

CHAPTER 1

Introduction to Accounting

CBSE Class 11 · Financial Accounting Part I ·
Chapter 1

CBSE · Accountancy · Class 11

WHAT THIS CHAPTER DOES

- A** Define accounting and recite its 8-step process in order.
- B** Distinguish book-keeping, accounting and accountancy.

Boards prep that builds confidence, not anxiety.

TODAY'S MISSION

Today's mission

1

Define accounting and recite its 8-step process in order.

2

Distinguish book-keeping, accounting and accountancy.

3

Name the internal and external users and what each needs.

4

Define the 20 basic accounting terms with zero confusion.

WHY THIS MATTERS

Why this chapter matters

- 1 Every later chapter reuses this exact vocabulary — get the words right now, save marks for two years.
- 2 Direct 1-mark MCQs on basic terms plus a 3-4 mark short answer on users / objectives appear in almost every paper.
- 3 It explains the 'language of business' — once you can read accounts, you can read any company's health.

TOPIC

A

What is accounting?

THEOREM · LOAD-BEARING RESULT

Meaning and definition of accounting



Accounting is the process of IDENTIFYING, MEASURING, RECORDING and COMMUNICATING the economic (financial) information of an organisation to its interested users for rational decision-making.

STATEMENT

Per the American Institute of Certified Public Accountants (AICPA): 'Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and

WHY THIS MATTERS

- A business has hundreds of money dealings
- Memory cannot hold them, and the owner, bank, and government all need a reliable, summarised, money-measured picture
- Accounting is the system that converts scattered transactions into one understandable financial

WATCH OUT FOR

NOTE Only events that can be measured in MONEY and are financial in character are recorded. The skill of a manager, employee morale, or a brand's goodwill (unless purchased) are NOT recorded — this is the money-measurement limitation.

TOPIC

B

The accounting process / cycle

TOPIC

From an event to a decision

IDENTIFY & MEASURE

Accounting begins by IDENTIFYING which of the many events of a business are financial transactions — only those that can be expressed in money and that change the financial position of the firm qualify. A transaction (cash sale, credit purchase, payment of rent) is recorded: a non-

RECORD & CLASSIFY

Once identified and measured, every transaction is RECORDED in the books of original entry (the journal or subsidiary books) in chronological order, supported by a source document called a voucher. This recording stage is the heart of book-keeping. Next comes CLASSIFYING: the

SUMMARISE & ANALYSE

After classification the ledger balances are SUMMARISED into readable statements — first a trial balance to check arithmetical accuracy, and then the final accounts: the Trading and Profit & Loss Account (which reveals profit or loss) and the Balance Sheet (which reveals financial position)

COMMUNICATE

The final and purpose-defining step is COMMUNICATING the interpreted results to the various users — owners, managers, investors, lenders, government and others — usually through financial statements, reports and accounting ratios. Without communication, all the prior effort is wasted

TOPIC

C

Book-keeping vs accounting vs accountancy

TOPIC

Each contains the previous

BOOK-KEEPING

Book-keeping is the **NARROWEST** and most basic activity: it is concerned only with **IDENTIFYING** financial transactions and **RECORDING** them systematically in the books of account. It is a routine, clerical and mechanical task that does not require special analytical skill, and it

ACCOUNTING

Accounting is **WIDER** than book-keeping. It begins where book-keeping ends: in addition to recording, it **CLASSIFIES** the entries into accounts, **SUMMARISES** them into financial statements, and **ANALYSES, INTERPRETS** and **COMMUNICATES** the results to users. Accounting therefore

ACCOUNTANCY

Accountancy is the **WIDEST** term of the three. It refers to the whole body of systematic **KNOWLEDGE**, the principles, conventions, standards and techniques that govern **HOW** accounting should be done. If accounting is the practice, accountancy is the discipline and the

HOW THEY FIT TOGETHER

The three are best pictured as three nested circles. The outermost is **ACCOUNTANCY** — the complete subject-knowledge. Inside it sits **ACCOUNTING** — the actual process of recording, classifying, summarising, analysing and communicating for a specific business. Inside that sits **BOOK-KEEPING**

TOPIC

D

Objectives, advantages and limitations

TOPIC

What accounting does and where it falls short

OBJECTIVES

Accounting exists to achieve four core objectives. First, to keep a **SYSTEMATIC**, complete and permanent **RECORD** of all financial transactions, so the business does not depend on fallible memory. Second, to **ASCERTAIN THE PROFIT OR LOSS** of a period through the Trading and

ADVANTAGES

Well-kept accounts deliver several advantages. They provide a reliable **RECORD** that replaces memory and can be referred to in disputes. They help in **ASSESSING PERFORMANCE** by revealing profit, loss and financial position. They assist **MANAGEMENT** in planning and controlling

