

# Financial and Accounting: Meaning, Nature and Role of Accounting

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**Abstract – Accounting can be understood as the language of financial decisions. It is an on-going process of performance measurement and reporting the results to decision makers. The discipline of accounting can be traced back to very early times of human civilization. With the advancement of industry, modern day accounting has become formalized and structured. A person who maintains accounts is known as the account. The information generated by accounting is used by various interested groups like, individuals, managers, investors, creditors, government, regulatory agencies, taxation authorities, employee, trade unions, consumers and general public. Depending upon purpose and method, accounting can be broadly three types; financial accounting, cost accounting and management accounting. Financial accounting is primarily concerned with the preparation of financial statements. It is used on certain well-defined concepts and conventions and helps in framing broad financial policies. However, it suffers from certain limitations.**

**Keywords: Accounting, Financial Accounting, Policies**

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## INTRODUCTION

Accounting has rightly been termed as the language of the business. The basic function of a language is to serve as a means of communication. Accounting also serves this function. It communicates the results of business operations to various parties who have some stake in the business viz., the proprietor, creditors, investors, Government and other agencies. Though accounting is generally associated with business but it is not only business which makes use of accounting. Persons like housewives, Government and other individuals also make use of accounting. For example, a housewife has to keep a record of the money received and spent by her during a particular period. She can record her receipts of money on one page of her "household diary" while payments for different items such as milk, food, clothing, house, education etc.

## ORIGIN AND GROWTH OF ACCOUNTING

Accounting is as old as money itself. However, the act of accounting was not as developed as it is today because in the early stages of civilisation, the number of transactions to be recorded were so small that each businessman was able to record and check for himself all his transactions. Accounting was practised in India twenty three centuries ago as is clear from the book named "Arthashastra" written by Kautilya, King Chandragupta's minister. This book not only

relates to politics and economics, but also explain the art of proper keeping of accounts. However, the modern system of accounting based on the principles of double entry system owes its origin to Luca Pacioli who first published the principles of Double Entry System in 1494 at Venice in Italy. Thus, the art of accounting has been practised for centuries but it is only in the late thirties that the study of the subject 'accounting' has been taken up seriously.

## BRANCHES OF ACCOUNTING

To meet the ever increasing demands made on accounting by different 15 interested parties such as owners, management, creditors, taxation authorities etc., the various branches have come into existence. There are as follows :

1. **Financial accounting.** The object of financial accounting is to ascertain the results (profit or loss) of business operations during the particular period and to state the financial position (balance sheet) as on a date at the end of the period.
2. **Cost accounting.** The object of cost accounting is to find out the cost of goods produced or services rendered by a business. It also helps the business in controlling the costs by indicating avoidable losses and wastes.

3. **Management accounting.** The object of management accounting is to supply relevant information at appropriate time to the management to enable it to take decisions and effect control.

## FINANCIAL SERVICES IN INDIA: AN OVERVIEW

The job being played by the Private Financial Institutions in the financial improvement of the state is through their financial services. To have a superior thought and comprehension about the working and services of these Private Financial Institutions it would be increasingly useful to make a more extensive watch towards the Financial Services in India.

Financial services are a significant part of the financial framework. Financial Services satisfy the requirements of financial institutions, financial markets and financial instruments. The smooth working of financial framework will rely on the scope of financial services reached out by the suppliers. Financial services contribute a ton to the endeavors of accelerating the procedure of monetary development and improvement. The financial services industry is developing at a quick rate. "Financial services in India have seen exceptional changes in the ongoing past after the usage of Liberalization, Privatization and Globalization (LPG) Policy in the economy. Arrangements of the administration, quick advancement in the Information and Communication Technology in the financial services part made radical changes in regard of firms, age of imaginative financial items and financial markets."

### Regulations of Financial Service Firms:

Keeping in see the developing significance of financial help firms, the Banking Laws (Miscellaneous Provisions) Act, 1963 was acquainted with control the Non-Banking Financial Companies in India. To empower the administrative specialists to outline appropriate arrangement quantifies, a few boards of trustees were delegated occasionally, to lead an inside and out investigation of these institutions inside a given administrative system. The advisory groups which merit explicit notice right now: Bhabatosh Datta Study Group (1991), Financial Companies. To empower the administrative specialists to outline reasonable strategy quantifies, a few councils were named occasionally, to direct an inside and out investigation of these institutions inside a given administrative structure. The boards which merit explicit notice right now: Vaghul Committee (1987), Bhabatosh Datta Study Group (1991), Narasimham Committee on Financial System (1991) and Shah Committee (1992). The Shah Committee, as a follow-up to the Narasimham Committee, was the first to propose a complete administrative system for the NBFCs. While underwriting on a fundamental level

the Shah Committee system of guideline of NBFCs, the RBI has executed some of its proposals and fused them in the RBI headings, which manage and administer the working and activity of such organizations. The Khanna Group 1996 has proposed a supervisory structure for NBFCs.

