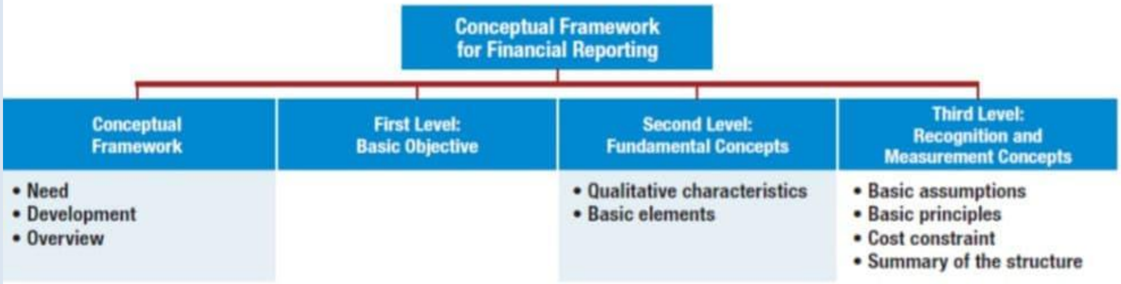
Conceptual Framework of Accounting

The need for a conceptual framework is highlighted by accounting scandals such as those at **Enron** and **Lehman Brothers**. To restore public confidence in the financial reporting process, many have argued that regulators should move toward principles-based rules. They believe that companies exploited the detailed provisions in rules-based pronouncements to manage accounting reports, rather than report the economic substance of transactions. For example, many of the off–balance-sheet arrangements of Enron avoided transparent reporting by barely achieving 3 percent outside equity ownership, a requirement in an obscure accounting rule interpretation. Enron's financial engineers were able to structure transactions to achieve a desired accounting treatment, even if that accounting treatment did not reflect the transaction's true nature. Under principles-based rules, hopefully top management's financial reporting focus will shift from demonstrating compliance with rules to demonstrating that a company has attained the objective of financial reporting.

First: Accounting Concepts

Accounting can be defined as a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information.



