Recording all the financial transactions is called financial Accounting.

Book keeping -

identifying, recording, classifying and maintaining all finiancial transaction in the original book of entry of a business is called book keeping.
The book keeping involves summarising and organising all the company's financial transaction chronologically in a systematic manner.

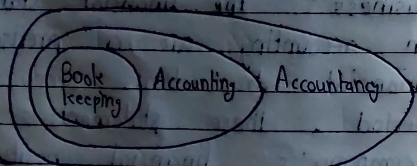
Accounting -

Accounting is the process of interpreting, analysis, summarising and reporting the financial transaction of a business. the financial statments prepared in accounting are a precise summary of financial transactions over an accounting period. these statements summarise a company's financial position, operations, and cash flows.

accounting consolidates financial information to make it understandable and clear for all stakeholders. it helps businesses to maintain timely and accurate records of their finances.

Accountancy -

accountancy is work or profession of an accountant. it is systematic knowledge of accounting that relates with the principles and techniques which are applied in accounting systems. the act of accounting is a subset of accountancy that involves the practical application of accountancy principles to execute the profession's core duties.



Auditing -

Auditing or Financial audit is an official examination and varification of a business's financial records. the main goal of auditing is to make sure that a company's financial statements are accurate and are following regulatory guidelines. auditing also gives investors, creditors and other stakeholders reasonable assurance that they can rely on a company and its integrity.

Depending on who performs financial audits, we categorize audits into three main categories :

1) Internal Audits - an internal audit is an audit performed by a qualified auditor or accountant who is part of your company. this audit helps assure your business is in compliance with law and regulations and is accurately recording financial information.

2) External Audits - An external audit is an audit of your financial statements made by an independent third party professional. these type of audits can be extremely helpful as they are more unbiased and reliable than internal audits.

3) IRS Audits - Internal Revenue Service (IRS) audits, or tax audits, are government reviews conducted to a business to ensure that financial data has been reported in compliance with tax law.

Difference b/w Bookkeeping and Accounting

	Bookkeeping	Accounting
Definition	Bookkeeping deals with identifying and recording financial transactions only	Accounting refers to the process of summarising, interpreting & communicating the financial data of an organisation.
Decision making	Data provided by bookkeeping is not sufficient for decision making	management can take important decisions based on the data obtained from accounting
Financial Statement	Not done in the case of bookkeeping	financial statement are a part of the accounting process
Analysis	no analysis is required in the bookkeeping	Accounting analysis the data and creates insights for the business
Persons Involved	The person concerned with bookkeeping is known as a bookkeeper	The person concerned with accounting is known as an accountant.
Level of Learning	No high level learning required	High-level learning required for understanding & analysis accounting concepts.

Feature of Accounting -

1) Accounting is an art as well as science -
Accounting is an art of reading, classifying, sumarizing, analyzing and interpreting the accounting records with a view to ascertain the net profit / loss & financial position of business.

Accounting as a science is an organized body of knowledge that contains some underlying principles and rules that are followed while maintaining accounts.

2) Recording of financial Transactions only -
Accounting records only those transactions & events that are expressed in monetary term or in quantitative form. ~~for~~

3) Recording In term of Money :-
The accountancy records only those transaction which can be expressed in term of money only.

4) Classifying the transaction -
one of the feature of accounting is that it classifies all the transactions recorded in the book of the Journal. classification refers to grouping the transactions of same nature at one place, in a saperate account. classification of transaction is done in the books of 'Ledger'.

5) Summarising the transaction -
summarising is the art of presenting the classified data in a manner which is understandable and useful to management and other users of such data.

c) Analysing -
Analysing is concerned with the establishment of relationship b/w the various item or groups of items taken from income statement or Balance ~~a~~ sheet or both.

7) Interpretation of Results =
another feature of accounting is interpretation of results. Interpretation of result is concerned with explaining the meaning & significance of the relationship so established by the analysis.

8) Communicating the results =
Accounting is so featured that it will provide the analyzed and interpreted results to its users such as Management, Employees, creditors, research scholars, Debators, financial Institutions, competitors, Bankers, Income Tax Authorities etc.

