# Basic Accounting (BA)
# For JAIBB

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**Suggestion:**

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# Module-A:
# Introduction

**Q-01. What is Accounting?**

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?**
**Or, What are primary uses/Function of Accounting?**
**Basic Functions of Accounting (Simplified & Slightly Changed Version):**

1. **Recording financial transactions:** The first step is to record all business transactions (like sales, purchases, payments, and receipts) in a systematic and organized way.
2. **Classifying transactions:** After recording, transactions are grouped into proper categories such as **assets**, **liabilities**, **income**, and **expenses** for easier understanding and use.
3. **Summarizing information:** Once transactions are classified, they are summarized into key financial statements — such as the balance sheet, income statement, and cash flow statement — to show the overall financial position of the business.
4. **Interpreting results:** Finally, these financial statements are analyzed and interpreted to understand the company's financial health, performance, and growth trends.

Accounting is essential for decision-making, financial planning, and tax compliance. It helps a business track its performance, find areas for improvement, and make informed decisions based on accurate financial data.



**Q-03. What are the purposes of accounting?**

The purposes of accounting in business include:

1. **Financial Reporting:** The main purpose of accounting is to give clear financial information to people like investors, creditors, regulators, and the public. This is shown through financial statements such as the **balance sheet**, **income statement**,

and **cash flow statement**, which show the financial condition and results of the business.

2. **Decision-Making:** Managers use accounting data to make smart decisions about daily operations, investments, and future plans. It helps them see what is working well and what needs improvement.
3. **Compliance:** Accounting ensures the business follows laws and rules like tax laws and financial reporting standards. Proper records help avoid fines and legal problems.
4. **Performance Evaluation:** Accounting helps measure how well the company, its departments, and staff are performing by using ratios like profitability, liquidity, and efficiency.
5. **Planning and Budgeting:** Accounting information helps prepare budgets and plan for the future by predicting risks and opportunities.

**Q-04. Who are the users of accounting information? Explain with examples.**
**Or, Who are the users of accounting information, and what decisions can they make based on it?**

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:**

1. **Management:** Managers use accounting information to plan, control, and make decisions about daily operations, future investments, and business strategies. They study financial reports like the income statement, balance sheet, and cash flow statement to measure performance and improve efficiency.
2. **Employees:** Employees use accounting information to know about the company's financial strength, which helps them decide about job security, salary expectations, and future opportunities.
3. **Owners:** Owners use accounting reports to see if the business is making a profit and to decide on expansion, new investment, or selling part of the business.

**External Users:**

1. **Investors:** Investors use financial data to judge whether investing in the company's shares or bonds will be profitable.
2. **Creditors:** Creditors use accounting information to check if the company can repay loans and whether it is safe to lend money.
3. **Government Agencies:** Government departments use financial data to check compliance with tax laws, labor laws, and other regulations.
4. **Customers:** Customers use accounting information to ensure the company is stable and reliable before making big purchases or long-term deals.

5. **Suppliers:** Suppliers review accounting information to decide whether to offer credit or sign long-term supply contracts.
6. **Competitors:** Competitors use financial data to understand the company's strengths and weaknesses and to plan their own strategies.

**Q-05. How does accounting help stakeholders evaluate a company's potential for growth and profitability?**

Accounting provides essential financial information that helps different stakeholders — including investors, creditors, managers, and regulators — evaluate a company's ability to grow and generate profits. It does this in the following ways:

1. **Financial Performance Analysis:** The **income statement** shows revenues, expenses, and net profit, helping stakeholders assess profitability trends and the company's earning capacity over time.
2. **Financial Position Assessment:** The **balance sheet** provides details of assets, liabilities, and owners' equity. This helps users understand the company's financial strength, solvency, and capacity for expansion.
3. **Liquidity and Cash Management:** The **cash flow statement** shows how cash is generated and used in operations, investments, and financing, helping assess liquidity and operational efficiency.
4. **Decision-Making Through Ratios:** Key ratios like **Return on Investment (ROI)**, **Profit Margin**, and **Earnings Per Share (EPS)** allow stakeholders to measure growth potential and compare performance with competitors.

