as per individual requirements.

### **Objectives of Accounting**

1. To maintain proper records of business transactions according to specified rules which helps them to minimize the chance of omission and fraud.
2. To ascertain the net profit or loss suffered on account of business transactions during a particular period and to know the exact reasons leading to profit or loss.
3. To ascertain the financial position of business by means of financial statement i.e, Balance sheet.
4. To ascertain the progress of business from year to year and to detect errors and frauds.
5. To provide accounting information to various interested parties like owners, creditors, banks, employees etc. who perform an in depth analysis as per the requirement of the stakeholders.

### **Advantages of Accounting**

1. Accounting provides permanent records for all business transactions and provides reliable information to various parties.
2. Accounting provides the Profit and loss of a business for a given period of time.
3. Accounting provides the facility of comparative study of the various aspects of business like profit sales, purchase, etc. with that of previous years and helps businessmen to make decisions.
4. Accounting forms a basis in the process of performance evaluation to improve the performance of employees, divisions, activities, etc.
5. Accounting records act as an approved evidence in legal matters.

### **Limitations of Accounting**

- One of the major limitations of accounting is that it considers only monetary transactions. Non monetary aspects like quality, honesty, skills are ignored in accounting.
- It considers only historical transactions and the figures given in the financial statement do not consider price level changes.
- It is influenced by personal judgements and not free from personal bias which affects its credibility.
- It is affected by window dressing which means manipulation of accounts so that financial statements describe a more favourable position than the actual position.
- Financial accounts are unsuitable for forecasting because they are only records of past events.

### Book-Keeping-Base of Accounting

Book keeping is an art of recording the transactions in the books of accounts. Only those transactions which bear a monetary value are recorded. It is the first step of accounting. Its main purpose is record keeping or maintenance of books of accounts, It should not be confused with accounting. Differences between the two are as follows.

Basis of distinction	Bookkeeping	Accounting
Scope	It is concerned only with recording of monetary transactions.	It also includes classifying, summarizing, analysing and also communicating the results to users.
Stage	It's a primary stage.	It's a secondary stage.
Objective	To maintain systematic records of business.	To calculate the net profit or net loss in the business.
Nature	Routine and clerical.	Analytical.
Staff involved	It is done by junior level staff.	It is done by senior level staff.

### Subfields of Accounting

- 1. Financial Accounting:** The main purpose of this branch is to record the business transactions in a systematic manner, to ascertain profit or loss and to present the financial position of the business with the help of a balance sheet.
- 2. Cost Accounting:** The main purpose of cost accounting is to ascertain the total cost and per unit cost of goods produced and services rendered by business.
- 3. Management Accounting:** The main purpose of this branch is to present the accounting information in such a way as to assist the management in planning and controlling the operations of business.
- 4. Tax Accounting:** This branch is used for tax purposes. Income tax and gst are computed on the basis of this accounting.

### Qualitative Characteristics of Accounting Information

Accounting information should be prepared and presented in such a way that is able to depict a clear view of business enterprise.

- 1. Reliability:** It implies that information must be factual and verifiable. And free from errors.

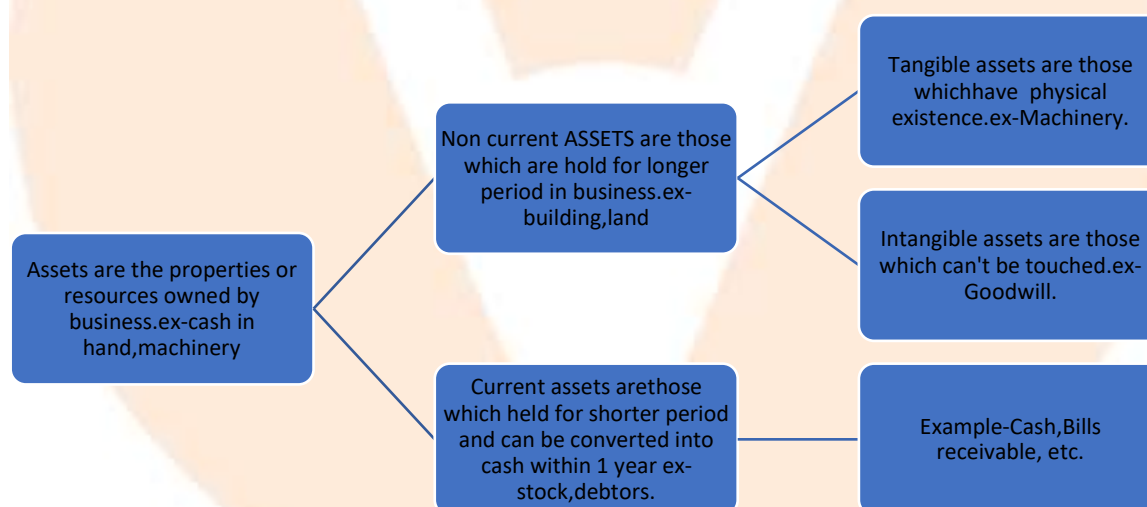
- 2. Relevance: Accounting information must be relevant to the objectives of** enterprise. To be relevant, information must help the users of accounting information in making decisions.
- 3. Understandability: Accounting information should be presented in such a** manner that they are understood easily by their users such as investors, employees, etc.
- 4. Comparability:** It is a very useful quality of accounting information. Financial statements should contain previous year data so that it can be compared with current year so that current performance be compared with past performance.

