Types of Accounting
1. Financial Accounting
2. Cost Accounting
3. Tax Accounting
4. Management Accounting
5. Social Responsibility Accounting

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What is Accounting

Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character, and interpreting the results thereof. — American institute of certified public accounts.

Note: Accounting is simply an art of record keeping.

Procedure of Accounting

- Generating financial Information
  - Recording
  - Classifying
  - Summarising
- Using the financial Information
  - Analyzing
  - Interpreting
  - Communicating

Transaction: A business, performance of an act an agreement

Event: A Happening, as a consequence of transaction(s), a result.

Accounting Principles

Accounting Concepts

1. Separate Business Entity concept
2. Money Measurement concept
3. Dual Aspect concept
4. Going concern concept
5. Accounting Period concept
6. Cost concept
7. Matching concept (Revenue Concept)
8. Accrual concept
9. Realization concept

Accounting conventions

1. convention of Materiality (Round off)
2. convention of conservatism (minimize) ↓ revenue play safe
3. convention of consistency
4. Full Disclosure

Nature of Accounting

1) Accounting as an art
accounting is an art of recording, summarising, classifying the financial data. Accounting is a systematic method that consists of definite technique and their appropriate applications which requires applied skills and expertise. Thus by nature accounting is considered as an art.

2) Accounting as a science
Science is all about gaining knowledge about a systematic pattern through investigation and observation. Similarly accounting is the science of recording and pre-sending the financial data of the economic entity by observing and investigating the economic events through established methods.

3) Accounting as an ideology
Accounting is considered as an ideology because it is considered as a means of justifying the current social, economic and political arrangements

4) Accounting as a language
accounting is also called the language of business because the activities of an organisation are reported in the form of financial reports and statement using accounting language.

5) Accounting as a historical record
Historical accounting records of an organisation helps to get information of past transactions of a business as well as profit and losses paid

6) Accounting as a commodity
accounting information is viewed as a commodity because there is a demand for such accounting info in the financial market.

Scope of Accounting

1) Business Organisation
Accounting widely applicable in the business sector. ~~Th~~ It is rightly said that accounting is the language of business. The main objective of business is to earn profit. Financial transactions are recorded in the books of accounting to ascertain operating results and determine the financial position

2) Non-profit organization
Accounting is also applicable for non profit organization. These organisation record their

Accounting Equations

Assets = capital + Liabilities

Every transaction have two effects

Expense → deducted from capital

Income → added to capital

Equation should always match

Rules of Credit and Debit

1. Real Account (Assets)
   Debit what comes in
   Credit what goes out
2. Personal Account (Real / Artificial persons)
   Debit the receiver
   Credit the giver
3. Nominal Account (Expenses/Losses / Incomes / gains)
   Debit all expenses / losses
   Credit all incomes / gains

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transactions like donation received, subscription given by members and all the expenditure

3) Government Organisation
Accounting has a scope in central and state owned government. They use the system of accounting to ~~calc~~ determine the income, calculating expenditure and proper running of administration

4) Professionals
professionals like doctor, engineer, lawyer and sportspeople also maintain their accounts to keep a tab on their income and expenditure and determine their income tax liability

5) Individuals
Individuals also perform the financial transactions to earn their livelihood. They also do some form of accounting to obtain financial info; thereby making personal economic decisions.

Advantages and Disadvantages

Functions - advantages

1) Measurements

Accounting measures past performance of the business entity and depicts its current financial position.

2) Forecasting

Accounting helps in forecasting future performance and financial position of the enterprise using past data.

3) Decision Making

Accounting provides relevant information to the users of accounts to aid rational decision-making

4) Helps in Taxation Matters
5) Evidence in legal Matters

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achieved in relation to targets and discloses information regarding accounting policies and contigent liabilities which play an important role in predicting comparing and evaluating the financial results.

5) Control
Accounting also identifies weakness of the operational system and provides feedbacks regarding effectiveness of measures adopted to check such weakness.

Limitations - disadvantages

1) The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money eg goodwill loyalty and the skill of the personnel etc

2) Accounting ignores changes in some money factors like inflation etc.

3) There are occasions when accounting principles conflict with each other.

4) Balance sheet reflects the position of

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the enterprise on the day of it's preparation and not on the future date while most of the users are interested in having knowledge about the future of the enterprise.

5) Sometimes accounting estimates depends on the personal judgement of the accountant which may result in inaccurate results.

Accounting Concepts

Accounting concepts defines the assumptions on the basis of which financial statements of a business entity are prepared. Certain concepts are perceived, assumed and accepted in accounting to provide a unifying structure and Internal logic to accounting process.

Accounting Principles

Accounting Principles are simply body of doctrines and assumptions on the basis of which financial statements are prepared.

Accounting principles must satisfy the following conditions

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- They should be based on real assumption
- They must be simple, understandable and explanatory
- They must be followed consistently
- They should be able to reflect future predictions
- They should be informational for the users

Accounting Conventions

Accounting conventions emerge out of accounting practices, commonly known as accounting principles adopted by various organization over a period of time.

→ conservation
conservatism states the accountant should not anticipat income and should provide all possible losses. when there are many alternative values of an asset, an accountant should choose the method which leads to the lesser values.

→ consistency
accounting policies are followed consistently from one period to another to achieve comparability of the financial statements of an enterprise through time.

→ materiality
It permits other concepts to be ignored, if the effect is not considered material.

Accounting Concepts

1) Separate Business Entity Concept
In accounting we make a distinction b/w business and the owner. All the books of accounts records day to day financial transactions from the view point of the business rather than from that of the owner.

2) Money Measurement Concepts
In accounting only those business transactions are recorded which can be expressed in terms of money.

3) Dual Aspect Concept
(Financial according records all the transact-ions and events involving financial element.) Each of such transactions requires two aspects to be recorded. The recognition of these two aspects of every transaction is known as a dual aspect analysis.

4) Going Concern Concept
Accounting assumes that the business entity will continue to operate for a long time in the future unless there is good evidence to the country.

5) Accounting Period Concept
This concept requires that the life of the business should be divided into appropriate segments for studying the financial results ~~of operations~~ shown by the enterprise after each segment.

6) Cost Concept
The term assets denotes the resources land building, machinery, etc. owned by a business. The money values that are assigned to assets are derived from the cost concept.

7) The Matching concept
This concept is based on the accounting period concept. In reality, we match revenues and expenses during the accounting periods.

8) Accrual concept
Accrual concept makes a distinction between the receipt of cash and the right to receive it, and the payment of cash and legal obligation to pay it.

Basic of Accounting

Cash Basis	Accrual Basis
record only cash transactions	record both cash and credit transactions
not recognised under companies act	recognised under the companies act
all incomes & expenses are recorded when received / paid	all income & expenses are recorded whether they are paid or not
does not ascertain actual P & L	Ascertain actual P & L
suitable for professionals	adopted by business enterprises

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Accounts

- Personal Accounts
  - Natural
  - Artificial
  - Representative
- Impersonal Accounts
  - Real accounts
  - Nominal accounts

Personal Account
Debit the receiver
Credit the giver

Real Account
Debit what comes in
Credit what goes out

Nominal Accounts
Debit are all expenses and losses
Credit are all income and gains