By analyzing this information, stakeholders can make informed decisions about investment, lending, and strategic planning, thereby evaluating the company's future growth and profitability prospects.

**Q-06. 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-07. What are accounting principles? Explain with examples.**
**Or, What are the key principles of accounting and how do they guide accounting practices?**

Important accounting principles are:

1. **Matching Principle:** Expenses must be recorded in the same accounting period as the revenues they help generate. For example, the cost of goods sold should be recorded when the related sales occur.
2. **Revenue Recognition Principle:** Revenue should be recorded when it is earned, even if the payment has not been received yet.
3. **Historical Cost Principle:** Assets must be recorded at their original purchase price, not their current market value.
4. **Full Disclosure Principle:** All significant information such as accounting policies, risks, and contingencies should be fully disclosed in the financial statements.
5. **Going Concern Principle:** Financial statements should be prepared with the assumption that the business will continue operating in the future.
6. **Accrual Principle:** Revenues and expenses should be recorded when they are earned or incurred, not when cash is received or paid.
7. **Cost Principle:** Assets should be recorded at their acquisition cost and not adjusted for market value changes over time.
8. **Consistency Principle:** The same accounting methods and policies must be applied from one period to another for better comparison.
9. **Conservatism Principle:** Possible expenses and losses should be recorded as soon as they are likely, while revenues and gains should only be recorded when they are certain.

**Q-08. 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:** A business is considered separate from its owner. Only the business's financial transactions are recorded, not the personal transactions of the owner.
2. **Money Measurement:** Only transactions that can be measured in money are recorded. Non-financial items like employee satisfaction are not included in accounting records.
3. **Objective Evidence:** Every transaction must be supported by proof such as invoices, receipts, or contracts to ensure accuracy and reliability.
4. **Historical Record:** Transactions should be recorded based on their original cost, not current market value. Assets and liabilities are shown at the value when the transaction occurred.
5. **Cost Concept:** Assets are recorded at the price paid to acquire them. Expenses are recorded when they occur, even if payment is made later.
6. **Dual Aspect:** Every transaction has two sides — debit and credit. Total debits must equal total credits, maintaining the accounting equation: **Assets = Liabilities + Equity.**

**Q-09. What are the basic concepts of accounting at the reporting stage?**

1. **Going Concern Concept:** It assumes that a business will continue its operations in the future, and its assets will be used to earn revenue rather than being sold.
2. **Accounting Period Concept:** Financial results must be reported for a specific period, such as a month, quarter, or year, to show the business performance clearly and allow comparison.
3. **Matching Concept:** Expenses should be recorded in the same period as the revenue they help generate, ensuring accurate profit calculation.
4. **Conservatism Concept:** Expected losses and expenses should be recorded immediately, while profits should be recorded only when they are certain.
5. **Full Disclosure Concept:** All important financial information must be presented so that users can make informed decisions.
6. **Consistency Concept:** The same accounting principles should be followed in every period to ensure comparability.
7. **Materiality Concept:** Only significant information should be included, making financial statements clear and easy to understand.



**Q-10. What are accounting standards and regulations? Explain their role in financial reporting.**

**Meaning:**

Accounting standards and regulations are rules and guidelines that companies must follow when recording, preparing, and reporting their financial information. They ensure that financial statements are **accurate, clear, consistent, and trustworthy** so that investors, creditors, and other stakeholders can make proper decisions.

**In Bangladesh:**

- The **Institute of Chartered Accountants of Bangladesh (ICAB)** issues and updates accounting standards.
- The **Securities and Exchange Commission (SEC)** monitors financial reporting and ensures listed companies follow disclosure rules.

**Types of Standards:**

- **BAS (Bangladesh Accounting Standards):** Adopted from IAS (International Accounting Standards).
- **BFRS (Bangladesh Financial Reporting Standards):** Adopted from IFRS (International Financial Reporting Standards).

**Legal Requirements:**

- **Companies Act 1994:** Requires all companies to prepare and submit annual financial statements.
- **Securities and Exchange Ordinance 1969:** Requires listed companies to disclose information on performance, operations, and management.

