Accounting

* **What is Transaction ?**

The meaning of the word transaction is to 'give and receive' or give and take. In every transaction there is one recipient ~~and~~ of benefit while the other provides benefit.

Exchange of money or money's worth any event or service that reflects on the financial condition of a firm will be treated as transaction.

If any exchange of product or service that brings a financial change will be known as transaction.

"Every transaction is an event; every event is not a transaction."

In modern society for recording accounts, transaction is very important. Many events occurs in business. However, not all these events can be recorded in the book of accounts. Only the events that are measurable in terms of money or something that brought changes financial position are to be treated as transactions.

For example, suppose Mr. Sharif bought an alminah with 5000 taka; again got himself injured coming from the shop. Both these are events. Only the first one is related to financial exchange and treated as transaction but the later has no relation to financial matter and such should not be recorded as transaction.

Therefore, it is right to say, all transactions are events but all events are not transactions because to become a transaction, an event must be of financial nature. The transaction is nothing but business activity while an event is just the ultimate result of the transaction.

Nature of transaction:

- **Measurable in terms of money:** One of the important features of a transaction is that it has to be measurable in terms of money. For example, the death of manager of a firm is loss to the firm but it is not measurable in terms of money. However, goods detroyed by fire worth 20,000 taka are a loss to the firm will be treated as a transaction.

- **Changes of financial condition:** If any event brings any financial change of a firm, it will be treated as a transaction. For example: Bought furniture with cash 5000 tk. Here the furniture of the business has been increased by 5000 tk at the same time cash 5000 tk has also been decreased. Since this event has brought about a change in financial position of the business, it will be treated as a transaction.

Entity – সত্তা/সত্ত্বা

- **Dual entity:** Every transaction must include two parties. One party will recieve benefits while other party will provides benefits.

- **Complete and Independent:** Another important feature of transaction is that each transaction is completely separate and independent from the others. For example:- goods sold on credit taka 10,000 and the payment of which is recieved after 7 day. Here goods sold on credit one a transaction while 7 days later the payment recieved is a separate account.

Depreciation - অবচয়

- **Visibility:** Transactions can be both visible and invisible. For example: Furniture purchased worth 10,000 taka. It is a visible transaction. Again the depreciation of furniture worth 1000 taka is an invisible transaction.

- **Historical events:** The financial matters that have taken place previously are known as historical transactions. If any future events change the financial position of the business, it will also be treated as a transaction.

- **Impact over accounting equation:** Each transaction leaves a direct impact over the accounting equation.

Asset = Liabilities + Owner's Equity
দায়

Therefore, any event is justified through accounting equation whether it is a transaction or not.

Identifying transaction –

1. Mr. Sohali started business with tk – 50000.

Transaction → Since cash brought in as capital it has brought a financial change and includes two parties involved in it – one the capital of the owner and the other is the cash.

2. He purchased goods with cash tk. – 15,000.

Transaction → Value of product is measurable in terms of money. Purches of goods is increased to the business while the ~~cash~~ payment has decreased the cash amount.

3. He has paid one of his creditors tk 10,000.

Transaction → Payment to the creditor has decreased ~~the~~ both the liability as well as the cash of business. So financial condition has been affected.

4. He has placed an order for purchasing goods worth tk 8,000.

Not a transaction → ~~Giving appointment letter to any person~~ Placing order for the purchase of goods does not mean actual purchase.

The buying and selling of the goods have not been taken place. so it is not a transaction.

5. Made an expense for advertisement worth tk 2000.

Transaction → The business has taken a benefit by placing advertisement and the value paid for it has brought a financial change.

6. Mr. Mamun has appointed as manager in business for monthly salary tk-7000.

Not a transaction → Giving appointment letter to any person has not brought any financial change to the business ad it does not include any cash flow either.

7. Withdrawn from business for his personal use tk-3000

Transaction → The owner has taken a benefit by withdrawing amount from the business, so the cash of the business has been affected.

8. Tk. - 500 has stolen from his personal fund.

Not a transaction → Loss of personal savings is not related to the business; the loss belongs to the owner alone. So the cash of the business is not affected.

9. Agreed to purchase goods from Hashem Brothers worth tk. 10000 per month.

Not a transaction → Has been agreed to purchase but actual purchase has not been taken place and the payment of which is neither made. So, the financial changes occur in the business.

10. Sold goods to Hanif on account tk-10,000.

Transaction → By selling goods on credit to Hanif, the business has given him a benefit, which is an income to the business. It has brought a financial change.

Accounting equation: In a particular time, the total asset of an organization should be equal to the sum of owner's equity and external liabilities.

The eqation that represents this fundamental concept is known as accounting equation.

Asset = Liability + Equity

Asset: Asset means the economic resources that belong to a business that is invested for making profit. For example- Furniture, buildings. etc.

Liability: Liability means the financial rigidity that has to be paid up after a certain period of time. That is it is a the claim of the third party over the total assets of the business.

Owner's Equity: If the claim of the third party is deducted (বাদ দেওয়া) from the total assets of the business the rest will be known as owner's equity. That is the claim of the owner over the entire assets of the business is known as owner's equity.

Four elements affect owner's equity

- ☐ Investment of owner. → বিনিয়োগ
- ☐ Income
- ☐ Drawings
- ☐ Expense

Extending Accounting equation—

Assets = Liabilities (ঋণ) + Capital (মূলধন) + Revenue (রাজস্ব) − Expenses − Drawings

$$A = L + (C + R - E - D)$$

[Chapter-1]

What is accounting?

Accounting is such a subject by studying which the various financial activities of a person or an institution. i.e expenses paid, recieve income, purchase and sale of assets, buying and selling of goods, reciere from debtors and pay to creditor (ঋণদাতা) etc are correctly recorded in different books of accounts.

Accounting is called the 'Language of business.