Accounting as an Information System

Accounting is the art of recording, classifying, summarising and communicating financial information

- Identification
- Recording
- Classifying
- Summarising
- Interpreting
- Communicating

Accounting Process

Identifying financial transactions
↓
Recording [JOURNAL / Cash Book / Purchase Book]
↓
Classifying [Posting into ledger]
↓
Summarising [Trial Bal. / Trading & P&L a/c B/s]
↓
Analysis & Interpretation [Comparative B/s / ratio analysis / Cash flow statement]
↓
Communicating to the end users [owners, investors, Creditors, Govt]

Branches of Accounting

- Financial Accounting
- Cost Accounting
- Management Accounting

Financial accounting

It is concerned with recording financial transaction, summarising, Interpreting and communicating the result to users.

Cost Accounting

It ascertains the cost of products manufactured or services rendered and helps the management in decision making.

Management accounting

It is concerned with generating accounting information relating to funds, costs, profit etc. as it enables the management in decision making.

Accountancy

Systematic knowledge of accounting
It tell's us why and how to maintain the books of accounts and how to summarise the accounting information and communicate it to the various users.

Objective of Accounting

1. Maintenance of Business Records
2. Ascertaining Profit or loss
3. Ascertaining financial Position < Assets / Liab.
4. Facilitating Management Control
5. Providing Accounting Information to users.

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Advantages of Accounting

1. Financial Information about Business
2. Assistance to management
3. Replaces memory
4. Facilitates comparative study
5. Facilitates settlement of tax liabilities
6. Facilitates loan
7. Evidence in court
8. Facilitates sale of Business
9. Assistance in the event of Insolvency

Limitation of Accounting

1. Accounting is not fully Exact
2. Accounting Ignores the qualitative elements
3. Accounting May lead to window dressing
4. Accounting Ignores the effect of Price level changes

Users of accounting Information

Users

- Internal users
  - Owners
  - Management
  - Employees
- External Users
  - Banks
  - Investors
  - Government

Qualitative characteristic of accounting Information

1. Reliability.
   - It should be verifiable.
   - It should be free from personal bias

2. Relevance

→ disclose all necessary Information needed by its users.

3. Understandability

→ user should be able to understand it in the manner it should be.

4. Comparability
   - Interfirm — with other enterprises
   - Intra firm — with different year in same company.

Systems of Accounting

- Double Entry System
- Single Entry System

Double Entry System

Advantages
1. Complete Records
2. Comparative study is possible
3. Knowledge of financial position.

Disadvantages
1. Complicated method
2. Costly
3. Not suitable for small business.

Single Entry System

accounts from Incomplete Records.

- Incomplete Records
- Unsystematic Records
- Not reliable