

# **Basic Accounting (BA) For JAIBB**

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## **Suggestion:**

- ***Read 4 star and 5 star marked chapter if you have time shortage to read all chapter.***
- ***Must read short notes from all chapter.***
- ***MetaMentor Center suggest to read whole note to find 100% common in exam. We cover everything in our note.***

<b>Important</b>	<b>Details</b>	<b>Number of Question common in previous years</b>
*****	Module A: Introduction	
*****	Module B: Processing and Recording of Accounting Information	
**	Module C: Analysis of Financial Statements	
*****	Module D: Financial Statements	
**	Module E: Financial Statements of Banks in Bangladesh	
*****	Module F: Other Forms of Business Organizations	
*****All short note from all chapter and end of note *****		

## **Syllabus**

### **Module A: Introduction**

Accounting, Functions of Accounting, Purpose of Accounting, Nature of Accounting, Uses and Users of Accounting, Accounting Principles, Basic Concepts of Accounting (Recording Stage), Accounting Standards and Regulations, Forms of Business Organizations and Accounting, Accounting Systems, Assets, Liabilities, and Owners' Equity, Accounting: An Integral Part of Business, Relationship of Accounting with Other Subjects, Difference Between Book-Keeping and Accounting, Methods of Accounting, Evolution of Accounting, Branches of Accounting, Challenges Faced by the Accounting Profession Today, Role of Ethics in Accounting, Synonyms for Accounting Terminologies, Limitations of Accounting, Concept Check Questions.

### **Module B: Processing and Recording of Accounting Information**

Introduction, Transaction, Difference between events and economic events/transactions in accounting, Systems of book-keeping, Purpose of Double Entry System of Book-keeping, Account, Classification of accounts in accounting, Golden Rules of Debit and Credit for different Types of Transactions, Steps in the Recording Process, Analysis of Transactions, Recording of Transaction, Journal, Types of Journal in Accounting, Forms of Journals, Transaction of different types and Journalising thereof, Ledger, Forms of Ledger Accounts, Importance of Ledger, Posting to the ledger, Trial Balance, Steps involved in preparing a Trial Balance, Advantages of Trial Balance, Limitations of a Trial Balance, Errors in accounting that can be detected in the trial balance, Practical Problems: Transaction Analysis, Journal, Ledger and Trial Balance, Accounting for Fixed Assets, Determining the cost of plant assets, Depreciation Methods for Plant Assets, Straight-Line Depreciation Method, Units-of-Activity Depreciation Method, Declining-Balance Depreciation Method, Choosing the Appropriate Depreciation Method, Practical Problems, Reversing Periodic Depreciation for XYZ Ltd. Account for the Disposal of Plant Assets, Retirement of Plant Assets, Practical Problems: Accounting For Fixed Assets, Accrual versus Cash-Basis Accounting, Recognizing Revenues and Expenses, The Need for Adjusting Entries, Types of Adjusting Entries, Prepare Adjusting Entries for Deferrals, Prepare Adjusting Entries for Accruals, The Nature and Purpose of an Adjusted Trial Balance, Preparing the Adjusted Trial Balance, Short Questions.

### **Module C: Analysis of Financial Statements**

Financial Statement Analysis, Tools for Financial Statement Analysis, Classification of Ratios, Fundamental Ratios, Analysis of Different Ratios, Illustrations, Practical Problems, Short Questions.

### **Module D: Financial Statements**

Financial Statements, Objectives of Financial Statements, Components of Financial Statements, Example Balance Sheet of a Trading Firm, Example Balance Sheet of a Manufacturing Firm, Income Statement (IS), Structure of income statement, Income Statement for a Trading Firm, Income Statement for a Manufacturing Firm, Income Statement for a Service-Rendering Firm, Statement of Cash Flows, The Purpose/ Objectives/ Importance of the Statement of Cash Flows, Sections of Cash Flow Statement, Sources of Data to prepare the Cash Flow Statement, Cash Flows Should Be Presented Gross, Not Net, Operating Activities- Direct or Indirect Method? Cash Flow from Operating Activities: Direct Method, Cash Flow from Operating Activities - Indirect Method, Direct Exchange Transactions, Format and

Example of Cash Flow Statement, Interpretation of the Statement of Cash Flows, Real Financial Statements of Manufacturing Firms (Square Pharmaceuticals PLC), Real Financial Statements of Service Rendering Firms (Grameephone PLC), Practical Problems, Short Questions.

