

NEW EDITION



ACCOUNTS

CLASS 11TH

WRITTEN BY

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FOR CLASS 11TH

**BASICS
OF
ACCOUNTING**

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AUTHOR

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About CA Sandeep Sharma

CA Sandeep Sharma is a dynamic & qualified chartered Accountant. As a brilliant student and a position holder at Graduation & Post Graduation level, during his many years of glorious teaching experience in the field of accounting he has taught many students all over india.

He is favourite amongst CA / CS / CMA Students for the astute & insightful academic inputs provided by him and his pleasing & endearing personality and lucid art of teaching.

He firmly believes in blending studies with fun and this is quite evident in his classes wherein he goes beyond theoretical reading of the subject, makes students solve practical problems, gives them practical real life examples and pushes them to achieve their goals with full precision.

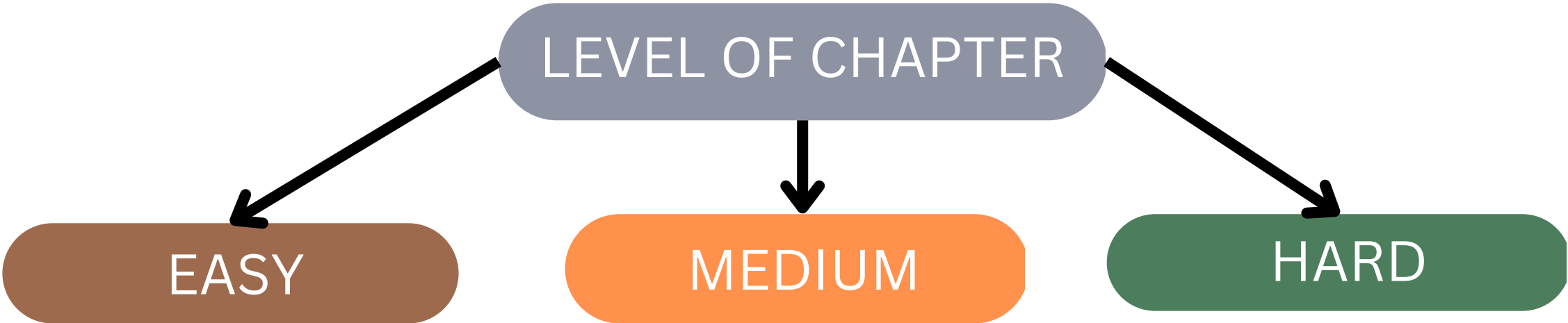
he is famous for concepts linkage from the very beginning till the end which helps in understanding the topic, acing the exams and in post CA life as well. his unique use of websites related to subject during the class to link theory with practical makes him stand apart from the crowd.His classes are practical, conceptual and concise.

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INTRODUCTION TO ACCOUNTING

1



INTRODUCTION TO ACCOUNTING

Introduction to Book Keeping, Accounting and Accountancy

Understanding Meaning and Differences between Book Keeping, Accounting and Accountancy:

Meaning of Book Keeping:

- o According to R.N. Carter, “Book keeping is the science and art of recording correctly in the books of account all those business transactions that result in the transfer of money or money’s worth.”
- o It is a part of accounting and therefore, involves identification of financial transactions, measurement of such transactions in monetary terms, recording of such transactions in the books of account and classifying the transactions and events by way of posting them into individual Ledger Accounts.

Meaning of Accounting:

- o According to American Institute of Certified Public Accountants, “Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting result thereof.”
- o Accounting is an art that records, classifies and summarises the financial transactions which helps in understanding the profitability and financial status of the business. It is also regarded as science as it follows a structured knowledge base that requires effective compliance of the basic accounting concepts and principles.

Meaning of Accountancy:

- o According to Kohler, “Accountancy refers to the entire body of the theory and practice of accounting.”
- o It is a systematic knowledge of accounting which helps to deal with various aspects of accounting. In addition to this, it educates the users on how to maintain the books of accounts and to summarise the accounting information that is to be communicated to the users.

Understanding the relationship between Accounting and Accountancy:

- o Accounting is a process and Accountancy is knowledge.
- o Accountancy frames rules and principles which are to be followed and complied in the Accounting process.
- o It is therefore said that accountancy is the knowledge of accounting and accounting is the application of accountancy

Differences between Book Keeping and Accounting:

Sr. no.	Basis	Book Keeping	Accounting
1	Meaning and Scope	It is a part of accounting, as it involves identification of financial transactions, measurement of such transactions in monetary terms, recording of such transactions in the books of account and classifying the transactions and events by way of posting them.	It is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting result thereof.
2	Stage	First stage of accounting and is therefore, considered as a basis of accounting.	Second stage, starts where Book Keeping ends.
3	Purpose	Purpose is to maintain systematic records of the financial transactions.	Purpose is to ascertain net results of operations and financial of the enterprise so as to position communicate information to the interested parties.
4	Nature	It is of routine nature.	It is analytical and dynamic in nature.
5	Skills	It is mechanical in nature and therefore, does not require skills.	It requires special skills and special ability to interpret the information effectively.
6	Performed	It is performed by junior staff.	It is performed by senior staff.

