

The No 1 A/L Accounting Class

CHAPTER - 01

INTRODUCTION TO ACCOUNTING

2026 A/L

Community + Group



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*"Unleash Your Potential: Embark on an
Extraordinary Journey with the
Ultimate Accounting and Business Class Experience."*

Mohammed Uzman



CHAPTER 01 INTRODUCTION TO ACCOUNTING

- ✓ LESSON 01 : WHAT IS ACCOUNTING
- ✓ LESSON 02 : TYPES OF ACCOUNTING
- ✓ TEST YOUR KNOWLEDGE WORKSHEET

Definition of Accounting

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"Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and the decisions by the users of information"



"Accounting is the Art of Recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character, and interpreting the results thereof"

Accounting Process

Input	→	Process	→	Output
		Identifying		
		Recording		
		Classifying		
		Summarising		
		Analysing		
		Interpreting		
		Communicating		

Transactions can be identified as an exchange of resources between a business and other parties. However in the business point of view only transactions which their amounts can be measured in terms of money, are considered in accounting

Example

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Accounting events are only those events that can be measurable in monetary terms despite an exchange of resource takes place or not.

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Types of Accounting

● Financial Accounting

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● Management Accounting

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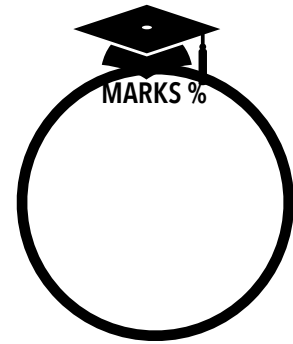
The differences between Financial accounting and Management accounting could be identified as follows

Criteria	Financial accounting	Management accounting
Users		
Purpose		
Reporting frequency		
Requirement to follow standards		
Nature of information		

Mohammed Uzman

0777 648484

TEST YOUR KNOWLEDGE WORK SHEET : LESSON 01 & LESSON 02



1. The primary objective of accounting is to
 - (1) Record all transactions in the books of accounts.
 - (2) Record, categorise and summarise financial transactions.
 - (3) Provide financial information to users for decision making.
 - (4) Provide financial results of an organization to the owners.
 - (5) Provide with detailed analysis of costs to managers.

2. State whether the following statements are true (T) or false (F) as to the role of management accounting in a business.

Statement	True/ False
A. Prepares general-purpose financial reports for the use of management.	
B. Prepares financial reports in compliance with accounting standards.	
C. Provides both past and future information of the business.	
D. Generates information on demand of the managers of the business.	

3. Inputs of Accounting are known as while outputs are known as

4. Which of the following stakeholders of a business entity would be most interested in each of the information given below?
 - (1) Government
 - (2) Investors
 - (3) Lenders
 - (4) Managers

Information	Stakeholder (Indicate the number)
A. The entity's ability to meet its long-term obligation.	
B. The profitability of the entity compared to the capital invested.	
C. The cost of products manufactured by the entity.	
D. The amount of taxes paid by the entity.	

5. Which of the following statement is correct, with respect to the financial statements presented at the general meeting of the company?
 - (1) They are termed as general purpose financial statement since they are prepared annually.
 - (2) They are termed as specific purpose financial statement since they are prepared for internal users.
 - (3) They are prepared based on company specific accounting guidelines, rules and structures.
 - (4) They are termed as specific purpose financial statement as they are presented only to shareholders.
 - (5) They are termed as general purpose financial statement since they address common information needs of stakeholders.



