BOOKKEEPING AND ACCOUNTING

Meaning and Concept of Book Keeping

A business is a profit-making organization. Every businessman starts a business to earn profit. Business organization performs various financial transactions for the purpose of making profits. These transactions include buys and sells of goods, borrowing and repayments of loan, acquisition of fixed assets for operating day to day activities, receipts and payments of different income and expenses etc. At the end of the year, to get the amount of profit or loss, the owner of business must remember all these financial transactions, which is not possible. So, all these financial transactions that take place in the business everyday are recorded in a set of books, which is called book- keeping.

The term book keeping is made with the combination of two different terms: b0ok and keeping. In general, book refers to the set of accounts in which different financial transactions are recorded. And, the term keeping refers to the process/act of recording of such transactions in a proper manner in the books of account. In this sense, it can be defined as an act of collecting and systematic recording of different financial transactions in a given set of books.

While defining book keeping, different scholars have defined differently. Some of the important definitions are given as below:

“Book keeping s the art of recording business dealings in a set of books.”

-JR Batliboi

“Book keeping is the science and art of correctly recording in books of accounts, all those business transactions that result in transfer of money or moneys worth.”

-RN Carter

"Book keeping is the science and art of recording transactions in money or money's worth so accurately and systematically that the true of a business man's affairs can be correctly ascertained."

-AN Agrawal

On the basis of the above explanation it can be concluded that book-keeping is the activity concerned with the systematic recording and classification of financial data of an organization in an orderly manner. It is essentially a record-keeping function done to assist in the process of accounting. It is a key component in forming the financial statements of the organization at the end of the financial year.

Bookkeeping also concerns itself with the classification of financial transactions and events. Such classification of transactions is essential to maintain proper financial statements at the end of accounting period. It also involves preparing source documents tor the financial transactions and other business operations being carried out.

Objectives of Book Keeping

Following are the main objectives of book keeping:

a. To identify the financial transactions

It is one of the most important objectives of book keeping in the sense that before maintaining the record, it is very necessary to identify whether the given transaction is financial nature or not. In book keeping, only the financial transactions are recorded in books of account. Transactions relating to money or money’s worth are regarded as the financial transactions. Therefore, book-keeping identifies the transactions of financial character to keep their record.

b. To keep the permanent and systematic records

The permanent and systematic records are necessary in the sense that they are not only useful for the current period but they are equally important for the future days also because they can be used as references. So, book-keeping keeps records of all identified financial transactions in the books of original entry regularly in a chronological order as and when they occur.

c. To classify the transactions

Book keeping not only records all the identified financial transactions but also classifies them into different groups. It means that according to the nature, various financial information are classified into three different accounts like personal account, real account and nominal account and their records are maintained accordingly.

d. To help for the preparation of financial statements

At the end of accounting period, it is necessary to know how much profit earned or loss suffered by the business as well as it needs to know the financial position at the end of the particular date. So book-keeping helps to prepare diferent financial statements at the end of accounting period in order to find out the operating results and to show the financial position of business.

Importance/Advantages of Book Keeping

The main advantages of book keeping are as follow:

a. Provides financial information:

Book – keeping records all financial transactions therefore, It can provide financial information and data needed for cost ascertainment, planning, budgeting and forecasting. In other words, with the help of book-keeping. Future plans and policies of a business concern can be prepared easily.

b. Helpful in ascertaining profit or loss:

Book-keeping keeps complete records of business transactions. Thus, profit or loss from business transactions can be easily ascertained.

c. Knowledge of financial positions:

A true and correct financial position of a business concern can be known at any time with the help of recorded financial transactions under book keeping.

d. Helpful in detection and prevention of errors and frauds:

Book-keeping records all business transactions scientifically and systematically, therefore it enables to detect errors and frauds that have already taken place. It also helps to take steps to prevent them.

e. Helpful in determining tax burden:

A business concern is required to pay value added tax (VAT), income tax etc., to the government. Such tax burden can be easily determined with the help of book keeping records.

Origin and Evolution of Book Keeping

The origin of book keeping cannot be traced out exactly. However, it is said that the practice of book keeping was started with the invention of money in Greece during 700 BC. The system of recording the different financial transactions at that time was very traditional type. It means that the recording was based on the single entry system under which only one aspect of financial transaction was taken into consideration. The modern system of recording keeping is called the double entry system of book keeping. Under this system of book keeping, both the aspects of financial transactions are taken into consideration. It is assumed as the most systematic and scientific system as well. It was firstly introduced by Luca Pacioli (an Italian) in the year 1494 AD. Because of this reason, he is also regarded as the father of modern book keeping.

