

ACCOUNTING - OVERVIEW

Accounting is a business language. We can use this language to communicate financial transactions and their results. Accounting is a comprehensive system to collect, analyze, and communicate financial information.

The origin of accounting is as old as money. In early days, the number of transactions were very small, so every concerned person could keep the record of transactions during a specific period of time. Twenty-three centuries ago, an Indian scholar named **Kautilya** alias **Chanakya** introduced the accounting concepts in his book **Arthashastra**. In his book, he described the art of proper account keeping and methods of checking accounts. Gradually, the field of accounting has undergone remarkable changes in compliance with the changes happening in the business scenario of the world.

A book-keeper may record financial transactions according to certain accounting principles and standards and as prescribed by an accountant depending upon the size, nature, volume, and other constraints of a particular organization.

With the help of accounting process, we can determine the profit or loss of the business on a specific date. It also helps us analyze the past performance and plan the future courses of action.

Definition of Accounting

The American *Institute of Certified Public Accountant* has defined Financial Accounting as:

“the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which in part at least of a financial character and interpreting the results thereof.”

Objectives and Scope of Accounting

Let us go through the main objectives of Accounting:

- **To keep systematic records** - Accounting is done to keep systematic record of financial transactions. The primary objective of accounting is to help us collect financial data and to record it systematically to derive correct and useful results of financial statements.
- **To ascertain profitability** - With the help of accounting, we can evaluate the profits and losses incurred during a specific accounting period. With the help of a Trading and Profit & Loss Account, we can easily determine the profit or loss of a firm.
- **To ascertain the financial position of the business** - A balance sheet or a statement of affairs indicates the financial position of a company as on a particular date. A properly drawn balance sheet gives us an indication of the class and value of assets, the nature and value of liability, and also the capital position of the firm. With the help of that, we can easily ascertain the soundness of any business entity.
- **To assist in decision-making** - To take decisions for the future, one requires accurate financial statements. One of the main objectives of accounting is to take right decisions at right time. Thus, accounting gives you the platform to plan for the future with the help of past records.
- **To fulfill compliance of Law** - Business entities such as companies, trusts, and societies are being run and governed according to different legislative acts. Similarly, different taxation laws *direct* and *indirect* tax are also applicable to every business house. Everyone has to keep and maintain different types of accounts and records as prescribed by corresponding laws of the land. Accounting helps in running a business in compliance with the law.