### Preparation of financial statement and provisions of companies act

Financial information has been customarily introduced in the India through two proclamations the Profit and Loss Account and the Balance Sheet. On account of organizations, these are the two articulations that have been recommended and their substance have likewise set somewhere near the Companies Act in India as in different nations. There has been an expanding accentuation on ,

- (a) Giving data to the investors in such a way as to empower them to get a handle on it effectively;
- (b) Giving substantially more data than is legally necessary, e.g., reserves stream proclamation. segmental data, gauge data, and so on so as to encourage simple comprehension and make the year's outcomes tantamount with past outcomes; and
- (c) The chief's report being very complete to cover the components that have been working and are probably going to work sooner rather than later as respects the different capacities, in like manner creation, promoting, finance, work, government strategies, condition when all is said in done, and so forth.

A further advancement is that the financial proclamations are being utilized by a variety of gatherings like banks, government institutions, financial experts and so forth. An endeavor is being made to see that the announcements fill in as wide a zone as could be expected under the circumstances.

### Statutory Requirements

Segment 211 administers the structure and substance of the Balance Sheet and of Profit and the Loss Account. The arrangements there under, in any case, are not appropriate to a protection or banking organization or organization occupied with the age or supply of power or to some other classes of organizations for which a type of Balance Sheet and Profit and Loss Account has been indicated under the Act overseeing such class of organizations. The organizations other than those referenced above ought to agree to the accompanying arrangements:

- (a) that each Balance Sheet of an organization should give a genuine and reasonable perspective on the situation of the organization toward the finish of the financial year and ought to be in the structure set out in Part I of Schedule VI or a close thereto as conditions concede or in such other structure as might be affirmed by Central Government either by and large or in a specific case and in setting up that Balance Sheet, due respect ought to be had, similarly as might be to the general directions for the readiness of Balance Sheet under the heading "Notes" toward the finish of that part: and
- (b) that each Profit and Loss Account of an organization should give a genuine and reasonable perspective on the benefit and loss of the organization for the financial year and ought to agree to the necessity of Part II of Schedule VI so far as they a relevant thereto.

The Central Government is authorised under sub-area (3) to absolve, by a warning in the Official Gazette, any class of organizations from consistence with any of the prerequisites in Schedule VI if, as its would like to think, it is important to give the exclusion in the public intrigue. The exception might be conceded genuinely or subject to such conditions as might be indicated in the notices.

The Central Government additionally may, on the applications or with the assent of the Board of Directors of the organization, by request alter, corresponding to that organization, any of the necessities of the Act as to issues to be expressed in the organization's Balance Sheet or Profit and Loss Account to adjust them to the conditions of the organization.

Consequently, all together that the announcements of record of an organization display a genuine and fair perspective on the situation of an organization it is important

- 1. that the respects backup legally necessary (as indicated in Schedule VI to the Act and Section 212 as respects auxiliary organizations) ought to be revealed; and
- 2. (that the equivalent ought to be shown in the way required.

#### **Profit and loss account and balance sheet to comply with accounting standards:**

- (i) As of late, the Companies (Amendment) Act, 1999 which has come into power on 31 st day of October, 1998, expects organizations to get ready Profit and Loss Account and Balance Sheet as per the accounting

guidelines. Sub-areas (3A), (3B) and (3C) embedded by the Act in Section 211 of the chief Act, which contain these arrangements, read as follows:

- (3A) Every benefit and misfortune record and asset report of the organization will agree to the accounting benchmarks.
- (3B) Where the benefit and misfortune account and the monetary record of the organization don't conform to the accounting norms, such organizations will reveal in its benefit and misfortune record and asset report, the accompanying, in particular
  - (a) Deviation from the accounting standard,
  - (b) The purposes behind such deviation; and
  - (c) Financial impact, assuming any, emerging because of such deviation.