After Luca Pacioli, so many improvements and changes are made in the record keeping system which is approved from the various international conventions. All these improvements and changes are made according to the need /requirements of the modern business entities.

Meaning and Concept of Accounting

Book keeping is limited only on the recording of different financial transactions. But it is not sufficient. In addition to this, some more performances have also to be done in the business organization. As for example: systematically recorded transactions in book keeping are to be summarized and then they are to be analyzed and interpreted by using certain accounting tools and techniques in order to know the true and fair financial position as well as to identify the different strong aspects and short comings. It is necessary to do so, because if there are any strong aspects, they are to be continued in future. And, it there are any short comings, they are to be corrected in time. Moreover, an annual report is to be prepared on the basis of analyzed and interpreted records and it is to be communicated to the different users like management itself, government authority, suppliers and loan providers, trade unions etc. All these things are really complicated and these are not possible to perform through book keeping. So, in order to remove all such difficulties, accounting has come into existence. Hence it can be defined as the process of systematic recording, classifying, summarizing, analyzing and interpreting the records in such a way that the true and fair and position of a business can be known at the end of accounting period and preparing an annual report there of and communicating the same to the different users according to necessity.

While defining accounting, different scholars have defined differently. Some of the important definitions are given as below:

"An accounting system is a means of collecting, summarizing, analyzing and reporting, in monetary terms, information of the business."

-RN Anthony.

"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 result there of."

-American Institute of Certified Public Accountants(AICPA).

"Accounting is a science of recording and classifying transactions and events, primarily of a financial character and the art of making significant summaries, analysis and interpretation of those transactions and events and communicating the results to persons who must make decisions or form judgments."

-Smith and Ashbourne.

On the basis of above explanation it can be concluded that accounting is considered as a broader sense as compared to book Keeping which is not only concerned with the proper with recording, classifying and summarizing the different financial transactions but it is also concerned with the analyzing and interpreting the records, preparing an annual report and communicating the same to different users according to their necessity.

Objectives/Functions of Accounting

Different objectives/ functions of accounting can be explained with the help of following points as base:

a. To keep systematic records

Accounting is done to keep a systematic record of financial transactions. In the absence of accounting there would have been a terrific burden on human memory which in most cases would have been impossible to bear.

b. To ascertain the operational profit or loss

Accounting helps to ascertain the amount of net profit earned or loss suffered on account of carrying out the different business activities. This is done by keeping a proper recording of revenues and expenses of a particular period. For this purpose, profit and loss account is prepared at the end of accounting period.

c. To ascertain the financial position of business

The profit and loss account gives the amount of profit or loss made by the business during a particular period. However, it is not enough. Ascertainment of financial position of a business i.e. also equally needed. By preparing the balance sheet, the position/condition of different assets, capital and liabilities can be known very easily.

d. To analyze and interpret the financial records

Summarised records of the business organization are to be analyzed and interpreted by using different accounting tools and techniques like ratio analysis, trend analysis etc so as to know about the financial performance of the business organization during the given period. It means that by analyzing the accounting records, different strong aspects and short comings/weaknesses of the business organization can be known very clearly.

e. To communicate the result of business operation

After analyzing and interpreting the different accounting records, an annual report is also to be prepared at the end of accounting period. The annual report prepared in this way is provided along with the financial statements to the different users according to their necessity. Management itself, government authority, Suppliers and loan providers, trade unions etc. Are the different parties/users which may require such information for various purposes. So, according to their necessity, such information are provided as and when they require.

Scope of Accounting:

All those areas /fields which are covered by accounting system is regarded as the scope of accounting. In other words, it may be defined as all those sectors where the accounting is used/applied in practice. In this sense, the major scope of accounting can be given below:

a. Trading concerns

Trading concerns are the business organizations. Their main motive is to eam profit. According to their nature and necessities, different branches of accounting are widely used in practice. So, in this sense, it can be regarded as the largest field of accounting.

b. Government

Government is another important field of accounting. It is used in all government offices. The system of accounting to be maintained in government offices is regarded as the government accounting.

c. Non-trading organizations

Those types of organizations whose main motive is not to earn profit; their main motive is to render different social services and to involve themselves in different welfare activities. Different NGOs, clubs, trusts etc. are the examples of non trading organizations. To run and the development of such organizations, a certain amount of capital fund is raised either by way of donation or from membership etc. And, they spend the same on the different heads of expenditures. So, they also use to maintain the accounting system in various ways.

d. Professionals

Professionals are those persons who have a specialized knowledge and skills on particular subjects and on the basis of which they use to run their livelihood. Doctors, engineers, advocates, teachers etc. Are the examples of professionals. These types of people use to sell their services and earn some thing and hence they also use the accounting.

e. Individuals

Individuals are the common people. They also involve themselves into different economic activities in order to earn something or to carry out their livelihood. Individuals also use the accounting system to keep the records of financial transactions.

