

## The Basics Of Accounting

### Welcome To The World Of Accounting

Accounting is the process of recording all of a business's financial happenings. This includes summarizing, analyzing, and reporting the financial transactions to oversight agencies, tax collection entities, and regulators.

Accounting reports are important to all people at a firm; management especially relies on them to know when to reduce expenses or identify an area where more money could be made. Most companies will have a bookkeeper who handles the basic accounting needs of the company, however, for larger more advanced accounting tasks companies should use a certified public accountant (CPA) in the US.

These CPA's are trained in GAAP (Generally Accepted Accounting Principles), which are the rules for accounting in the USA. They lay out the guidelines for how everything should be accounted for and make it easier to compare companies.

### 3 Types... But Who's Counting?

The three main types of accounting are financial, managerial, and cost accounting.

Financial accounting mainly focuses on the creation of interim and annual financial statements. This form of accounting is used to create the financial statements discussed before. These statements are then audited by a CPA firm to confirm that there are no inaccuracies. This is required for companies who are public, however, some lenders or investors even require private companies to be audited.

Managerial accounting uses the same information as financial accounting but organizes it differently. The whole point of managerial accounting is to create reports that help management make decisions about how the business operates. This can include budgeting, forecasting, and various other forms of financial analysis.

Cost-based accounting consists of tying every cost to a product. This means tying fixed costs like rent to the production of specific products/services so that managers can better understand the cost of goods, which in turn helps them price the goods. In cost accounting, money is seen as a factor of production, unlike in financial accounting where it is the measure of performance.

### The Bottom Line

Accounting is the practice that creates the three financial statements. There are three types of accounting, each with different procedures and goals. Management teams rely on accurate and consistent accounting to keep track of their company's financial health and spot new opportunities or mistakes before they occur.