NOTES OF CHAPTER -I

Introduction to Accounting

(Advantages, Limitations of Accounting and Book-Keeping v/s Accounting)

Class – 11th

Definition of Accounting

Accounting is the process of identifying, measuring , and communicating economic information to permit informed judgements and decisions by users of information.

Advantages of Accounting

1. Provide information about financial performance

- Accounting provides factual information about financial performance during a given period of time
- Like, profit earned or loss incurred over a period and financial position at a particular point of time.

2. Provide assistance to management

- Accounting helps management in business planning, decision making and in exercising control.
- For this, it provides financial information in the form of reports.

3. Facilitates comparative study

- By keeping systematic records and preparation of reports at regular intervals, accounting helps in making a comparison.

4. Helps in settlement of tax liability

- Systematic accounting records help in settlement of various tax liabilities. Such as – Income Tax, GST etc.

5. Helpful in raising loan

- Banks and Financial Institutions grant a loan to the firm on the basis of appraisal of the financial statement of the firm.

6. Helpful in decision making

Accounting provides useful information to the management for taking decisions.

7. Replaces Memory

- Accounting helps in maintaining systematic record of the business which may be referred from time to time
- Accounting eliminates the need to remember the transactions

8. Evidence in court

- Systematic accounting records provide documentary evidence in the court in case of any dispute .

9. Helps in the sale of business

- If the business entity is being sold, then the accounting records helps to determine the proper purchase price.

Limitations of Accounting

- **Accounting is not precise**: Accounting is not completely free from personal bias or Judgment.

- **Accounting is done on historic values of assets:** Accounting records assets at their historical cost less depreciation. It does not reflect their current market value.

- **Ignore the effect of price level changes:** Accounting statements are prepared at historical cost. So changes in the value of money are ignored.

- **Ignore the qualitative information:** Accounting records only monetary transactions. It ignores the qualitative aspects

- **Affected by window dressing:** Window dressing means manipulation in accounting to present a more favourable position of the business than the actual position.

Book-keeping v/s Accounting

Book-keeping : Book- Keeping is a part of Accounting and it is the process of identifying, measuring, recording and classifying the financial transactions.

Accounting : Accounting is a wider concept and actually, it begins where Book Keeping ends. It includes summarizing, interpreting and communicating the financial data to the users of financial statements.

Difference Between Book-keeping and Accounting

Basis	**Book-keeping**	**Accounting**
Scope	Book-keeping involves identifying, measuring, recording & classifying financial transactions in the ledger accounts.	In addition to bookkeeping, Accounting also includes summarizing, interpreting and communicating the financial data to the users of financial statements.
Objective	The main aim is to maintain systematic records of financial transactions.	The main aim is to ascertain the profitability and financial position of the business.
Stage	It is a primary stage of accounting	It is a second stage and begins where book-keeping ends.
Nature of job	This job is in routine and repetitive in nature.	This job is analytical in nature.
Level of skills	Book-keeping does not require special skills. It is performed by Junior Staff.	It requires specialized skill to analyze, so it is performed by senior staff.

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