Books of accounts are the mirror of all financial events of an entity

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Abstract: This paper highlights the books of accounts as a mirror of all financial events of an entity. It expresses the concept of Bookkeeping and accounting beginning from Luca Pacioli's Double Entry Bookkeeping system, how accounting help and manages the organization's finances in ensuring managerial decisions, and ensures transparency and accountability with the importance of accounting. The role of books of accounts in the modern accounting system is part of this paper. The books of accounts act as a complete record of all the financial events which helps with auditing and decision-making and knowing the activities of the organization in the future. In this paper, the methodology includes a review of the literature on the topic, the importance of books of accounts, and a review of some examples. The present study finds an inclusive outline of the importance of accounts as a mirror of all financial events of an entity, which can address the stakeholders' concern in making important decisions and assessing an entity's financial health and stability.

Keywords: Books of Accounts, Mirror, Importance of Accounts, Entity

I. Introduction

A mirror is an object which gives the reflection of any objects in front of it. The mirror is a smooth or polished surface that forms images by reflection as stated in the online dictionary Merriam Webster [18]. On the other hand, accounting is the process of recording, classifying, and summarizing financial transactions to provide stakeholders with the necessary financial information to make informed decisions. Books of accounts play the role of a mirror for an entity, for a company, for a society, or for any institution. Accounts serve the purpose of that mirror. The stakeholders desiring to finance that enterprise or business or has some interest in that institution or invest in that institution or whosoever in that company as well into mirror. Merely seeing that reflection, one is compelled to engage with either the institution or the organization. This paper aims to establish that the records in the Books of Accounts are reflected all the financial events of an institution or organization as anything creates an image as a mirror creates an image in front of it. To prove this statement in the present paper I have taken some examples of financial activities of an educational institution and finally a conclusion is drawn.

The importance of accounting is found in its capacity to offer an exhaustive record of all financial transactions, including income, expenses, assets, and obligations, as well as to act as a mirror that reflects the stability and health of an entity's financial viability [13]. Making judgments on the entity's financial performance, standing, and prospects for the future requires knowledge of accounts. Since the advent of Double Entry Bookkeeping by Luca Pacioli in the 15th century [14], the significance of accounting in presenting stakeholders with pertinent financial information has been appreciated. In order to prepare accurate and balanced accounts, Double Entry Bookkeeping entails entering each financial transaction twice, once as a debit and once as a credit. This method has been crucial in ensuring that the accounts continue to reflect all of an entity's events. Accounting has developed into a sophisticated discipline in the modern era, including not only the recording of financial transactions but also the interpretation and dissemination of financial data to stakeholders [9].

II. Objective of the study

The objective of the study is to point out the significance of accounting as a reflection of an entity's financial events with a focus on its function in financial management, responsibility, and decision-making. It gives a historical overview, looks at the contemporary accounting system, and emphasises the importance of accounts in recording transactions, auditing, and decision-making while examining the modern accounting system. This paper aims to investigate the idea of accounts as a reflection of the financial activities of an institution, in making informed choices, and ensuring accountability and transparency to the highest level.

III. Methodology

The present study will begin with historical overview of accounting and book keeping, including the introduction of Luca Pacioli's Double Entry Bookkeeping system. The following section will discuss the modern accounting system, including the definition of financial accounting and the role of accounts in financial accounting. Then the paper shall point out the importance of accounts with the discussion how accounts provide a complete record of all financial transactions with the touch of importance of accounts in the various fields like auditing and decision making. In the body paragraph, firstly I look the contrast between the books of accounts and the mirror and similarities between the two. Then, I have taken some practical illustrations which will highlight the significance of accounts as an index of mirror of all events of an entity. This paper will demonstrate how accounts provide a complete record of all financial transactions and reflect the financial health and stability of an entity to present a full proof accounting system for the future. In this paper I have taken some financial events of an educational institution as a case study.