### **Module E: Financial Statements of Banks in Bangladesh**

Introduction, Types of Financial Statements for Banks, Key Components of Bank Financial Statements, Importance of Financial Statements, Regulatory Framework for Bank Financial Statements: Key Disclosures and Reporting Requirements, Structure, contents and Instructions for preparation of financial statements of Banks, Financial Statements of Shariah-based Banks in Bangladesh: Key Aspects, Regulations, and Comparisons, Regulatory Framework for Shariah-based Banks in Bangladesh, Financial Statements of Shariah-based Banks, Key Differences in Financial Statements, Key Differences between Shariah-based and Conventional Banking Products, Other Relevant Considerations for Shariah-based Banks, Actual Financial Statements of Conventional Banks (Eastern Bank PLC), Actual Financial Statements of Shariah-based Banks (Islami Bank Bangladesh PLC), Short Questions.

### **Module F: Other Forms of Business Organizations**

Introduction, Sole Proprietorship Businesses, Characteristics of Sole Proprietorship Businesses, Tax Implications of Sole Proprietorship Businesses, Financial Reporting of Sole Proprietorship Businesses, Financial Transparency and Lender Considerations for Sole Proprietorship Businesses, Compliance and Other Relevant Issues for Sole Proprietorship Businesses, Partnership Firms in Bangladesh, Characteristics of a Partnership Firm, Accounting Concepts in a Partnership Firm, Financial Reporting of a Partnership Firm, Advantages of a Partnership Firm, Disadvantages of a Partnership Firm, Taxation of a Partnership Firm in Bangladesh, Compliance and Regulatory Issues, Lenders' Perspective on Lending to a Partnership Firm, Differences between Single Owner Business and Partnership Firms (With Focus on Accounting and Lenders' Perspectives), Corporations in Bangladesh -Private Limited Corporations and Public Limited Corporations, Characteristics of Private Limited and Public Limited Corporations, Key Accounting Concepts and Financial Reporting, Advantages and Disadvantages of Private and Public Limited Corporations, Compliance Requirements, Differences between Private Limited Corporations and Public Limited Corporations, Lenders' Perspectives on Lending to Private and Public Limited Corporations, Joint Venture, Characteristics of Joint Ventures, Accounting Concepts for Joint Ventures, Financial Reporting, Taxation Issues, Compliance with Laws and Regulations, Advantages of Joint Ventures, Disadvantages of Joint Ventures, Financial Reporting Issues, Lenders' Perspective, Taxation and Compliance from Lenders' View, Hindu Undivided Family (HUF), Characteristics of HUF, Accounting Concepts and Financial Reporting for HUF, Financial Reporting Standards for HUF, Taxation of HUF in Bangladesh, Compliance Requirements, Advantages of HUF, Disadvantages of HUF, Lenders' Perspective on Dealing with HUF, Short Questions.

## **Module-A:**

### **Introduction**

#### **Q-01. What is Accounting? Explain its purpose in business.**

Accounting is the systematic process of identifying, recording, classifying, summarizing, and interpreting financial transactions of a business or organization. It helps to measure the financial performance and position of a business over a specific period. Accounting provides essential financial information to various users such as owners, managers, investors, creditors, and regulatory bodies to make informed decisions. It ensures proper control over income, expenses, assets, and liabilities. Through financial statements like the balance sheet and income statement, accounting shows how much profit a business has earned or how many resources it owns. Accounting is often called the “language of business” because it communicates the financial health of an organization clearly and accurately.

#### **Q-02. What are the main functions of accounting in a business?**

The main functions of accounting are as follows:

1. **Recording:** Accounting records all business transactions in a systematic and chronological manner.
2. **Classifying:** It groups similar transactions under proper heads (e.g., sales, rent, salary).
3. **Summarizing:** Accounting prepares financial statements like the income statement and balance sheet.
4. **Analyzing:** It helps examine financial results and compare them with past performance.
5. **Interpreting:** It presents financial data in a way that is easy for users to understand.
6. **Communicating:** Accounting shares financial reports with internal and external users like owners, banks, and tax authorities.
7. **Compliance:** It ensures legal and tax rules are followed by keeping proper records.

These functions help in managing, planning, and controlling business operations.

