
UNIT 1 ACCOUNTING AND ITS FUNCTIONS

Objectives

After studying this unit, you should be able to appreciate the:

- nature and role of accounting;
- activities of an accountant; and
- roles of accounting personnel and the accounting function in an organization.

Structure

- 1.1 Introduction
- 1.2 Scope of Accounting
- 1.3 Emerging Role of Accounting
- 1.4 Accounting as an Information System
- 1.5 Role and Activities of an Accountant
- 1.6 Accounting Personnel
- 1.7 Nature of Accounting Function
- 1.8 Organisation for Accounting and Finance
- 1.9 Summary
- 1.10 Key Words
- 1.11 Self-assessment Questions/Exercises
- 1.12 Further Readings

1.1 INTRODUCTION

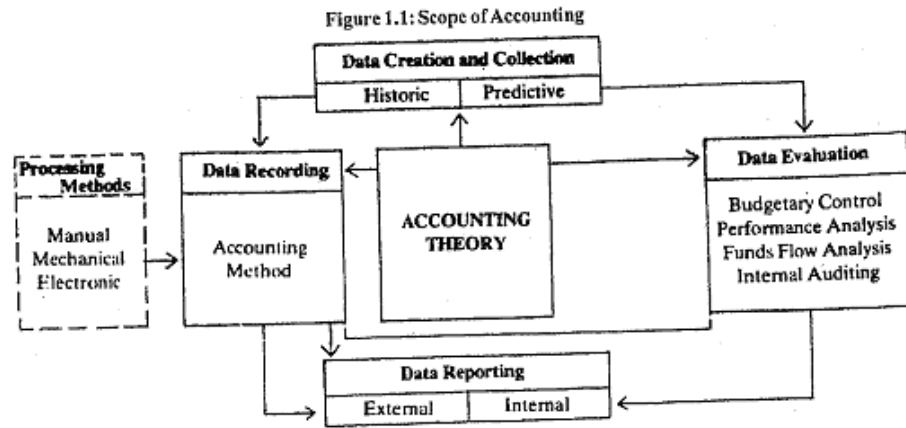
Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. In this context, the purpose of accounting is to communicate or report the results of business operations and its various aspects. Though accounting has been defined in various ways. According to one commonly accepted definition. "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are; in part at least, of financial character and interpreting the results thereof". Another definition which is less restrictive interprets accounting as "The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of information"

1.2 SCOPE OF ACCOUNTING

The scope of accounting can be presented in a diagrammatic form as shown in Figure 1.1.

Data creation and collection is the area which provides raw material for accounting. The data collected is 'historic' in the sense that it refers to events which have already taken place. Earlier, accounting was largely concerned with what had happened, rather than making any attempt to predict and prepare for future.

After the historic data has been collected, it is **recorded** in accordance with generally accepted accounting theory. A large number of transactions or events have to be entered in the books of original entry (journals) and ledgers in accordance with the classification scheme already decided upon. The recording and processing of information usually accounts for a substantial part of total accounting work. This type of



Source: Adapted from R.J. Bull, Accounting in Business, Butterworths, London, 1969,p.2.

activity of accounting may be called **recordative**. The processing method employed for recording may be manual, mechanical or electronic. Computers are also used widely in modern business for doing this job.

Data evaluation is regarded as the most important activity in accounting these days. Evaluation of data includes controlling the activities of business with the help of budgets and standard costs (budgetary control), evaluating the performance of business, analysing the flow of funds, and analysing the accounting information for decision-making purposes by choosing among alternative courses of action.

The **analytical and interpretative** work of counting may be for internal or external uses and may range from snap answers to elaborate reports produced by extensive research. Capital project analysis, financial forecasts, budgetary projections and analysis for reorganisation, takeover or merger often lead to research-based reports.

Data evaluation has another dimension and this can be known as the **auditive** work which focuses on verification of transactions as entered in the books of account and authentication of financial statements. This work is done by public professional accountants. However, it has become common these days for even medium-sized organisations to engage internal auditors to keep a continuous watch over financial flows and review the operation of the financial system.

Data reporting consists of two parts-external and internal. External reporting refers to the communication of financial information (viz., earnings, financial and funds position) about the business to outside parties, e.g., shareholders, government agencies and regulatory bodies of the government. Internal reporting is concerned with the communication of results of financial analysis and evaluation to management for decision-making purposes.