IV. Literature review

The concept of accounting and Bookkeeping has existed for centuries. However, it was only in the 15th century that Luca Pacioli, an Italian mathematician and Franciscan friar, introduced the concept of Double Entry Bookkeeping system, which is still in use today [14]. Pacioli's system of Double Entry Bookkeeping involves recording every financial transaction twice, once as a debit and once as a credit, to ensure that the accounts remain balanced and accurate. Double Entry bookkeeping system confirms the complete recording and is known as a scientific system of accounting.

In the modern era, accounting has evolved into a complex system that involves recording, classifying, and summarizing financial transactions to provide stakeholders with the necessary financial information to make informed decisions [9]. Financial accounting is one of the procedures for identifying, measuring, and conveying economic information to allow users of the information help them make wise judgments and decisions, in the words of the Financial Accounting Standards Board (FASB) [6].

Books of accounts provide a complete record of all financial transactions, including income, expenses, assets, equities, and liabilities that reflects the financial health and stability of an entity [13]. All the information relating to the financial activities of any organisation is very crucial for the audit purposes and for the development of the entity or the organisation. Several studies have been done about the importance of accounts in different contexts. For instance, a research by Brierley and Cowton (2006) that looked at the function of accounting in corporate governance discovered that accounts are essential for giving shareholders and other stakeholders the information they need to hold management responsible and accountable. Additionally, accounts are crucial in the decision-making process. Accounts can assist firms in discovering inefficiencies or under performance so they can decide where to make improvements [12]. Additionally, they can assist companies in assessing the profitability of their activities and helping them decides for themselves whether to grow or reduce their operations [9].

In general, the literature on the subject emphasises how important accounting is to managing an organization's finances, making wise decisions, and guaranteeing accountability and openness. I could not find any literature which significantly identifies the books of accounts as a mirror.

V. Historical Overview of Accounting and Book keeping

Accounting and Bookkeeping have a long and complex history, with roots dating back to the earliest human civilizations. In ancient times, accounting was used primarily for recording transactions related to agriculture, such as the production and distribution of crops and livestock [16]. As trade and commerce expanded, accounting became increasingly important as a means of recording transactions and keeping track of financial resources. One of the most significant developments in the history of accounting was the introduction of Luca Pacioli's Double Entry Bookkeeping system in the 15th century. Pacioli was a Franciscan friar and mathematician who lived in Italy during the Renaissance period. In 1494, he published a book titled "Summa de Arithmetica, Geometria, Proportione et Proportionalita," which introduced a detailed description of the Double Entry Bookkeeping system [16].

To maintain accurate and balanced accounts, the Double Entry Bookkeeping system requires that each financial transaction be recorded twice, once as a debit and once as a credit. For instance, the inventory account is debited and the accounts payable account is credited when a company buys inventory on credit. This guarantees that the accounts' total debits and credits stay equal and that the accounts accurately reflect the financial transactions of the company [15].It is impossible to overestimate the importance of Pacioli's Double Entry Bookkeeping method for maintaining proper accounting. Before the development of Double Entry Bookkeeping, accounting lacked a great deal of standardization in terms of vocabulary, practices, and methods. Needless to say it was also inaccurate and unreliable. The Pacioli system offered a precise and reliable structure for recording the transactions [16].

With the emergence of new technology, processes, and regulations, accounting and Book keeping have continued to advance over time. Financial accounting, managerial accounting, auditing, taxes, and forensic accounting are just a few of the many sub-disciplines that make up the increasingly complicated area of accounting in the modern day.

Therefore, the historical development of accounting and Book keeping has been influenced by the requirement for organisations and societies to consistently and precisely record financial transactions. A key turning point in this development was the adoption of Luca Pacioli's Double Entry Bookkeeping system, offered a distinct and consistent structure for documenting financial transactions and guaranteed that accounts remained accurate and balanced. In order to maintain accurate records, Double Entry Bookkeeping is still crucial now as it was in Pacioli's day.

