

**PROFICIENT ACADEMY, PUNE**

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**BOOK-KEEPING  
AND  
ACCOUNTANCY  
PROFICIENT  
ACADEMY  
STD. XI**

**MR. SHAUNAK MAINKAR**

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## CHAPTER 1 Introduction to Book- Keeping and Accountancy

### Introduction:-

- Every individual performs some kind of economic activity. A salaried person gets salary and spends to buy provisions and clothing, for children's education, construction of house, etc. A sports club formed by a group of individuals, a business run by an individual or a group of individuals, a local authority like Calcutta Municipal Corporation, Delhi Development Authority, Governments, either Central or State, all are carrying some kind of economic activities.
- Not necessarily all the economic activities are run for any individual benefit; such economic activities may create social benefit i.e. benefit for the public, at large. Anyway such economic activities are performed through '**transactions and events**'.
- **Transaction** is used to mean 'a business, performance of an act, an agreement' while event is used to mean 'a happening, as a consequence of transaction(s), a result.'

### Evolution of Accounting :

- In India, during Chandragupta Maurya's regime, Minister Kautilya wrote a book named 'Arthashastra', where in some references can be traced regarding the way of maintaining accounting records. Afterwards it was called as "Deshi Nama".
- In the earlier time of civilisation, accounting was done by agents who managed the properties of wealthy people. They prepared accounts periodically for the owners of property. The records of debit and credit were found in the 12th century itself.
- In the year 1494, Luca De Bargo Pacioli, an Italian merchant introduced Double-Entry Book- keeping system.
- Due to the industrial revolution in the 18th and 19th centuries, large scale operations were carried on and Joint Stock Companies emerged as an important form of organisation which involved separation of ownership from management.

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- Hence, to safeguard the interest of owners and investors, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.
- In the 20th century, the need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of Accounting.
- Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21st century. This is due to the vast growth in business activities as a result of development in various fields. Thus, accounting has become inevitable in the modern world for business.

### Definition of Book-keeping

**J. R. Batliboi** : “Book-keeping is an art of recording business dealings in a set of books.”

**R.N. Carter** : “Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that results in transfer of money or money’s worth.”

Point	Book-keeping	Accountancy
<b>Meaning</b>	It is concerned with recording and classifying the business transactions.	It is related with recording, classifying, summarising, analyzing and interpreting the financial data.
<b>Stage</b>	Book-keeping is the primary stage in accounting. It is the base for accounting	Apart from the primary stage, it includes secondary stage of analysis and interpretation.
<b>Objectives</b>	The objective of Book Keeping is to keep the records of all financial transactions in proper and systematic manner.	The objective of accounting is to prepare the financial statement and further communicate the information to the relevant authorities.
<b>Responsibility</b>	Junior staff is responsible for keeping records.	Senior staff is responsible for keeping accounts.

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<b>Outcomes</b>	Book-keeping basically results in Journal and Ledger.	The results of Accountancy is Profit and Loss A/c and Balance sheet.
<b>Period</b>	Book-keeping gives day to day details.	Accountancy gives details of entire year.
<b>Analysis</b>	The process of Book Keeping does not require any analysis	Accountant uses Book Keeping information to analyse and interpret the data and then compiles it into reports.
<b>Decision Making</b>	Management cannot take a decision based on the data provided by book-keeping.	Depending on the data provided by the accountants, the management can take critical business decisions.
<b>Skill required</b>	Analytical skill is not required for book-keeping.	It requires analytical skill.

Definitions of Accountancy:-

- 1) “Accountancy refers to the entire body of the theory and process of accounting.” By **Kohler**.
- 2) **Prof. Robert N. Anthony** has defined accounting as “Nearly every business enterprise has an accounting system. It is a means of collecting, summarizing, analyzing and reporting in monetary terms information about the business transactions.”

Objectives of Accounting

(i) **Providing Information to the Users for Rational Decision-making**

The primary objective of accounting is to provide useful information for decision-making to stakeholders such as owners, management, creditors, investors, etc. Various outcomes of business activities such as costs, prices, sales volume, value under ownership, return of investment, etc. are measured in the accounting process.

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All these accounting measurements are used by stakeholders (owners, investors, creditors/bankers, etc.) in course of business operation. Hence, accounting is identified as ‘language of business’.

(ii) Systematic Recording of Transactions

To ensure reliability and precision for the accounting measurements, it is necessary to keep a systematic record of all financial transactions of a business enterprise which is ensured by bookkeeping. These financial records are classified, summarized and reposted in the form of accounting measurements to the users of accounting information i.e., stakeholder.

(iii) Ascertainment of Results of above Transactions

‘Profit/loss’ is a core accounting measurement. It is measured by preparing profit and loss account for a particular period. Various other accounting measurements such as different types of revenue expenses and revenue incomes are considered for preparing this profit and loss account. Difference between these revenue incomes and revenue expenses is known as result of business transactions identified as profit/loss. As this measure is used very frequently by stockholders for rational decision making, it has become the objective of accounting. For example, Income Tax Act requires that every business should have an accounting system that can measure taxable income of business and also explain nature and source of every item reported in Income Tax Return.

(iv) To Ascertain the Financial Position of Business

‘Financial position’ is another core accounting measurement. Financial position is identified by preparing a statement of ownership i.e., Assets and Owings i.e., liabilities of the business as on a certain date. This statement is popularly known as balance sheet. Various other accounting measurements such as different types of assets and different types of liabilities as existed at a particular date are considered for preparing the balance sheet. This statement may be used by various

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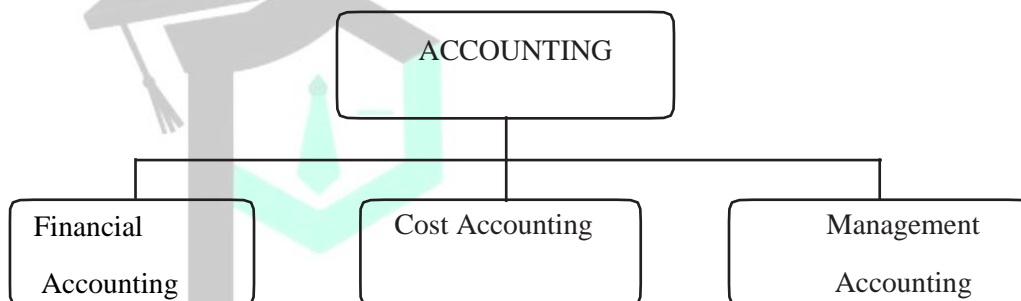
stakeholders for financing and investment decision.

(v) To Know the Solvency Position

Balance sheet and profit and loss account prepared as above give useful information to stockholders regarding concerns potential to meet its obligations in the short run as well as in the long run.

## ACCOUNTING – CLASSIFICATION

The various sub-fields of the accounting are:



1.	Financial Accounting	Determining the financial results for the period and the state of affairs on the last day the accounting period.	Stewardship Accounting
2.	Cost Accounting	Information generation for Controlling operations with a view to maximizing efficiency and profit.	Control Accounting
3.	Management Accounting	Accounting to assist management in planning and decision making.	Decision Accounting

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