6. What is the main purpose of financial accounting of a firm?
- (1) Recording and reporting of transactions in compliance with legal requirement.
 - (2) Preparation of general-purpose financial statements in compliance with accounting standards.
 - (3) Provision of information for the annual external audit through the financial statements.
 - (4) Provision of information for decision making of the stakeholders.
 - (5) Provision of financial information for decision making of the managers.
7. What statement/s are true in relation to the special purpose financial statements?
- A- It provides the information for decision making for the external parties
 B- It is a part of the organizational Management Information System
 C- It is prepared to plan and control the organizational operational activities
- (1) A Only
 - (2) B & C Only
 - (3) B Only
 - (4) A & B Only
 - (5) All above A,B,C
8. Which of the following statement best describes the role of financial accounting in a firm?
- (1) It records the transactions of a firm in the books of accounts.
 - (2) It converts transactions of a firm into financial information.
 - (3) It prepares financial statements of a firm for its annual audit.
 - (4) It provides information to managers for planning and control of a firm.
 - (5) It provides information of a firm to its external stakeholders and managers for decision making.

9. State the differences between financial Accounting and Management Accounting reports on the following aspects.

Aspects	Financial Accounting	Management Accounting
A. Users of reports		
B. Frequency of preparation		
C. Legal requirement		
D. Nature of information reported		

10. State whether the following statements as to the general-purpose financial statements prepared by a business are True (T) and False (F).

Statement	True/ False
A. These statements are prepared in compliance with accounting standards.	
B. These statements are prepared primarily for the use of resource providers of the business.	
C. These statements provide information relating to a past period of the business.	
D. These statements provide information of the business measured only at historical cost basis.	

11. The most accurate statement out of the following is,

- (1) Financial accounting provides information to both internal and external parties, but management accounting provides information only to the management.
- (2) In management accounting, financial statements are prepared annually but in financial accounting financial statements are prepared from time to time throughout the year.
- (3) The preparation of financial accounting reports are for entities that are generating both profit and non-profit, but management accounts are often prepared only for entities that are generating profit.
- (4) Financial and management accounting can be used by both internal and external parties.



(5) Both statements (2) and (3) given above are correct.

12. Which of the following statement best describes the function of accounting in a firm?

- (1) It measures transactions and events of the firm on monetary basic.
- (2) It analyses financial information of the firm for the use of its managers.
- (3) It records the transactions and events of the firm in the books of accounts.
- (4) It provides information about the firm for decision making by its stakeholders.
- (5) It provides information about utilization of resources of the firm to its managers.

13. Which of the following statement is correct in relation to the primary function of financial accounting in a firm?

- (1) It records the transactions of a firm in the books of account in monetary terms.
- (2) It prepares special purpose financial reports for the use of managers of a firm.
- (3) It prepares general purpose financial reports for the use of stakeholders of a firm.
- (4) It provides past and future information to owners of a firm to make decisions.
- (5) It provides financial information for the annual audit of a firm.

14. Indicate whether the following statement relating to the role of management accounting in a firm are True or False.

Statement	True / False
A. It provides information for the managers of a firm to take decision.	
B. It provides both past and future information about a firm.	
C. It provides information prescribed in the accounting standards.	
D. It provides information on demand for all stakeholders of a firm.	

15. State whether the following activities fall within the scope of management accounting.

Activity	Yes/ No
A. Provision of cost information for pricing of products.	
B. Preparation of general-purpose financial statement.	
C. Evaluation of long-term investment projects.	
D. Analysis of profitability of a firm based on accounting ratios.	

16. What is the most correct statement out of the followings?

- (1) The objective of financial accounting is the preparation of special purpose financial statements for the stakeholders.
- (2) Provide information only for the external parties from financial Accounting.
- (3) Prepares general purpose financial statements for the stakeholders from financial Accounting.
- (4) An activity of financial Accounting is providing information to the government and the institutions relates to the government for taking decisions about collecting taxes.
- (5) The main activity of management accounting is the preparation of general purpose financial statements



