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Topic	:	ACCOUNTING PROCESS
Subject Code	:	HBEM18003
Subject Name	:	FINANCIAL ACCOUNTING
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MEANING, DEFINITION, OBJECTIVES AND PROCESS OF ACCOUNTING

1.1 MEANING OF ACCOUNTING

Accounting is the systematic process of identifying, measuring, recording, classifying, summarizing, interpreting and communicating financial information.

Accounting gives information on:

(i) *The resources available*
(ii) *How the available resources have been employed and*
(iii) *The results achieved by their use.*

The profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and capital can be ascertained from the information recorded in accounts.

1.2 DEFINITION OF ACCOUNTING

According to the American Institute of Certified Public Accountants **"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part, at least of a financial character and interpreting the results thereof** ".

American Accounting Association has defined accounting as **"the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information"**.

1.3 OBJECTIVES OF ACCOUNTING

Following are the objectives of accounting:

(i) To keep a systematic record of financial transactions and events

(ii) To ascertain the profit or loss of the business enterprise

(iii) To ascertain the financial position or status of the enterprise

(iv) To provide information to various stakeholders for their requirements

(v) To protect the properties of an enterprise and

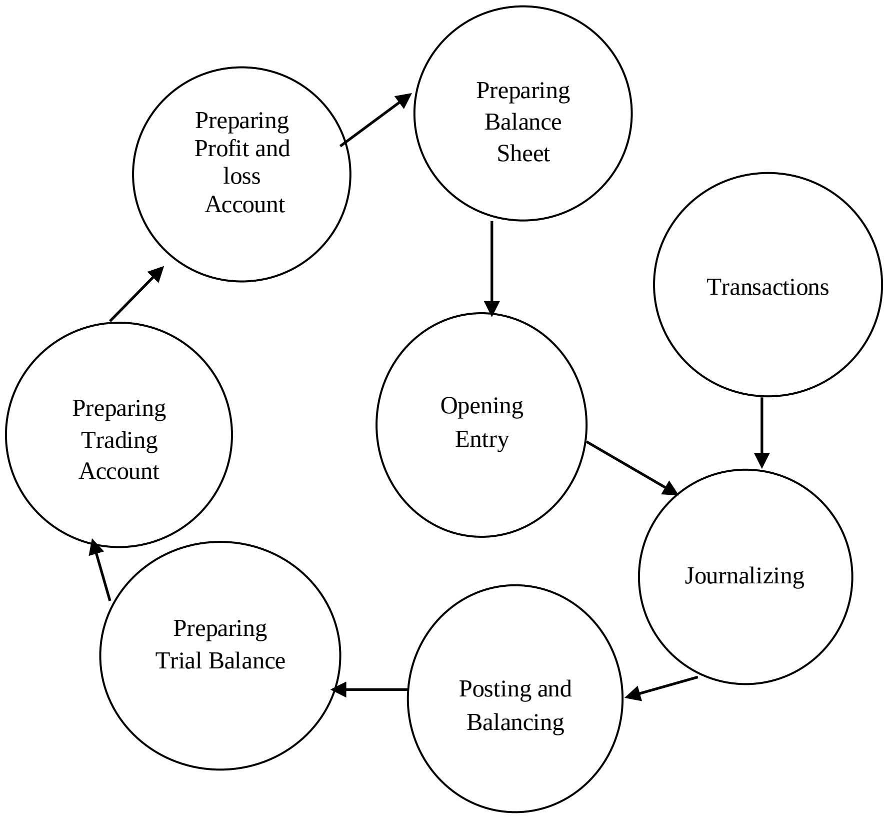
(vi) To ascertain the solvency and liquidity position of an enterprise

(vii) To Determination of Tax Liability

1.4 ACCOUNTING PROCESS / CYCLE / STEPS IN ACCOUNTING

Accounting cycle is the sequence of steps involved in the accounting process. Accounting cycle starts with the identification and recording of financial transactions of an organization and ends with the preparation of final accounts for the accounting year. The cycle continues for the next accounting year with the opening balances of assets and liabilities which are the closing balances of the preceding year. The steps involved are:

Accounting cycle



1. Identifying the transactions and journalizing

The first step in the accounting process is identifying the financial transactions of a business. All the monetary transactions are recorded in the books of original entry called journals. Recording the transactions in the journal is called journalizing. Entries are made in the journals on the basis of source documents in the chronological order, i.e., the order of occurrence of the transactions.

2. Posting and balancing

Transferring the entries from the journal to the ledger is called posting. In the ledger, entries are made in each account after classifying them under common heads. Finding the difference between the total of the debit column and credit column of all the ledger accounts is called balancing.

3. Preparation of trial balance

The list of ledger balances namely trial balance is prepared as the next step. On the basis of ledger balances the financial statements are prepared.

4. Preparation of trading account

Next step is preparation of trading account for a particular accounting period. All the direct revenues and direct expenses are transferred to trading account. The balance in the trading account is the gross profit or gross loss.

5. Preparation of profit and loss account

Profit and loss account is prepared next for a particular accounting period. All the indirect revenues and indirect expenses along with gross profit or gross loss are transferred to profit and loss account. The balance in the profit and loss account is the net profit or net loss.

6. Preparation of balance sheet

A statement showing the balances of assets and liabilities namely balance sheet is prepared as the final step in the accounting process. It is prepared on a particular date, normally, on the last day of the accounting period.

The closing balances of an accounting year are taken as the opening balances for the next accounting year. The transactions identified and recorded for the next year are followed by posting and other steps. The results are communicated to the users of accounting information for the purpose of analysis and decision making.