#### **Q-03. What is the purpose of accounting in business operations?**

The purposes of accounting in business include:

1. **Decision-Making Support:** Provides financial data to help managers and owners make informed decisions.
2. **Financial Position Monitoring:** Shows assets, liabilities, income, and expenses to understand business health.
3. **Profitability Measurement:** Helps calculate profit or loss over a specific period.
4. **Legal and Tax Compliance:** Maintains records required by law and tax authorities.
5. **Budgeting and Planning:** Assists in preparing budgets and future financial planning.
6. **Internal Control:** Tracks all transactions to prevent fraud and ensure accountability.
7. **Investor and Lender Confidence:** Builds trust by presenting transparent financial statements.

**Performance Evaluation:** Compares past and present results for business improvement.

**Q-04. Who are the users of accounting information? Explain with examples.**

Accounting information is used by various individuals and groups to make financial decisions. These users can be divided into **internal** and **external** users.

**Internal users** are people within the organization. For example:

1. **Owners and Managers** use accounting data to plan, control, and make business decisions.
2. **Employees** may use financial statements to judge job stability and company performance.

**External users** are those outside the business. They include:

1. **Investors** who need financial reports to decide whether to invest in the company.
2. **Creditors and Banks** use accounting information to assess whether the company can repay loans.
3. **Government and Tax Authorities** use it to ensure the business follows laws and pays correct taxes.

In short, accounting helps both inside and outside users understand the financial position of a business.

**Q-05. What are the main uses of accounting in a business organization?**

The main uses of accounting are:

1. **Recording Transactions:**
  - Accounting keeps a systematic and chronological record of all business transactions.
2. **Financial Decision-Making:**
  - Managers use accounting data to make informed decisions about budgeting, pricing, and investing.
3. **Profitability Analysis:**
  - It helps determine whether a business is making a profit or incurring losses.
4. **Resource Management:**
  - Accounting shows what the business owns (assets) and owes (liabilities), helping in managing resources.
5. **Compliance with Laws:**
  - Helps in preparing tax returns and fulfilling legal and government reporting requirements.
6. **Performance Measurement:**
  - Owners and shareholders assess the business's success using accounting reports.
7. **Attracting Investors and Loans:**
  - Investors and creditors rely on accounting information to decide on investing or lending.
8. **Fraud Detection and Control:**
  - Accurate records help prevent and detect errors and fraud.

**Q-06. What are accounting principles? Explain with examples.**

Important accounting principles are:

1. **Business Entity Principle:** Treats business and owner as separate.
2. **Going Concern Principle:** Assumes the business will continue operating.
3. **Money Measurement Principle:** Records only monetary items.
4. **Cost Principle:** Records assets at original purchase cost.
5. **Revenue Recognition Principle:** Records revenue when it is earned.

6. **Matching Principle:** Matches expenses with related revenues.
7. **Accrual Principle:** Recognizes income and expenses when they occur.
8. **Full Disclosure Principle:** Shares all important financial information.
9. **Consistency Principle:** Uses the same methods from period to period.
10. **Conservatism Principle:** Chooses lower profit when in doubt.
11. **Objectivity Principle:** Uses factual and verifiable data.
12. **Materiality Principle:** Ignores small amounts that don't affect decisions.

**Q-07. What are the basic concepts of accounting at the recording stage?**

The recording stage in accounting is based on several important concepts that guide how transactions are recorded. These include:

1. **Business Entity Concept:** The business is separate from the owner.
2. **Money Measurement Concept:** Only transactions in monetary terms are recorded.
3. **Historical Cost Concept:** Assets are recorded at their original cost.
4. **Dual Aspect Concept:** Every transaction affects two accounts (debit and credit).
5. **Accounting Period Concept:** Financial records are prepared for specific time periods (e.g., one year).

These concepts ensure that all transactions are recorded properly, consistently, and clearly. They form the foundation of the double-entry system and help in preparing accurate financial statements.

**Q-08. What are accounting standards and regulations? Explain their role in financial reporting.**

Accounting standards are a set of written rules that tell businesses how to record and present their financial activities. These standards help make financial reports clear, accurate, and easy to compare between different companies. In Bangladesh, these are called **BFRS** (Bangladesh Financial Reporting Standards) and are issued by **ICAB** (Institute of Chartered Accountants of Bangladesh).