You will note that **accounting theory** has been shown in the centre of the diagram. We will turn to the role of accounting theory in the next unit.

The central purpose of accounting is to make possible the periodic **matching** of costs (efforts) and revenues (accomplishments). This concept is the nucleus of accounting theory. However, accounting is moving away from its traditional procedure-based record-keeping function to the adoption of a role which emphasises its social importance.

Activity 1.1

List the various accounting activities that your organisation is undertaking. Can you ascribe any particular reason as to why your organisation is undertaking these accounting activities?



Accounting Activity	Reason
1.....	1.....
2.....	2.....
3.....	3.....
4.....	4.....
5.....	5.....
6.....	6.....
7.....	7.....
8.....	8.....

1.3 EMERGING ROLE OF ACCOUNTING

The history of accounting indicates the evolutionary pattern which reflects changing socio-economic conditions and the enlarged purposes to which accounting is applied. In the present context four phases in the evolution of accounting can be distinguished.

Stewardship Accounting

In earlier times in history, wealthy people employed 'stewards' to manage their property. These stewards rendered an account of their stewardship to their owners periodically. This notion lies at the root of financial reporting even today which essentially involves the orderly recording of business transactions, commonly known as 'book-keeping'. Indeed the accounting concepts and procedures, in use today for systematic recording of business transactions have their origin in the practices employed by merchants in Italy during the 15th century. The Italian method which specifically began to be known as 'double entry book-keeping' was adopted by other European countries during the 19th century. Stewardship accounting, in a sense, is associated with the need of business owners to keep records of their transactions, the property and tools they owned, debts they owed, and the debts others owed them.

Financial Accounting

Financial accounting dates from the development of large-scale business and the advent of Joint Stock Company (a form of business which enables the public to participate in providing capital in return for 'shares' in the assets and the profits of the company). This form of business organisation permits a limit to the liability of their members to the nominal value of their shares. This means that the liability of a shareholder for the financial debts of the company is limited to the amount he had agreed to pay on the shares he bought. He is not liable to make any further contribution in the event of the company's failure or liquidation. As a matter of fact, the law governing the operations (or functioning) of a company in any country (for instance the Companies Act in India) gives a legal form to the doctrine of stewardship which requires that information be disclosed to the shareholders in the form of annual income statement and balance sheet.

Briefly speaking, the income statement is a statement of profit and loss made during the year of the report; and the balance sheet indicates the assets held by the firm and the monetary claims against the firm. The general unwillingness of the company directors to disclose more than the minimum information required by law and the growing public awareness have forced the governments in various countries of the world to extend the disclosure (of information) requirements.



The importance attached to financial accounting statements can be traced to the need of the society to mobilise the savings and channel them into profitable investments. Investors, whether they are large or small, must be provided with reliable and sufficient information in order to be able to make efficient investment decisions. This is the most significant social purpose of financial accounting.

Cost Accounting

The industrial revolution in England presented a challenge to the development of accounting as a tool of industrial management. Costing techniques were developed as guides to management actions. The increasing awareness on the part of entrepreneurs and industrial managers for using scientific principles of management in the wake of scientific management movement led to the development of cost accounting. Cost accounting is concerned with the application of costing principles, methods and techniques for ascertaining the costs with a view to controlling them and assessing the profitability and efficiency of the enterprise.

Management Accounting

The advent of management accounting was the next logical step in the developmental process. The practice of using accounting information as a direct aid to management is a phenomenon of the 20th century, particularly the last 30-40 years. The genesis of modern management with its emphasis on detailed information for decision-making provide a tremendous impetus to the development of management accounting.

Management accounting is concerned with the preparation and presentation of accounting and controlling information in a form which assists management in the 'formulation of policies and in decision-making on various matters connected with routine or non-routine operations of business enterprise. It is through the techniques of management accounting that the managers are supplied with information which they need for achieving objectives for which they are accountable. Management accounting has thus shifted the focus of accounting from recording and analysing financial transactions to using information for decisions affecting the future. In this sense, management accounting has a vital role to play in extending the horizons of modern business. While the reports emanating from financial accounting are subject to the conceptual framework of accounting, internal reports-routine or non-routine are free from such constraints.

