Financial Accounting

Definition

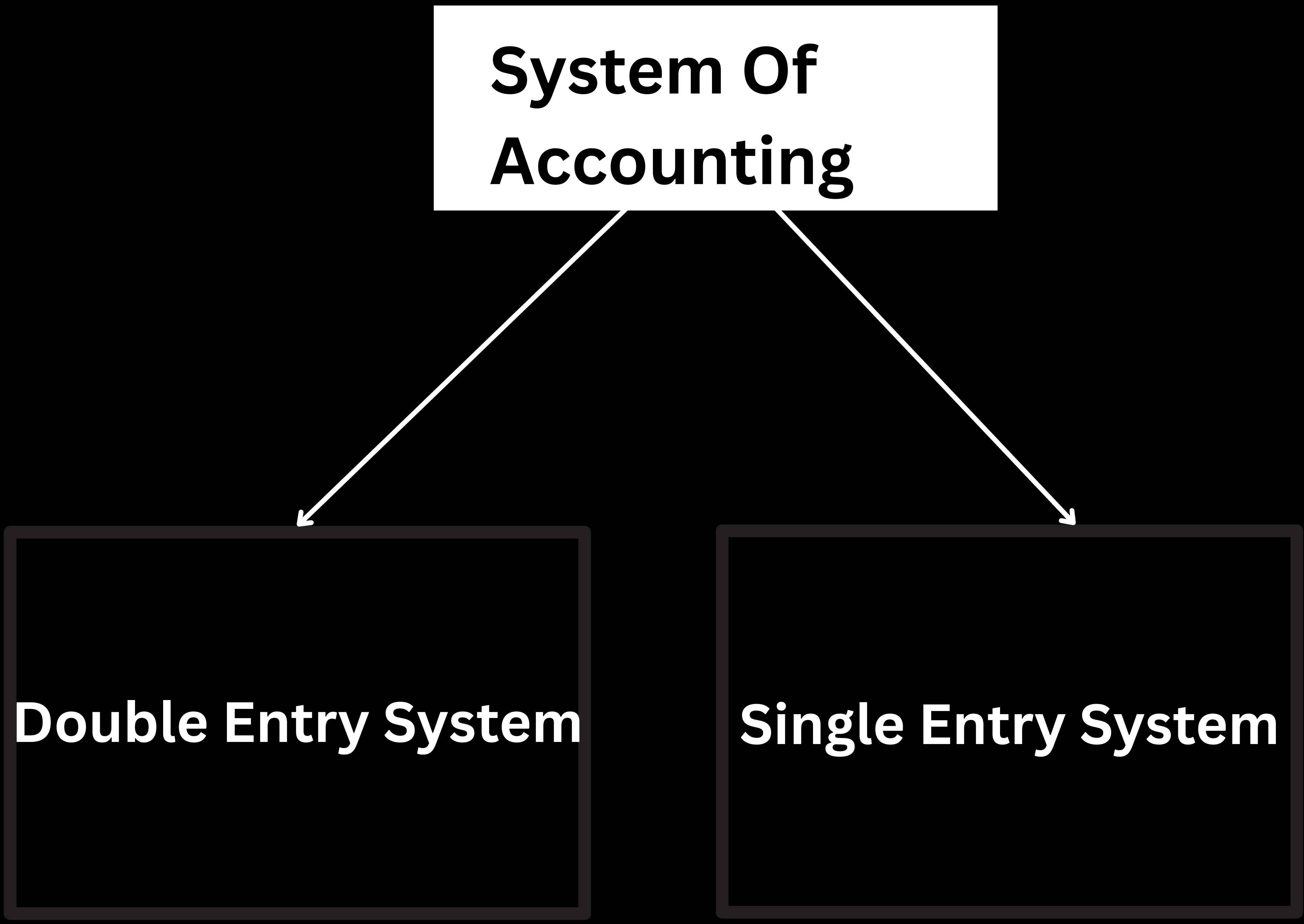
The American Institute of Certified Public Accountants (AICPA) had defined accounting as the “art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof”.

Objectives Of Accounting

- To maintain a systematic record of business transactions
- To ascertain profit and loss
- To determine the financial position
- To provide information to various users
- To assist the Management

Meaning Of Objectives

- All the transactions should be recorded in chronological order in Journal and then posted to principle book i.e. Ledger.
- To check whether the business has earned profits or incurred losses, we prepare a “Profit &Loss Account”, business men will get to know about the results of operations periodically.
- To determine the financial position of the business,For this purpose, we prepare a “Balance Sheet”.
- Providing information to the various interested parties or stakeholders will help in making good financial decisions
- By analyzing financial data and providing interpretations in the form of reports, accounting assists management in handling business operations effectively.


System Of Accounting
Double Entry System
Single Entry System

Double Entry System:

- Dual Entry System is based on Dual aspect principle
- Every transaction has two aspects, ‘a Debit’ and ‘a credit’ of an equal amount.
- This system of accounting recognizes and records both aspects of the transaction.

Single Entry System:

- Under this system, both aspects are not recorded for all the transactions.
- Either only one aspect is recorded or both the aspects are not recorded for all the transactions.

Some of the basic terms in accounting:

🔹 **Assets & Liabilities**

✔ **Assets** – What a business owns (cash, inventory, property).

✔ **Liabilities** – What a business owes (loans, debts, unpaid bills

✔ **Equity** – The owner's stake in the business (Assets - Liabilities).

💰 **Income & Expenses**

✔ **Revenue –** Money earned from sales or services.

✔ **Expenses** – Money spent to run the business (rent, salaries, utilities).

✔ **Net Profit (Net Income)** – What's left after all expenses are deducted from revenue.

✔ **Gross Profit** – Revenue minus the cost of goods sold (COGS).

✔ **Operating Expenses** – Costs related to daily business operations (marketing, office rent).

Some of the basic terms in accounting:

📑 **Financial Statements**
✔️ **Balance Sheet** – A snapshot of assets, liabilities, and equity at a given time.
✔️ **Income Statement** – A report showing profit or loss over a period.
✔️ **Cash Flow Statement** – Tracks cash movement in and out of a business.

Some of the basic terms in accounting:

📌 **Other Important Terms**

✔️ **Accounts Payable** – Money the business owes (bills to pay).

✔️ **Accounts Receivable** – Money owed to the business (waiting to be paid).

✔️ Depreciation – The gradual reduction in the value of an asset over time.

✔️ **Accrual Accounting** – Recording income and expenses when they are earned/incurred, not when cash is received or paid.

✔️ **Dividends** – Profits shared with shareholders.

✔️ **Break-even Point** – When total revenue = total expenses (no profit, no loss).

✔️ **Capital** – Money invested into the business.

✔️ **Journal Entry** – A recorded financial transaction.

✔️ **Ledger** – A book or system that tracks all financial transactions.