DAR ES SALAAM SCHOOL OF JOURNALISM

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OUR MOTTOR: MEDIA FOR DEMOCRACY

INTRODUCTION TO ACCOUNTING

DEFINITION OF ACCOUNTING

Accounting can be defined as a process of recording, classifying, summarizing, interpreting and communicating financial transactions in a meaningful manner.

The American Institute of Certified Public Accountants (AICPA) had defined accounting as 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 financial character, and interpreting the results thereof”.

Business Transaction can be defined as the actions and reacts of one person or firm in relation to another person or firm. Only those transactions which involve transfer of money or money worthy (Goods or Services) form one person to another are recorded in the books of account.

Business Transaction could broadly divided into:

- ✓ *CASH TRANSACTIONS*
- ✓ *CREDIT TRANSACTIONS*

Examples of business transactions are; Cash Sales, Purchase on Cash, Credit Sales, Purchase on credit etc.

THE OBJECTIVES OF ACCOUNTING

The main objectives of accounting are:

To maintain a systematic record of business transactions

Accounting is used to maintain a systematic record of all the financial transactions in a book of accounts.

For this, all the transactions are recorded in chronological order in Journal and then posted to principle book i.e. Ledger.

To ascertain profit and loss

Every businessman is keen to know the net results of business operations periodically.

To check whether the business has earned profits or incurred losses. For this purpose, we prepare a “Profit & Loss Account”.

To determine the financial position

Another important objective is to determine the financial position of the business to check the value of assets and liabilities. For this purpose, we prepare a “Balance Sheet”.

To provide information to various users

Providing information to the various interested parties or stakeholders is one of the most important objectives of accounting. It helps them in making good financial decisions.

THE ACCOUNTING PROCESS

Accounting process is the process of collecting, recording, classifying, summarising and communicating financial information to the users for judgement and decision-making. The following steps are involved in accounting process:

Identification: It is the process of identifying and analysing business transactions.

Recording: Writing up the financial data in the books of account so that they will be in a permanent easily readable form.

Classification of transactions: Classification means segregation of transactions on the basis of nature and posting them in a format known as Ledger Account.

Summarizing and computing: The process of bringing together and aggregating various items of financial information to determine or explain a result. It includes preparation of Trial Balance and Financial statement

Analysis & Interpretation: It includes an assessment of the financial reports and making some meaningful conclusions.

Reporting: communicating information to the users. It includes sharing the financial reports and interprets results to the users of financial statements.

USERS OF ACCOUNTING INFORMATION AND THEIR NEEDS

Users may be categorised into internal users and external users.

(A) Internal Users

Owners: Owners contribute capital in the business and thus they are exposed to maximum risk. So, they are always interested in the safety of their capital.

Management: Accounting information is used by management for taking various decisions.

Employees: Employees are interested in the financial statements to assess the ability of the business to pay higher wages and bonuses.

(B) External Users

Banks and financial institutions: Banks and Financial Institutions provide loans to business. So, they are interested in financial information to ensure the safety and recovery of the loan.

Investors: Investors are interested to know the earning capacity of business and safety of the investment.

Money Lender/ Creditors: Provide money or goods on credit. So they need accounting information to be assured that they will be paid on time. They also need the information to assess credit worthiness of new borrowers.

Government and their Agencies: The government needs accounting information to assess the tax liability of the business entity.

Grant Provider: To assess whether to give the grants or not and also to assess whether the money granted was used for the purpose intended.

Public in General: To assess how socially responsible the entity is. Also to assess the environment issues and how the entity addressed them.

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

Qualitative characteristics are the attributes of accounting information, which enhance its understandability and usefulness

Understandability: Information should be disclosed in financial statements in such a manner that are easily understandable.

Relevance: Accounting information must be relevant to the decision-making requirements of the users.

Reliability: Reliability implies that the information must be free from material error and personal bias.

Comparability: Both intra-firm and inter-firm comparison must be possible over different time periods.

ACCOUNTING PRINCIPLES

Accounting is the language of business in which business communications are made. For the sake of accounting language to be clear and commonly understandable by all interested parties, it is vital that it should be based on certain uniformity and scientifically laid down norms. These norms are commonly called Accounting principles.