VI. Modern Accounting

The current accounting system has changed significantly since Luca Pacioli initially made Double Entry Bookkeeping common place. The systematic recording, reporting, and analysis of financial transactions in the current economic environment constitute the complex and specialized field of accounting. Financial statements are produced in the financial accounting sub discipline of accounting and cover the financial position, performance, and cash flows of an entity. Financial statements include the balance sheet, the income statement, the cash flow statement, and the statement of changes in equity [10].

Accounts are essential to financial accounting because they offer a systematic and complete record of all financial transactions for an entity. The financial repercussions of business transactions, such as sales, purchases, expenses, and revenues, are recorded through accounts. Transactions are documented in accordance with a set of guidelines known as Generally Accepted Accounting Principles [7].It is tough to emphasis the importance of accounts as a window into all financial activities of a business. Accounts give stakeholders a thorough and trustworthy record of an entity's financial transactions, enabling them to keep track of and assess the entity's financial performance and make wise decisions. Financial statements can be used by creditors to assess a company's creditworthiness and ability to repay debts, while investors can use them to gauge a company's profitability and development prospects [5]. Accounts also offer a way to keep track of and manage a company's financial resources. Businesses can find inefficiencies or waste and take corrective action by tracking revenues and expenses in separate accounts. This can help to maximize revenue, cut expenses, and guarantee the entity's long-term financial viability [7].

As a result, since Luca Pacioli introduced Double Entry Book Keeping, the present accounting system has undergone tremendous change. The crucial subfield of accounting known as financial accounting focuses on creating financial statements, which contain data on the health, performance, and cash flows of an entity.

The financial performance and position of any company influence managerial decisions. Modern accounting is essential for all stakeholders, including investors, authorities, the government, and employees, when making decisions.

VII. The Importance of Accounts

Accounting is the study of keeping detailed records of all financial transactions that have ever taken place within a business, in chronological sequence of occurrence. Books of accounts must be kept up to date for a variety of purposes, such as auditing, decision-making, and legal compliance. The systematic recording, categorization, summarization, and reporting of financial transactions are some of these objectives.

Auditing is one of the main purposes of accounts. Accounts are used by auditors to confirm that financial transactions have been appropriately and consistently recorded. They check the accounts to make that the financial statements accurately reflect the financial status and operation of a business. Accounts give auditors a thorough and trustworthy record of financial transactions, allowing them to assess the financial health of a business and spot any possible problem areas [8].Stakeholders use the data in financial statements, which are based on financial transactions and prepare maintaining the generally accepted accounting principles and accounting standards, to make well-informed decisions regarding the organisation or business. For instance, financial statements are used by investors to project future returns on investment and by creditors to assess a company's creditworthiness and ability to repay obligations. Management uses financial statements as another tool to evaluate the entity's financial performance and make crucial decisions [3].Additionally; accounts have been prepared in many other circumstances to offer important insights into the financial health of an organisation. Forensic accountants, for instance, utilize accounts to look into financial crimes like misappropriation, fraud, and embezzlement. In historical research, accounts have also been used to examine patterns and trends in the economy. Insights into the economic and social structures of mediaeval civilization, for instance, might be gained through studying the accounts of mediaeval merchants [2].Moreover; accounts play a critical role in legal compliance within India. The Companies Act of 2013 in India mandates entities to maintain accurate accounts and financial records to adhere to legal requirements. Non-compliance can result in penalties, fines, or even imprisonment. For instance, Section 128 of the Companies Act, 2013 requires companies to maintain proper books of accounts, while Section 134 imposes the obligation to prepare financial statements that give a true and fair view of the financial position [17].

Financial transactions occur in all societal institutions and professional endeavors, whether they are undertaken for profit or not. Therefore, it is necessary to document and summarise these events as they happen in order to ascertain their overall impact once a predetermined amount of time has passed. Additionally, the said information needs to be communicated and understood. Only accounting can offer assistance in solving this issue. In the modern world, accounting is used in many non-commercial institutions, including schools, colleges, hospitals, charity trusts, clubs, cooperative societies, etc.

Government and local self-government, such as municipalities, panchayats, etc., use accounting systems to keep record of financial information.