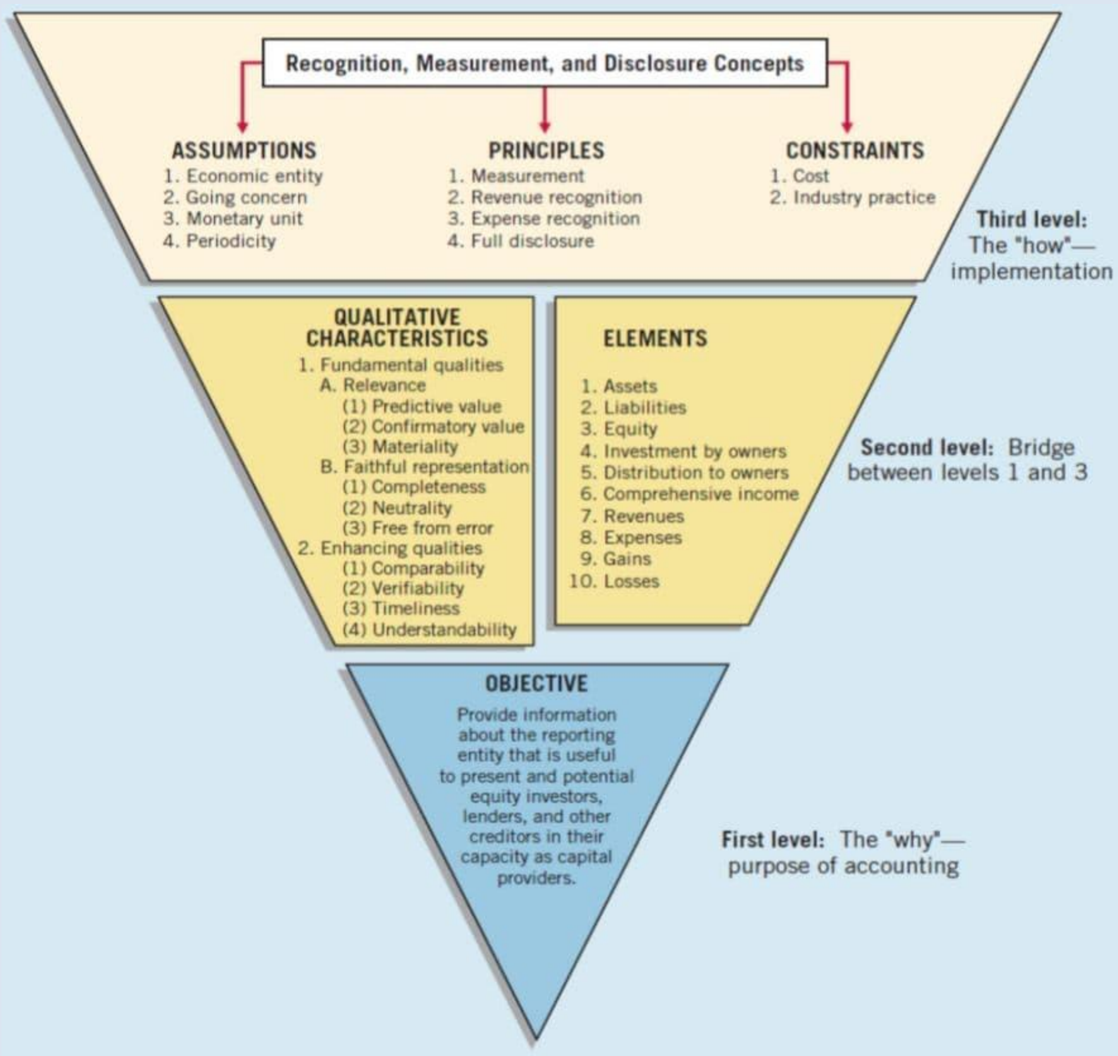


Figure
framework of accounting

Second: Characteristics of Accounting

The characteristics of accounting can be broadly classified into the following categories-

1. **Primary characteristics**
2. **Secondary characteristics**

❖ **Primary Characteristics of Accounting**

The following are the primary characteristics of accounting as follows-

Relevance: Relevance in accounting is closely related to the concept of useful information. It means that the information must be capable of making a difference in taking various decisions by the users. The information gathered by users relevant for one purpose may not be necessarily relevant for other purposes. The relevant information also reduces decision-makers uncertainty about future acts.

Reliability: Reliable information is required to form judgments about the earning potential and financial position of a business firm. Reliability differs from item to item. There are many factors affecting the reliability of information such as uncertainties inherent in the subject-matter and accounting measurements.

❖ Secondary Characteristics of Accounting-

The following are the secondary characteristics of accounting as follows-

Comparability: Comparability means that the users should be able to compare the accounting information of an enterprise of the period either with that of other periods, known as an intra-firm comparison or with the accounting information of the other enterprises, known as an inter-firm comparison.

Understandability: Understandability means that the information provided through the financial statements must be presented in a manner that the users are able to understand it.

Third : Accounting Functions

The accounting functions can be broadly classified into the following categories-

Recognition, Measurement, and Disclosure Concepts (Assumptions, Principles, and Constraints).

✓ ***Historical Functions***

The historical functioning of accounting involves keeping accurate records of all the past transactions made in the business. This type of functioning of accounting includes:

- Recording the financial transactions and maintain a journal to keep them all.