17. Which of the following statements best describes the main purpose of accounting in a firm?
- (1) Recording of transactions of the firm in the books of accounts.
 - (2) Recording of transactions of the firm for the preparation of financial statements.
 - (3) Preparation of financial statements of the firm for the use of managers.
 - (4) Communication of financial statement information of the firm for the use of managers.
 - (5) Communication of information for decision making of the stakeholders of the firm.
18. Which of the following statement//s is/are correct pertaining to general purpose financial statements prepared by a firm?
- A. They provide mainly past financial information of a firm.
 - B. They are prepared on demand of the external users.
 - C. They are prepared in compliance with accounting standards and legal requirements.
- (1) A only
 - (2) A and B only
 - (3) A and C only
 - (4) B and C only
 - (5) All A, B and C
19. The primary objective of accounting is
- (1) To record all transactions of an entity in the books of accounts.
 - (2) To record, categorise and summarise transactions of an entity.
 - (3) To analyze the information presented in financial statements of an entity.
 - (4) To provide a detailed analysis of transactions of an entity to its managers.
 - (5) To provide information about an entity to its users for decision making.

20. State the difference between Financial Accounting and Management Accounting in relation to the following aspects.

Aspect	Financial Accounting	Management Accounting
i. Users of information		
ii. Reporting frequency		



CHAPTER 01 INTRODUCTION TO ACCOUNTING

- ✓ LESSON 03 : STAKEHOLDERS
- ✓ LESSON 04 : ACCOUNTING ENVIRONMENT
- ✓ LESSON 05 : ACCOUNTING ELEMENTS
- ✓ TEST YOUR KNOWLEDGE WORKSHEET

STAKEHOLDERS

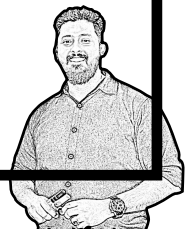
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Types of Main Stakeholders and their Interests





ACCOUNTING ENVIRONMENT

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Environmental factor	Introduction	Variables
01. Economic and Political environment	The decisions taken to prepare and the implementation of economic policies of a government is known as the Economic & Political Environment .	<ul style="list-style-type: none"> • Taxation policy • Exchange rates • Price levels • Government policies (interest rates, wages, decisions) • State of the market (financial / capital)
02. Technical and Professional Environment	The use of numerous techniques to measure and make financial evaluations of the assets of a business is known as the Technical and Professional Environment	<ul style="list-style-type: none"> • Accounting standards • Techniques in accounting • Professional accounting bodies
03. Legal Environment	The necessity to observe the laws relating to accounting in the accounting process is known as the Legal Environment	<ul style="list-style-type: none"> • Companies Act No.07 of 2007 • Partnership Ordinance Act of 1890 • Inland Revenue Act • Accounting and Auditing Standards Act • Court judgements relevant to Accounting



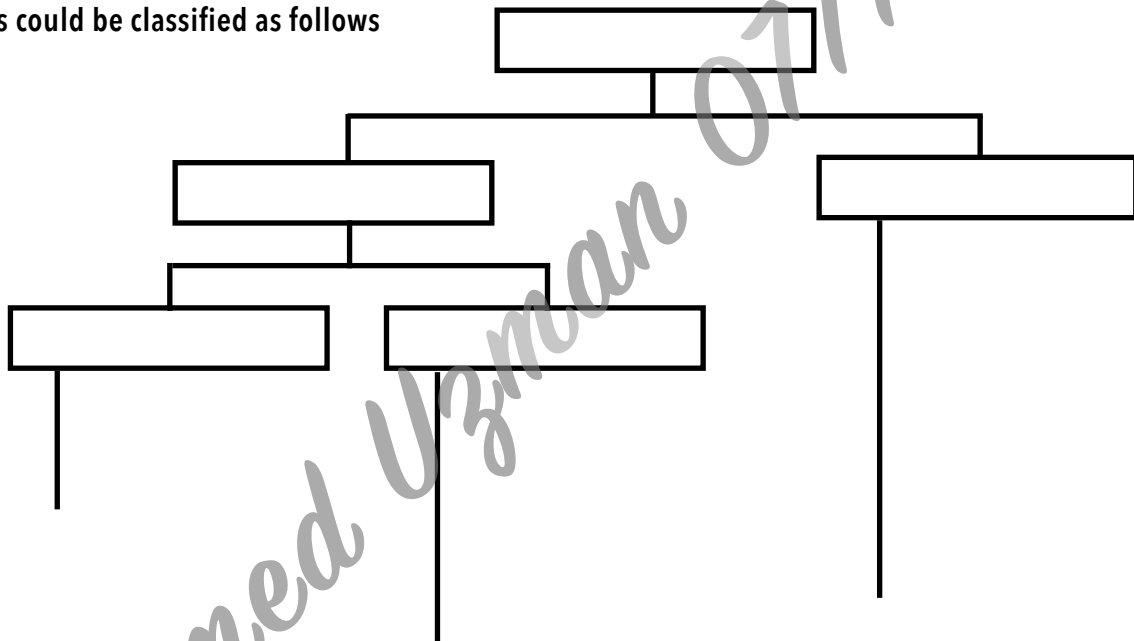
04. Social & Cultural Environment	The hopes, customs, aspirations and attitudes of the persons in the society and its environments is known as the Social & Cultural Environment	<ul style="list-style-type: none"> • Attitudes • Norms and customs • Habits • Beliefs • Population • Migration • Personal life style patterns
05. Technological Environment	The use of various technical equipment to assist the accounting process is known as the Technological Environment	<ul style="list-style-type: none"> • Computer technology • Use of modern technical equipment • Communication technology

