

Introduction to Financial Accounts

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Definition of Financial Accounts

- The American Institute of Certified public Accountants (AICPA) has defined the Financial Accounting as “ the art of recording, classifying and summarizing in significant manner in terms of money transactions and events which in part, at least of a financial character and interpreting the results thereof.”
- American Accounting Association (AAA) defines accounting as “the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information”.

Book Keeping Vs Accounting

Basis of Comparison	Bookkeeping	Accounting
Definition	Bookkeeping deals with identifying and recording financial transactions only	Accounting refers to the process of summarizing, interpreting and communicating the financial data of an organisation.
Basis of Accounting	It is the basis of accounting	It is the language of business
Preparation of Financial Statement	Not done in the case of bookkeeping	Financial statements are a part of the accounting process
Analysis	No analysis is required in the bookkeeping	Accounting analyzes the data and creates insights for the business
Tools	It involves journals and ledgers	It involves balance sheet, profit & loss account, cash flow statement
Persons Involved	The person concerned with bookkeeping is known as a bookkeeper	The person concerned with accounting is known as an accountant
Determining Financial Position	Bookkeeping does not show the financial position of a business	Accounting helps in showing a clear picture of the financial position of a business
Level of Learning	No high-level learning required	High-level learning required for understanding and analyzing accounting concepts