Social Responsibility Accounting

Social responsibility accounting is a new phase in the development of accounting and owes its birth to increasing social awareness which has been particularly noticeable over the last two decades or so. Social responsibility accounting widens the scope of accounting by considering the social effects of business decisions, in addition to the economic effects. Several social scientists, statesmen and social workers all over the world have been drawing the attention of their governments and the people in their countries to the dangers posed to environment and ecology by the unbridled industrial growth. The role of business in society is increasingly coming under greater scrutiny. The management is being held responsible not only for efficient conduct of business as expressed in profitability, but also for what it contributes to social well being and progress. There is a growing feeling that the concepts of growth and profit as measured in traditional balance sheets and income statements are too narrow to reflect the social responsibility aspects of a business.

Human Resource Accounting

Way back in 1964 the first attempt to include figures on human capital in the balance sheet was made by Hermansson which later came to be known as Human Resource



Accounting. However there had been a great socio-economic shift in the 1990's with the emergence of "Knowledge economy", a distinctive shift towards recognition of human and intellectual capital in contrast to physical capital. Human Resource Accounting is a branch of accounting which seeks to report and emphasize the importance of human resources (knowledgeable, trained, loyal and committed employees) in a company's earning process and total assets. It is concerned with "the process of identifying and measuring data about human resources and communicating this information to interested parties". In simple words it involves accounting for investment in people and replacement costs as well as accounting for the economic values of people to an organisation. Generally the methods used for valuing and accounting of human resources are either based on costs or on economic value of human resources. However providing adequate and valid information on human assets (capital), which are outside the concept of ownership, in figures is very difficult. Nevertheless HRA is a managerial tool providing valuable information to the top management to take decisions regarding adequacy of human resources and thus encouraging managers to consider investment in manpower in a more positive way.

Inflation Accounting

Inflation Accounting is concerned with the adjustment in the value of assets (current and fixed) and of profit in the light of changes in the price level. In a way, it is concerned with the overcoming of limitations that arise in financial statements on account of the cost assumption (that is recording of the assets at their historical or original cost) and the assumption of stable monetary unit (these are discussed in detail in the next unit). It thus aims at correcting the distortions in the reported results caused by price level changes. Generally, rising prices during inflation have the distorting influence of overstating the profit. Various approaches have been suggested to deal with this problem.

If this little introduction of HRA and Inflation accounting provokes you to know more about them, we suggest that you listen to the audio programme "**Emerging Horizons in Accounting and Finance-Part II and III**" which deal with these two topics. You may also read "Money Measurement Concept" explained in the next unit which has a bearing on inflation accounting.

Activity 1.2

In the context of your organisation, describe some of the cost and management accounting related activities. Please also identify any particular accounting practice in the area of social responsibility.

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1.4 ACCOUNTING AS AN INFORMATION SYSTEM

While discussing the scope of accounting you must have observed that accounting involves a series of activities linked with each other, beginning with the collecting, recording, analysing and evaluating the data, and finally communicating information to its users. Information has no meaning unless it is linked with a certain purpose.



Accounting as a social science can be viewed as an information system since it has all the features of a system. It has its inputs (raw data), processes (men and equipment), and outputs (reports and information). If we consider accounting as an information system, then we are in a position to make some important observations. First, the goal of the system is to provide information which meets the needs of its users. If we can correctly identify the needs of the users, we are then able to specify the nature and character of the outputs of the system. Secondly, it is the output requirements that determine the type of data which would be selected as the inputs for processing into information output.

There are several groups of people who have a stake in a business organisation—managers, shareholders, creditors, employees, customers, etc. Additionally, the community at large has economic and social interest in the activities of such organisations. This interest is expressed at the national level by the concern of government in various aspects of the firms' activities, such as their economic well-being, their contribution to welfare, their part in the growth of the national product, to mention only a few examples.

We shall now briefly discuss what the information needs of various users are.

Shareholders and Investors: Since shareholders and other investors have invested their wealth in a business enterprise, they are interested in knowing periodically about the profitability of the enterprise, the soundness of their investment and the growth prospects of the enterprise. Historically, business accounting was developed to supply information to those who had invested their funds in business enterprises.

