**Functions of Accounting**

The various functions of accounting are as follows:

Recording: Accounting records business transactions in terms of money

Classifying: Accounting also facilitates classification of all business transactions

Summarizing: Accounting summarizes classified information. It is done in a manner, which is useful to the internal and external users.

**Basic Accounting concepts**

The Business Entity: Under this concept, it is essential that a business organization is separate and distinct its owner or proprietors.

The continuing entity/Going concern: In almost all cases the accounting system will treat the value on the assumption that business will continue operating for an indefinite period of time.

Cost Concept: Under this concept all assets acquired by the business are to be recorded at cost. The market value at any moment of time is ignored.

Transaction: A transaction is a particular type of event, which can be expressed in terms of money as brings change in the financial position of a business unit. In simple words, any exchange of values is called "transaction"

Dual Aspect: This represents the concept of double entry. Every transaction entered into by a firm has two aspects, i.e. debit and credit.

**Systems of Accounting**

Cash basis accounting: According to this system, only actual cash receipts and payments are recorded in the books.

Accrual system: According to this system, all the business transactions pertaining to the specific period, whether cash or credit nature, are recorded in the books.

**Specialized Accounting Fields**

Financial accounting: Financial accounting is concerned with recording and summarizing financial transactions and preparing financial statement relating to the business.

Cost accounting: Cost accounting is concerned with the determination of cost of the goods and services manufactured or offered by the business.

Management accounting: Management accounting related to the use of financial and cost data for purpose of evaluating the performance of the business as a whole and of various departments in relates to predetermined targets.

Tax accounting: Involves preparing tax returns and analyzing possible tax results of proposed decisions.

**Business types**

Trading: This term of business denotes the business which is engaged in purchasing and selling of commodities such as \_\_\_\_\_\_\_\_\_\_\_\_

Manufacturing: This term of business denotes the business which are engaged in producing commodities such as \_\_\_\_\_\_\_

Servicing: This term of business denotes the business which is engaged in rendering their skill to customers such as \_\_\_\_\_\_\_\_\_

**Business Organization/Form**

Sole-Proprietorship: The organization owned by one person is known as “sole proprietorship”

Partnership: The organization is owned by two or more than two persons, the firm itself is called “partnership” and every investor is called “partner”.

Company: The traditional name is “Joint Stock Company” this is an organization owned by several persons. It comes into existence under the *company ordinance 1984*. The investor is called “Share holders/Stock holders”.

**NATURE OF ACCOUNTS/ HEADS OF ACCOUNTS**

**Assets**

The properties owned by a business enterprise are called assets. In other words Physical items (tangible) or rights (Intangible) that have value and that are owned by the business entity.

**Equities**

The rights or claims to the properties of a business enterprise.

Equities may be divided into two principal types (1) the rights of creditors and (2) the rights of owners. The rights of creditors represent debts of the business and are called Liabilities. The rights of the owners are owner’s equity.

**Liabilities**

Debts of a business enterprise owed to outsiders (Creditors). Liabilities are often identified on the balance sheet by the titles that include the word *payable.*

**Owner’s Equity**

Owner’s is the clam against the assets of the business after the total liabilities are deducted.

**Revenue**

Revenues are increases in owner’s equity as a result of the rendering of services or the selling of product to customers.

**Expenses**

Assets used up or services consumed in the process of generating revenues.

Current Assets

Cash or other assets that are expected to be converted to cash or sold or used up, usually within a year or less, through the normal operating of a business.

Non-Current Assets/Fixed Assets

Plant assets are long-term or relatively permanent tangible assets that are used the normal business operations. They are owned by the enterprise and are not held for sale. Such as equipment, furniture, tools, machinery, buildings, and land

Current Liabilities

Current Liabilities that will be due within a short time, usually within one year or less

Non-Current Liabilities

Non-Current Liabilities that will be due for longer time (usually more than one year)

Cash

Legal tender or coins (Rupees) that can be used in exchange goods, debt, or services.

Account receivable

On account of credit sales an amount is due from purchaser, that amount is known as receivable amount and called as "Account Receivable".

Merchandise

The things in which a firm deals are merchandise for that firm or business, the commodities which are bought and sold are known as "Merchandise".

This term is used in relation to treading business, the business which buy and sell goods. The goods bought and sold are called ‘Merchandise’

Prepaid expenses

Purchased commodities or services that have not been used up at the end of an accounting period

Plant assets

Tangible assets that are owned by a business enterprise, are permanent or have a long life, and are used in the business.

PURCHASES

It means the merchandise purchased for being sold.

PURCHASE RETURN

If purchaser returns all or some items of purchase due to certain reason such as damaged, over supplied by the seller or are not according to sample. Then it is called Purchase return

PURCHASE DISCOUNT

The rebate amount allow by the supplier on purchase.

SALES

It means the merchandise sold which were being purchased for sales.

SALES RETURN

If the seller gets back all or some items of sales.

SALES DISCOUNT

The rebate amount allowed to the customer on sales.

ACCOUNT PAYABLE

On account of credit purchases an amount is payable to seller, that amount is known as Payable amount and called as "Account Payable".

BAD DEBT OR UNCOLLECTIBLE OR DOUBTFUL AMOUNT

If the total amount or portion of the total amount collectible from Accounts Receivable become uncollectible by the firm.

DEPRECIATION

Any expired cost of tangible fixed asset which is in use of business.

CAPITAL

The value invested by the owner in the business.

DRAWING

Proprietor withdraws values in cash or commodities from the business for his private use.

When the sole-trader or a partner takes away from the business cash or commodities for his personal use, it is known as ‘Drawing’. Share holders of company are not allowed to withdraw anything. Therefore this term is used only in relation to sole proprietorship.

MERCHANDISE INVENTORY

The merchandise which is unsold is called "Merchandise Inventory".

ENTRY

The posting of business transaction in a book or in a set of books with the sequence of date and with two kinds of financial changes is known as entry.

DOUBLE ENTRY

The double effect of each transaction is recorded in the books of accounts is known as "Double Entry System".

ASSETS: (NATURE: DEBIT)

CASH, BANK, ACCOUNTS RECEIVABLE, BILL RECEIVABLE, NOTE RECEIVABLES, ALL RECEIVABLES, PREPAYMENTS, ADVANCE AND DEPOSIT, MERCHANDISE INVENTORY, INVESTMENTS, FURNITURE AND FIXTURE, LAND, OFFICE EQUIMENT, PLANT & MACHINERY, VEHICLES, BUILDING, SHIPS etc.

LIABILITIES: (NATURE: CREDIT)

ACCOUNTS PAYABLES, BILLS PAYABLES, NOTE PAYABLES, ALL PAYABLES, ADVANCE RECEIVED, LOANS etc.

OWNER'S EQUITY: (NATURE: CREDIT)

CAPITAL

EXPENSES: (NATURE: DEBIT)

SALARIES, WAGES, RENT, INSURANCE, ADVERTISEMENT, INTEREST, FEES, COMMISSION, TRAVELLING, CONVEYANCE, CARRIAGE, CARTAGE, TRANSPORTATION, FREIGHT, and DELIVERY etc

REVENUE: (NATURE: CREDIT)

SALES, RENT INCOME, COMMISSION INCOME, INTEREST INCOME, FEE EARNED etc