Accounting principles are defined as rules of action or conduct which are adopted by the professions (Accountants) worldwide while executing the recording of accounting transactions of various entities.

Accounting principles are derived from theory and procedures of accounting, serving an explanation of current practices and as a guide for selection of conventions or procedures where alternatives are available, Therefore, the accounting principles are usually grouped into two major categories as;

- ✓ *Accounting Concepts*
- ✓ *Accounting Conventions*

ACCOUNTING CONCEPTS

Business entity concept: A business and its owner should be treated separately as far as their financial transactions are concerned.

Going concern concept: In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at “fire-sale” prices.

Money measurement concept: Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.

Dual aspect concept: For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect.

Cost concept: The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.

Accounting period concept: Each business chooses a specific time period to complete a cycle of the accounting process for example, monthly, quarterly, or annually as per a fiscal or a calendar year.

Matching concept: This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.

Realisation concept: According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

ACCOUNTING CONVENTIONS

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure and materiality.

•**Conservation** is the convention by which, when two values of a transaction are available, the lower value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.

•**Consistency** demands that accounting practices should remain unchanged from one period of accounting to another, so that the same standards are applied to calculate profit and loss.

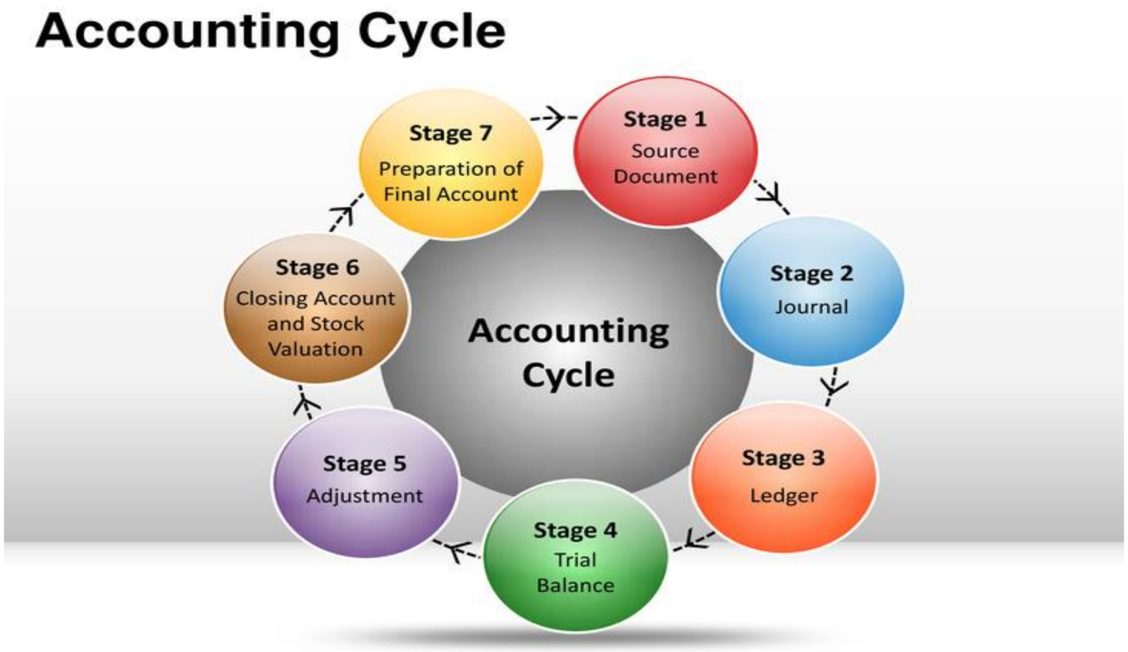
•**Materiality** means that all material facts should be recorded in accounting. Accountants should record important information and leave out immaterial information

•**Full disclosure** this convention says that reports should disclose fully and fairly all the information they require to present. The financial reports should be honestly prepared and sufficiently disclose information which is of material interest to the owners, investors, present and

ACCOUNTING CYCLE/ BOOKKEEPING CYCLE

Is the methodological set of rules to be ensure the accuracy and conformity of financial statements, Accounting cycle is the name given to the collective process of recording and processing the accounting events of company.

The series of steps begin when a transaction occurs and end with its inclusion financial statements.