Accounting regulations are the legal rules and guidelines given by authorities like **Bangladesh Bank**, **NBR**, or **BSEC**. They make sure companies follow the proper procedures in financial reporting. Together, accounting standards and regulations help ensure that financial statements are trustworthy, protect the interest of users like investors, and prevent misuse or fraud in financial reporting.

The roles of accounting standards and regulations in financial reporting are:

1. **Ensure Accuracy:** They guide how to record and present financial information correctly.
2. **Maintain Consistency:** All businesses follow the same rules, so reports are easy to compare.
3. **Support Transparency:** Users can clearly understand the financial condition of a business.
4. **Build Trust:** Investors, creditors, and stakeholders rely on standard-based reports.
5. **Prevent Fraud:** Regulations help stop misuse or manipulation of financial data.
6. **Meet Legal Requirements:** Companies must follow national and international rules.
7. **Aid Decision-Making:** Reliable reports help owners and investors make better decisions.

**Q-09. What are the different forms of business organizations and how do they affect accounting?**

Business organizations can be formed in different ways, and each form affects accounting differently. The main types are:

1. **Sole Proprietorship:**



- One person owns and manages the business.
- Simple accounting; business and owner's records are often kept together.

**2. Partnership:**

- Two or more people share ownership.
- Accounting must show capital, profit-sharing, and transactions for each partner.

**3. Corporation (Company):**

- A separate legal entity from its owners (shareholders).
- Requires detailed financial reporting and follows company law.

**Different forms of business affect accounting based on ownership, capital, and legal status.**

- In a **sole proprietorship**, the owner and business are treated as the same. Accounting is simple, and personal and business records may mix.
- In a **partnership**, each partner's capital, share of profit/loss, and drawings must be recorded separately. Partnership agreements also affect accounting.
- In a **corporation**, the business is separate from owners. It must follow legal rules, maintain detailed records, and prepare financial statements for shareholders and regulators.

Each form changes how capital, income, taxes, and liabilities are recorded. The more complex the form, the more detailed the accounting becomes.

**Q-10. Why is a corporation considered a separate legal entity?**

A **corporation** is treated as a **separate legal entity** for the following reasons:

**1. Own Legal Identity:**

- A corporation can act in its own name, independent of its owners.

**2. Limited Liability:**

- Shareholders are not personally liable for company debts beyond their investment.

**3. Owns Property:**

- The corporation can buy, sell, or hold assets in its own name.

**4. Can Sue or Be Sued:**

- A corporation can enter legal proceedings independently of its owners.

**5. Separate Accounting and Taxation:**

- It maintains separate books of accounts and pays taxes separately.

**6. Perpetual Existence:**

- The corporation continues to exist even if owners change or die.

These features make corporations suitable for large businesses and secure for investors.

**Q-11. What is an accounting system? Explain its types and importance in business.**

An accounting system is a method used by a business to record and manage its financial transactions. It helps to keep track of money coming in (income) and money going out (expenses). The system records, classifies, and summarizes all financial data so that owners and managers can understand the financial position of the business.

A good accounting system includes processes like recording transactions in journals, posting to ledgers, preparing trial balances, and making financial reports such as income statements and balance sheets. It can be manual (paper-based) or computerized (software-based).



The main goal of an accounting system is to produce accurate financial information for decision-making, tax reporting, and legal compliance.

**There are two main types of accounting systems:**

**1. Manual Accounting System:**

- In this system, all transactions are recorded by hand in books such as journals and ledgers.
- It is low-cost and simple but time-consuming and more prone to errors.
- Mostly used by small businesses with fewer transactions.

**2. Computerized Accounting System:**

- This system uses accounting software (like Tally, QuickBooks) to record and manage transactions.
- It is fast, accurate, and can handle large volumes of data.
- It also helps in generating reports automatically and reduces the chances of mistakes.

An accounting system is very important for running a business smoothly. It helps to:

- 1. Record Transactions:** Keeps a complete and organized record of all business activities.
- 2. Prepare Financial Statements:** Helps in making income statements, balance sheets, and cash flow statements.
- 3. Support Decision-Making:** Provides accurate data for owners and managers to make smart financial decisions.
- 4. Ensure Legal Compliance:** Helps in proper tax calculation and meeting government regulations.
- 5. Control Business Costs:** Tracks income and expenses to reduce unnecessary spending.
- 6. Build Investor Confidence:** Transparent records help gain trust from investors and banks.
- 7. Prevent Errors and Fraud:** Maintains accuracy and accountability in financial records.