Thus, accounts provide a complete record of all financial transactions, which is important for maintaining accurate financial records, legal compliance, auditing, and decision-making. The reliability and accuracy of accounts are essential for stakeholders to make informed decisions and evaluate an entity's financial health. The importance of accounts extends beyond traditional accounting contexts, with accounts also being used in legal compliance, forensic accounting, and historical research.

VII. Discussions, analysis and examples

There are two parts of this section. In the first part of the section I shall go a comparative study in between the Books of accounts and mirrors. In the next part I shall take some examples and discussion.

If we see the functionality we see the books of accounts serve as the recording and documentation of all the financial activities of all the business transactions which facilitates financial management [11] whereas mirrors serve as surfaces, providing visual perception of oneself or objects placed in front of them [1].The purpose of books of accounts we see books of accounts primarily used for reporting, analysis, decision making and regulatory compliance in accounting and finance [11]. On the other hand the primary purpose of mirrors is personal grooming, visual perception of one’s physical appearance and interior designing [1]. The Books of accounts symbolize financial transparency, accuracy, and accountability in business transactions [11] whereas Mirrors symbolize self-reflection, introspection, and the ability to see oneself objectively [1].Books of accounts are prone to human error and record only financial aspects and could not consider non-financial aspects, which may distort perceptions and even negatively affect one's self-image, on the other hand, mirrors can only reflect what is physically in front of it[1].

But both of the books of accounts and the mirrors serve as important tools for recording transactions. The books of accounts records financial activities and provide a historical financial record for a business [11] and mirror records visual images and reflections of individuals and objects [1]. Both books of accounts and mirrors can be seen as reflecting elements of reality. Books of accounts aim to accurately represent a business's financial position and transactions, providing a factual basis for financial analysis [11] and Mirrors reflect physical reality and provide an accurate reflection of appearances and surroundings [1]. Both books of accounts and mirrors can be used for self-assessment purposes. Books of accounts allow businesses to assess their financial performance and make informed decisions based on the recorded data [11] and Mirrors enable individuals to assess their physical appearance, grooming, and presentation [1].

Both the books of Accounts and Mirrors hold significance in society. Books of Accounts contribute to financial transparency, economic stability, and decision-making. They are essential for attracting investors, securing loans, and maintaining trust in financial systems [11] and Mirrors have cultural and social importance, influencing personal grooming standards, self-perception, and aesthetic choices in various contexts [1]

Let us discuss some examples. An educational institution can have the events like celebration of republic day, celebration of Rabindra Jayanti, celebration of Najrul Jayanti, celebration of Independence day, celebration of foundation day, celebration of Janma Jayanti of Swami Vivekananda, annual cultural function, Annual Sports meet , department wise Seminar, Workshops, Milad-un-Navi Utsab, Saraswati Puja, Repair and renovation or maintenance of any asset, purchase of assets, fees collection, receipt and utilization of Government Grant etc.

Like every institution or organisation every transaction might be recorded maintaining the rules, regulations, accounting principles, concepts and conventions as and when the financial events or transactions take place.

Books of accounts are to be prepared in accordance with the accounting standards. In general, books of accounts are maintained in such a way that, the users of the books of accounts or the stakeholders of an entity or organisation or institution like financers, employees, management, debtors, creditors, society and government can understand the financial activities, results and financial position of the institution, organization or entity.

Out of all the financial events, I have taken some examples of an educational institution which will establish the statement how the books of accounts play as a mirror and supply all the financial information of an organisation.

Example 1: Annual Sports Meet: If the event of Annual Sports Meet is organised in an educational institution, there must be some group of expenditures like cost of flex, expenses for invitation cards, expenses for sound system, expenses for prizes , expenses for badges for volunteers, expenses for caps, expenses for field preparation, expenses for Gifts and Presentations for the distinguished guests, expenses for tea and snacks, expenses for refreshments, expenses for finishing point ribbons, expenses for Games and Sports materials like javelin, shot put, discuss etc., expenses for certificates etc . This entire group of expenses is related with the financial event Annual sports meet. All the transactions might be recorded as and when these were taken place. The books of accounts supported by the vouchers confirm the occurrence of the event and create an image to the stakeholders of the institution.

