International Scholars Journals

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International Journal of Banking, Economics and Finance ISSN: 2756-3677 Vol. 5 (2), p. 001, December, 2021.
Available online at www.internationalscholarsjournals.com © International Scholars Journals

Commentary

Objectives of financial accounting

Dileswar Rao*

Department of Business Management, University of Delhi, Delhi, India.

Accepted 14 December, 2021

DESCRIPTION

Financial accounting is the branch of accounting that deals with the summarization, analysis, and reporting of a company's financial activities. This entails the creation of financial statements for public consumption. People who are interested in getting such information for decision-making purposes include stockholders, suppliers, banks, workers, government agencies, business owners, and other stakeholders. Both local and international accounting rules control financial accounting. The basic framework of financial accounting principles followed in any particular country is known as Generally Accepted Accounting Principles (GAAP). It encompasses the accounting standards, practises, and procedures that accountants adhere to when documenting, summarising, and preparing financial statements. International Financial Reporting Rules (IFRS) on the other hand, are a collection of global accounting standards that specify how specific types of transactions and other events should be recorded in financial statements. The International Accounting Standards Board (IASB) publishes the International Financial Reporting Standards (IFRS) (IASB). As the Worldwide Financial Reporting Standards (IFRS) become more widely used on the international stage, financial reporting uniformity has grown increasingly common across multinational enterprises. While financial accounting is used to prepare accounting information for people outside the organisation or who are not involved in the day-to-day operations of the business, managerial accounting is used to provide accounting information to help managers make business decisions.

Objectives of financial accounting

Systematic recording of transactions: The primary goal of accounting is to record the financial aspects of company transactions in a methodical manner (i.e. book-keeping). For creation of financial accounts, as well as their analysis and interpretation, these recorded transactions are later grouped and summarised logically.

Ascertainment of result of above recorded transactions: An accountant creates a profit and loss account to determine the outcome of business activities over a specific time period. A firm is considered to be losing money if its costs surpass its revenue. The profit and loss account assists management and other stakeholders in making sound business choices. For example, if a firm is not proving to be lucrative or remunerative, the source of this situation might be studied by management in order to take corrective action.

Ascertainment of the financial position of business: A businessman is interested in not only understanding the results of his firm in terms of profits or losses for a specific time, but also in knowing what he owes (obligation) to outsiders and what he owns (assets) on a specific day. To find out, an accountant creates a financial position statement showing the company's assets and liabilities at a specific moment in time, which aids in determining the company's financial health.

Providing information to the users for rational decision-making: Accounting, as a 'language of business,' uses financial statements to convey an enterprise's financial results to various stakeholders. Accounting attempts to address decision-makers' financial information demands and assist them in making reasonable decisions.

To know the solvency position: By compiling a balance sheet, management not only shows what the company owns and owes, but it also provides information about the company's capacity to satisfy its liabilities in the short (liquidity position) and long-run (solvency position) as and when they become due.

*Corresponding author. Dileswar Rao Email: Dileswar@rao.co.in.