Types of accounting -

- Financial accounting
- Cost Accounting
- Managerial Accounting
- tax Accounting
- Public Accounting

Financial Accounting - is the field of accounting concerned with the summary, analysis and reporting of financial transaction, related to a business.

Cost Accounting - cost accounting is defined as a "a systematic set of procedures for recording measurements of the cost of manfacturing goods and performing service in the aggregate and in detail.

Managerial Accounting - management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making.

Tax Accounting - Tax accounting is a structure of accounting methods focused on taxes rather than the appearance of public financial statements.

Public accounting - public accounting refers to a business or individual who helps a range of clients, from individuals to corporations, prepare financial documents.

Accounting Concepts -

In order to maintain uniformility and consistency in preparing and maintaining books of accounts, certain rules or principles have been evolved.

Accounting concept refers to the basic assumptions and rules and principles which work as the basis of recording of business transactions and preparing accounts.

The main objective is to maintain uniformity and consistency in accounting records.

following are the various accounting concepts -

1) Business Entity Concept -

this concept assume that, for accounting purpose, the business enterprise and its owner are two separate independent entities. thus, the business and personal transaction of its owner are separate.

2) Money Measurement Concept -
This concept assumes that all business transactions must be in terms of money, that is in the currency of a country and the transactions which cannot be expressed in monetary terms are not recorded in the book of accounts.

3) Going Concern Concept -
This concept states that a business firm will continue to carry on its activities for an indefinite period of time.

4) Accounting Period Concept →
This concept assumes that, indefinite life of a business is divided into parts. these parts are known as accounting period.

It may be of one year, six months, three months, one month etc. but usually one year is taken as one accounting period which may be a calender year or a financial year.

5) Accounting Cost Concept -
This concept states that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transpotation ~~this cost is also known as historical cost.~~ and installation and not at its market price this cost is also known as historical cost.

6) Dual aspect Concept -
Dual aspect is the foundation or basic principle of accounting -
This concept assume that every transaction has a dual effect for ex →
goods purchased for cash has two aspects which are
i) Giving of Cash
ii) Reciving of ~~cash~~ goods

these two aspects are to be recorded.

7) Relisation Concept →

This concept states that revenue from any business transaction should be included in the account records only when it is relized.

the term relization means creation of legal right to recive money selling goods is relization, receiving order is not.

according to realisation concept revenue is recognised when sale is made.

8). Accrual Concept -

The meaning of accrual is something that becomes due especially an amount of money that is yet to be paid or recived at the end of the accounting period.

9) Matching Concept -

This concept is based on the accounting period concept. in reality we match revenues and expenses during the accounting periods.

Accounting Conventions -

In accounting there are many conventions or practices which are used while recording the transactions in the book of accounts.

an accounting convention refers to common practices which can universally followed in recording and presenting accounting information of the business entity.

accounting conventions help in comparing accounting data of different business units or of the same unit for different periods.

most important conventions which have been used for a long period are -

1) Convention of consistency
2) Convention of full disclosure.
3) Convention of materiality
4) Convention of conservation.

1) Convention of Consistency →

The convention of consistency means that same accounting principles should be used for preparing financial statements year after year.

a meaningful conclusion can be drawn from financial statements of the same enterprise when there is comparison b/w them over a period of time. But this can be possible only when accounting policies and practices followed by the enterprise are uniform and consistant every period of time

if different accounting procedures and practices are used for prepering financial statements of different years, then the result will not be comparable.

2) Convention of full Disclosure →

Convention of full disclosure requires that all material and relevent facts concerning financial statement should be fully disclosed. thus, the convention of full disclosure suggest that every financial statement should fully disclose all relevant information.

The business provides financial information to all interested parties like investors, lenders, creditors, shareholders etc.

The shareholders would like to know profitability of the firm while the creditor would like to know the solvency of the business. In the same way, other parties would be intrested in the financial information according to their requirements.