In short, a strong accounting system is key to managing, growing, and protecting any business.

**Q-12. Why is a computerized accounting system preferred by large businesses?**

Large businesses prefer a **computerized accounting system** because it offers several advantages:

**1. Speed and Efficiency:**

- Transactions are recorded and processed quickly, saving time.

**2. Accuracy:**

- Reduces human errors in calculations and data entry.

**3. Real-Time Reporting:**

- Provides up-to-date financial reports anytime.

**4. Data Storage and Security:**

- Safely stores large volumes of data with backup and password protection.

**5. Easy Access and Integration:**

- Can be accessed by multiple users and connected with inventory, payroll, and banking systems.

**6. Regulatory Compliance:**

- Helps generate reports required by tax authorities, auditors, and regulators.

These features make computerized systems ideal for handling complex transactions and large data in big businesses.

**Q-13. What are the types of accounting methods? Explain with examples.****Or, What are the two main methods of accounting?**

There are two main types of accounting methods: **Cash Accounting** and **Accrual Accounting**.

**1. Cash Accounting Method:**

- In this method, income is recorded only when cash is received, and expenses are recorded when they are paid.
- It is simple and suitable for small businesses.
- Example: If a business receives payment in January, it records income in January, even if the sale happened earlier.

**2. Accrual Accounting Method:**

- Income and expenses are recorded when they are earned or incurred, not when cash is received or paid.
- It gives a more accurate financial picture and is required for large businesses.
- Example: If goods are sold in December but payment is received in January, income is recorded in December.

**Q-14. How does the accrual method differ from the cash method?**

<b>Point of Difference</b>	<b>Accrual Method</b>	<b>Cash Method</b>
1. Timing of Recording	Records transactions when they occur, not when cash moves	Records transactions only when cash is received or paid
2. Revenue Recognition	Revenue is recorded when earned	Revenue is recorded when cash is received
3. Expense Recognition	Expenses are recorded when incurred	Expenses are recorded when cash is paid
4. Accuracy	Provides a more accurate financial picture	Less accurate for long-term analysis
5. Complexity	More complex and requires adjustments	Simpler and easy to use
6. Business Size	Suitable for medium to large businesses	Suitable for small businesses only

**Q-15. Which accounting method—accrual or cash—gives a more accurate picture of financial performance? Explain**

The **accrual accounting method** gives a more accurate picture of financial performance compared to the **cash method**. Here's why:

**1. Matches Revenue with Expenses:**

- Accrual method records income and related expenses in the same period.

**2. Reflects Real Business Activities:**

- It shows what has been earned and owed, not just cash movements.

**3. Recognizes Credit Transactions:**

- Includes sales and purchases made on credit, unlike cash method.

**4. Follows Accounting Standards:**

- Required by IFRS, BFRS, and for larger businesses.

**5. Supports Long-Term Analysis:**

- More useful for measuring profitability over time.

**6. Better Decision-Making:**

- Helps managers, investors, and stakeholders understand true financial status.

**Q-16. What are assets, liabilities, and owners' equity in accounting? Explain with examples.**

**Or, Define the accounting equation and explain the terms assets, liabilities, and owners' equity with examples.**

In accounting, a company's financial position is shown by three key elements: **assets, liabilities, and owners' equity**. These are part of the **basic accounting equation**:

**Assets = Liabilities + Owners' Equity**

**1. Assets:**

- Assets are resources owned by the business that have value.
- Examples: cash, buildings, equipment, inventory, and accounts receivable.

**2. Liabilities:**

- Liabilities are the debts or obligations the business owes to others.
- Examples: bank loans, accounts payable, and utility bills.

**3. Owners' Equity:**

- Owners' equity is the owner's claim on the business after all liabilities are deducted from assets.
- It includes the capital invested and retained earnings (profits kept in the business).

**Q-17. What is the expanded accounting equation? Explain its components with examples.**

The **expanded accounting equation** shows the detailed relationship between a company's assets, liabilities, and different parts of owners' equity. It is written as:

**Assets = Liabilities + Owner's Capital + Revenues – Expenses – Drawings**

This equation helps explain how business activities affect financial position.

