What is Accounting

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Every accounting learner, should know what is accounting, its importance and its advantages.

Accounting is a language of business, where it records all the transactions during a particular period of time which is expressed in money or value of money. An accounting is a process of recording, classifying, summarizing and reporting that business transactions of an organization.

Accounting **is a combination of**

- Recording : Under recording process of accounting journal and subsidiary books are maintained.
- Classification: Under classification process of transactions, ledgers are maintained.
- Summarizing: In summarizing process, the trial balances and financial statements (profit & loss accounts, balance sheets) are prepared.

Exactly what is an Accounting and its purpose

1. Accounting follows double entry system, where all the debit balances must be equal to credit balances.
2. Accounting records all the financial transactions of business through journal entries, ledgers, trial balances.
3. Preparing financial statements (balance sheets, profit & loss accounts).
4. Identifies financial position of business through balance sheet.

Advantages of Accounting

1. The financial performance (profit or loss) and financial status of a business organization in a financial year can be derived through accounting.
2. Helps in knowing exact cost of production of the goods manufactured.
3. Helps in extraction of financial statements according to law.
4. Accounting helps in tracking of expenses, income, assets, liabilities, debits and credits of a business.

Types of Accounting

1. Financial Accounting
2. Management Accounting
3. Tax Accounting
4. Cost Accounting

Accounting Methods

1. Cash System
2. Accrual (Mercantile) System
3. Hybrid (Mixed) System

Debit & Credit in Accounting

The whole accounting process of business follows double entry system process. According to double entry, each transaction has two paths, i.e.

1. Debit
2. Credit

For every debit transaction, there will be a credit transaction. If something comes in, something has to go, or for every increase there will be decrease in a corresponding thing.

Accounting rules for debit & credit transactions

Accounts are divided into three types i.e.

1. Personal Accounts – Accounting rule

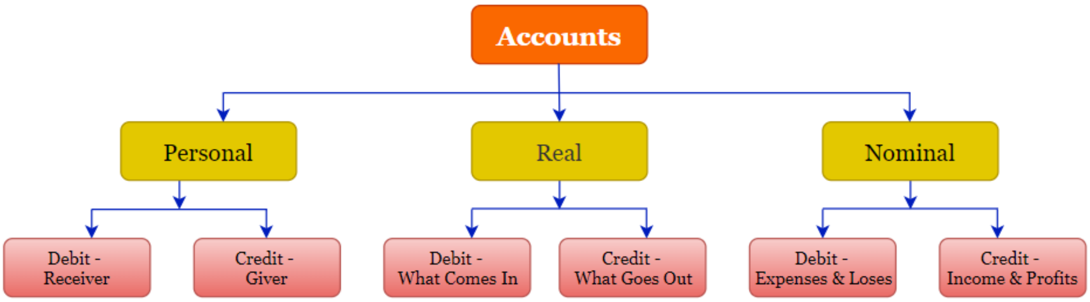
- Debit (Dr) the Receiver
- Credit (Cr) the Giver

2. Real Accounts: Accounting rule

- Debit (Dr) what comes in (Dr)
- Credit (Cr) what goes out

3. Nominal Accounts: Accounting rule

- Debit (Dr) all expenses & losses
- Credit (Cr) all gains, profits & gains



An equation of Accounting

- Assets = Liabilities + Capital
- Assets – Liabilities = Capital (Owner's Equity)
- Net Assets = Owner's Equity.

Continue to read accounting tutorials that explains step by step with examples.

Accounting Tutorial

Accounting Useful Resources