(3C) For the motivations behind this segment, the articulation "Accounting Standards" signifies the benchmarks of accounting suggested by the Institute of Chartered Accountants of India comprised under the Chartered Accountants Act, 1949, as might be recommended by the Central Government in meeting with the National Advisory Committee on Accounting Standardš built up under sub-segment (I ) of area 2 IOA

Given that the standard of accounting determined by the Institute of Chartered Accountants of India will be considered to be the Accounting Standards until the Accounting Standards are recommended by the Central Government under this sub-segment.

Consideration is welcome to condition (d) embedded by the Companies (Amendment) Act, 1999 in sub-segment (3) of Section 227 of the chief Act, which requires the reviewer of an organization to report, "regardless of whether, as he would like to think, the benefit and misfortune record and monetary record conform to the accounting measures alluded to in sub-area (3C) of segment 211 ".

Consideration is additionally welcome to proviso (2AA) embedded by the Companies Amendment Act, 2000 in area 217 of the chief Act, which necessitates that the Board's report will incorporate a Director's Responsibility Statement, demonstrating in that, that in the arrangement of the yearly records, the appropriate accounting principles had been tracked with legitimate clarification identifying with material flights.

It might likewise be noticed that SEBI, so as to upgrade the degree of exposure by the recorded Companies, has altered proviso 32 of the posting

understanding and included another statement 50 vide round dated Aug 31, 2001.

#### (A) Consolidated Financial Statements:

Organizations will be compulsorily required to distribute Consolidated Financial Statements in the yearly report notwithstanding the individual financial explanations.

Review of Consolidated Financial Statements by the statutory evaluators of the organization and the filing of Consolidated Financial Statements inspected by the statutory examiners of the organization with the stock trades will be compulsory:

#### (B) Related Party Disclosures:

Organizations will be required to make divulgements in consistence with the Accounting Standard on "Related Party Disclosures" in the yearly reports.

Another statement will be added to the posting Agreement as Clause 50 to furnish that organizations will be required to conform to all the Accounting Standards given by ICAI every once in a while.

### REVIEW OF LITERATURE

Accounting rehearses have been creating with the improvement of human development. 'Accounting has advanced and risen, as have drug, law and different fields of human action because of the social and financial needs of society. Accounting and accounting seemed not as a possibility wonder however unmistakably because of a world need'. I with section of time and changes needing people, there are loads of increases and derivations to accounting to make it increasingly important.

**Accounting Theory an Introduction: Prof L.S. Porwal** in his book 'Accounting Theory an Introduction' has examined some applicable issues of accounting in changing business condition. In the presentation, he clarifies the job of accounting data and connection among accounting and condition. As indicated by him, with the improvement of a country, accounting framework has expected higher noteworthiness. Prof. Porwal separates his investigation into three sections, the hypothetical system that incorporates the structure of accounting hypothesis, ways to deal with the plan of accounting hypothesis, theoretical structure for financial accounting and advancement of accounting thought. In the second part he talks about the components of financial statements and their announcing and divulgements under which assessment have been made with respect to income, costs, gains, losses, resources, liabilities, accounting at evolving costs, articulation of changes in financial proclamation and different revelations to financial explanation. The third part manages contemporary issues in accounting, for

example, income proclamation, accounting for corporate social execution and accounting for HR.

**Manju Gupta, Dr. Praveen Saxena, Dr. S.P. Kaushik, (2002)** Corporate Financial Reporting Theory and Practice: Another significant examination in the field of accounting is Corporate Financial Reporting Theory and Practice made by Andrew Higson. In his examination he investigates the significant issues looked in contemporary financial revealing incorporating its between association with outer evaluating and arrangement of affirmation to those outside the detailing element. In the investigation, he incorporates depiction about accounting hypothesis and its advancement directly from beginning periods. He pays more accentuation on late improvements in financial detailing and guidelines in accounting, especially the advancement of conviction that empowers the clients to settle on monetary choices and help them to make expectation.

#### International Accounting a User's Prospective: Prof. Shahrokh M. Saudagaran in his book 'International Accounting A Users Prospective'

discusses the moves looked by accounting because of globalization and job of international accounting for productive working of worldwide economy. As per him, accounting practices of a country is impacted by various factors and accounting can assume a differing job in a nation considering monetary condition. With the emotional development of worldwide fade and quickened internationalization of capital markets, financial explanation arranged in one nation are utilized in different nations all the more every now and again.