- **Assets:** Resources owned by the business (e.g., cash, inventory).
- **Liabilities:** Amounts the business owes (e.g., loans, payables).
- **Owner's Capital:** Money invested by the owner.
- **Revenues:** Income earned from business operations (e.g., sales).
- **Expenses:** Costs incurred to earn revenue (e.g., rent, salaries).
- **Drawings:** Money withdrawn by the owner for personal use.

**Example:**

If a business has cash (asset) from sales, it increases both assets and revenues. If the owner withdraws money, it decreases both assets and equity (drawings).

The expanded equation helps track how each transaction affects overall financial position.

**Q-18. Accounting: An Integral Part of Business-discuss.**

Accounting is an essential part of every business because it helps keep a clear record of financial activities. A business earns money, spends money, buys assets, takes loans—accounting records all these transactions in an organized way.

With proper accounting, a business can prepare financial statements like the **income statement**, **balance sheet**, and **cash flow statement**. These reports show the financial position and performance of the business.

Owners and managers use accounting to make informed decisions such as budgeting, investing, and cost control. It also helps fulfill legal duties like paying taxes and reporting to authorities.

Accounting builds trust with investors, banks, and other stakeholders by showing accurate and transparent financial data. Without accounting, a business cannot track performance or plan for the future.

In short, accounting works like the **backbone of business operations**, supporting every part of business success.

**Q-19. What is the relationship of accounting with other subjects? Explain in short.**

**1. Economics:**

Accounting helps measure business costs, revenues, and profits.

Economic principles guide decision-making based on accounting data.

**2. Management:**

Managers use accounting reports for budgeting, planning, and control.

It supports performance evaluation and business strategy.

**3. Statistics:**

Statistical tools are used to analyze and interpret accounting data.

It helps in forecasting, ratio analysis, and trend identification.

**4. Law:**

Accounting follows legal rules like tax laws and company regulations.

Proper accounting ensures compliance with government standards.

**5. Information Technology (IT):**

Modern accounting relies on software and digital systems.

IT improves the speed and accuracy of financial reporting.

**6. Finance:**

Finance uses accounting records for investment and funding decisions.

Accounting forms the base for financial planning and analysis.

**Q-20. What is the difference between book-keeping and accounting?**

Point of Difference	Book-Keeping	Accounting
1. Meaning	Recording daily business transactions	Summarizing, analyzing, and reporting financial data
2. Scope	Narrow – only records data	Broader – includes recording, analysis, and reporting
3. Objective	Maintain accurate records	Measure performance and support decision-making
4. Skills	Basic clerical skills	Analytical and professional knowledge

Required		
5. Output	Journal and ledger	Financial statements like income statement, balance sheet
6. Decision Support	Not useful for decision-making	Helps managers and investors make decisions

**Q-21. How has accounting evolved over time? Explain in points.**

The evolution of accounting happened gradually over many years:

- 1. Ancient Period (3000 BC):**
  - In Mesopotamia, people used clay tablets to record crops, animals, and trade.
- 2. Roman & Greek Times:**
  - Governments and merchants kept basic records of income and expenses.
- 3. Double-Entry System (1494):**
  - Introduced by **Luca Pacioli** in Italy. It became the base of modern accounting with the rule of debit and credit.
- 4. Industrial Revolution (18th–19th Century):**
  - Businesses grew, and accounting expanded to include cost accounting, auditing, and financial reports.
- 5. Standardization (20th Century):**
  - Professional bodies like **ICAB**, **IFRS**, and **GAAP** created rules to make accounting consistent and fair.
- 6. Modern Era (21st Century):**
  - Computerized and cloud-based accounting, AI tools, and digital reporting systems are now widely used.

Accounting has evolved from simple record-keeping to a global system supporting business decisions.

**Q-22. What are the main branches of accounting?**

Accounting has different branches to meet the needs of various users. The main branches are:

- 1. Financial Accounting:**
  - Records business transactions and prepares financial statements like income statement and balance sheet for external users such as investors, banks, and regulators.
- 2. Cost Accounting:**
  - Helps in calculating the cost of products or services. It supports pricing, budgeting, and controlling production costs.
- 3. Management Accounting:**
  - Provides financial and non-financial information to managers for planning, decision-making, and performance evaluation.
- 4. Tax Accounting:**
  - Focuses on preparing tax returns and ensuring compliance with tax laws and regulations.
- 5. Auditing:**
  - Involves examining financial records to ensure accuracy and fairness. Can be internal or external.
- 6. Forensic Accounting:**
  - Uses accounting to investigate fraud and financial crimes. Often used in legal matters.

