COMMERCE

Dear Students of B.Com Hons (Part 1)

Hope you all are fine and staying at home.

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For the purpose of preparation of Annual Examination of 2020, I am sending you some valuable information. Kindly go through them.

Introduction to Financial Accounting

Financial accounting is a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income statement or a balance sheet.

Companies issue financial statements on a routine schedule. The statements are considered *external* because they are given to people outside of the company, with the primary recipients being owners/stockholders, as well as certain lenders. If a corporation's stock is publicly traded, however, its financial statements (and other financial reportings) tend to be widely circulated, and information will likely reach secondary recipients such as competitors, customers, employees, labor organizations, and investment analysts.

It's important to point out that the purpose of financial accounting is not to report the value of a company. Rather, its purpose is to provide enough information for others to assess the value of a company for themselves.

Because external financial statements are used by a variety of people in a variety of ways, financial accounting has common rules known as accounting standards and as generally accepted accounting principles (GAAP). In the U.S., the Financial Accounting Standards Board (FASB) is the organization that develops the accounting standards and principles. Corporations whose stock is publicly traded must also comply with the reporting requirements of the Securities and Exchange Commission (SEC), an agency of the U.S. government.

At the heart of financial accounting is the system known as double entry bookkeeping (or "double entry accounting"). Each financial transaction that a company makes is recorded by using this system.

The term "double entry" means that every transaction affects at least two accounts. For example, if a company borrows $50,000 from its bank, the company's Cash account increases, and the company's Notes Payable account increases. Double entry also means that one of the accounts must have an amount entered as a debit, and one of the accounts must have an amount entered as a credit. For any given transaction, the debit amount must equal the credit amount. (To learn more about debits and credits,

The advantage of double entry accounting is this: at any given time, the balance of a company's asset accounts will equal the balance of its liability and stockholders' (or owner's) equity accounts

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Accounting Principles

If financial accounting is going to be useful, a company's reports need to be credible, easy to understand, and comparable to those of other companies. To this end, financial accounting follows a set of common rules known as accounting standards or generally accepted accounting principles (GAAP, pronounced "gap").

GAAP is based on some basic underlying principles and concepts such as the cost principle, matching principle, full disclosure, going concern, economic entity, conservatism, relevance, and reliability.

GAAP, however, is not static. It includes some very complex standards that were issued in response to some very complicated business transactions. GAAP also addresses accounting practices that may be unique to particular industries, such as utility, banking, and insurance. Often these practices are a response to changes in government regulations of the industry.

GAAP includes many specific pronouncements as issued by the Financial Accounting Standards Board (FASB, pronounced "fas-bee"). The FASB is a non-government group that researches current needs and develops accounting rules to meet those needs

Financial accounting generates the following general-purpose, external, financial statements:

1. Income statement (sometimes referred to as "results of operations" or "earnings statement" or "profit and loss [P&L] statement")
2. Statement of comprehensive income
3. Balance sheet (sometimes referred to as "statement of financial position")
4. Statement of cash flows (sometimes referred to as "cash flow statement")
5. Statement of stockholders' equity

The above points are important. However,the students are also advised to read the following: Single Entry System, its meaning and characteristics. Difference between Capital and Receipt, and Income and Expenditure. Garnner Vs Murray and Statement of Affairs.