

**Accounting is the Systematic process** of – Identifying, Measuring, Recording, Classifying, Summarizing, Interpreting, and Communicating Financial Information

**Accounting Cycle:**

1. Analyze Business transactions,
2. Journalizing
3. Posting to Ledger
4. Prepare Trial Balance
5. Rectification of Errors
6. Adjustment entries
7. Adjusted Trial balance
8. Financial performance report  
Prepare Trading, Profit and Loss account
10. Financial Position statement  
Balance Sheet etc.
11. Closing entries
12. Opening entries for next period.

**Functions of Accounting**

- Measurement,
- Forecasting,
- Comparison & Evaluation,
- Decision Making,
- Control,
- Assistance to Government /  
Regulating authorities.
- Providing for Taxation

01-07 **Importance** of Accounting  
Basic necessity for all enterprises.

Systematic Records:

Preparation of Financial Statements:

Information to interested groups:

Satisfied legal requirements

**01-10 Bases of Accounting**

01-09 **Branches** of Accounting

FINANCIAL ACCOUNTING

COST ACCOUNTING

MANAGEMENT ACCOUNTING

SOCIAL RESPONSIBILITY ACCOUNTING

HUMAN RESOURCES ACCOUNTING

Transactions	CASH basis taking into account ..	ACCRUAL basis taking into account ..	HYBRID or MIXED basis
Any INCOME	When received in CASH	When EARNED whether received or not	Cash basis
Any EXPENDITURE	When paid in CASH	When INCURRED whether paid or not	Accrual basis
Any ASSET	When purchased for CASH	When PURCHASED whether paid or not	Cash basis
Any LIABILITY	When incurred against CASH or CASH worth	When INCURRED whether paid or not	Accrual basis

[ Law: Under Section 128(3) of the Indian Companies Act, 2013, all the companies are required to maintain the books of accounts according to the accrual basis of accounting.]

01-12 **Roles** of an Accountant

Designer of the accounting procedures for his enterprise, and

- **Record Keeper**
- **Protector for business assets**
- **Financial advisor**
- **Tax manager**
- **PRO (Public Relations Officer)**

**1.11 Users of Accounting:** There are several persons who need the accounting information for various purposes. They can be classified into two: Internal & External

**1.5 Objectives of Accounting of financial enterprise: To -**

- Keep systematic record of financial transactions and events
- Ascertain the profit or loss of the business
- Ascertain the financial position or status of the enterprise
- Provide information to various stakeholders for their requirements
- Protect the properties of an enterprise and
- Ascertain the solvency and liquidity position of an enterprise



**1.8 Basic Accounting terminologies**

Transaction - An activity which involves transfer of money or money's worth (goods, services, ideas) from one person to another.

Credit transaction - It is a transaction in which cash is not received or paid immediately, but will be received or paid later.

Account - It is the basic unit for measurement in accounting. It is used for identifying a person, or an item in accounting. An account is opened individually for a person, asset, expense, income, etc. In ledger, an account is a summary of transactions under a head.

Asset - Any physical thing or right owned that has a monetary value is called asset.

Liability - It refers to the financial obligation of the business.

Debtor - A person who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time.

Creditor - A person who gives a benefit without receiving money or money's worth immediately but to claim in future.