

FORM 3 ACCOUNTING NOTES

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STRAND 1.

Conceptual basis of accounting

Nature, scope and functions of Accounting

Definition of accounting:

The definition of accounting reflects all the duties or roles of an accountant. It:

- Is a discipline or a body of knowledge
- Records, process, report and interpret financial and other information about an entity
- Provides information to users so that they make appropriate decisions.

Book keeping:

A book keeping is the process of looking after the books of a business.

The person who look after the books of the business is a book keeper.

Note: the book keeper's tasks is limited to the recording and processing of financial records for the business only.

The purpose of accounting:

Since accounting is discipline or a body of knowledge, it can be seen that the purpose of accounting is to:

Provide skills and knowledge for the individuals, business entities, government and other organizations recording and reporting of their financial transactions so that appropriate decisions are made.

Financial transactions are all the events that have monetary values depending on whether it is an individual, a business entity or a government.

Individuals may need records of his/her belongings as well as his/her future obligations, his/her tax records etc. The same goes to the business entities and other organizations.

The nature of accounting

Accounting affects the lives of everyone in a modern society. Most people need some simple form of accounting to deal with their personal financial matters such as budgeting, paying taxes and so on. Business firms need accounting systems to enable them to operate efficiently. Government need accounting systems to allow them to account for the very large amount of money they receive and spend.

Functions of accounting:

1. Means of communication

Any entity require the decision makers to make appropriate decisions and the decision makers need accurate information so that they can make appropriate decisions.

Accounting is a language that allows the communication between the business entity and the users of accounting information (decision makers).

That is, accounting provides the type of information as well as the wording of information so that the users of accounting information fully understand the needs, the performance and all requirements about the entity.

2. Aids decision making

For the decision making to be appropriate for the entity, accounting provides the better and more accurate information to assist in the decision making.

3. Means of establishing accountability

Accountability means being held responsible to a higher authority for actions carried out. That is, employees are accountable to the management, management are accountable to the owner(s) or individuals or groups from outside, the business entity is accountable to the government and the society.

Accounting provides the information to enable the assessment of performance of either the employee (timesheet, performance measurement), management and the business entity to be made.

4. Control device

All employees and managers perform their duties according to the directions provided in their job descriptions as well as the format and requirements for every records and reports that they are entitle to produce.

Through these required records and reports, the employees, managers and the entity at large are being controlled to follow and abide by those rules and therefore controlling them in their performance.

5. Aid to interested parties

Interested parties are also the users of accounting information who wants to use the accounting information from the business to make appropriate decisions.

6. Stewardship

Accounting looks after all the aspects of the business through its communication, aids to decision making, establishing accountability, and control device functions