Creditors: Creditors may be short-term or long-term lenders. Short-term creditors include suppliers of materials, goods or services. They are normally known as trade creditors. Long-term creditors are those who have lent money for a long period, usually in the form of secured loans. The main concern of the creditors is focused on the credit worthiness of the firms and its ability to meet its financial obligations. They are therefore concerned with the liquidity of the firms, its profitability and financial soundness. In other words, it can also be stated that creditors are interested mainly in information which deals with solvency, liquidity and profitability so that they could assess the financial standing of the firms.

Employees: The view that business organisations exist to maximise the return to shareholders has been undergoing change as a result of social changes. A broader view is taken today of economic and social role of management. The importance of harmonious industrial relations between management and employees cannot be over-emphasised. That the employees have a stake in the outcomes of several managerial decisions is recognised. Greater emphasis on industrial democracy through employee participation in management decisions has important implications for the supply of information to employees. Matters like settlement of wages, bonus, and profit sharing rest on adequate disclosure of relevant facts.

Government: In a mixed economy it is considered to be the responsibility of the Government to direct the operation of the economic system in such a manner that it subserves the common good. Controls and regulations on the operations of private sector enterprises are the hallmark of mixed economy. Several government agencies collect information about various aspects of the activities of business organisations. Much of this information is a direct output of the accounting system, for example, levels of outputs, profits, investments, costs, and taxes, etc. All this information is very important in evolving policies for managing the economy. The task of the Government in managing the industrial economy of the country is facilitated if accounting information is presented, as far as possible, in a uniform manner. It is clear that if accounting information is distorted due to manipulations and window-dressing in the

presentation of annual accounts, it will have ill-effects on the measures the government intends to take and the policies it wishes to adopt.



Management: Organisations may or may not exist for the sole purpose of profit. However, information needs of the managers of both kinds of organisations are almost the same, because the managerial process i.e., planning, organising and controlling is the same. All these functions have one thing in common and it is that they are all concerned with making decisions which have their own specific information requirements. The emphasis on efficient and effective management of organisations has considerably extended the demand for accounting information. The role of accounting as far as management is concerned was highlighted earlier when we discussed about management accounting.

Consumers and others: Consumers' organisations, media, welfare organisations and public at large are also interested in condensed accounting information in order to appraise the efficiency and social role of the enterprises in different sectors of the economy, that is, what levels of profits and outputs are being achieved, in what way the social responsibility is being discharged and in what manner the growth is being planned by the enterprises in accordance with the national priorities etc.

The above discussion perhaps has indicated to you that the information needs of the various users may not necessarily be the same. Sometimes, they may even conflict and compete with each other. In any case, the objective of accounting information is to enable information users to make optimum decisions.

1.5 ROLE AND ACTIVITIES OF AN ACCOUNTANT

Having discussed the scope of accounting and its emerging role, we are now in a position to describe as to who is an accountant. In an attempt to answer this question we reproduce below some statements in this regard:

- a) An accountant is one who is engaged in accounts-keeping.
- b) An accountant is a functionary who aids control.
- c) An accountant keeps the conscience of an organisation.
- d) An accountant is a professional whose primary duties are concerned with information management for internal and external use.
- e) An accountant is a fiscal adviser.
- f) An accountant produces an income statement and a balance sheet for an accounting period and maintains all supporting evidence and classified facts that lead to the final accounting statements.
- g) An accountant verifies, authenticates, and certifies the accounts of an entity.

Tell us about your reactions. Perhaps you do have your own ideas but our thinking is that each of the foregoing statements contain some truth in it as it highlights some aspects of the functions of an accountant, except one statement which presents a somewhat comprehensive view. Can you identify this statement? We will help you in doing this.

Statement (a) defines a person who maintains accounts. Statement (f) echoes almost a similar notion but extends his role to the production of financial statements. The work implied in these statements is that of score-keeping and the person performing such activity is known as a financial accountant (or maintenance accountant).

Statement (b) is about the role which an accountant can play in the management control process. It is concerned with attention-directing and problem-solving. The functionary may be designated as management accountant (or a controller as in the United States).