Your Logo

SOURCE OF DOCUMENTS

Is any document created or received in the normal daily running of the business and serve as evidence that transactions occurred. The documents are including;

Cash Memo: It is source document in which all transaction pertaining to cash sales or cash purchases are to be recorded.

Invoice and Bill: It records the credit transactions related to sales or purchases.

Receipt: This is document which proves that money, goods and information have been received.

Pay in slip: This document serves the purpose of providing evidence that on particular date, a specific amount has been deposited in the bank.

Debit note: This is document sent by the customer to the supplier, shows some goods returned and the reasons for their return eg. Defective in nature or goods supplied not as per specification.

Credit note: Is the document sent by the supplier to the customer, when seller agrees to take back goods and refund part or the entire amount the buyer paid.

Voucher: Is the document prepared for the purpose of recording business transactions in the books of accounts. It drawn to show as to which account is to be “Debited” and which account is to be “Credited”

JOURNAL/ SUBSIDIARY BOOKS

Is a book that record each transaction based on the source documents. This includes date of the transaction, nature, places (account) get affected.

Most of the companies keep a distinctive journal to record the transactions which are having similarities. The subsidiary books/ books of prime entry/ journal normally used in summarizing business transaction are:

Sales day book: Its records credit sales transaction on a daily basis from the “sales invoice”

Purchase day book: It records credit purchase transactions on a daily basis from the “Purchases invoice”

Return in ward day book: It records goods returned from customers, from the “Credit note”

Return outward day book: It records goods returned to suppliers from the “Debit note”

Cash book: Is the book into which receipt and payment of money transactions are recorded from the cash memo, petty cash, voucher, payment voucher, receipt, cheque etc.

General journal: Are the journal into which other transactions are recorded.

LEDGER

Is a formal system used by the organisation to record all identified transactions for a given period.

Particular ledger account shows the movements/ changes of balance/ amount throughout the period.

Note: Recording of transaction starts from the subsidiary books (Journals) and posted to the ledger.

TYPES OF LEDGERS

There are different types of ledgers, most business uses are;

Sales ledger: This for customers' personal accounts.

Purchase ledger: This for Suppliers' personal accounts

General ledger: This contains the remaining double entry accounts, such as those relating to expenses, Income and Assets.

TYPES OF ACCOUNTS

Personal Accounts: These accounts related to persons. These persons may be natural persons like "Rajas account", Khadija account etc.

These persons can be artificial persons like Partnership firm, Company, Body corporate etc.

Rules for these Accounts

Debit the Receiver

Credit the Giver

Real accounts: These account types related to assets or properties. They are further classified as tangible and intangible real accounts.

Tangible assets: Assets that have physical existence and can be touched. For example Building, Motor vehicle etc.

Intangible assets: These assets do not have any physical existence and cannot be touched. However, these can be measured in terms of money and have value. For example Goodwill, Copyright, Trademark, etc.

Rules for these Accounts

Debit what comes into the business

Credit what goes out of business

Nominal Accounts: These accounts types are related to income or gains and expenses or losses. For example Rent, Salaries, Wages, etc.

Rules for these Accounts

Debit all the expenses and losses of the business.

Credit the incomes and gains of business.

Example of an Account.

DR. **ACCOUNT NAME** **CR.**

Date	Particular	Folio	Amount	Date	Particular	Folio	Amount
(A)	(B)	(C)	(D)				

A- Date column - For recording date of transaction
B- Particular column – For recording account where the corresponding entry goes
C- Folio column - For recording a reference number
D- Amount column – For recording the value of transaction

Note: *When practically record the transactions, instead of above format; it commonly used the following "T" account format which is derived from the above format.*

DR. **ACCOUNT NAME** **CR.**

(A) (B) (C) (D)

SYSTEM OF ACCOUNTING

There are following two systems of recording transactions in the books of accounts:

- ✓ Double Entry System
- ✓ Single Entry System

Double entry accounting system

The double entry system is based on the Dual Aspect Principle.

Every transaction has two aspects, ‘a Debit’ and ‘a credit’ of an equal amount.

This system of accounting recognises and records both aspects of the transaction.

Single entry accounting system

Under this system, both aspects are not recorded for all the transactions.

Either only one aspect is recorded or both the aspects are not recorded for all the transactions.


THANK YOU :)

Any Question?

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