ACCOUNTING ELEMENTS

1) ASSETS

An asset is a resource controlled by the business which is created as a result of a past transaction and from which future economic benefits are expected to flow to the business.

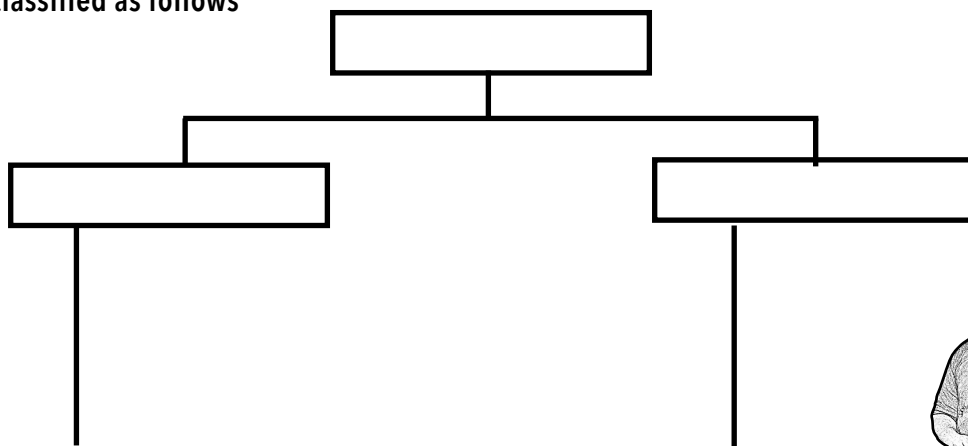
Assets could be classified as follows



2) LIABILITIES

Liabilities are current obligations resulted due to to a past transaction. When these liabilities are settled, the resources which generate future economic benefits (assets) will flow out from the business.

Liabilities could be classified as follows



3) EQUITY

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Transaction between the owner and business, which influence the Equity can be identified as follows

4) INCOME

[Dotted lines for notes]

5) EXPENSE

[Dotted lines for notes]

NOTE

Every business will earn Income and Incur expenses, this difference between Income and Expenses is termed as Profit or loss.

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TEST YOUR KNOWLEDGE WORK SHEET : LESSON 03 | 04 | 05

1. Which of the following stakeholders of a business entity would be most interested in each of the information given below?

- (1) Government (2) Investors (3) Lenders (4) Managers

Table with 2 columns: Information, Stakeholder (Indicate the number). Rows A-D describe various business metrics.



2. Resources controlled by the business as a result of a past transaction and from which future economic benefits are expected to flow into the business are called as What is the answer for above blank.

