



The nature and purpose of accounting

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Chapter preview

Accounting (or accountancy), like taxation, has been a function of organised society throughout history. Accounting is the recording, reporting and, sometimes, interpretation of all the financial (money-value) transactions and resources of individuals, enterprises and other formal organisations (accounting entities). The main branches of accounting are **financial accounting** and **management accounting**. Financial accounting has as its principal roles the keeping of accurate records of economic events and transactions affecting entities, and their use for the preparation of relevant and useful reports, primarily intended for the benefit of external stakeholders.

Management accounting, often using the same base data/records as financial accounting, but also taking data from other sources, and applying analytic techniques especially relevant to planning, decision taking and control, has the particular role of providing information and advice to managers to aid them in their work. Management accounting has, in large part, evolved from earlier **cost accounting** methods, and the measurement and control of production and other costs remains a major task. Other such tasks include the preparation and monitoring of budgets, capital expenditure evaluation, and participation in **management information systems (MIS)** design and implementation.