Importance/ Advantages of Accounting

Following are the different points which are assumed to be useful to explain the Importance/advantages of accounting:

a. Need for financial information:

Financial information/data are needed for cost ascertainment, planning. Budgeting and forecasting. Records maintained in accounting system may be the useful source of such information. It means that the necessary information for all these things can be available from accounting records.

b. Arithmetical accuracy:

Since the modern accounting system is based on the double entry principle, it helps to check the arithmetical accuracy of the records maintained by preparing a trial balance at the end ot given period.

c. Ascertainment of profit or loss:

Accounting system helps to maintain a complete record of all the financial transactions of a business organization during a given period of time. From this, actual amount of profit or loss can be ascertained by preparing profit and loss account/income statement at the end of accounting period.

d. Showing the financial position:

Accounting system also helps to show the true and fair financial position (i.e. the position/condition of different assets, capital and liabilities) of a business organization by preparing the balance sheet at the end of accounting period.

e. Fulfilment of legal requirement

Accounting system is not only important to the management itself to evaluate its own performances, rather is equally important to fulfilment the legal requirement also. It means that different financial statements along with the audit report and other necessary documents must have to be submitted to the tax authorities as well as to the office ot the company registrar. To fulfil such requirements also, a systematic accounting records should have to be maintained.

Limitations of Accounting

Although accounting is of absolute importance, it is not perfect science. Following are the main limitations of accounting:

a. Historical costs:

Accounting often uses historical costs to measure the values. This fails to take into consideration factors such as inflation, price changes etc.

b. Measurability:

Accounting cannot measure things/ events that do not have a monetary value. If a certain factor, no matter how it is important, cannot be expressed in money; it finds no place in accounting. Some very important factors like skills of management, honesty of workers, loyalty of customers etc. Find no place in accounting

c. No future assessment:

Financial statements show the financial position of the firm on the date of preparation. The users of the statement are more interested in the future of the firm in the short term and long term. However. Accounting does not make any such estimates.

d. Errors and frauds:

Accounting is done by humans, so there will always be the scope of human errors. There is also fear of possible manipulation of accounts to cover up a fraud. Since fraud is deliberate, it is that much harder to spot.

e. Window dressing:

Information contained in accounting may be manipulated by the management. By adopting different methods, the position of net profit or assets can be increased or decreased depending on the requirement of management. It means accounting is subject to window dressing and it fails to depict the true financial position of the firm if the accounts were not drawn properly.

f. Accounting standards:

The standards of accounting are not harmonious throughout the world. This causes problems in international trade sometimes.

Difference between Book Keeping and Accounting

Both book keeping and accounting are related to the record keeping. However, there are certain differences between the two. How they are different from each other, can be explained with the help of following points:

Bases	**Book keeping**	**Accounting**
Scope	It has a limited scope and mainly concerned with the identifying, classifying and recording the financial transactions.	It has a wider scope and hence in addition to book keeping, it involves into summarizing, analyzing and interpreting the summarized records and communicating them to the different users.
Stage	It is the primary stage of recording and hence it is said:	It is secondary stage and hence the different financial

	whenever the job of book keeping ends then the job of accounting starts.	transactions recorded in book keeping are summarized, and then they are analyzed and interpreted and also communicated to the different users.
Whole or part	It is a part of accounting. It means that if book keeping is assumed as a sub- set then the accounting can be compared to a set.	It is a whole in itself and hence it use to include book keeping in its folder.
Basic objective	Its basic objective is to maintain a systematic record of the different financial transactions to be held in a business organization.	Its basic objective is to ascertain the operating results in terms of net profit/loss, reveal the true and fair financial position and communicate them to the different users.
Nature of job	The job of book keeping is often routine and clerical in nature. It does not require high skills and advance knowledge. So, it is performed by the lower level staff.	The job of accounting is analytical nature. It requires high skills and advance knowledge. So, it is performed by the higher level staff.