Statement (e) underlines a narrow, specific role of an accountant, though of critical significance. In view of high incidence of taxes on business in India, tax planning assumes a vital role in fiscal management. By planning the operations of the enterprise in a particular manner, the tax adviser attempts to minimise the liability of the firm by availing the concessions and incentives provided for in the applicable tax laws.

Statement (g) stresses the 'audit', 'watchdog', or 'certification role' of the accountant who is not an employee of a business but who performs an external verification of accounts. Such a functionary is a trained and qualified professional who, like any other professional, has an educational status and a prescribed code of conduct. Chartered Accountants in India, England-Wales, and Certified Public Accountants in USA belong to this category of accountants.

Statement (c) presents the accountant as a conscience-keeper. He is seen as a person whose mission is to protect and promote the interest of the employer in a positive manner. He is there to see to it that none of the staff of the organisation carries on this work in an unethical way or in a manner prejudicial to the long-term legitimate interests of the firm.

We are now left with statement (d) which defines an accountant as a professional and underlines his pre-occupation with management of information for internal use (management accounting function) and for external use (financial accounting function). We are sure, our discussion of accounting as an information system has made it easier for you to comprehend this role of the accountant. We may clarify that information management is not necessarily associated with sophisticated (or hi-tech) area of computers. Small firms may 'manage' information without a substantial degree of mechanisation or automation. Often the role of accounting in small business is not properly recognised. It is widely known that a large number of small businesses fail and do not survive beyond a few years. One of the main reasons for their failure is that they do not have an adequate information system to help their managers to control costs, to forecast cash needs and to plan for growth. Organisations which have poor accounting system often find it considerably difficult to obtain finance from banks and outside investors.

1.6 ACCOUNTING PERSONNEL

There is hardly any organisation which does not have an accountant. His role is all pervasive and he is involved in a wide range of activities, particularly in a large and complex organisation. The exact duties of an accountant might differ in different organisations. However, a broad spectrum of responsibilities can be identified.

The accountants can be broadly divided into two categories, those who are in public practice and those who are in private employment. The accountants in public practice offer their services for conducting financial and or cost audit. As such, they are known as auditors. The auditor examines the books of account and reports on the balance sheet and profit and loss account of the company as to whether they give a true and fair view of the state of affairs of the company and its profit respectively. The auditor in a company is appointed by the shareholders to whom he reports. Public accountants are generally members of professional bodies like the Institute of Chartered Accountants of India or the Institute of Cost and Works Accountants of India. In addition to conducting financial or cost audit (in accordance with the requirements of the Companies Act), as the case may be, they may also provide consultancy services for design or improving accounting and management control systems.

Accountants in employment may be in various business or non-business organisations to perform a variety of accounting and management control functions. Accountants at higher levels generally belong to professional accounting bodies but those who are at



lower levels need not be so. Accounting chiefs in different organisations, depending upon their nature of work, are variously designated as finance officers or internal auditors or chiefs accounts officers, etc. The term 'controller' as the head of the accounting and finance function is not very popular in India but of late it has been catching up. Several large organisations, both in the public and private sectors, have now controllers. Let us have an idea of who these people are and what they do.

Internal Auditor: Internal Auditor is an employee of the organisation in contrast to an external auditor who is paid a fee for his services. The internal auditor is responsible for performing monitoring activities and other services, including designing and operating the system of internal control, auditing the data reported to the directors of the company, and assisting external auditors. The head of the internal audit function reports directly either to the chief executive or to the audit committee of the Board of Directors.

Internal audit includes continuous verification of entries appearing in the books of account with the original vouchers and proper accounting of assets. Further, it attempts to ensure that the policies and procedures regarding financial matters are being complied with. Internal auditing is also concerned with administering the system of **internal check** so that mistakes, innocent or intentional, are prevented from taking place.

We should distinguish an internal auditor from an external auditor. While an internal auditor devotes his entire time and energy to the needs of one company (i.e. his employer), an external auditor serves many clients. The primary function of the external auditor, as pointed out earlier, is to safeguard the interests of the shareholders (by whom he is appointed) by an independent and impartial appraisal of the financial transactions of the company so that he could report on the net profit earned by the company and its financial position. His role is that of an objective outsider, expressing expert opinions to the financial condition and operating results of the client's business.