- (1) Liabilities (2) Assets (3) Expenses (4) Income (5) Equity

3. Name four environmental factors that have an impact on accounting.

i.	ii.
iii.	iv.

4. following are some type of accounts in column 'X' and some accounts in column 'Y'.

X	Y
Asset	A- Sales
Liabilities	B- Commission
Equity	C- Bank loan
Income	D- Debtors
Expense	E- Capital

Select the Accounts belongs to X column Respectively

- (1) A,C,D,B,E (2) C,A,B,E,D (3) D,C,E,A,B (4) D,B,C,A,E. (5) D,C,B,A,E

5. Some stakeholders and the reasons for their interest on accounting entity are given below.

Stakeholders	Reasons for their interest
Owners	A – Financial contribution for national economy
Employees	B – Decision making for successful business activities
Customers	C – Analyzing salary increment and job security
Government	D – To purchase goods and services continuously
Manager	E – Examining profitability and investment security

Select the answer which contains the correct order of reasons for their interest in accordance with order of stakeholders.

- (1) B, A, D, E, C (2) E, C, D, A, B (3) E, C, D, A, B
 (4) B, C, E, A, D (5) E, C, D, B, A (.....)

6. State whether the following belongs to

Tangible Non current Assets | Intangible Non current Assets | Current Assets | Non current liabilities | Current liabilities | Equity | Income | Expense

Furniture	Bank loan	Owners drawings
Land and building	Rent paid	Long term loan
Fixed deposits	Furniture	Discount received
Owners investment	Payable expenses	Advertising
Creditor	Discount allowed	Pre received income
Debtor	Prepaid expenses	Int. on bank loan
Commission received	Cash in hand	Int. on fixed deposit
Salary	Short term loan	Electricity



7. Which of the following accounting environment represents introducing of New Accounting Standards when preparing financial statements.
- (1) Economic and political environment.
 - (2) Legal Environment
 - (3) Technical Environment
 - (4) Sociocultural environment.
 - (5) Technological Environment

8. The major environmental factors that will effect to accounting process are given in Column X and some variables of those accounting environment are given in column Y.

Column X

- 1. Economic and political environment.
- 2. Social and cultural environment.
- 3. Legal environment.
- 4. Technical and professional environment.
- 5. Technological environment.

Column Y

- A -Infrastructure development policies.
- B - Companies act no: 07 of 2007
- C - Computer technology.
- D - immigration and migration.
- E - Accounting policies. (.....)

The correct answer when adjusting variables in Y column with environmental factors in X column.

- 1. A, B, C, D and E.
- 2. A, E, B, C and D
- 3. A, D, B, E and C
- 4. D, A, E, B and C
- 5. B, A, E, D and C

9. Categorize following items in to given categories of Kumari's business which is a textile shop.

Items	Assets		Liabilities	
	Current Assets	Non-Current Assets	Current liabilities	Non-Current liabilities
A Inventory				
B Computer used by the manager				
C Payable amount for the purchased inventory on credit.				
D Obtained loan to expand the business.				