Introduction to Accounting

As per the American Accounting Association, “Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.”

Characteristics and Objectives, of Accounting:

Characteristics or Attributes:

o **Identification of the economic events and financial transactions:** In order to record the transactions in the books of account, it is necessary to identify the transactions which are considered as a part of economic activity for the entity. This is done with the help of bills and invoices issued for the respective transactions.

o **Measurement in terms of money:** In order to measure all the identified transactions and events in terms of a common measurement unit, all the transactions are to be measured in terms of money. This is because, accounting records only those transactions which are measurable in monetary terms.

o **Recording of business transactions:** This is the process of entering the business transactions in the primary or original book of account i.e., Journal which is further divided into specific subsidiary books such Cash Book, Purchases Book, Sales Book, etc.

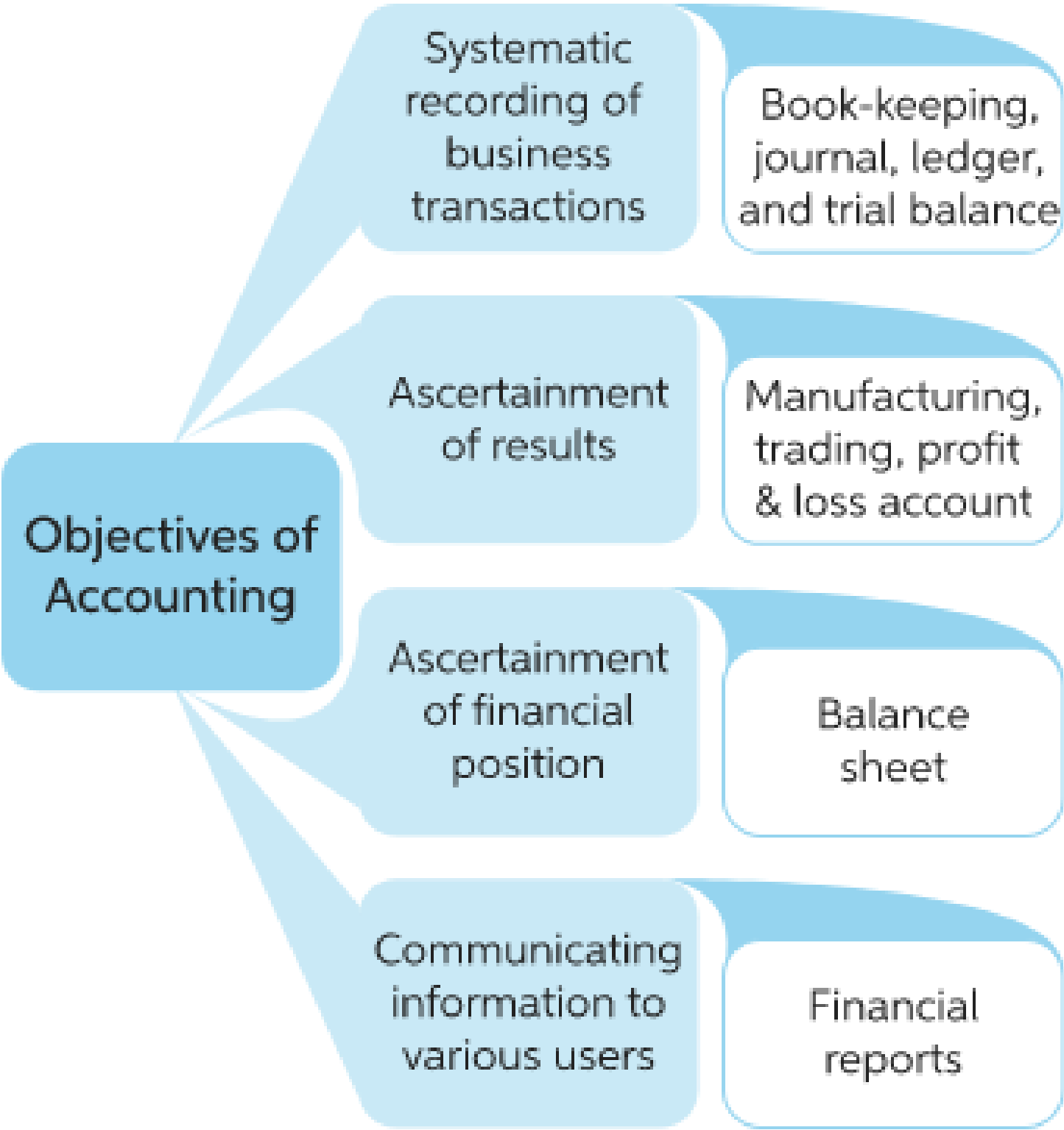
o **Classification of business transactions:** It is the process of classifying the identified transactions or entries of similar nature at one place. This is done by posting the entries from the Journal to the respective Ledger Accounts under which all the transactions of similar nature are collected.

o **Summarising business transactions:** This involves presenting the classified data in a manner that is useful and understandable to the users of financial statements. Summary is prepared by presenting the data in various statements like Trial Balance, Trading and Profit and Loss Account and Balance Sheet. These are collectively known as Final Accounts.

