

ISAIAH THOMAS SECONDARY SCHOOL

PRINCIPLES OF ACCOUNTS

FORM 4

The purpose of Accounting

The decision makers in businesses of every kind have certain common information needs. They require information on the amount of resources that they have available for use in their operations. Two important resources that all organizations make use of are money and stock. Managers need to know what store of money is available to them to meet expenses when they become due to be paid. They need to know what money is coming into the business in a short time, through sales for example. They need to keep a close check on the amount and value of different items of stock. Debts have to be carefully recorded and paid off on or before their due date. Of greatest importance is the responsibility of business to owner/s.

The owners are very interested in such things as whether or not the business is making a profit; meeting its obligation; increasing the value of resources and remaining a thriving business. People interested in investing in a business, employees and government offices are also interested in having information about the financial affairs of a business. **The main purpose of accounting therefore is the provision of information for decision making.**

Accounting Systems

An accounting system performs two processes: bookkeeping and accounting

- **Bookkeeping** is the recording of activities that affect the finances of a business in special books using particular rules.
 - **Accounting** is a system of measuring; interpreting and reporting the information from bookkeeping so that owners, managers and other interested persons can make the decisions that keep a business "in business".
-
- Bookkeeping records financial transactions. Transactions are business activities involving exchanges of things with financial value.
 - Accounting defines the financial resources or assets of a business; that is what the business owns.
 - Accounting defines the liabilities or obligations of the business to the owners
 - Accounting records the ongoing operations of a business
 - Accounting defines capital or equity as the name given to the value of the owner/s interest in the business.
 - Finally, accounting is carried out under certain rules called principles, assumptions, conventions or concepts.