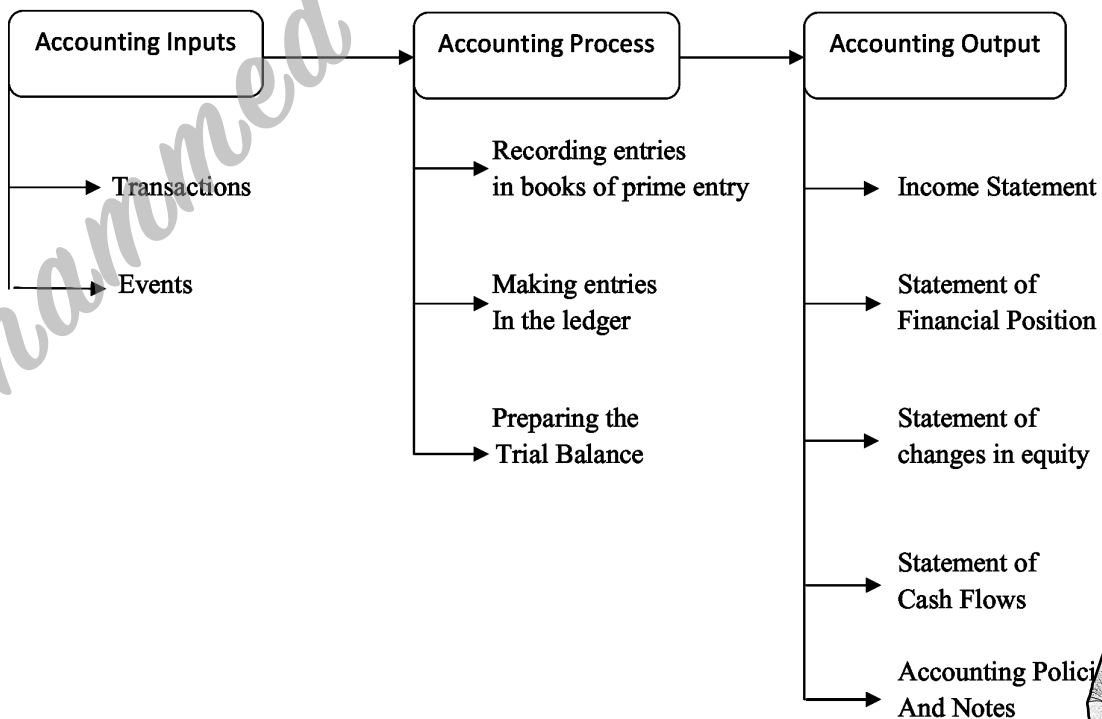
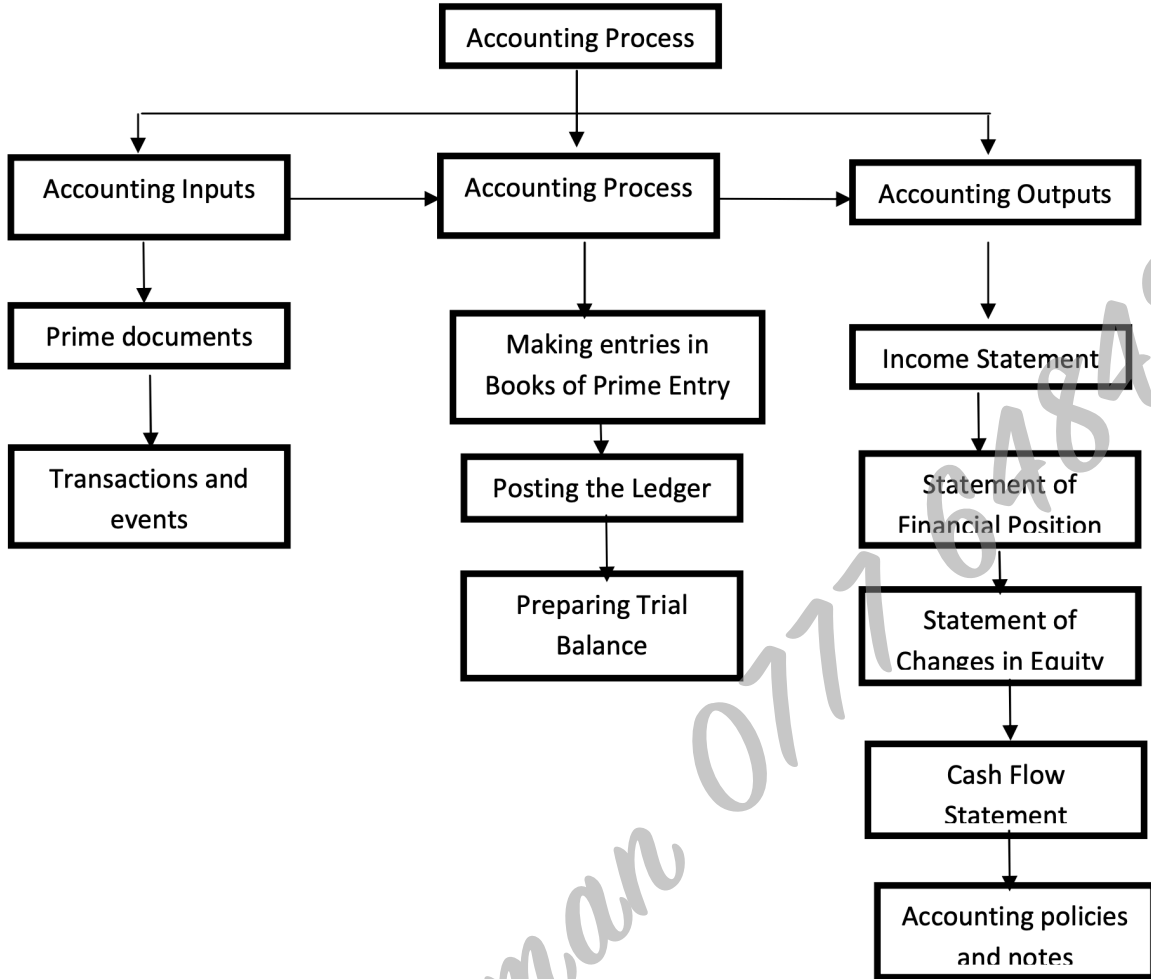
10. Following have been given some accounting environmental factors and some changes in accounting due to those factors. Select the correct answer.