**Sumana Ghosh, (2013)** Be that as it may, the significant contrasts in accounting rehearses go about as hindrance in capital streaming to the most productive clients. The financial specialists might in a perfect world want to guide their money to generally effective and profitable organizations all inclusive. Be that as it may, if accounting rehearses between countries are distinctive to the point of forcing absurd weights on capital suppliers, at that point they may guide their speculation to less proficient and profitable organizations in specific nations, essentially on the grounds that they comprehend the financial statements and in this manner view them as less unsafe. "It is not just go about as boundaries to make effective investment to financial specialists yet in addition go about as deterrents for assortment of minimal effort cash-flow to the organizations. Consequently, it is objective enough to blend accounting guidelines. However, the distinction in the financial, political and social condition of a nation can make harmonization process troublesome. Another significant element of his investigation is the consideration of exposures issue for worldwide utilization of accounting data, which incorporates accounting for evolving value, accounting for generosity and elusive resources,



geographic section detailing and ecological and social revelations.

**Mr. A.K. Chowdhury (2000)**, an examination researcher in Australia, had exhibited his investigation entitled " Compliance with accounting models in India: why and how" . The targets of this examination was (i) to center the pivotal nature of appropriate consistence with AS and (ii) to recommend a model for implementing AS in India. In his examination the creator looks at the importance of consistence with accounting measures in India and proposes a model for upholding accounting norms in India. The creator states through his proposed model that Accounting norms ought to together received, gave and authorized by the bookkeeping calling and the administration body.

**Mr. Richard Martin (2019)**, an individual from the Association of Certified Chartered Accountants, UK (ACCA) and having duty regarding financial revealing fundamentally in UK and international accounting principles, displayed his paper, entitled "National Standards Setters, The IASC and the New World Order". He considered the variables liable for globalization of accounting guidelines, and he likewise expressed the job of the IASC as the key segment of the arrangement and portrayed the effect of the IASC on the National Standard Setting. As indicated by the creator the fundamental factor behind the globalization is venture reserves, which are progressively overseen on a worldwide premise, and the vast majority of the biggest organizations are working on a worldwide premise. Europe is the best case of value venture, which is an expanding extent of the aggregate and Euro is both agglomerating the capital market and lessening the degree of government use.

**T.V. Mohandas Pal and V. Balakrishnan, 2019** had expressed in their article "Impalpable Asset: Valuating the Invisible" that today, the quickest developing industry is the information segment, where profits are gotten for the most part from immaterial resources. This article inspects the idea of impalpable resources by an intensive investigation of it and clarifies that how they have added to the estimations of organizations in most recent couple of years. They talk about the strategy for valuating intangibles in the US, UK and India. They likewise calls attention to how they are treated for charge purposes. They reasons that when corporate complete in a worldwide market, making of riches and execution is connected to their inalienable quality borne out of immaterial, similar to mark, information laborers, and so forth. It is just intangibles, which will be the separating factor for the presentation of the organizations in future. The financial statements in the following thousand years will mirror the estimation of such intangibles and financial statements will reflect genuine worth. Just organizations with solid

intangibles will endure. Our accounting standards ought to perceive the intensity of the imperceptible.

**Prof. G.S.Bhatra (2018)**, had expressed on the advancement of Accounting Standards in his paper entitled "Rising Dimensions in the Development of AS". He had put a short report on Indian and International Accounting Standards and their Accounting Standards Board. Further he had away from working and destinations of ASB of the Institute of Chartered Accountants of India. He expressed in his investigation during the period, an accounting principles is recommendatory in nature, the reviewers ought to prescribe and convince their customer to consent to the prerequisite of the standard and over the span of time of examining of the organization in the event that they found that any of the necessity isn't trailed by the organization, they ought to uncover the reality in their review report.

**Thorsten Beck (2011)** in a way breaking paper "The Role of Finance in Economic Development: Benefits, Risks and Politics" has analyzed the hypothetical and observational premise of the connection among finance and financial improvement in a recorded point of view. Thorsten Beck has contended that vigorous, systematized and gainful financial framework is the pre-imperative for the sound improvement of an economy and monetary thriving. However financial framework swings with rise and fall cycles and delicacy of economy which brings about skeptical effect and aftermath for the genuine economy. The political structure of social orders dependent on the verifiable occasions is unsafe for the life structures and improvement of the financial framework. It is additionally an exploratory examination to decide the value of finance in the advancement of market-based economies. The paper assesses the contentions of numerous specialists like Adam Smith (2016), Alexander Hamilton (1781), and Joseph Schumpeter (1921) to build up the significance of finance for financial advancement.

