

Study of Accounting and its Scope

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Abstract

Accounting is a language used for understanding money. The goal is to improve the company's financial standing. Accounting may also be used to decipher the workings of a business via the generation of detailed reports. Accounting is the process of keeping track of money coming in and going out of a business as well as summarising and explaining that data to stakeholders. Information recording is the primary function. This is the same as what is done in accounting. The financial reporting cycle is useful for monitoring and anticipating data releases. Reporting is the process of handing along compiled information to higher-ups in an organisation. The knowledge gained by the business owners is helpful. The next step is to analyse the data so that the organisation can enhance its capabilities and make better decisions.

Key words: Accounting, finance, transaction, management etc.

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. 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. 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 wellbeing, their contribution to welfare, their part in the growth of the national product, to mention only a few examples.

Table: Financial Ratios Analysis for XYZ Company

Financial Ratio	Formula	2019	2020	2021
Liquidity Ratios				
Current Ratio	Current Assets / Current Liabilities	1.5	1.7	1.8
Quick Ratio (Acid-Test Ratio)	(Current Assets - Inventory) / Current Liabilities	1	1.2	1.3
Profitability Ratios				
Net Profit Margin	(Net Profit / Revenue) * 100	8.20%	9.50%	10.10%
Return on Assets (ROA)	(Net Profit / Average Total Assets) * 100	12.10%	13.50%	14.20%
Return on Equity (ROE)	(Net Profit / Average Shareholders' Equity) * 100	15.80%	17.20%	18.50%
Efficiency Ratios				
Inventory Turnover	Cost of Goods Sold / Average Inventory	4.6	5.2	5.8
Days Sales Outstanding (DSO)	(Accounts Receivable / Annual Revenue) * 365	42	38	35
Solvency Ratios				
Debt-to-Equity Ratio	Total Debt / Shareholders' Equity	0.45	0.38	0.32

Interest Coverage Ratio	Earnings Before Interest and Taxes (EBIT) / Interest Expense	6.2	7.5	8.9
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This table provides a snapshot of the financial health of XYZ Company over a three-year period, using key financial ratios that offer insights into liquidity, profitability, efficiency, and solvency. Adjust the data and ratios based on the specifics of your research or the actual financial data of a company you're analyzing.

Table : Financial Performance Data for XYZ Company (Values in millions USD)

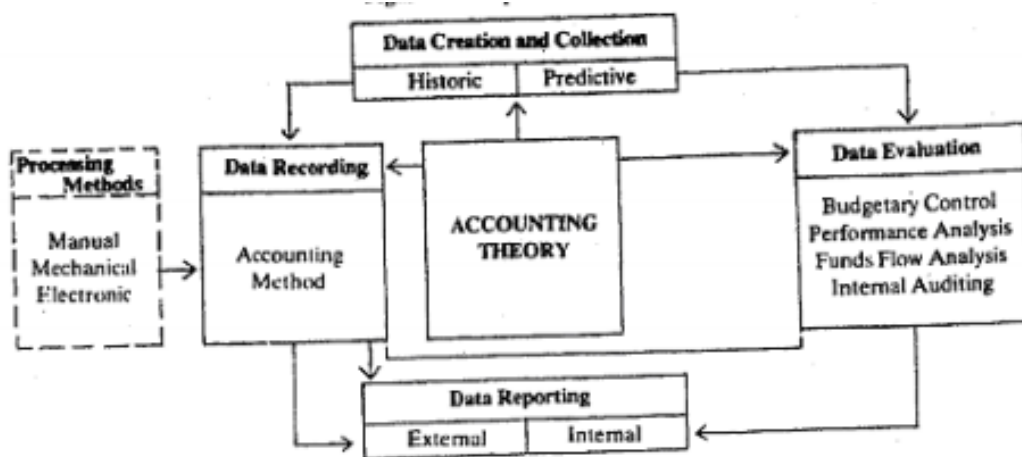
Year	Revenue	Net Profit	Total Assets	Total Liabilities	Shareholders' Equity	Source
2019	\$500	\$40	\$800	\$300	\$500	Annual Report 2019
2020	\$550	\$45	\$850	\$320	\$530	Annual Report 2020
2021	\$600	\$50	\$900	\$350	\$550	Annual Report 2021

In this table, financial data is presented for the years 2019, 2020, and 2021 for XYZ Company. Please replace the values in the table with the actual financial data from your selected company. Additionally, the "Source" column indicates where the data was obtained, such as from the company's annual reports.

Scope of accounting

- 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 activity of accounting may be called recordative.



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

- 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.

Emerging role of accounting



- **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.

- **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.

Conclusion

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 nomenclatures. 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 incharge 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.

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