Environmental Factor	Change
1. Economic environment	Using international standards
2. Legal environment	Introducing social responsibility accounting
3. Professional environment	Introducing inflation accounting
4. Technological environment	Introducing computerize accounting systems
5. Economic and political environment	Introducing environmental management accounting

(.....)



Concept Map



HISTORY OF ACCOUNTING

Accounting's history can be traced back thousands of years to the cradle of civilisation in Mesopotamia and is said to have developed alongside writing, counting and money. The early Egyptians and Babylonians created auditing systems, while the Romans collated detailed financial information.

Some of the first accountants were employed around 300 BC in Iran, where tokens and bookkeeping scripts were discovered. Around the first millennium the Phoenicians invented an alphabetic system for bookkeeping, while the ancient Egyptians may have even assigned someone the role of comptroller.

Italian roots

But the father of modern accounting is **Italian Luca Pacioli, who in 1494** first described the system of double-entry bookkeeping used by Venetian merchants in his *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*. While he was not the inventor of accounting, Pacioli was the first to describe the system of debits and credits in journals and ledgers that is still the basis of today's accounting systems.

With the onset of the industrial revolution in 1760, there was a proliferation of companies and the need for more advanced accounting systems. The development of corporations also created larger groups of investors, and more complex structures of ownership, all requiring accounting systems to adapt.

Scotland modernises accounting

The modern profession also has its roots in Scotland in the mid-1800s when the Institute of Accountants in Glasgow petitioned Queen Victoria for a Royal Charter, so accountants could distinguish themselves from solicitors, as for a long time accountants had belonged to associations of solicitors, which would offer accounting in addition to a firm's legal services. In 1854 the institute adopted 'chartered accountant' for its members, a term and demarcation that still carries legal weight globally today. The petition was signed by 49 Glaswegian accountants, and it argued that the accounting profession had long existed in Scotland as a distinct profession of great respectability and that the small number of practitioners had been rapidly increasing. The petition further highlighted the varied skills required to be a professional accountant - in addition to mathematical skills, an accountant needed to be acquainted with general legal principles, as they were often employed by the courts to give evidence on financial matters - as they still are today.

Industrial revolution

By the mid-1800s, the industrial revolution in Britain was well underway and London was the financial centre of the world. With the growth of the limited liability company and large-scale manufacturing and logistics, demand surged for more technically proficient accountants capable of handling the growingly complex world of global transactions



Additional Notes

Lined area for additional notes with horizontal dotted lines.

Mohammed Uzman 0111 648484