It further analyzes the contentions of scholars like **Lucas (2018), Robinson (2012), Goldsmith (2019), McKinnon (2013), and Shaw (2013)**, who attempted to relate the procedure of monetary improvement with the procedure of financial development. Based on these contemporary examinations, the paper has brought to lime light the way that there is a solid bond between financial part and the aftereffects of different segments which involve nations' exchange balance design, move in salary conveyance and levels of destitution. It examines the pretended by financial segment in the development of an economy and furthermore attempts to investigate the reasons and ramifications of financial delicacy and the legislative issues behind it. Writing accessible on institutions and advancement as financial institutions and markets are needy upon legally binding institutions.

**Acemoglu, Johnson, and Robinson (2005)** have additionally been glanced in to. At last, the paper is a near investigation of connection among three measurements in particular financial delicacy, governmental issues and finance; finance and development all in all and the twenty-first century first worldwide financial emergency. These three measurements share applicable common association. The shakiness of banking segment and progress of financial segment developing are two parts of the development change. Genuinely, long haul financial developing adds to the fast development of an economy though credit ascend in present moment are ascribed towards higher probability of foundational banking emergency. The two critical causes that have politically obliged the improvement of fundamental property rights and authoritative establishment are development and delicacy connected to notable occasions and they additionally develop associated and politicized loaning.

**Panicos Demetriades and Siong Hook Law (2004)** in their paper "Finance. Institutions and Economic Growth" utilizing information from 72 nations for the period 1978 to 2000 have contended the that financial improvement effectsly affects development when the financial framework was implanted inside a sound institutional system. This is especially valid for poor nations, where more finance without sound institutions was probably going to flop in conveying more development. They found that in these nations, enhancements in institutions were probably going to convey a lot bigger direct consequences for development than financial improvement itself. They are likewise prone to have positive aberrant impacts through the financial framework, especially when the last is as of now giving a lot of credit to the private part. It has additionally been noticed that financial improvement is the most intense factor in conveying additional development in center salary nations. Its belongings are especially enormous when institutional quality is high. Institutional enhancements can likewise convey more development in different nations, particularly when the financial framework is all around created. It has Farther been discovered that while the impacts of financial advancement in high-salary nations are a lot littler than in middle-income nations, even in these nations financial improvement effect sly affects development when institutional quality is high.

**Rabindra Nepal and ToorajJamasp (2011)** basically analyze the job of institutions in improving force division in their paper entitled "Transforming the Power Sector in Transition: Do Institutions Matter?" The paper inspects the instances of 27 distinct nations which are confronting quickened political and financial change since 1990 and attempts to set up quantitatively solid bonds among changes in power part and extended institutional changes in the economy. It has endeavored to appraise the effect of changes on large scale economy and the force segment, The investigation presumes that change in

power area is substantially more basic procedure than it was seen in the first place. The paper likewise contends that there is incredible common dependence between changes in power part and changes in different areas of the economy. At long last it is inferred that triumph of change process in power part in quantifiable terms in creating nations will incredibly rely on how much these nations can incorporate and orchestrate between area changes in the economy.

**K.P. Kannan and Vijaymohan Pillai (2001):** "Predicament of Power Sector in India-II: Financial Performance of SEBs•• have given a complete investigation of financial execution of intensity division in pre and post changes periods. They presume that "The belittling approaches of the state brought about unnecessary work, particularly at the non-specialized, regulatory level, including unjustifiable cost increments and in silly estimating practices for financed power deals, independent of contemplations of costs, prompting considerable losses. Notwithstanding Plan expenses dispensed to the force part, government subventions were likewise in transit in, with the end goal that the SEBs never felt the squeezing prerequisite to make back the initial investment or to add to limit development programs.

**Surinder Kumar (2004)** in his book : Empowering People and Reforming Power Sector' has inspected the issue of intensity robbery explicitly in the Punjab. Issue of power burglary is danger in India. It is one of the most significant shades of malice alongside T&D losses and sponsored supply of power with full subvention with respect to state governments, which is eating in to the vitalities of the dispersion business making it financially non-suitable. The investigation of intensity burglary in Punjab depends on examination of information gathered through an organized timetable with respect to impression of 259 shoppers of different classes, and workers and authorities of intensity Distribution Company. Discoveries are uncovering: impression of a large portion of the customers and representatives is that shoppers of practically all the social and instructive foundation from different classes of purchasers enjoy power robbery. Individuals enjoy pilferage to sidestep paying for their power utilization to maintain a strategic distance from installment in spite of having ability to pay for their utilization. Customers enjoy pilferage of intensity with dynamic or latent conspiracy of the workers.

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