3) Convention of Materiality -

Materiality concept states that items of small significance need not be given strict theoretically correct treatment.
Infact, there are many events in business which are insignificant in nature.
the materiality of a fact depends on its nature and the amount involved.

4) Convention of Conservatism -

This convention is based on the principle that " anticipate no profit but provide for all possible losses."

The main objective of this convention is to show minimum profit. profit should not be overstated.
If profit shows more than actual, it may lead to distribution of dividend out of capital.

Basic Accounting Terms

Business Transaction -

a business transaction is an economic activity of the business that changes its financial position. whenever any business transaction take place, it results in a change in the value of some of the assets, liabilities or capital.

Event -

an event is the consequence of or result of a transaction.

Account -

the individual transaction of like nature are recorded, added and subtracted at one place, such place is customarily termed as an account.

Capital -

It refers to the amount invested by the properietor in a business enterprise, it is the amount with the help of which goods and assets are purchased in the business.

$$\boxed{\text{Capital} = \text{Assets} - \text{Liabilities}}$$

Drawing:-

any cash or value of goods withdrawn by the owner for personal use or any private payments made out of business funds are called drawings.

Liabilities:-

it refers to the amount which the firm owes to outsiders.

in other words of Finnly and Miller, "liabilities are debts, they are amounts owed to creditors."

this can be represented as:-

$$\boxed{\text{liabilities} = \text{Assets} - \text{Capital}}$$

liabilities can be divided into two parts →

1) Internal liabilities →

all ammount which a business entity has to pay to the properitor or owners are internal liabilities such as capital and accumulated profits.

2) External liablities -

all amount which a business entity has to pay to outsiders are known as external liablities such as creditors, bank overdraft, loans etc.

On the basis of time liablities can be categorised into two type →

i) Non - Current liabilities -

these refers of those liabilities which fall due for payment in a relatively long period (normally after more than one year)

Eg - long term loans.

ii) Current liabilities -

current liabilities refers to those liabilities which are to be paid in near future (normally within a year).

E.g. → Bank over draft, Bills payable, creditors etc.

Assets -

Anything which is in the possession or is the property of a business enterprise including the amounts due to it from others, is called an assets.

Eg - cash & Bank balance, stocks, machinery, land, furniture etc.

Characteristics of Assets -

i) the resources must be valuable
ii) The resources must be owed by the business
iii) the resources must be acquired at a measurable money cost

Assets can be classified into the following categories -

i) Non - Current Assets -

non - current assets refers to those assets which are held for continued use in the business for the purpose of producing goods or services and are no meant for sale

Ex - long term investment, fixed assets (land, plant, computer, motor, vehicles etc)

fixed assets can be classified as -

a) Tangible Assets - Tangible assets are those assets which can be seen and touched. they have physical existence.

Ex - plant, machinery, computer, stocks etc.

b) Intangible Assets - Intangible assets are those assets which do not have a physical existence and thus, cannot be seen or felt.

Ex - goodwill, patents, copyrights, trademarks etc.

ii) Current assets -

Current assets are those assets which are meant for sale or which the management would ~~to~~ want to convert into cash within one year.

Eg - Debtors, Bills receivables, stocks etc.

iii) Fictitious or Nominal Assets -

these are the assets which can not be realised in cash or no further benifit can be derived from these assets. Such assets include debit balance of P & L

A/c and the expenditure not yet written of such as advertisement expenses etc. these are not really assets but are shown as the assets side only for the purpose of transferring them to the profit & loss account gradually over period of time.

Double Entry System -

a book on double entry system was first of all written by Luca Pacioli in 1424 a resident of city Venica in Italy. afterwards, the book was translated into english by Huge old Castle in 1544.

according to this system, every business transaction affects two accounts in opposite direction.
for example if a furniture is purchased in business furniture is increased whereas cash is decreased. there can be more transactions in business which affects only one account.

It may however be noted that double entry does not mean that transaction is noted twice but it means that atleast two account affected by the transactions one account is receiving benifit and other yeilding a benifit.