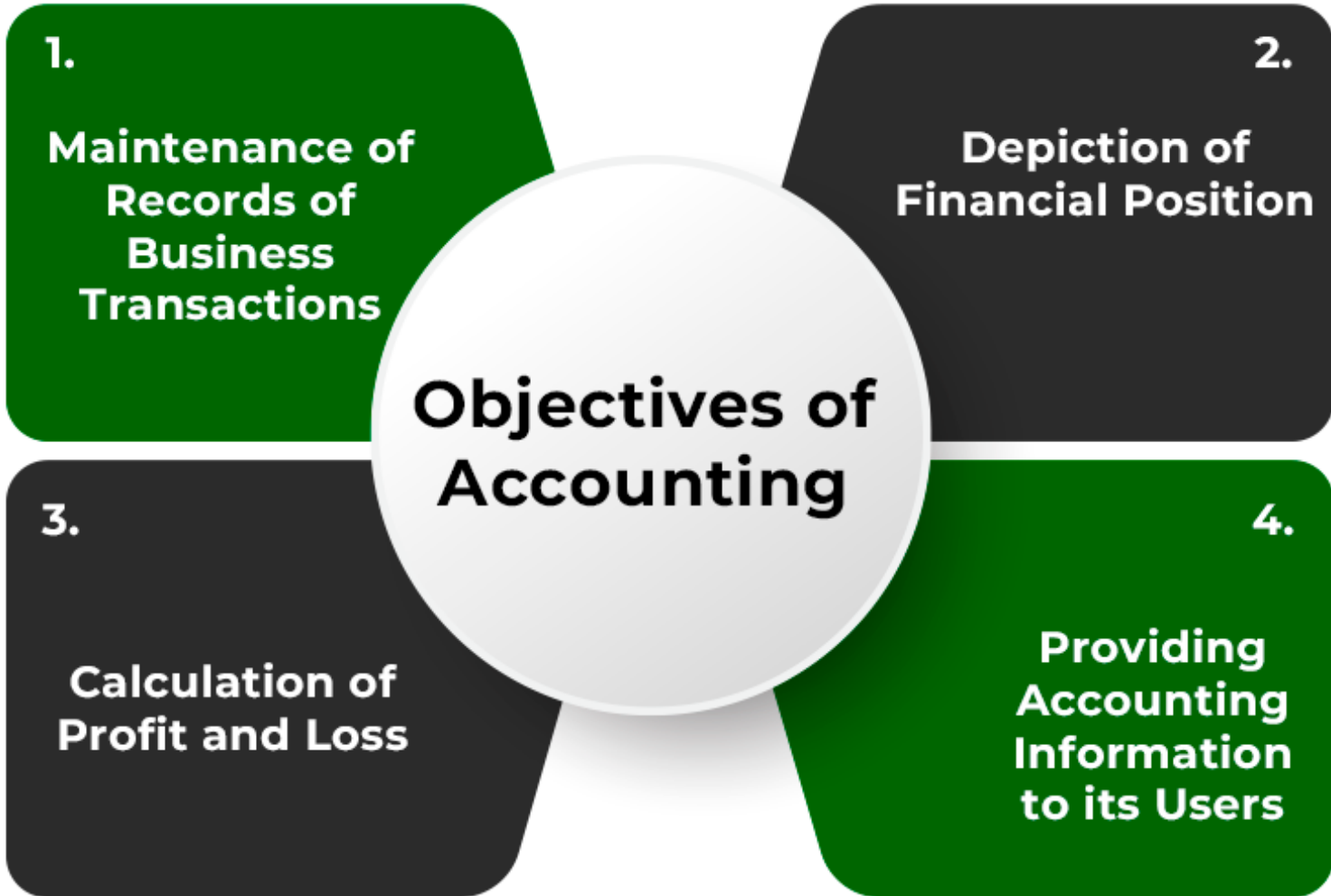
o **Analysing and Interpreting the business transactions:** In order to make valuable judgments and financial decisions, the information presented in various statements is analysed and interpreted in a systematic manner.

o **Communicating the results and conclusions to the interested users in the form of various statements:** Involves communicating the valuable accounting information to the interested users so as to aid them in taking important decisions.