A part from shareholders, other parties such as banks, lending institutions, government agencies, etc. rely on the fairness of such financial reports in making certain decisions about a given company. An auditor is bound by a set of professional regulations which include an examination on technical competence and adherence to a code of ethical conduct.

Controller : Controller- the other name for Chief Accountant- is usually the head of the whole area of accounting, including internal audit. He is overall in - charge of all the activities comprising financial accounting, cost accounting, management accounting, tax accounting etc. He exercises authority both for accounting within the organisation and for external reporting. The external reports include reports to government revenue collecting and regulatory bodies, such as Company Law Board and Income Tax . Department He may also supervise the company's internal audit and control systems. In addition to processing historical data, he is expected to supply a good deal of accounting information to top management concerning future operations, in line with the management's planning and control needs. Besides, he is also expected to supply detailed information to managers in different functional areas (like production, marketing, etc.) and at different levels of the organisation.

We may enumerate the functions of the controller as follows:

- a) Designing and operating the accounting system
- b) Preparing financial statements and reports
- c) Establishing and maintaining systems and procedures
- d) Supervising internal auditing and arranging for external audit
- e) Supervising computer applications
- f) Overseeing cost control
- g) Preparing budgets



- h) Making forecasts and analytical reports
- i) Reporting financial information to top management
- j) Handling tax matters.

Treasurer : He is the custodian and manager of all the cash and near-cash resources of the firm. The treasurer handles credit reviews and sets policy for collecting receivables (debtors of the firm to whom the firm has sold goods or services) He also handles relationships with banks and other lending or financial institutions.

The Financial Executive Institute (of United States of America) makes the following distinction between controllership and treasurership functions:

Controllership	Treasurership
Planning and Control	Provision of Capital
Reporting and Interpreting	Investor Relations
Evaluating and Consulting	Short-term Financing
Tax Administration	Banking and Custody
Government Reporting	Credit and Collections
Protection of Assets	Investments
Economic Appraisal	Insurance

Finance Officer: Finance is the life blood of business. Procuring financial resources and their judicious utilisation are the two important activities of financial management. Financial management, includes three major decisions: investment decision, financing decision and dividend decision. Investment decision is perhaps the most important decision because it involves allocation of resources . It is concerned with future which being uncertain involves risk. How the firm is allocating its scarce resources and is planning growth will largely determine its value in the market place. Financing decision is concerned with determining the optimum financing mix or capital structure. It examines the various methods by which a firm obtains short-term and long -term finances through various alternative sources. The dividend decision is concerned with question like how much of the profit is to be retained and how much is to be distributed as dividends. The finance manager has to strike a balance between the current needs of the enterprise for cash and the needs of the shareholders for a adequate return. The financial management of a large company is usually the responsibility of the finance director who may be in place of, or in addition to the controller. Often finance manager and controller are inter-changeable terms and only one of these two positions may be found in a company. The finance manager when there is a controller also in the organisation, is concerned with implementing the financial policy of the board of directors, managing liquidity, preparation of budgets and administration of budgetary control system, managing profitability, etc.

Though financial management is regarded as a separate area, this function is performed in several countries, including India, by the Accountant(or the Financial Controller) Several large organisations however have a financial executive besides the chief accountant. Often, finance and accounting functions are clubbed together in one persons in small organisations.

Activity 1.3

Please meet one or more of the following personnel in any organisation and talk to them about their respective roles within the organisation.

Accountant

- 1.....
- 2.....
- 3.....



- 4.....
5.....

Chief Accountant

- 1.....
2.....
3.....
4.....
5.....

Controller

- 1.....
2.....
3.....
4.....
5.....

Finance Manager

- 1.....
2.....
3.....
4.....
5.....

Internal Auditor

- 1.....
2.....
3.....
4.....
5.....

1.7 NATURE OF ACCOUNTING FUNCTION

Accounting is a **service function**. The chief accounting executive (by whatever name he is called) holds a staff position except within his own department where he exerts authority. This is in contradistinction to the roles played by production or marketing executives who hold line authority: The role of the accountant is advisory in character. He works through the authority of the chief executive. The accounts and or finance department(s) do not exercise direct authority over line departments. In decentralised structure with a number of units and divisions, the accounting executive however exercises what is known as the functional authority over all the accounting staff deployed in different segments.

