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Assessment 1

Question 1

1.Define accounting

Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business. Accounting also refers to the process of summarising, analysing and reporting these transactions to oversight agencies, regulators and tax collection entities. The financial statements that summarise a large company's operations, financial positions and cash flows over a particular period are a concise summary of hundreds of thousands transactions it may have entered into over this period.

2.Primary objectives of accounting

The main objective of financial accounting is to accurately prepare an organization 's final accounting for a specific period and known as financial statement. The 3 primary financial accounts are the income statement, the balance sheet and the statement of cash flow.

3.Limitation of accounting

Although accounting may be heralded as being the language of the business, it is definitely not error free. As a student and practitioner of accounting, it is therefore imperative to know the limitations of accounting. Knowledge of limitations help to factor them in and work with them. Here are the major limitations of accounting.

-record keeping-accounting provides online incomplete information as accounting records only those transactions which can be expressed and measured in terms of money.

-price level changing-the accounting statements do not show the effect of price level changes on the value of assets since it is based on historical cost. The financial positions may not come true is case of inflation or deflation.

-window dressing-information containing in accounting may be manipulated by the accountants. There are several methods of recording the value of unsold stock or changing depreciation. By adopting different methods, the position of net profit or assets can be increased or decreased depending on the requirement of the management.

-value of assets-accounting is based on generally accepted principles. Sometimes, the records prepared in accounting fail to show a true position of profitability. For example, fixed assets are recorded at their cost price.

-accounting is historical in nature and reflects the past position of business organization.

4.Types of activities incl. In data evaluation

Financial accounting – income statements, balance sheet

Cost accounting-cost determination, cost analysis

Management accounting

Data evaluation controls the business activities through budgets and standard costs, evaluating the performance of the business, analysing financial statements, analysing cash flows, and choosing alternative courses of action for decision making process. Evaluation of data is one of the most important business activities.

5. Main functions of accounting

1. Record keeping function

2. Managerial function

3. Legal requirement function

4. Language of business.

Accounting communicates results of companies and firms to all those who are interested whether they are owners, employees, investors or creditors. Accounting can paint a true and accurate picture of a business and can highlight and foresee results.

Accounting give investors a list of alternatives to their investment decisions, which helped them minimise the risk of investment.

Creditors are concerned with information about the company's ability to pay its loan back. Before lending money to the company, the creditors rely on the financial statements to know if the company will be able to pay back its debts in the future.

Accounting helps management in taking steps that are not only economically profitable but socially responsible as well.

HRA is an effective managerial tool that provides managers with information regarding their employees and helps them make decisions regarding investment in manpower. Employees are considered important users of the company's financial information, as their input is required for matters such as settlement of wages, bonuses, output benchmarks, and profit sharing.

By looking at various accounting information, including profits and outputs generated by businesses, the consumer's organisations can also keep a track of the growth of businesses and find out whether they are in line with the defined national goals.

2.Role of accountants in modern business organization:

An accountant performs financial functions related to the collection, accuracy, recording, analysis and presentation of a business, organisation or company's financial operations. The accountant usually has a variety of administrative roles within a company's operations. In a smaller business, an accountant's role may consist of primarily financial data collection, entry and report generation. Middle to large size companies may utilise an accountant as an adviser and financial interpreter, who may present the company's financial data to people within and outside of the business. Generally, the accountant can also deal with third parties, such as vendors, customers and financial institutions.

3.What is accounting cycle :

An accounting cycle is the collective process of identifying, analysing and recording the accounting events of a company. The series of steps begins when a transaction occurs and end with its inclusion in the financial statements.

Steps of accounting cycle:

1. Transactions
2. Journal entries
3. Posting
4. Trial balance
5. Worksheet
6. Adjusting journal entries
7. Financial statements
8. Closing the books