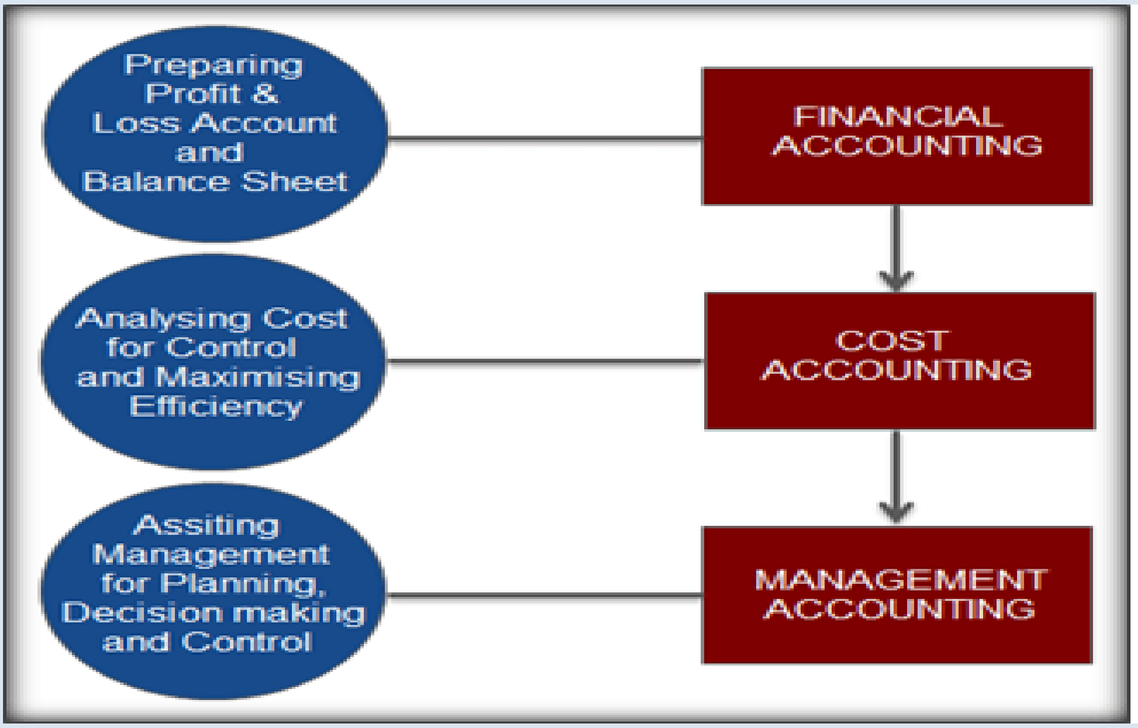
- It is important to classify and separate the records and the ledger.
- Preparation of brief summary takes place for quick reviews.
- The preparation of the balance sheet takes place to determine the financial position of the business.
- The last step is to communicate the obtained financial information to the interested sectors, for instance, owners, suppliers, government, researchers, etc.

✓ ***Managerial Functions***

In an organization, the management committee looks for all kinds of decision making. To ensure that the decisions are smooth and beneficial for everyone. These are managerial functions.

Forth : Types of Accounting

This figure show the types of accounting



Financial accounting is the process of preparing financial statements that companies' use to show their financial performance and position to people outside the company, Including investors, creditors, suppliers, and customers.

Cost accounting is a process of recording, analyzing and reporting all of a company's costs (both variable and fixed) related to the production of a product. This is so that a company's management can make better financial decisions, introduce efficiencies and budget accurately. The objective of cost accounting is to improve the business's net profit margins.

Management accounting is the process of creating organization goals by identifying, measuring, analyzing, interpreting and communicating information to managers is call management or managerial accounting.

Management accounting focuses on all accounting aimed at informing management about operational business metrics. It uses information relating to costs of products or services purchased by the company. Budgets are often used to quantify the decisions made in operational planning. Management accountants use performance reports to note variances between actual results from budgets.

The main difference between management accounting and financial accounting is financial accounting is the collection of accounting data to create financial statements, while management accounting is the internal processing used to account for business transactions.

Financial reports

Financial reports are the final product of accounting and are divided into two parts:

- ☒ **Private reports**: prepared based on a specific request or a specific planning or control authority, or other needs
.
- ☒ **General reports**: prepared in accordance with generally accepted accounting standards to be presented either to the stakeholders of the company or entity for everyone related to the establishment to view them. They are represented in: Financial statements reports and various explanations

There are some questions need to answer

- What are the deference between the accountant and bookkeeper?
- What are the golden rule of accounting?
- Describe accounting in just two words