Each branch plays a unique role in supporting business operations and financial control.

**Q-23. What are the main branches of accounting?**

There are **three main branches of accounting** that are widely recognized in textbooks and professional practice:

**1. Financial Accounting:**

– This branch records business transactions and prepares financial reports such as the income statement and balance sheet. It serves external users like investors, creditors, and regulators.

**2. Cost Accounting:**

– Cost accounting deals with calculating the cost of products or services. It helps in controlling production costs and setting prices.

**3. Management Accounting:**

– This branch provides information to internal users (managers) to support planning, decision-making, budgeting, and performance evaluation.

**Q-24. What are the major challenges faced by the accounting profession today?**

The accounting profession today faces several important challenges due to changes in technology, regulations, and global business practices:

- 1. Rapid Technological Changes:** Accountants must adapt to new software, automation, AI, and digital reporting systems.
- 2. Cybersecurity Risks:** With more digital data, protecting financial information from hacking and fraud has become a big concern.
- 3. Changing Accounting Standards:** Frequent updates in IFRS, BFRS, and tax laws require accountants to stay updated constantly.
- 4. Increased Regulatory Pressure:** Accountants face stricter compliance requirements from regulatory bodies like Bangladesh Bank, NBR, and BSEC.
- 5. Ethical Issues:** Maintaining professional ethics in a competitive and profit-driven environment is a growing challenge.
- 6. Globalization:** Accountants now need to understand cross-border transactions and international standards.

These challenges demand that modern accountants become more tech-savvy, ethically responsible, and globally aware.

**Q-25. What is the role of ethics in accounting?**

Ethics in accounting means following moral principles like honesty, integrity, fairness, and responsibility when recording and reporting financial information. The role of ethics is very important because accounting involves handling money, reporting to the public, and building trust.

- 1. Accuracy and Honesty:** Accountants must record all transactions truthfully, without hiding or changing facts.
- 2. Public Trust:** Investors, banks, and regulators rely on financial statements. Ethical accounting builds their confidence.
- 3. Legal Compliance:** Ethics helps accountants follow laws, standards, and professional codes.
- 4. Avoiding Fraud:** Unethical practices like misreporting income or hiding expenses lead to fraud and legal penalties.

- 5. Professional Responsibility:** Accountants must stay neutral and not be influenced by pressure from management or clients.

**Q-26. What are some common synonyms for accounting terminologies? Explain with examples.**

In accounting, many terms have alternative words or synonyms that carry similar meanings. These help in understanding financial reports and solving questions effectively.

Some important examples include:

- **Accounting** – Bookkeeping, accountancy, financial record-keeping
- **Balance Sheet** – Statement of financial position, financial statement
- **Accounts Receivable** – Money owed to a business (debtors)
- **Accounts Payable** – Money a business owes to others (creditors)
- **Accrual** – Income or expense recognized before cash is received or paid
- **Auditing** – Examination, inspection, review of accounts
- **Depreciation** – Amortization, reduction in asset value
- **Cash Flow** – Cash movement, cash position
- **General Ledger** – Main ledger, master record
- **COGS** – Cost of goods sold, cost of sales
- **Asset** – Resource, holding, possession
- **Liability** – Obligation, debt, responsibility
- **Equity** – Capital, net worth, ownership
- **Revenue** – Income, earnings, receipts
- **Expense** – Cost, outflow, expenditure
- **Inventory** – Stock, merchandise, supplies

**Q-23. What are the main limitations of accounting?**

Although accounting is very useful, it has some important limitations:

- 1. Records Only Financial Transactions:** Non-financial matters like employee skill or customer satisfaction are not recorded.
- 2. Based on Historical Cost:** Assets are shown at original cost, not current market value, which may mislead users.
- 3. Ignores Inflation:** Traditional accounting does not adjust for price level changes or inflation.
- 4. Use of Estimates:** Some values like depreciation or bad debts are based on assumptions, not exact amounts.
- 5. Different Methods Used:** Companies may use different accounting methods, making comparison difficult.
- 6. Possibility of Manipulation:** Accounting data can be misused through window dressing or creative accounting.

These limitations mean that financial statements may not always give a complete or fully accurate picture of a business's real situation.

**End of First Chapter**

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