Example 2: Saraswati Puja: If the event of Saraswati Puja is organised in an educational institution, there must be some group of expenditures viz., expenses for invitation cards, expenses for pandel, expenses for Saraswati image, expenses for music system, expenses for lighting, expenses for decoration, expenses for priest, expenses for priest, expenses for all the Puja materials, expenses for flowers, expenses for fruits, expenses for khichuri food etc. In this case also all the transactions might be recorded as and when these were taken place. The books of accounts supported by the vouchers confirm the occurrence of the event. All the above transactions create an image of the event to the stakeholders of the institution.

Example 3: Organization of National Seminar: If the event of National Seminar is organised in an educational institution, there must be some group of expenditures viz., expenses for invitation card, expenses for sound system, expenses for gifts and presentations to the distinguished guests and speakers, expenses for decoration, expenses for certificates, expenses for T.A. /D.A. and honorarium to the resource persons, expenses for tea and snacks, expenses for refreshments. In this case also all the transactions might be recorded as and when these were taken place. The books of accounts supported by the vouchers confirm the occurrence of the event. This group of financial activities creates an image to the stakeholders of the institution.

Example 4: Celebration of foundation day: If the event of celebration of foundation day is organised in an educational institution, there must be some group of expenditures viz., expenses for invitation card, expenses for Sound system, expenses for gifts and presentations to the distinguished guests and speakers, expenses for decoration, expenses for tea and snacks, expenses for refreshments. In this case also all the transactions might be recorded as and when these were taken place. The books of accounts supported by the vouchers confirm the occurrence of the event and create an image to the stakeholders of the institution.

Example 5: Collection of Fees: Fees collection is a major part in every academic institution. Every year the all students have to pay fees to the institution. Fees generally include admission fees, session charges, development fees, building fees, tuition fees, electric fees, library fees, Identity card fees etc. All the fees collections must be entered in the books of accounts. All the information like number of students paid, yearly fees , total collection, head wise collection, class wise collection, cash collection , online collection are reflected in the books of accounts. Only books of accounts can reflect all the information like an image.

Example 6: Government Grant: Every Government or Government Aided colleges get Government Grant at least to meet monthly salaries for the permanent teachers and staff. How many permanent staffs are there, how many permanent teachers are there, total monthly requirements in the institution, total annual requirements, individual monthly salaries, components of salaries, Grade-wise teacher's strength, Grade-wise staff strength – all the information can be obtained from the Books of Accounts.

VIII: Conclusion

From the above examples and discussions it is clear that the books of accounts reflect all the financial activities. Books of accounts are the permanent evidence of all the financial activities of an organization or institution or business enlity. It supplies all the historical financial activities in order of sequence. As usual all the books of accounts are supported by the documentary evidence. Books of accounts are recorded and maintained as per the prevailing account standards like Indian Accounting Standards or International Accounting Standards. The users of the information or the stakeholders of the institution or organization can easily obtain all the information from the books of accounts. Books of accounts create images of all the financial activities. Therefore, it is very much essential to record all the financial activities as per the prevailing norms acts and accounting standards in the Books of Accounts of all the entities. It provides the financial activities as well as financial status year after year and act as a mirror of all financial events. Therefore, as it is said that "Face is the index of a mind" it can also be said that Books of Accounts are the mirror of an organisation. In this paper I have taken some examples of the series of financial events of an educational institution. If the primary data also collected, the reliability of the study will also increase.

IX. Scope of Future Research

Future research could focus on expanding the scope of the study to include primary data collection, such as interviews or surveys with accounting professionals, to gain deeper insights into the practical applications of accounts. Additionally, further research could explore the potential of accounts beyond their traditional uses, such as in the context of sustainability accounting and reporting.

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