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-11. 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:** Owned and managed by one person. The accounting system is simple, and the owner keeps records of income, expenses, and other transactions. It can use either the cash or accrual method. This form is common among small businesses in Bangladesh.

2. **Partnership:** Formed by two or more people. Accounting is similar to a sole proprietorship but includes records of each partner's profit or loss share. Each partner reports income on their personal tax return.
3. **Limited Liability Company (LLC):** A separate legal entity from its owners. It must follow GAAP and keep detailed records of income, expenses, assets, and liabilities. It is widely used in manufacturing and service industries.
4. **Public Limited Company (PLC):** Shares are traded publicly. It follows IFRS and prepares detailed financial statements. PLCs are mainly seen in banking and telecom sectors.
5. **NGO:** Non-profit organizations focused on social causes. They prepare annual financial statements and submit them to the NGO Affairs Bureau.

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

1. **Sole Proprietorship:** Accounting is simple because one person owns the business. The owner's capital and personal funds are considered separately. Financial records are mainly for internal use, and reporting requirements are minimal.
2. **Partnership:** Accounting must track each partner's capital, profit, and loss share. Agreements between partners affect how income, expenses, and distributions are recorded.
3. **Limited Liability Company (LLC):** As a separate legal entity, accounting becomes more detailed. It must follow standard principles, prepare formal financial statements, and report income, expenses, assets, and liabilities accurately.
4. **Public Limited Company (PLC):** Accounting is highly regulated. Detailed disclosures, shareholder equity records, and strict compliance with standards like IFRS are required.
5. **NGO:** Accounting focuses on fund management, donor reporting, and ensuring funds are used for approved social purposes rather than profit generation.

**Q-12. 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-13. What is an accounting system? Explain its types and importance in business. Or, Why is accounting considered an integral part of /Language of 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-14. 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-15. What are the types of accounting methods? Explain with examples.**
**Or, What are the two main methods of accounting**
**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-16. 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-17. What are assets, liabilities, and owners' equity, and why are they important components of a company's balance sheet?**

**Or, 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).

**Importance of Assets, Liabilities, and Owners' Equity in a Balance Sheet:**

Assets, liabilities, and owners' equity are the three fundamental components of a company's **balance sheet**, and together they present a complete picture of its financial position at a specific date.

- **Assets** show how the company's resources are invested to generate income and support future growth.
- **Liabilities** reveal the company's financial obligations and how much of its operations are financed through external borrowing.
- **Owners' Equity** indicates the portion of the company's assets that belongs to the owners after paying off all debts, reflecting the net worth of the business.

**Q-18. What is the expanded accounting equation? Explain its components with examples.**

**Or, How are assets, liabilities, and owners' equity classified, and what do they represent from both the sources of funds and uses of funds perspectives?**

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.

**Sources and Uses of Funds:**

- **Liabilities and Owners' Equity** represent the **sources of funds**, as they show where the money comes from (creditors and owners).
- **Assets** represent the **uses of funds**, as they show how the money is invested or used in business operations.



**Q-19. 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 fulfil 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-20. What is the relationship of accounting with other subjects? Explain in short.**
**Or, What are some of the key disciplines that are closely related to accounting?**

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-21. How has accounting evolved over time? Explain in points.**
**Or, H ow did the evolution of accounting change over time?**

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?**
**Or, What are the different types of accounting and how do they differ?**

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 some of the challenges facing the accounting profession today?**

The accounting profession faces many challenges in today's fast-changing business world.

1. **Technological Changes:** New technology improves work but requires accountants to learn new software and systems.
2. **Globalization:** Accountants must deal with international rules, currency changes, and foreign tax laws.
3. **Regulatory Pressure:** Governments demand strict compliance with financial laws and standards.

4. **Ethics and Integrity:** Maintaining honesty and avoiding unethical practices is essential for trust and reputation.
5. **Talent Retention:** Attracting and keeping skilled professionals is hard because of competition and changing job expectations.
6. **Service Diversification:** Clients expect more than auditing and tax services, like consulting and planning.
7. **Changing Workforce:** Retiring professionals and new generation expectations create talent shortages.
8. **Data Security:** Managing and protecting large volumes of financial data against cyber threats is a growing challenge.

