

Definition of accounting

Business



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ACCOUNTS All recorded transactions, which are of the same type and nature, are grouped under one head. Cash sales, credit sales and sales to owner, etc., are grouped as total sales. Cash purchases, credit purchases etc., are classified as total purchases. Important business transaction is presented in a format. Business profits and financial position. These are known as financial statements or profit and loss account and Balance sheet.

With the help of analysis, useful information is obtained from financial statements. The users of the information then interpret the information derived. Such interpretation helps interested parties in taking prompt decisions. The whole process of recording, classifying, summarizing and interpreting is known as accounting. The art of recording, classifying, summarizing, analysing and interpreting the business transactions systematically and communicating business results to the interested users. These interested users may be owner himself or herself, creditors government, etc.; accounting is also viewed as discipline. It has its own principles, rules and concepts, which guide accountants in their accounting practices.

The meaning of the word consistency is continuity in methods or practices. In accounting context, consistency means followers using the same accounting methods or practice year after year. You can also say that the methods followed for making accounting information is not altered generally during its life. A businessman for example, follows the following practices or methods generally year after year:

Method of charging depreciation

Method of valuation of unsold goods

Machines and other fixed assets used in a business slowly decline in value

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over time. In accounting, we provide for depreciation (i. e. decline in value for using an assets) on machines and other assets. There are different methods to calculate depreciation like, straight line method, written down value method etc., all these methods are acceptable in accounting. The businessmen can adopt anyone of these methods, they prefer, the method, once adopted should be followed every year so that financial results become comparable.

There are various methods for valuation of unsold goods at the end of the year. These may be valued at cost price or market price or at the lower of two. Generally, unsold goods are valued a cost price or market price whichever is lower by businesses concerns, However, in some cases like precious metals, mineral oils, the unsold goods may be valued at market price. As per the convention of consistency, the same accounting methods should be adopted every year in preparing financial statements. This should no be taken to mean that this convention does not allow a business to change accounting methods and procedures under any circumstances. Whenever a change in methods is necessary, it must be disclosed by way of footnotes in the financial statements of that year.

Reference

IASB. (n. d.) International Accounting Standard Boards. [online]. Available from: < <http://www.iasb.org/> > [Accessed 25 May 2006].

Wikipedia. (n. d.). International Financial Reporting Standards. Available from: < http://en.wikipedia.org/wiki/International_Accounting_Standards> [Accessed 25 May 2006].