

CH-1 Accounting

Accounting is art of recording , classifying and summarising in significant manner and in terms of money, transactions and events which are, in part, at least of a financial character and interpreting the results there of.

Functions/features of accounting:

1. **Recording:** It is art of recording day-to-day business transactions in a systematic manner.
2. **Classifying:** Classification is concerned with the systematic analysis of the recorded data.
3. **Summarising:** It involves the preparing of: Trail Balance, Income statement (Profit & Loss), Balance sheet
4. **Dealing with financial transactions:** It deals with the financial transactions.
5. **Analysing and summarising:** The recorded financial data is analysed and interpreted in a manner that the end user can make a meaningful judgment about the financial condition and profitability.
6. **Communicating:** The profitability of the business is communicated through Profit and Loss account and the financial position through the balance sheet.

Book-Keeping

Book-Keeping is the primary stage of accounting which we record all the transactions first of all.

Definition: The process of analysing, classifying and recording transaction in accordance with pre-conceived plan

Needs of Book-Keeping:

1. Limited Human Memory
2. Use for Different parties
3. Comparative study
4. It helps in making business policies, budgeting, casting etc.
5. For tax purpose

Characteristic/Features/Nature of bookkeeping

1. Systematic Recording
2. Monitory term
3. Subsidiary books: The recording is done in proper books of accounts.
4. This record may relate to a person, firm, non-profit institution etc.
5. Book-Keeping is both science as well as art.

Process of Book-Keeping

1. **Transaction Identification:** Only those transactions are to be recorded which can be expressed in terms of money.
2. **First Step of recording transactions:** Transaction recorded in journal or subsidiary books.
3. **Ledger Posting:** After recording on journal or subsidiary books all transactions are posted in the ledger.
4. **Balancing Ledger accounts**
5. **Preparation of trial balance:** The final step of bookkeeping is to prepare trail balance.

Question. What is the difference between book-keeping & accounting?

Book-Keeping	Accounting
<ol style="list-style-type: none"> 1. It represents the art aspect. 2. Is the primary stage of accounting. 3. Have limited level of knowledge. 4. It leads to the preparation of trial balance. 5. It is done on the basis of rules and regulations which are same for all organisation. 6. Book-Keeping involves recording of the financial transactions of business in different books of accounts. 7. The work of book-Keeping clerical in nature. 	<ol style="list-style-type: none"> 1. It represents the science aspects 2. It is the secondary stage of accounting. 3. In accounting have higher level of knowledge. 4. It is concerned with preparation of P/I Ac. And Balance sheet. 5. It is not necessary be same in all type of organisation. 6. Accounting summarize the recorded transactions with a view to communication the results of business. 7. The work of accountant is specialized in nature.

Double Entry System: Concept and Principles

Meaning of Double entry system: Every Transaction has two aspects one is debit second is credit. Debit and credit are always equal that is double entry system.

Definition: The double entry system seeks to record every transaction in money or money worth in its double aspects.

Features of Double Entry System:

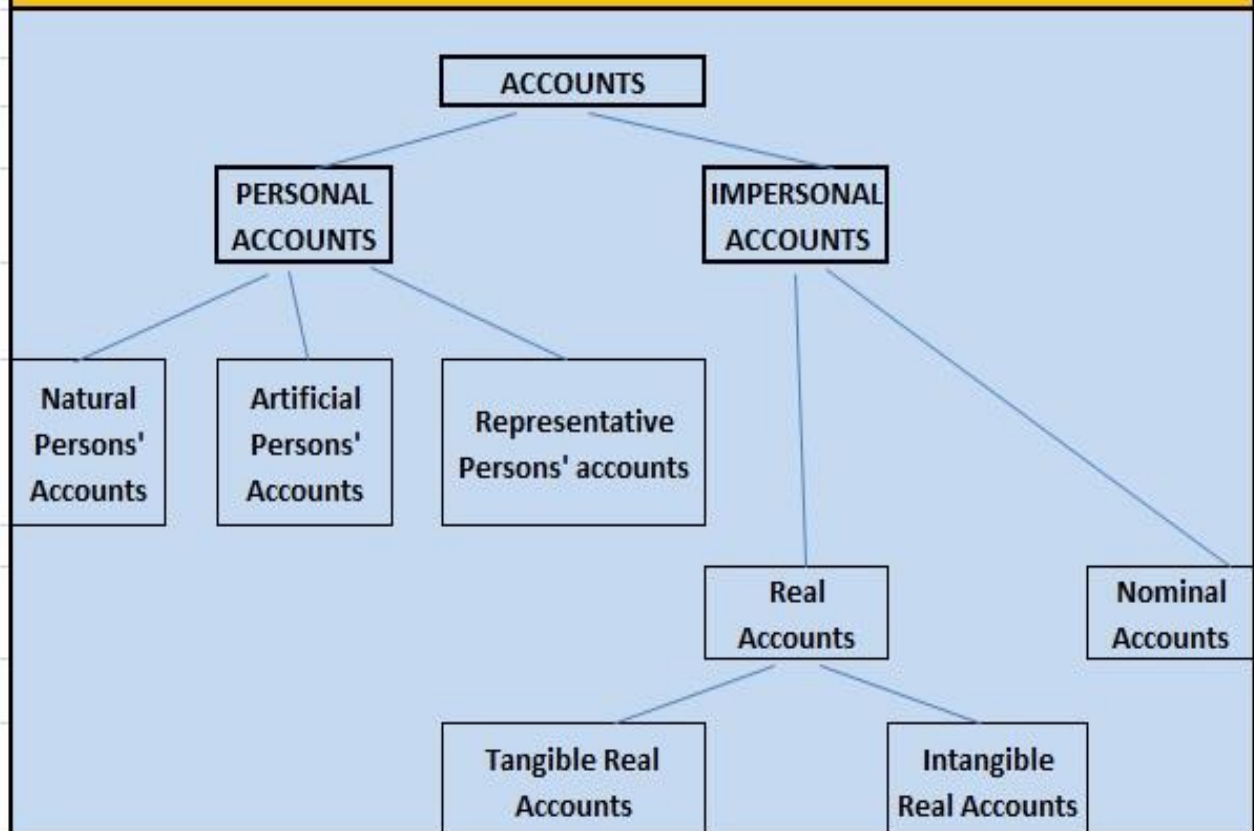
1. Rules of recording
2. Scientific System
3. Recorded in two accounts
4. Recorded in reverse side
5. Preparation of trail balance
6. Preparation of final accounts

Books of Account under double entry system

1. Primary books of account
 - a) Memorandum books
 - b) Journal
 - c) Subsidiary book
 - A. Cash Book
 - B. Purchase book
 - C. Sales book
 - D. Purchases return book
 - E. Sales return book
 - F. Bill Receivable books
 - G. Bills Payable books
 - H. Journal Proper

Classification of Accounts under double entry system:

CLASSIFICATION OF ACCOUNTS



Personal accounts = accounts related to a person or firm e.g accounts for customers, suppliers, owners, lenders and others

Real accounts = accounts of fixed and current assets like cash, premises, plant, machinery and others

Nominal accounts = accounts relating to expenses and income like sales, purchases, discount, repairs, salaries, interest, depreciation and others

Advantages of Double entry system

1. Scientific system
2. Complete record of transaction
3. Flexible system of accounting
4. Preparation of trial balance
5. Preparation of final accounts
6. Helpful for comparable study.
7. Less possibility of errors and frods.
8. Legal Approach
9. Provide information to different parties.
10. Suitable for all type of business.

Disadvantages of double entry system

1. Not Practical for small concern
2. Costly System
3. More Knowledge
4. Accounting errors