Definition -
The double entry system seeks to records every transaction in money or money's worth in its double aspect - the recipt of a benefit by one account the surrender of a like benefit and the surrender of a like benefit by another account ; the former entry being to the debit of the account receiving and the person or the account ~~who gives something to the business is credited~~. receiving and the latter to the credit of that account surrendering

William Pickles

Principles or characterstics of Double entry system

1) every business transaction affects two accounts
2) recording of both personal & impersonal accounts
3) recording is made according to certain specified rules.
4) Preparation of trial Balance

Classification of Accounts -

Personal Account
- natural Personal
- artificial personal
- representative personal

Real account
- Tangible Real
- Intangible real.

Nominal Account

1) Personal Account →
The account which relates to individual, company or an institution is known as personal accounts.
eg. - Ram's a/c, shyam trader's A/c

i) Natural Personal - any A/c related to the human being is known as natural personal account.

ii) Artificial Personal - These accounts do not have physical existance but they work as personal accounts.
eg. company's A/c

iii) Representative Personal → when any A/c represents a particular person or any group of person is known as representative personal A/c

2) Real Account –

the accounts of all those things whose value can be measured in terms of money and properties of business termed as real accounts.

e.g. machinery A/c, cash A/c

i) Tangible Real A/c – accounts which have physical existence known as tangible account.

e.g. machinary A/c.

ii) Intangible real A/c – accounts which have not physical existence known as intangible real account

e.g. patent, good will

3) Nominal Account –

accounts related to income and expencess known as nominal accounts.

Rules →

Personal A/c – Debit the reciver.
Credit the giver

Real A/c – Debit what comes in
Credit what goes out

Nominal A/c – Debit all expenses & losses
Credit all income and gains.

when any word (prefix or Sufix) is added to nominal A/c it become representative personal A/c.

Personal A/c	Real A/c	Nominal A/c
Capital	cash paid	commission paid
Drawing	cash recived	commission recived
Bank A/c	Furniture A/c	purchase A/c
Bank overdraft	cash A/c	sales A/c
debtors A/c	Good will A/c	Travelling expenses A/c
Creditors A/c	Patent A/c	salary A/c
salary outstanding A/c		insurance A/c
Insurance prepaid A/c		Bad debts written off
		Bad debts recovered.

Journal -

Journal is a book of original entry in which transactions are record first of all as and when they take place.

each entry in journal is followed by a brief explanation of the transaction which is known as narration.

The function of Journal is to analyse ~~and~~ each transaction into debit and credit aspects by using double entry system of book keeping.

Journal also provides a bases for posting into ledger.

It maintains the identity of each transaction by keeping a complete record of each transaction at one place on a permanent basis.

advantages and limitations of Journal -

Advantages →

- all the business related information is provided in a chronological order.
- it gives complete information and explanation of a transaction.
- it facilitates error free recording of transactions.
- it also helps locating errors at the initial stage of recording
- it facilitates correct posting and balancing of accounts to be used in preparation of financial statement.

Limitations -

- It follows the prescribed accounting rules and concepts and therefore journalising is not an easy process.

- it is suitable for lesser no of transactions as recording of large no of transactions will be inconvenient.

- it does not reveal balances of accounts for which individual ledgers are required to be prepared. therefore it cannot be used as substitute to ledger.

Generally Accepted Accounting Principles (GAAP)-

generally accepted accounting principles (GAAP) refer to the rules or guidlines adopted for recording and reporting of business transactions of financial statements.

these principles have evolved over a long period of time on the basis of past experiences, usages or customs, etc.

Accounting Standards:-

the term standard denotes a discipline which provides both guidelines and yardsticks for evaluation.

The Institute of Chartered Accountant of India (ICAI) constituted the accounting standards Board (ASB) in april 1977 for developing accounting standards.

The Accounting standards Board is entrusted with the responsibility of formulationg standards on significant accounting matters keeping in view the international developments and legal requirements in India.

till date, the IASC has brought out 40 accounting standards. However, the ICAI has so far, issued 29 accounting standards these are,