Objectives:

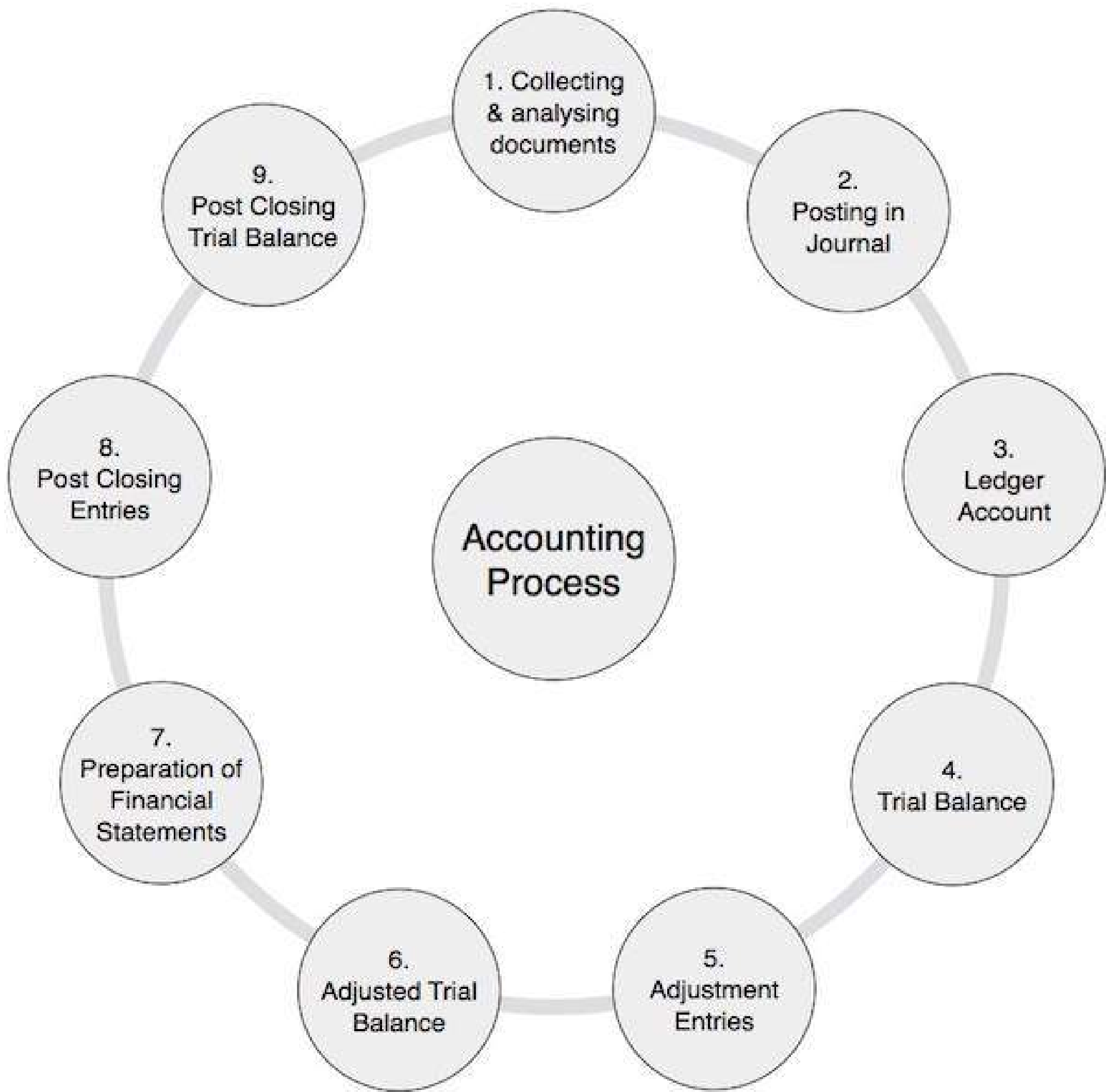


- o It maintains a systematic record of all financial transactions in book of accounts.
- o It gives an idea about the net results of the business operation periodically. The owner of business organisation can ascertain the profit earned or loss incurred during an accounting period based on the records maintained.
- o It helps to determine the financial position of the business in terms of assets and liabilities on a particular date which is usually the last day of an accounting year. It also gives a proper account of assets held in the business and the liabilities due for payment.
- o It provides valuable information to the users in the form of reports, statements, graphs and charts.
- o It facilitates proper planning and effective decision making based on the detailed accounting information maintained.



Accounting Process:

Steps involved in an accounting process are based on the attributes of Accounting which are presented below in the form of a diagram:



Branches of Accounting:

Due to increased scale of business operations, the management function has become more complex now. We have specialized branches of accounting to handle these situations.

