Introduction to accounting

Meaning:

Accounting is language of business. A business may have various aspects which can not measured in money terms.Many aspects of a human being is based on accounting which he or she does in his/her daily life like personal financial planning, investments,income tax, loans etc.

Accounting helps a business to know

(i) What it owns
(ii) What it owes
(iii) to determine its profit & loss
(iv) to determine whether it will be able to meet its short term obligation or not.

It can be conclude that the purpose of maintaining accounts is to check whether a business earns a profit or inccurs loss at the end of accounting period.

Accounting is termed as recording of transactions, here only those transactions are recorded which can be measured in monetary terms, those transaction which do not have money value can not be recorded in accounting.

In other words accounting is recording, classifying, summarizing and reporting the financial transaction and interpreting the result thereof.

Recording of transaction is done with journal enteries, **classifying** mean is to put the enteries of same nature under one category ex: all sales transaction should be under the sales account , similarly with the purchase, repairs etc classifying entries is done in the ledger. summarizing of business transaction is by preparing trial balance and balancesheet.

Types of accounts

There are three different types of accounts.

(i) Real account
(ii) Peronal account
(iii) Nominal account

1)Real account: real account is related to assets account or properties. It is further divided into two parts as tangible account and intangible real account.

Intangible real account: these are those assets which do not have physical existence or those assets which can not be touched. For example : goodwill, patent, trademark etc

Tangible real account: these are those assets which do have physical existence and those assets which can be touched. For example: building, cash, stationary, stock etc.

2)Personal account: these account is related to the person. These person may be natural person or artificial person.

Natural person created by God like ramesh, suresh, ram shayam etc. Artificial person created under the companies act like partnership firms, companies, bodies, association of persons EX: charitable trust, xyz bank ltd. Etc

3) Nominal Account: these account is related to income, gains, and expenses or losses. For ex: interest received, interest paid, salary received, salary paid, wages, repairs , commission received or commission paid.

Rules of Accounting:

There are three golden rules of accounting.

1) Debit what comes in
   Credit what goes out
   Whatever comes in the business is to be debited and whatever goes out of the business is to be credited.
   Ex: furniture purchased in cash
   Here in this transaction furniture is coming into the business so furniture account should be debited and cash is going out of business so cash account should be credited.
   Furniture A/c Dr
   Cash A/c Cr
2) Debit the receiver
   Credit the giver
   Ex: goods sold to Mahesh
   Here in this transaction Mahesh is receiving the goods. So Mahesh account will be debited.
3) Debit all the expenses/losses
   Credit all the income/ gains
   Ex: Salary paid to employees
   Salary is an expense for the business so salary account will be debited , whereas an entity received interest then interest account will be credited.

References:

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2. Basics of account by divedi & jain, Mahaveer book publisher

3. Business Acconting by K L Gupta, Sahitya bhawan agra