ASSESSMENT # 1 | Total Marks: 30

1. Give short answers for the following questions: (15)

i. Define 'Accounting'.

ii. Explain the primary objectives of accounting.

iii. Discuss the limitations of accounting.

iv. What types of activities are included in data evaluation?

v. Outline the main functions of accounting considering the following groups;

- Lenders
- Employees
- Customers

Please suggest information that each one is likely to need from accounting statements and reports.

2. Discuss the role of accountants in modern business organisations. (5)

3. What is accounting cycle? Outline the basic steps included in accounting cycle. (5)

Activity (5)

List the various accounting activities that an organisation under takes and give reasons for each as to why that particular activity is performed in the organisations.

1. ……………………………………	1. ………………………………………
2. ……………………………………	2. ………………………………………
3. ………………………………………	3. ………………………………………
4. ………………………………………	4. ……………………………………
5. ………………………………………	5. ……………………………………
6. ………………………………………	6. ………………………………………

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”.

Primary objectives of accounting are:
-to keep Systematic Records,
-to Ascertain the Results of the Operation,
-to ascertain the financial position of the business,
-to portray the liquidity position,
-to protect business properties,
-to facilitate rational decision-making
-to satisfy the requirements of law

Accounting has the following limitations:
-Record keeping
-Accuracy of information generated by accounting system
-Value of assets
-Window dressing
-Changing price levels

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.

Lenders: also known as creditors, are concerned with information about the company’s ability to pay ts loans back, both in the short and long term. In other words, they are interested in company’s credit worthiness, liquidity, profitability, etc. Before lending money to the company, the creditors rely on the nancial statements to know if the company will be able to pay back its debts in the foreseeable future.

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.

Customers: Consumers’ groups and other organisations, which look after welfare of consumers and public, use information generated by accounting for several reasons. Through this accounting information, these organisations can analyse and keep a check on the performance and efficiency of usinesses. The information also gives an insight into social responsibility of businesses. By looking at various accounting information, including profits and outputs generated by businesses, the consumers’ organisations can also keep a track of the growth of businesses and find out whether they are in line with the defined national goals.
(Please suggest information that each one is likely to need from accounting statements and reports.)

Modern accounting theory views the process of accounting as a system for generating information. It starts with business transactions of financial nature that are considered as raw data. This data is identified, classified, recorded and then summarized according to standard accounting framework as a part of the book keeping process. Financial statements are generated as an output of processing raw information for internal and external parties that are relevant to the business organisation. These statements and reports help in the decision making process as well as in planning and controlling business activities. Therefore, the role of accounting, as an information generated system, is also called Accounting Information System (AIS).

The circular accounting workflow, also known as the accounting cycle consists of eight steps. Bookkeepers are assigned with the task to complete the accounting cycle. The cycle starts with entering financial transactions, processing them and preparing financial statements, and finally closing the books of accounts. It is a circular procedure because after the books of accounts are closed at the end of a particular accounting period, it starts again by recording transactions for the new period.
The eight steps are:
Transactions, Journal Entries, Posting, Trial Balance, Worksheet, Adjusting Journal Entries, Financial Statements, Closing the books

1. Transactions: Financial transactions include sale of an asset, acquiring new equipment, paying off loans, recovering debt, capital from the company's owners, paying out dividends to owners, and any other activity that involves an exchange of the company's asset.

2. Journal Entries: After transactions have occurred, they are entered in a chronological order in the journals. These journals are called books of original entry and they contain a record of business transactions along with the date on which the transaction occurred, the kind, and the amount of the transaction.

3. Posting: The general ledger contains a summary of all business accounts. Transactions are recorded in journals and are then posted to accounts that they belong to in the general ledger.

4. Trial Balance: A trial balance is prepared at the end of an accounting period, which can be a month, a quarter or a year depending on the business's practice.

5. Worksheets: It often happens that the entries in trial balance do not balance i.e. inflows do not equal outflows, and certain corrections and adjustments have to be made. These adjustments are recorded in worksheets.

6. Adjusting Journal Entries: After the errors in trial balance are recognized and corrections are made, the adjusted trial balance is prepared. Adjusting entries are not made until all corrections are made and trial balance is prepared.

7. Financial Statements: Profit and loss account and balance sheet are prepared using the correct and adjusted accounts.

8. Closing the Books: Revenue and expense accounts are closed at the end of an accounting cycle and a new cycle begins with zero carry forward balances in accounts.