



B.Com Honours

Semester II

Calicut University

Foundations of Accounting

Course Code: COM2FM106 • Module 1 Notes

1. Introduction to Accounting: Concepts, Terms, and Systems

Accounting is often described as the "language of business." It is the systematic process of identifying, measuring, recording, and communicating financial information to permit informed judgments and decisions by users of the information. This module covers the meaning, importance, objectives, and limitations of accounting, users of accounting information, basic accounting terms, accounting bases, and the differences between Double Entry and Single Entry systems.

Accounting Objectives & Users of Information

- **Objectives:** Maintenance of systematic records, calculation of profit/loss, depiction of financial position, and providing information to stakeholders.
- **Users:** Divided into Internal Users (managers, owners, employees) and External Users (investors, creditors, tax authorities, banks).

Basic Accounting Terms

Assets, Liabilities, & Capital

- **Assets:** Economic resources owned by a business (e.g., land, cash).
- **Liabilities:** Debts or obligations owed to external parties.
- **Capital:** The owner's financial stake or equity in the business.

Revenue, Expense, & Profit

- **Revenue:** Inflows from selling goods or services.
- **Expense:** Costs incurred to generate revenue (e.g., rent, wages).
- **Drawings:** Capital withdrawn by the owner for personal use.

Bases of Accounting & Recording Systems

Different bases can be used to determine when transactions are recognized in the books:

- **Cash Basis:** Transactions are recorded only when cash is received or paid.

- **Accrual Basis:** Transactions are recorded when they occur (earned or incurred), regardless of cash flow timing. This is the standard corporate practice.
- **Double Entry vs. Single Entry System:** Double Entry records both debit and credit aspects of every transaction (arithmetically self-balancing). Single Entry is incomplete, recording only cash and personal accounts.

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