

Advantages and Limitation of Accounting

Accounting offers the following advantages:

1. Provides complete and systematic record: business transactions have grown in size and complexity and it is not possible to remember each and every transaction. accounting keeps a prompt and systematic record of all the transactions and summarizes them in order to provide a true picture of the activities of the business entity.
2. Information regarding profit or loss: accounting reports the net result of business activities of an accounting period. The profit and loss account prepared at the end of each accounting period discloses the net profit earned or loss suffered during that period.
3. Information regarding financial position: accounting reports the financial position of the business by preparing a balance sheet at the end of each accounting period. Balance sheet discloses the position of assets and their values on the one hand and liabilities and capital on the other hand.
4. Enable comparative study: by keeping a systematic record accounting helps the owners to compare one year's costs, expenses, sales and profit etc. with those of other years. such a comparison provides the useful information on the basis of which important decisions can be taken more judiciously.
5. Helpful in assessment of tax liability: properly maintained records will be of great help when the firm is assessed to income tax or sale tax.
6. Evidence in legal matters: properly maintained accounts, supported by authenticated documents are accepted by the courts as a firm evidence.
7. Facilitates sale of business: if a business entity is being sold, the accounting information can be utilized to determine the proper purchase price.

Limitations of accounting: as discussed above, accounting provides information about the profitability and financial soundness of a concern to the owners and other interested parties. In addition, it provides various other valuable information also. However, accounting has certain limitations which must be kept in mind while using such information. These limitations are as follows:

1. Influenced by personal judgments:-accounting is as yet an exact science and accountant has to exercise his personal judgment in respect of various items. For example, it is extremely difficult to predict with any degree of accuracy the actual useful life of an asset which is needed for calculating depreciation. The same is true about method of valuation of stock and making provision for doubtful debts. Different persons are bound to have different opinions in respect of such things and hence it will result in ascertainment of different figure of profit or loss of a business by different persons. Hence the figure of profit cannot be taken as an exact figure.
2. Incomplete information: accounting statements provide only the incomplete information because the actual profit or loss of a business can be known only when the business is closed down.
3. Omission of qualitative information: accounts contain only those information which can be expressed in terms of money. Qualitative aspects of business units are completely omitted from the books as these cannot be expressed in monetary terms.
4. Based on historical costs: accounts are prepared on the basis of historical costs (i.e. the original costs) and such the figures given in financial statements do not show the effect of changes in price level.
5. Affected by window dressing: window dressing refers to the practice of manipulating accounts, so that the financial statements may disclose a more favorable position than the actual position.

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