

FUNDAMENTALS OF ABM1 | Introduction to Accounting

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Understanding of the definition, nature, function, and history of accounting.

Define Accounting

“Accounting is the process of IDENTIFYING, RECORDING, and COMMUNICATING economic events of an organization to interested users.”

1. **IDENTIFYING** – this involves selecting economic events that are relevant to a particular business transaction the economic events of an organization are referred to as transactions.

Examples of economic events or transactions - In a bakery business:

- sales of bread and other bakery products
- purchases of flour that will be used for baking
- purchases of trucks needed to deliver the products

2. **RECORDING** – this involves keeping a chronological diary of events that are measured in pesos. The diary referred to in the definition are the journals and ledgers which will be discussed in future chapters.

3. **COMMUNICATING** – occurs through the preparation and distribution of financial and other accounting reports.

Nature of Accounting

According to Accounting Theory

“Accounting is a systematic recording of financial transactions and the presentation of the related information to appropriate persons.” Based on this definition we can derive the following basic features of accounting:

- Accounting is a service activity. Accounting provides assistance to decision makers by providing them financial reports that will guide them in coming up with sound decisions.
- Accounting is a process: A process refers to the method of performing any specific job step by step according to the objectives or targets.

Accounting is identified as a process, as it performs the specific task of collecting, processing and communicating financial information. In doing so, it follows some