There are two facets to the role of the accountant. For the top managers he works as a watchdog and for middle and lower level managers he acts as 'helper'. The watchdog role is usually performed through 'score-keeping' task of accounting and reporting to

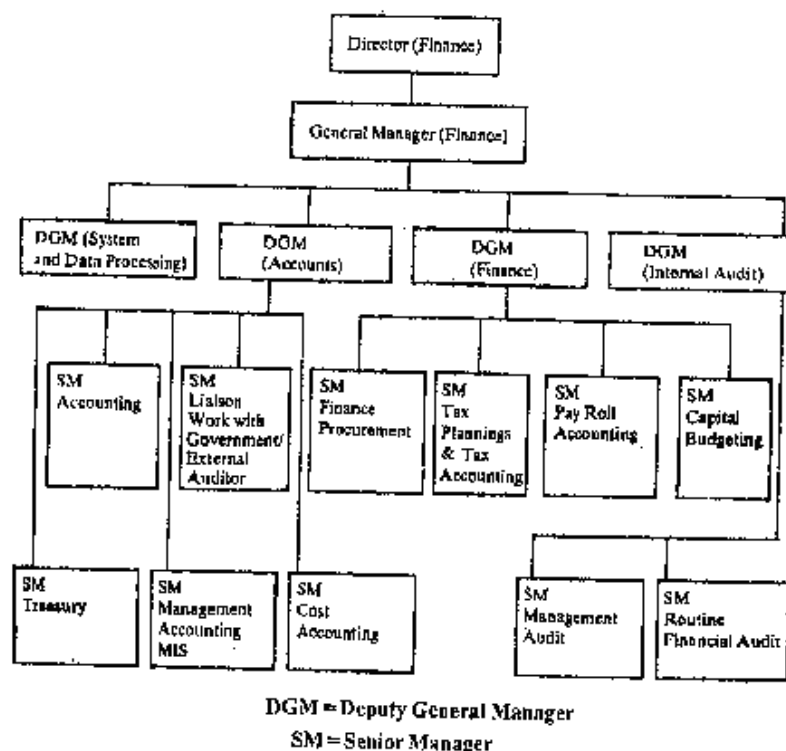


all levels of management. The 'helper' role is usually performed through the task of directing managers' attention to problems and assisting them in solving problems. Mutual understanding and rapport between the accountant and the manager, in the tasks of attention-directing and problem-solving can be enhanced if accountant and his staff frequently interact with the line managers and guide them in matters concerned with preparation of budgets and control documents with which they might not be conversant. This will instill confidence among line managers regarding the reliability of reports.

1.8 ORGANISATION FOR ACCOUNTING AND FINANCE

A typical organisation chart for accounting and finance function is presented in Figure 1.2. You will note that the person at the helm of affairs the Director (Finance) who is a member of the Board of Directors. Reporting to him may be one or more general managers. If there is only one General Manager, he may be designated as General Manager (Finance), or General Manager (Finance and Accounts), or Controller or Financial Controller. In a large company four or five (as shown in Figure 1.2) Deputy General Managers incharge of different areas like systems and data processing, accounts, finance, internal auditing may report to him. Following the American pattern, a tendency has recently been observed among large companies, especially in the private sector, to designate General Manager (Finance) as President (Finance, or Finance and Accounts) and a Deputy General Manager as Vice-president. Each of these Deputy General Managers is assisted by a number of senior managers who look after different components of similar activities, e.g., financial accounting, tax planning and administration, management auditing, etc. Management audit is a comprehensive review of the various sub-systems of the organisation like objectives and goals, structure, technical system, personnel policies, (including succession planning), control and coordination policies and procedures, adequacy and effectiveness of communication system, etc. This type of audit is usually done by a team of people comprising the internal resource persons drawn from various functional areas and external management consultant.

Figure 1.2: Organisation Chart for Accounting and Finance





We hope you now have a reasonably good idea of what accounting is, what its scope is, and what are the different types of activities which are generally included in accounting. While basic functions of accounting and finance are performed in all types of organisations, their relative emphases or relevance might differ in different types of organisations. Keeping this in view we have prepared an audio programme "**Accounting and Finance Function in Different Types of Organisations**" and we suggest that you listen to this tape. This will not only augment your familiarity with the basic aspects and functions of accounting but will also develop your appreciation for relative divergencies.