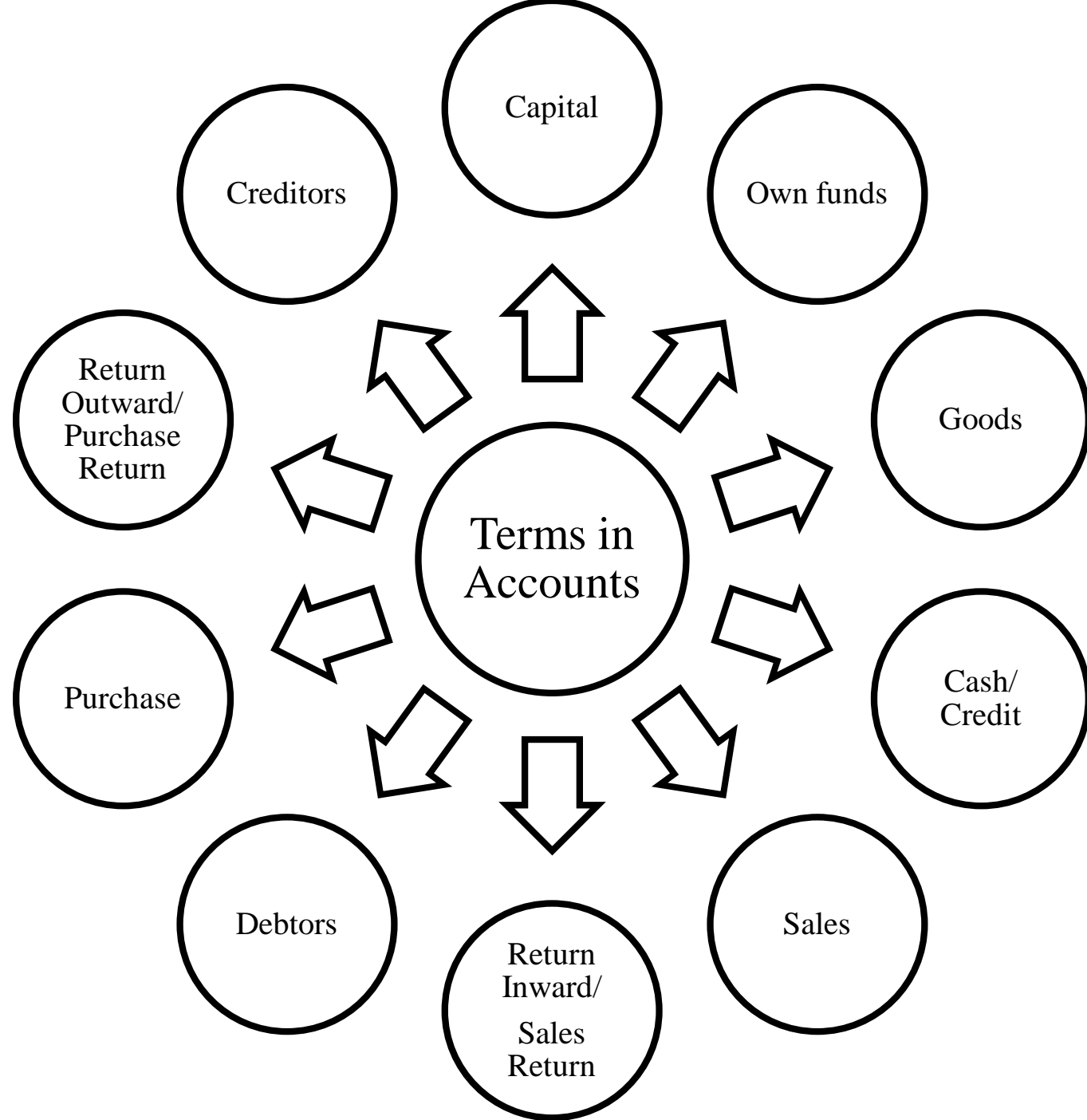
Pro and Cons of Financial Accounts

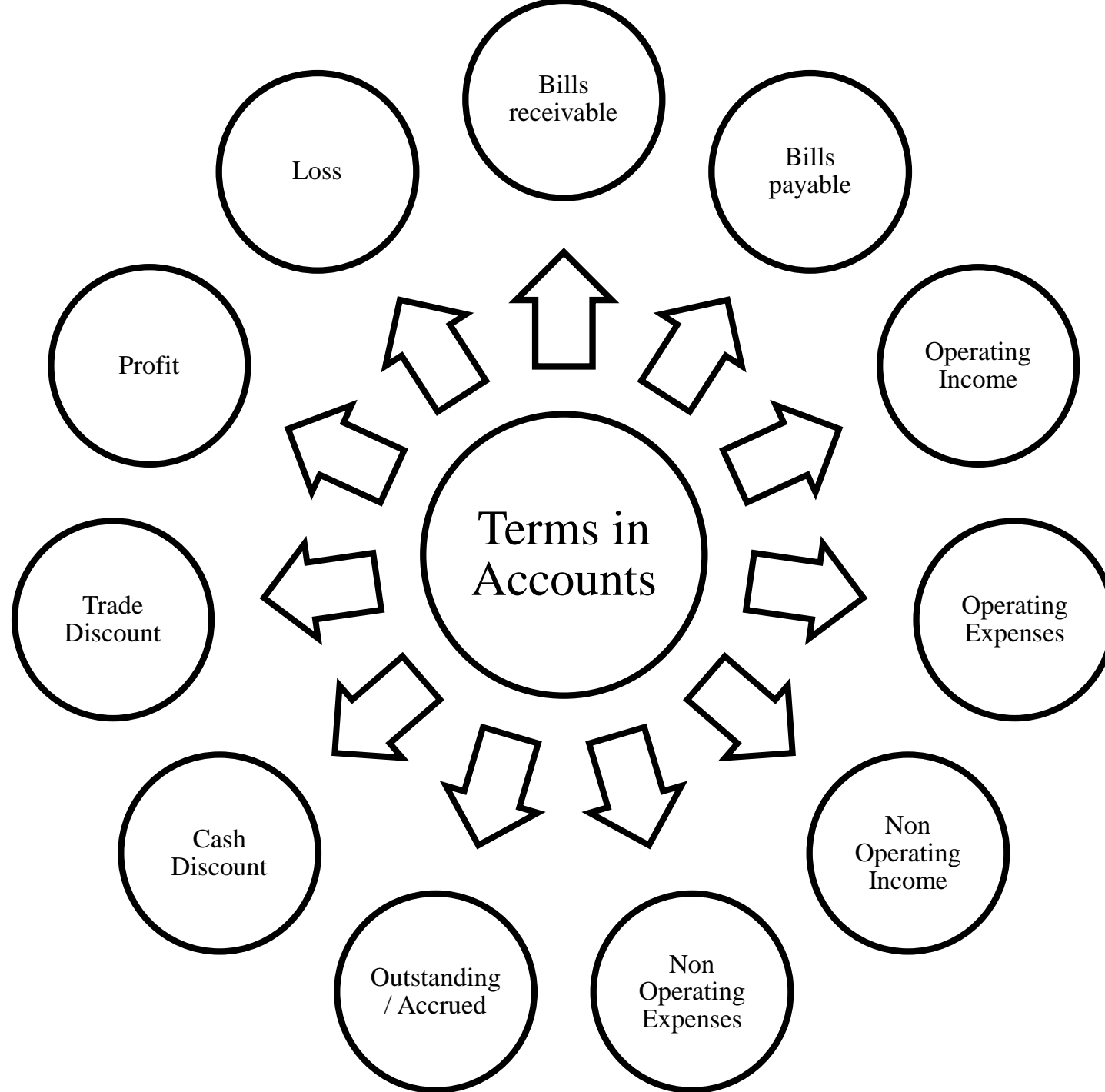
Pros

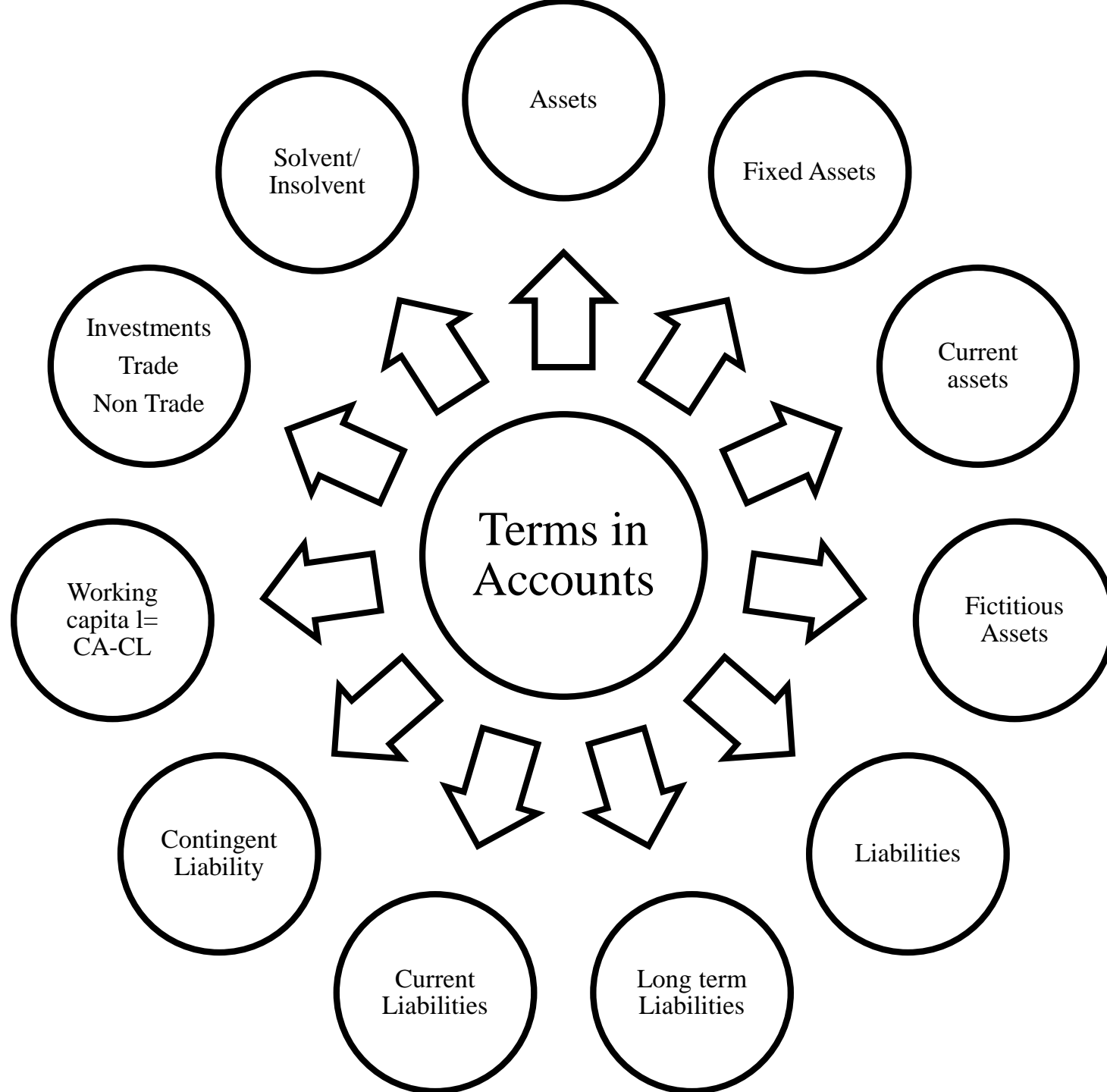
- Maintenance of business records
- Preparation of financial statements
- Comparison of result
- Acts as legal evidence
- Facilitates Raising funds
- Facilitates the Ascertainment of value of Business
- Helps in taxation matter

Cons

- Records only monetary transactions
- No Consideration of price level changes
- No realistic information
- Personal bias of accounting affects the accounting statements
- Window dressing in balance sheet







References

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- <https://byjus.com/commerce/difference-between-bookkeeping-and-accounting/>
- <https://www.owlgen.in/what-are-the-advantage-and-limitation-of-financial-accounting/>

Thank You

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