LIMITATIONS

Accounting is powerful but not perfect. It records only what can be measured in **MONEY**, so vital non-monetary facts — staff skill, management quality, customer loyalty — are ignored. Figures are affected by the **PERSONAL JUDGEMENT** of the accountant (choice of depreciation method, stock valuation) so

QUALITATIVE CHARACTERISTICS

For accounting information to be useful it must possess four qualitative characteristics. **RELIABILITY** means the information is verifiable, free from material error and bias, and faithfully represents what it claims. **RELEVANCE** means it is useful and timely for the

TOPIC

E

Users of accounting information

WORKED EXAMPLE

Internal vs external users

- 1** INTERNAL users are inside the organisation. OWNERS / proprietors / partners want to know the profit and the return on their investment.
- 2** MANAGEMENT uses accounts for planning, controlling, costing and day-to-day decision-making.
- 3** EMPLOYEES look at accounts to judge job security and to negotiate wages, bonus and welfare.
- 4** EXTERNAL users are outside the organisation. INVESTORS / potential investors decide whether to buy or hold shares based on profitability and safety.
- 5** LENDERS / banks assess the firm's ability to repay before granting loans; CREDITORS / suppliers judge creditworthiness before selling on credit.

TOPIC

F

**Basic
accounting
terms — the
vocabulary that
pays for 2 years**

TOPIC

Owner, what it owns and owes

CAPITAL & DRAWINGS

CAPITAL is the amount of money or value of goods the OWNER invests in the business. Because the business is treated as separate from its owner (business entity concept), capital is a LIABILITY of the business — it is what the firm owes back to the owner. DRAWINGS is the cash or goods the owner takes OUT of the

ASSETS

ASSETS are the economic resources OWNED by the business that have value and help it earn revenue. They are classified as FIXED ASSETS (held long-term, e.g. land, building, machinery) and CURRENT ASSETS (held short-term, e.g. cash, stock, debtors). Fixed assets are further split

LIABILITIES

LIABILITIES are the amounts the business OWES to outsiders and to the owner — the claims of others against the assets of the firm. They are classified by time: LONG-TERM (non-current) liabilities are payable after more than one year, such as long-term loans and debentures; SHORT-

DEBTORS & CREDITORS

A DEBTOR is a person or firm who OWES money TO the business, normally because the business sold them goods or services on credit; debtors are an ASSET (a 'debtor' owes TO us). A CREDITOR is a person or firm to whom the business OWES money, normally for goods or services bought on

TOPIC

Income, costs and goods

REVENUE, EXPENSE, EXPENDITURE

REVENUE (income) is the amount EARNED by the business from its operations — mainly the sale of goods and services, plus items like rent, commission, interest and dividends received. EXPENDITURE is the broad act of spending money or incurring a liability to

PURCHASES & SALES

PURCHASES means buying GOODS in which the business deals (its stock-in-trade) for the purpose of resale — it does NOT include buying assets like machinery or furniture for own use. SALES means selling those same goods to customers. Both can be CASH (paid/received immediately) or CREDIT

STOCK & GOODS

GOODS are the items a business buys for resale or produces for sale — they form the subject-matter of its trade. STOCK (or inventory) is the value of goods lying UNSOLD at a particular date. Opening stock is the unsold goods at the start of the period; closing stock is the unsold goods at the end

PROFIT, GAIN & LOSS

PROFIT is the excess of total revenues over total expenses of a period — the reward of running the business well; it increases the owner's capital. GAIN is a profit of an IRREGULAR or non-operating nature, such as profit on the sale of a fixed asset or investment. LOSS is the excess of expenses over revenues

TOPIC

Documents, discounts and dues

VOUCHER & TRANSACTION

A TRANSACTION is a financial dealing between two parties that is measurable in money and changes the financial position of the business — buying goods, paying rent, receiving cash. It may be CASH (settled immediately) or CREDIT (settled later). A VOUCHER is the written SOURCE DOCUMENT

DISCOUNT — TRADE VS CASH

A DISCOUNT is a deduction from the price of goods. A TRADE DISCOUNT is a reduction in the LIST PRICE allowed for buying in bulk or to a fellow trader; it is deducted on the invoice itself and is NEVER recorded separately in the books — only the net amount is recorded. A

BAD DEBTS

BAD DEBTS are the amounts owed by DEBTORS that have become IRRECOVERABLE — the customer cannot or will not pay, so the debt is written off as a loss to the business. Bad debts arise from selling goods on credit and are an unavoidable risk of credit trade. When a debt goes

EXPENDITURE TYPES RECAP

It pays to lock in the spending vocabulary. CAPITAL EXPENDITURE is money spent to acquire or improve a long-term asset whose benefit lasts beyond one year (buying machinery, a building) — it appears on the Balance Sheet. REVENUE EXPENDITURE is spending whose

TOPIC

Book-keeping vs accounting

TRAP → TRUTH

× **MISTAKE** Book-keeping and accounting are the same thing.

