Welcome to the first week of Financial Accounting Module of Accounting and Finance course!

Many of you may feel accounting is bit complex and technical. You will shortly find how simple accounting is and how you can use accounting information. There are many organizations around us. Business organizations want to maximize the wealth. There are also organizations which want to maximize the welfare of the society. Periodically, every organization wants to measure how they performed during the period. Accounting plays a critical role in measuring the financial performance of the organization. Let us take a typical business organization like Tata Steel. It raises capital from various sources, invests in various assets, buys material, incurs expenditure to make steel and steel products, and finally sells the product. Thousands of financial transactions take place. The role of accountant is to record this transaction and summarize them periodically. The summarized statement helps assess the financial performance.

Financial statements are actually simple to read and easy to understand. Most readers feel it is complex. The reason is they had different experience with the accounting system. Suppose you are managing a shop floor that consists of some 20 machines. You are not happy with few machines. They are not giving good productivity. You changed these machines with new ones; the new machines are slightly costlier than the previous one. But, you are shocked to see that the cost of operation of the shop floor has gone up several times compared to last month value. Accountant explains that this higher cost is on account of increase in depreciation value.

The company follows a written down value method for depreciation. Under this method, depreciation value will be higher during the initial life and declines over a period of time. Since you have replaced old machine with costlier new machine, the depreciation value has gone up. He says, “Next year your department cost will come down.” You got confused. Why the same machine gives different values at different points of time. You are wondering if you had retained the old machine, you would have reduced the cost. But you know the product quality will get affected if you use the inefficient machines. You conclude accounting is bit illogical and start avoiding discussion with accountants. You see same problem when you file your personal income tax. You consider tax is also accounting. The reason is you take accountant’s help to file your tax return. You watch a movie or television drama. You hardly find a good accountant character. Accountants are generally with wrong groups. You heard few accounting frauds; people losing money and also jobs; banks reporting huge losses. You start developing some discomfort in dealing with accounting system. Trust me, you are going to have different experience in this course. You will get confidence in handling accounting information. You will also like accounting profession and accountants at the end.