1.9 SUMMARY

Accounting is an important service activity in business and is concerned with collecting, recording, evaluating and communicating the results of past events. The history of accounting development reflects its changing role in response to the changing business and social needs. With the emergence of management accounting, the focus of accounting has been shifting from mere recording of transactions to that of aiding the management in decisions.

Accounting can be perceived as an information system which has its inputs, processing methods and outputs. The usefulness of accounting lies in its capacity to provide information to various stakeholders in business so that they could arrive at the correct decisions.

The top accounting personnel are designated with various nomenclature. The practice in this regard differs in different companies. The organisational setting for accounting and finance function may also vary in different organisations, depending upon their peculiarities, nature and size of business, technology and structural form. At the helm of affairs is usually the Director of Accounts and Finance who is a member of the Board of Directors. He is assisted by a General Manager who in turn is helped by Deputy General Managers in charge of various sub-functions like, accounts, finance, internal audit, and data processing, etc. Each of the sub-functions is further subdivided into activities which are the responsibility of a subordinate manager.

1.10 KEY WORDS

Accountant is a professional who is responsible for the processing of financial data for score-keeping, attention-directing and problem-solving purposes.

Controller of the management accountant is a staff-functionary who uses accounting information for management planning and control.

Auditive work of an accountant comprises authentication of accounting statements.

Recordative work extends to routine recording and classified posting of financial transactions and events.

Score-keeping is the process of data accumulation or record-keeping which enables interested parties (internal and external) to ascertain how the organisation is performing.

Attention-directing role of accounting consists of directing managerial attention to situations where corrective action is needed in the case of unfavourable (or even favourable) differences in operations, outputs or inputs.

Information system is a system, sometimes formal and sometimes informal, for collecting, processing, and communicating data at the most relevant time to all levels of management. The data flowing through the system is helpful to managers for



decision-making in the areas of planning and control, or is otherwise needed for financial reporting required under the laws. An essential requirement of information system is feedback, i.e. communicating the results of performance to operating managers for needed modifications.

External reporting is the production of financial statements for the use by external interest groups like, shareholders and government.

Planning is goal identification and decision-making.

Control is the action that implements the planning decision and evaluates performance.

Feedback comprises the performance reports which managers can use for improving their decision-making.

Staff function is performed in an advisory capacity and without line or decision-making authority.

1.11 SELF-ASSESSMENT QUESTIONS/EXERCISES

- 1 "Financial Accounting is an extension of Stewardship Accounting". Comment.
- 2 What new developments in Accounting have taken place over the past 20-25 years? Examine the main factors which have affected such developments.
- 3 State the group of persons having an interest in a business organisation and examine the nature of their information needs.
- 4 Discuss the role of accountants in modern business organisations.
- 5 Differentiate between recordative, interpretative and auditive functions of Accounting.
- 6 How can accounting reports, prepared on a historical basis after the close of a period, be useful to managers in directing the activities of a business?
- 7 Distinguish management accounting from financial accounting.
- 8 How does the accountant help in the planning and control process of a large commercial organisation?
- 9 State whether the following statements are true or false:
 - a) To have an accountant is the privilege of a joint stock company only. True/False
 - b) A controller is entrusted with the responsibilities of raising funds True/False
 - c) Management control differs from engineering control since the latter is fully automatic and the former is highly complex. True/False
 - d) An accountant is the custodian of the properties and financial interests of a business enterprise. True/False

Answers to Self-assessment Questions/Exercises

- 9 (a) False, (b) False, (c) True, (d) True,



1.12 FURTHER READINGS

Anthony, Robert N. and James S. Reece, 1987. *Accounting Principles, All India Traveller Book Seller: New Delhi (Chapter I).*

Bhattacharya S.K. and John Dearden, 1987. *Accounting for Management: Text and Cases*, Vikas Publishing 1-louse: New Delhi. (Chapter I).

Paul Collier, May 09.2003. *Accounting for Managers : Interpreting Accounting Inforrnation for Decision Making*. Wiley Publishers : Canada. (Chapter I),