**Q-24. How do technology and automation impact accounting practices?**

Technology and automation have significantly transformed accounting practices by increasing **efficiency, accuracy, and speed**. Modern accounting software automates tasks such as data entry, transaction recording, and report generation, reducing human errors and saving time. Cloud-based systems allow real-time access to financial data, enabling better decision-making and collaboration. Automation also improves compliance by updating regulatory changes automatically. Advanced tools like Artificial Intelligence (AI) and data analytics help in detecting fraud, forecasting trends, and analyzing large volumes of financial data quickly. As a result, accountants now focus more on strategic planning, advisory services, and decision support rather than manual bookkeeping. Thus, technology has shifted accounting from a record-keeping function to a value-added business process.

**Q-25. What role do ethics play in accounting practices?**

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-27. What are the limitations of accounting?**

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

1. **Historical Data:** Accounting records only past financial transactions. It shows how the business performed before but cannot predict future performance or profitability.
2. **Subjectivity:** Some accounting decisions involve personal judgment, which may cause bias or errors. For example, asset valuation can differ based on methods and accountant opinions.
3. **Lack of Qualitative Information:** Accounting focuses on numerical data like income and expenses but ignores important non-financial factors like customer satisfaction or employee motivation.
4. **Limited Scope:** It records only transactions that can be measured in money. Non-monetary issues such as social or environmental impact are not considered.
5. **Compliance Focus:** Companies often prepare accounts mainly to meet legal requirements instead of using them for strategic planning and decision-making.

**Q-28. What are the financial statements used in accounting, and what information do they communicate?**

Financial statements are formal records that show a company's financial performance and position. They help stakeholders make informed decisions. The main financial statements are:

1. **Income Statement (Profit and Loss Statement):** It shows the company's revenues, expenses, and net profit or loss over a specific period. It helps measure profitability and performance.
2. **Balance Sheet (Statement of Financial Position):** It presents the company's assets, liabilities, and owners' equity at a specific date. It shows the company's financial strength and ability to meet obligations.
3. **Cash Flow Statement:** It shows the movement of cash in and out of the business from operating, investing, and financing activities. It indicates the company's liquidity and cash management.
4. **Statement of Changes in Equity:** It shows changes in owners' equity over time, including retained earnings and new investments.

Together, these statements provide a clear picture of a company's financial health.

## Compare and contrast

**Q-01. Assets vs Liabilities. BPE-6th.**

| Basis of Difference | Assets | Liabilities |
|---|---|---|
| 1. Definition | Assets are the economic resources owned or controlled by a business that are expected to provide future benefits. | Liabilities are obligations arising from past transactions that require future payment or transfer of resources. |
| 2. Nature | They represent what the business owns. | They represent what the business owes. |
| 3. Purpose | Assets help in generating revenue and ensuring business operations. | Liabilities show the sources of funds used to acquire assets or meet obligations. |



**Q-02. How does the accrual method differ from the cash method?**

| Point of Difference | Accrual Method | Cash Method |
|---|---|---|
| 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 |

**Q-03. 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 |

## Short Note

**Q-01. Define Materiality in Accounting. BPE-6th.**

Materiality means the importance of information in financial statements. An item is said to be material if its omission or wrong statement can influence the decision of users, such as investors or managers. In simple words, materiality helps an accountant decide which items should be recorded or reported in detail. Small or insignificant amounts are often ignored or combined.

**Example:**

If a company buys a stapler for Tk. 300, it may record it as an expense, not as an asset, because it is not material enough to affect financial decisions.

**Q-02. Define IFRS. BPE-6th.**

International Financial Reporting Standards (IFRS) are a set of accounting rules and principles issued by the **International Accounting Standards Board (IASB)** to ensure consistency, transparency, and comparability of financial statements across different countries.

In simple terms, IFRS tells companies **how to record, present, and disclose financial information** so that investors and stakeholders can understand and compare results easily.

**Q-03. What is GAAP? BPE-6th.**

GAAP refers to the **set of accounting rules, principles, and standards** used to prepare and present financial statements in a consistent and transparent way. These principles guide accountants on how to record income, expenses, assets, and liabilities correctly.



**Chapter End**