### Accounting Terms

- 1. Business Transaction:** A Business transaction is an economic activity of business that changes its financial position.
- 2. Account:** It is a record of all business transactions relating to a particular person or item. It is a T Shaped proforma.
- 3. Capital:** It refers to the amount invested by the owner in a business. The amount invested could be in the form of cash, goods, etc.
- 4. Drawing:** Any cash or goods withdrawn by the owner for personal use made out of business funds are known as drawings.
- 5. Profit:** It is the excess of total revenue over total expense of a business. Profit = Revenue - Expenses.
- 6. Loss:** The excess of expenses over related revenue is known as loss. Loss = Expenses - Revenue.
- 7. Gain:** It is a monetary benefit resulting from events or transactions which are incidental to business like profit on sale of fixed assets.
- 8. Stock:** It includes goods unsold on a particular date.
- 9. Purchases:** It refers to the amount of goods bought by business for resale or use in production. It can be of cash or credit.
- 10. Purchase return:** When purchased goods are returned to suppliers, it is referred to as purchase return.
- 11. Sales:** It means transfer of goods or services for money in the normal course of business.
- 12. Sales return:** When customers return the goods sold to them it is known as sales returns.
- 13. Debtors:** It refers to those persons whose business has been sold goods on credit and payment has not been received yet.
- 14. Creditors:** It refers to those persons whose business buys goods on credit and payment has not been done yet.

15. **Voucher:** A voucher is a written document which is created in support of a particular transaction. It may be in the form of a cash memo, invoice or receipt. Voucher is a necessary component of auditing.
16. **Income:** It is the difference between revenue and expense.
17. **Expense:** It is the amount used in order to produce and sell goods and services.
18. **Discount:** It is the rebate given by the seller to the buyer. It is of 2 types: Cash Discount and Trade Discount.
19. **Cash Discount:** When discount is allowed to customers for making prompt payment. It is always recorded in books of accounts.
20. **Trade Discount:** This is a type of discount allowed by the sellers to their customers at a fixed percentage on the list price of goods. and also it is not entered in the books of accounts.
21. **Bad Debts:** It refers to the amount that debtor has not paid even after repeated reminders and has no intention of paying in the future.

## Assets



## Liabilities

Liabilities refers to financial obligations of business.it denote the amount which a business owes to others.ex- Creditors,loan,etc.It is of 2 types;

1. **Non current liabilities:** It refers to those which fall due for payment in a relatively longer period. For ex- long term loans.
2. **Current liabilities:** It refers to those which are to be paid in the near future. Ex-Creditors, Outstanding expenses.

## Expenditure

It involves spending cash or incurring a liability for the purpose of acquiring assets, goods or services. It is of 3 types.

- 1. Revenue Expenditure:** It refers to any expenditure, the full benefit of which is received during one accounting period. ex-salaries, rent.
- 2. Capital Expenditure:** It refers to expenditure, the benefit of which is received during more than one year. Ex- Machinery.
- 3. Deferred Revenue Expenditure:** It refers to expenditure which are revenue in nature but benefit of which is likely to be derived over no of years. Example- Advertisement.