✓ **CORRECT** Book-keeping is only the **FIRST** part — identifying and recording transactions in the books (a clerical, routine job). Accounting is **WIDER**: it begins where book-keeping ends and additionally classifies, summarises, analyses, interprets and **COMMUNICATES** the information to users for decision-making. Book-keeping is a subset of accounting.

TOPIC

Capital is an asset

TRAP → TRUTH

× **MISTAKE** Capital is an asset of the business.

✓ **CORRECT** Capital is a LIABILITY of the business — it is the amount the business OWES BACK to its owner. Under the business entity concept, the business and the owner are separate, so the owner's investment is a claim (liability) on the business, not something the business owns. Cash brought in is the asset; the owner's claim on it is capital.

TOPIC

Trade discount vs cash discount

TRAP → TRUTH

× **MISTAKE** Trade discount and cash discount are recorded the same way in the books.

✓ **CORRECT** TRADE discount is a reduction in the LIST PRICE given for buying in bulk; it is deducted on the invoice itself and is NEVER recorded separately in the books (we only record the net amount). CASH discount is allowed for prompt / early payment; it IS recorded in the books as a separate item. Trade discount = off the price, no entry; cash discount = for paying fast, has an entry.

TOPIC

Expense vs expenditure

TRAP → TRUTH

× **MISTAKE** Expense and expenditure mean exactly the same thing.

✓ **CORRECT** EXPENDITURE is the broad term — ANY spending of money or incurring of a liability to acquire assets, goods or services. EXPENSE is the portion of expenditure whose benefit is consumed in the CURRENT accounting period (e.g. rent, salaries, the cost of goods sold). Buying a machine is capital expenditure; the rent of the month is an expense. Every expense is an expenditure, but not every expenditure is an expense.

TOPIC

Debtors vs creditors

TRAP → TRUTH

× **MISTAKE** A debtor is someone the business owes money to.

✓ **CORRECT** It is the OPPOSITE. A DEBTOR is a person (or firm) who OWES money TO the business — usually because the business sold them goods on credit (a debtor is an ASSET). A CREDITOR is a person to whom the business OWES money — usually for goods bought on credit (a creditor is a LIABILITY). Memory aid: deb-TOR = owes TO us (asset); credi-TOR = we owe him (liability).

TOPIC

Purchases means any buying

TRAP → TRUTH

- × **MISTAKE** Buying a computer or furniture for office use is recorded as 'Purchases'.
- ✓ **CORRECT** In accounting, 'PURCHASES' refers ONLY to the buying of GOODS in which the business deals (its stock-in-trade) for the purpose of resale. Buying a computer, furniture or machine for use in the business is the purchase of an ASSET, NOT 'Purchases'. So for a furniture-dealer, buying chairs is Purchases; for a stationery shop, buying a computer is an asset purchase.

TOPIC

Drawings reduce profit

TRAP → TRUTH

- × **MISTAKE** Drawings (money the owner takes out) are an expense that reduces profit.
- ✓ **CORRECT** Drawings are NOT an expense and do NOT affect profit. Drawings are amounts of cash or goods withdrawn by the owner for PERSONAL use; they REDUCE the owner's CAPITAL (not the profit). Profit is computed before drawings; drawings are then subtracted from capital at year-end.

TOPPER TEMPLATE · MARK-BY-MARK

3-4 mark: 'Who are the users of accounting information? Distinguish internal from external

- | | |
|--|--|
| <p>1 OPEN WITH THE TWO-CATEGORY FRAMEWORK
1 m</p> | <p>State: 'Users of accounting information are broadly classified into INTERNAL users (within the organisation) and EXTERNAL users (outside the organisation).' This framing alone fetches the structure mark.</p> |
| <p>2 LIST INTERNAL USERS + THEIR NEED
1 m</p> | <p>INTERNAL: (i) Owners/proprietors/partners — to know profit and return on investment; (ii) Management — for planning, controlling and decision-making; (iii) Employees — for job security, bonus and wage negotiation. Name at least three.</p> |
| <p>3 LIST EXTERNAL USERS + THEIR NEED (THE MARK-RICH PART)
2 m</p> | <p>EXTERNAL: (i) Investors/potential investors — to decide whether to invest; (ii) Lenders/banks — to assess repaying capacity; (iii) Creditors/suppliers — to judge creditworthiness; (iv) Government & tax authorities — for taxes and regulation; (v) Customers — for continuity of supply; (vi) Researchers & public — for social/economic study. Name at least four with their distinct need.</p> |

TOPPER TEMPLATE · MARK-BY-MARK

3-4 mark: 'Explain any four objectives of accounting.'

