PGDCA

COMPUTER BASED

ACCOUNTING
1. Accounting is the Recording; classifying, summarizing and reporting information to management and interested parties for make good decisions”.

2. Accounting is methods for
   1. recording transactions,
   2. keeping financial records
   3. performing internal audits
   4. reporting and analyzing financial information to the management, and
   5. advising on taxation matters.

**Objectives of Accounting**
Answering the following questions: (1) How much we have earned this year? (2) How much was earned during the last year? (3) Is our business improving? (4) How much cash do we have? (5) How much money we owe?

1. To maintain the cash accounts through the Cash Book
2. To maintain various day-to-day recording for cash and non-cash transactions.
3. To maintain various Ledger Accounts to find out the exact amounts of incomes and expenses
4. To information regarding Purchases and Sales, both Cash and Credit.
5. To find out the net profit or net loss for any particular period.
6. To find out the total capital on a particular date.
7. To find out the positions of assets on a particular date.
8. To find out the position of liabilities on a particular date.
9. To detect any defalcations and to check the frauds and misappropriations of money.
10. To confirm about the arithmetical accuracy of the books of accounts.
11. To calculate the cost of productions.
12. To help the management formulate policies for controlling cost

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<thead>
<tr>
<th><strong>ADVANTAGES</strong></th>
<th><strong>DISADVANTAGES</strong></th>
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<tr>
<td>Provides financial information about the business</td>
<td>Accounting ignores non monetary transactions</td>
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<td>Provides assistance to management</td>
<td>Accounting information is sometimes based on estimates which may be unrealistic</td>
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<td>Helps in comparison of financial results</td>
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<td>- comparison of its own results of different years</td>
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<td>- comparison of financial results with other firms in the industry</td>
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<td>Helps in decision making</td>
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<td>Accounting information can be used as an evidence in legal matters</td>
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<td>Helps in valuation of the business</td>
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**THE ACCOUNTING CYCLE**, also commonly referred to as *accounting process*,
is a series of procedures in the collection, processing, and communication of financial information. Accounting involves recording, classifying, summarizing, and interpreting phases.
BAD MMGC

1. **B-** The business and its owner(s) are two separate existence entity. Any private and personal incomes and expenses of the owner(s) should not be treated as the incomes and expenses of the business Example:
   - Insurance premiums for the owner’s house should be excluded from the expense of the business
   - The owner’s property should not be included in the premises account of the business

2. **A-** It is the period for which books are balanced and the financial statements are prepared. Generally, the accounting period consists of 12 months. However the beginning of the accounting period differs according to the jurisdiction. For example one entity may follow the regular calendar year, i.e. January to December as the accounting year, while another entity may follow April to March as the accounting period.

3. **D-** This state that there are two aspects of accounting, one represented by the assets of the business and the other by the claims against them. The concept states that these two aspect are always equal to each other. In other words, this is the alternate form of the accounting equation: \[\text{Assets} = \text{Liabilities} + \text{Capital}\]. Dual aspect concept is known as "Double Entry Book Keeping System".

4. **M-** Revenues are recognized when they are earned, but not when cash is received. Expenses are recognized as they are incurred, but not when cash is paid. Example:
   - Expenses incurred in the following period but paid for in advance should be treated as prepayment expenses under current asset
   - Depreciation should be charged as part of the cost of a fixed asset consumed during the period of use

5. **M-** All transactions of the business are recorded in terms of money. It provides a common unit of measurement Examples:
   - Market conditions, technological changes and the efficiency of management would not be disclosed in the accounts

6. **G-** The business will continue in operational existence for the future. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise. In this the accountant makes the accounts thinking in his mind that the company is not going to liquidate or end in the coming future.

7. **C-** Cost concept means that the amount where any asset is bought is to be written in the financial statement. The marked price is not to be written here but exact the amount in which the asset is bought should be written. Business transactions should be recorded at cost. The term cost means the sacrifice that one makes for purchase of any goods or services.
COMPUTERIZED ACCOUNTING” is accounting done with the aid of a computer. It tends to involve dedicated accounting software and digital spreadsheets to keep track of a business or client’s financial transactions.

**COMPUTERIZED ACCOUNTING**

Computerized accounting allows users to input information into accounting software programs. Accounting software processes data and creates reports much faster. Calculations are done automatically in software programs, minimizing errors and increasing efficiency. Once data is input, you can create reports literally by pressing a button in a computerized system.

**MANUAL ACCOUNTING**

In a manual accounting system, you have to prepare your company's income statement, balance sheet and statement of owner's equity by hand. Manual accounting systems may be mathematical errors and misplaced numbers.

### Advantages

**Speed** Computerized accounting produces information much faster than manual accounting. Accounting software packages, such as QuickBooks and Peachtree, come with built-in databases that allow users to input data.

**Accuracy** Manual accounting systems are prone to mathematical errors and misplaced numbers. With a computerized accounting system, your company data is automatically calculated based on numbers you input.

**Financial Statements** In a manual accounting system, you have to prepare your company's income statement, balance sheet and statement of owner's equity by hand. Information from your journal entries helps formulate your company's financial statements. Computerized accounting systems allow financial statements to be created from information stored in the database.

**Cost** The cost of computerized accounting systems can range from hundreds to thousands of dollars for large businesses. A computerized accounting system may save on man hours used for creating financial statements and other reports. For this reason, many small and mid-sized businesses use computerized accounting software. Reports are created in a timely manner when using a computerized accounting system. Reports generated from computerized accounting software allow managers to run the company in a more efficient manner. Creating reports in a manual accounting system may lead to more staff frustration and result in having to work with outdated information.

**Backup** A third difference between manual and computerized systems is the ease of backup of a computerized system. All transactions can be saved and backed up, in case of fire or other mishap. You cannot do this with paper records, unless you make copies of all pages—a long and inefficient process.
**Conventions**

1. **Conservatism**

This concept emphasizes that profit should never be overstated or anticipated. Traditionally, accounting follows the rule "anticipate no profit and provide for all possible losses. For example, the closing stock is valued at cost price or market price, whichever is lower. The effect of the above is that in case market price has come down then provide for the 'anticipated loss' but if the market price has gone up then ignore the 'anticipated profits'.

2. **Realization**

Accounting is a historical record of transactions. It records what has happened. It does not anticipate events. This is of great importance in preventing business firms from inflating their profits by recording sales and income that are likely to accrue.

3. **Consistency**

In order to enable the management to draw important conclusions regarding the working of the company over a few years, it is essential that accounting practices and methods remain unchanged from one accounting period to another. The comparison of one accounting period with that of another is possible only when the convention of consistency is followed.

4. **Disclosure**

This principle implies that accounts must be honestly prepared and all material information must be disclosed therein. The contents of Balance Sheet and Profit and Loss Account are prescribed by law. These are designed to make disclosure of all material facts compulsory.