



“बेटी बचाओ, बेटी पढ़ाओ”

## **JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR**

### **Faculty of Law & Management**

Faculty Name	: <b>JV'n Prof. (Dr.) Sanjay Chhabra</b>
Department	: <b>Management &amp; Commerce</b>
Name of Program	: <b>BBA/ BBA LLB/BBA RETAIL</b>
Semester/Year	: <b>I Semester</b>
Name of Course	: <b>Fundamental of Accounting</b>
Topic Name	: <b>NATURE AND SCOPE OF ACCOUNTING</b>

#### **Nature of Accounting :**

Accounting, in essence, involves classifying and summarizing financial matters in a detailed and interpretable manner. This definition sheds light on the nature and scope of financial accounting.

To initiate a business, the owner invests capital, which serves as the initial funding. Additional funds may be acquired through loans or investments. These financial resources are then utilized to purchase assets and cover various expenditures, all with the objective of generating profits for the organization. It is imperative to formally record financial transactions and fund transfers among different parties to keep all stakeholders well-informed about the company's financial health.

The nature of financial accounting can be outlined as follows:

- I. **Identifying Monetary Transactions** : Transactions must first occur and be identified before they can be recorded. This involves the collection and verification of receipts and invoices. Additionally, non-monetary transactions, such as depreciation of assets over time, must also be accounted for.
- II. **Measuring and Recording Transactions** : Transactions are measured in terms of monetary value, and those related to revenues and expenditures are recorded systematically in journals.
- III. **Classifying Payments** : To manage the vast amount of financial data, transactions are categorized in a ledger. For instance, salary-related expenses may be grouped together, and leasing expenses may have a separate category.
- IV. **Summarization** : As businesses grow, their financial records become more complex. Therefore, summarizing these records is essential for clarity. The summary should be presented in a format that is easily comprehensible.
- V. **Analysis, Interpretation, and Communication** : The summarized financial data must be thoroughly analyzed and interpreted. This interpreted information is then communicated to relevant stakeholders to provide them with a comprehensive understanding of the company's financial position.

### **Scope of Accounting**

The scope of accounting is evident in the reporting of financial statements to various stakeholders. Various parties, in different capacities, use this information to benefit both themselves and the company.

Financial accounting serves to keep various stakeholders informed about the financial well-being of the company, enabling them to make informed decisions:

- I. **Reporting to Shareholders:** Shareholders invest capital in the business with the expectation of returns. They require detailed reports on the company's financial status, including outstanding loans, assets, expenses, and revenue streams.
- II. **Reporting to the Public:** Publicly listed companies are open to investment from the general public. Thus, making financial statements public allows potential and current investors to make informed investment decisions.
- III. **Reporting to Government:** Accurate financial reporting is necessary for taxation purposes. Governments rely on financial information to assess tax liabilities and ensure compliance with tax regulations.
- IV. **Reporting to Employees:** Employees, although indirect stakeholders, need to be informed about the company's financial health as it directly impacts job security.

### **Conclusion**

The scope of financial accounting has expanded over time, reaching beyond shareholders and select entities to encompass communities, employees, and the general public. It also serves as a crucial tool in preventing financial frauds and scams that can destabilize the economy. Accounting involves identifying, recording, classifying, analyzing, and interpreting a company's financial information to fulfill various objectives and meet the informational needs of a wide range of stakeholders.