**Class: XI**

**Subject: Accountancy**

**Unit:1 Introduction to Accounting**

**Module-1**

**Content**

**1. Meaning and Types of business firm**

**2. Economic events**

**3. Definition of accounting and concept**

**4. 0bjectives of accounting information**

**5. Advantages and limitations of accounting information**

**6. Types of accounting information**

**7. Users of accounting information and their needs**

**Introduction:**

Let us know first where the accounting information is used?

It is used in Profit Trading and not - for- Profit Trading organisation.

**Meaning of business**

Exchange of goods and services between person to person and from place to place with money value is known as business.

**Definition of business**

Business refers to those economic activities, which are connected with the production or purchase and sale of goods and services with main object of earning profit

**Types of business firm:**

Business firm can be classified in to the following

**Profit trading organisation:** It is established only to earn profit**.**

Sole Proprietor ship, Partnership firm, Joint Hindu family business,

Co operative societies, Company

**Not-for-profit trading organisation**

Non business organisations are established to do welfare oriented services but not to earn profit

Types of Non Trading Business organisation, Hospitals, charitable trust, Educational Institution, libraries etc.

**What is mean by economic events?**

It consists of transactions and which are measurable in terms of money

For example

i) Purchase of Machinery and bringing it through transport and installing, keeping it for manufacturing all this activities comprises number of financial transaction

ii) Sale of product to customers

iii) Rendering service to customers

iv) Purchase of material from suppliers

v) Payment of office rent to land lord

Based on above activities departments are made

For example

Accounts & Finance, Purchase, stores, marketing, Advertisement. Basic Accounting Terms in Business Transaction

**Define accounting**

The American Accounting Association Defined accounting as “the process of Identifying, measuring and communicating economic information to permit informed judgements and decisions by users of information.

**i ) Identification**

It means determining the transaction which are considered financial character and relate to the organisation

**For example** purchase, sales on cash as well as on credit, payment of wages and salaries are recorded because it is related to financial character

**For example**. Value of human resource, change in managerial policies, appointment of personal are not recorded in the books of account

**ii) Measurement**

Measurement means quantification (including estimates) of business unit

**For example**

Rupees and Paisa as a measuring unit. If any event cannot be quantified in monitory terms it is not considered for recording in financial transaction

**For example**

Purchase of machinery, goods on cash or on credit it is related to money. It can be recorded in the books of accounts.

Appointment of a new managing director, signing of contract agreement, transfer of employees is not shown in the books of accounts because it is not related to money.

**iii) Recording**

Once economic events are identified and measured in terms of money in chronological order. After recording it should be summarised as per well established practice and is made available as and when required.

**For example**

Journal, ledger, trial balance, final account.

**IV) Communication**

After the generation of accounting information it should be communicated to Management, Internal users, External users, through proper accounting report to right person and in right time.

**Advantages and Limitations of Accounting Information:**

**Advantages**

1.It helps to maintain the business records in a systematic manner.

2.It helps in the preparation of financial statements

3.It helps to compare the result of current year with previous years to analyse the changes

4. It helps the managers in the decision making process for future course of action**.**

**Disadvantages**

1. Loss of data or service when business firm is reliant on accounting software, any loss of service due to power failure

2. It contain only those information's which can be expressed in terms of money. It ignore qualitative elements such as efficiency of management, quality of staff, customer satisfaction

3. System configuration may trouble in between while working on computer

4. It may be affected by window dressing Manipulation and falsification of accounts is possible.

**Types of Accounting Information**

Accounting information can be categorised in to the following

1. Information related to profit & loss i.e., income statement, shows the net profit of business operations of a firm during a particular accounting period.

**Format of profit & Loss Account is given below**

Dr Profit& Loss Account Cr

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenses /Losses** | **Rs** | **Incomes/Gains** | **Rs** |
| To Salaries | 30000 | By Gross profit | 100000 |
| To Electricity charges | 5000 |  |  |
| To Balance c/d | 65000 |  |  |
|  | 100000 |  | 100000 |
|  |  | By balance b/d | 65000 |

2. Information relating to financial position i.e., Balance sheet. It shows assets on one side and capital & liabilities on the other side.  **Format of balance sheet is given below.**

**Balance sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
| **Share capital** | **500000** | **Plant & Machinery** | **450000** |
| **Long term loan** | **100000** | **Debtors** | **50000** |
| **Current liabilities** | **50000** | **Cash in hand** | **150000** |
|  | **650000** |  | **650000** |

**Branches of Accounting**

1. **Financial Accounting:** It records the transactions related to financial nature in a systematic manner to ascertain profit (or )loss of the accounting period
2. **Cost Accounting:** which is concerned with ascertainment of total cost and per unit cost of goods or services produced or provided by the business firm?
3. **Management Accounting:** which is presenting the accounting information in such a manner that helps the management in planning and controlling the **operation of a business and in better decision making?**

**Accounting information and User Needs:**

**Internal users**

|  |  |  |
| --- | --- | --- |
| **Users** | **Classification** | **Information the user want** |
| **Internal** | **1. Owner** | **Return on investment, financial position of their company** |
|  | **2. Management** | **To evaluate the performance to take various decisions.** |
|  | **3. Employees** | **Profitability to claim higher wages and bonus , and also to see whether the firm able to**  **(PF, ESI etc.,) deposit regularly.** |

**External Users**

|  |  |  |
| --- | --- | --- |
| **Users** | **Classification** | **Information the user want** |
| **External** | 1.Investors and potential investors | To know about safety, growth of investments and future benefits. |
|  | 2. Creditor | Assessing the financial capability, ability of the business to pay its debts. |
|  | 3. Lenders | Repaying capacity, credit worthiness. |
|  | 4. Tax Authorities | Assessment of due taxes, true and fair disclosure of accounting information |
|  | 5.Government | To compile national income and other information. It helps to take policy decision by government. |
|  | 6. Others | Customers, researchers etc, may seek different information and different reasons. |

**Continuation of Topics Covered In Module-2**