- | | | |
|---|---|--|
| 1 | SYSTEMATIC RECORDING
1 m | To maintain a SYSTEMATIC and complete record of all financial transactions, so that the business does not rely on memory and can verify any past dealing. |
| 2 | ASCERTAIN PROFIT OR LOSS
1 m | To determine the PROFIT EARNED or LOSS INCURRED during an accounting period, by preparing the Trading and Profit & Loss Account. |
| 3 | ASCERTAIN FINANCIAL POSITION
1 m | To find the FINANCIAL POSITION of the business — what it owns (assets) and owes (liabilities) — by preparing the Balance Sheet on a given date. |
| 4 | PROVIDE INFORMATION FOR DECISIONS
1 m | To COMMUNICATE useful information to various users (owners, managers, lenders, government) so they can take rational economic decisions. (Bonus objectives: protecting business assets, meeting legal requirements.) |

TOPPER TEMPLATE · MARK-BY-MARK

3 mark: 'Distinguish between book-keeping and accounting' OR 'between trade discount and

- 1 STATE THE BASIS OF DISTINCTION**
1 m

Open each difference with a labelled BASIS (e.g. 'Scope', 'Stage', 'Recording', 'Nature'). Examiners award marks per clearly-labelled basis, not per loose sentence.
- 2 GIVE THE LEFT-HAND AND RIGHT-HAND CONTRAST**
1 m

For each basis, write the two sides side-by-side. E.g. SCOPE — Book-keeping: only identifying + recording. Accounting: recording + classifying + summarising + analysing + communicating.
- 3 CLOSE WITH THE SUMMARY LINE + EXAMPLE**
1 m

End with a one-line takeaway and an example. E.g. 'Thus book-keeping is a part of accounting; accounting begins where book-keeping ends.' One example cements the mark.

PYQ PATTERNS




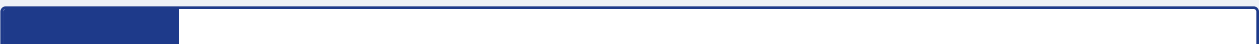
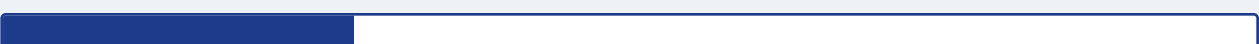
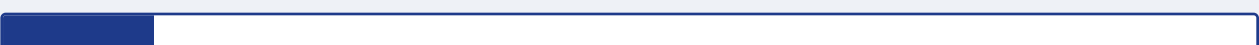


Top PYQ patterns to drill

#1	Define accounting and explain its steps / process (identifying, measuring, recording, classifying, summarising, analysing, communicating). (3-4 marks)	Most papers
#2	Who are the users of accounting information? Distinguish internal users from external users with examples. (3-4 marks)	Most papers
#3	Explain any four objectives of accounting. (3-4 marks)	Frequent
#4	Define basic accounting terms: capital, drawings, assets, liabilities, debtors, creditors (any four with one-line definition). (1 + 3 marks)	Almost every paper (1-mark MCQ + 3-mark cluster)
#5	Distinguish between (a) book-keeping and accounting, OR (b) trade discount and cash discount, OR (c) expense and expenditure. (3 marks)	Frequent

MARKS DISTRIBUTION

10-year marks distribution

10-YEAR PYQ MARKS DISTRIBUTION

Define accounting / steps in the accounting process		18%
Objectives of accounting		16%
Users of accounting information (internal vs external)		20%
Qualitative characteristics of accounting information		14%
Basic accounting terms (capital, drawings, assets, liabilities, debtors, creditors, etc.)		28%
Book-keeping vs accounting vs accountancy		12%
Advantages and limitations of accounting		12%
Distinguish trade discount vs cash discount		8%

RECAP · MEMORISE THESE

Recap

1 What accounting is —
Identifying →
measuring →
recording →
classifying →
summarising →
analysing →
interpreting →
communicating
financial information
to users.

2 Three layers — Book-keeping (recording) ⊂ Accounting (process + communicate) ⊂ Accountancy (the body of knowledge).

3 Traps to avoid —
Capital is a **LIABILITY**.
Debtor is an **ASSET**
(owes us). Drawings
are **NOT** an expense.
Trade discount has
NO entry. Purchases
= goods for resale
only.

WHAT'S NEXT

What's next

- Chapter 2 — Theory Base of Accounting: GAAP, fundamental assumptions, principles and accounting standards.
- Sit the 15-MCQ Quick Drill under a 20-min timer.
- Then attempt the school-pattern mini paper — 30 marks, 60 minutes.

You've learned the language of business.

Now every later chapter will read like English instead of code.

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