BOOKS OF ACCOUNTS

Every enterprise, whether public or private, large or small, sole trading or partnership or company, has financial concern and is interested in making profits. To achieve this objective, every enterprise should carry out certain activities. In business numerous transactions takes place everyday. It is humanly impossible to remember all of them. Hence, there is a need to record them.

Methods and procedures for account-keeping in business. It has two parts:- (i) Book keeping, and
(ii) Accounting.

Book keeping: Book keeping is a branch of knowledge, which helps us to keep a record of transactions. The need for recording such transactions

(1) It is difficult to remember various payments and receipts, taking place during a period of time.

(ii) The financial information is required for the purpose of costing, budgeting, forecasting and planning.

(iii) Book keeping records are submitted to various government agencies like sales and income tax authorities for taxation purposes.

Two basic objectives of book keeping:-

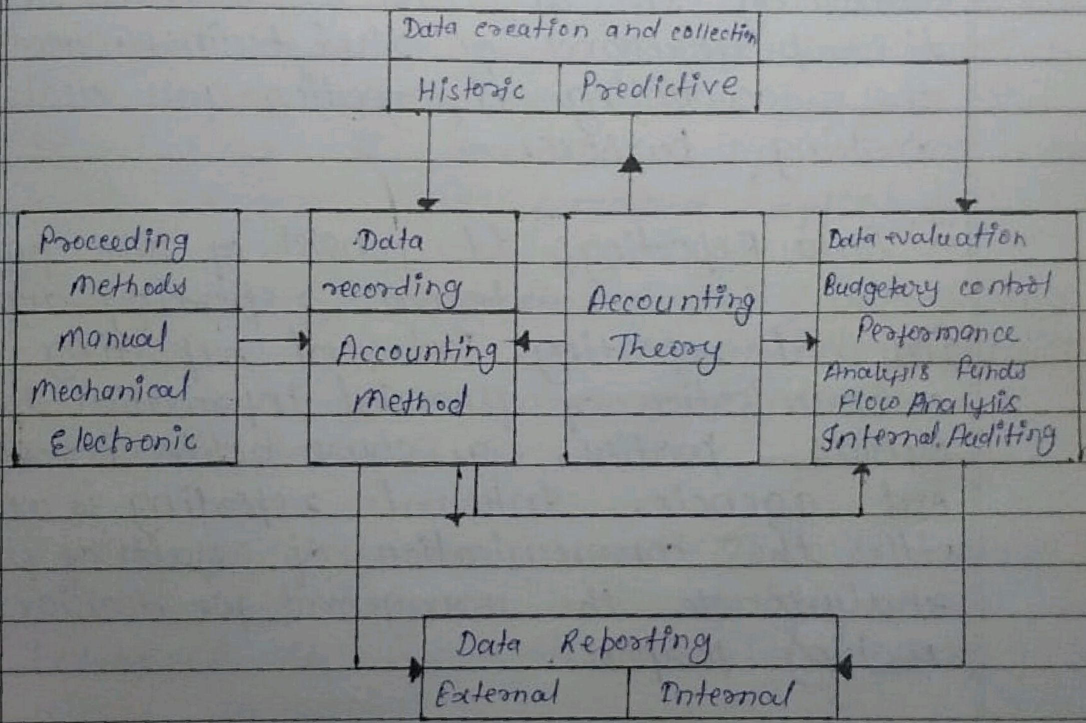
(i) To have a permanent record of each transaction and its financial effect.

(ii) To show the combined effect of all transactions made during a particular period of time upon the financial position of the concern as a whole.

Accounting: Accounting is often called the language of business. The purpose of accounting is to communicate or report the result of business operation and its various aspects.

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

Scope of Accounting :-



(i) Data creation and collection: The data collected is "historic" when it is an event which has already occured certain data is predicted.

After the historic data has been collected, it is recorded with the help of generally accepted principles into the books of originally entry i.e. the journal.

The processing method employed may be manual, mechanical or electronic.

(ii) Data evaluation: It forms the most important activity. It includes controlling the activities of business, evaluating the performance of the business, analysing the accounting information for decision making purposes.

(iii) Data Reporting: It consist of two parts External reporting and Internal reporting. External reporting is communication of financial information to the outside parties. e.g. share holders & government agencis. Internal reporting is concerned with the communication of results of financial analysis to the management for decision making purposes.

Process of accounting

There are four steps or stages of accounting —

(1) Recording the transactions: All business transactions are first recorded in the books of original entry. This book is known as "The Journal" with the

help of cash memos, cash receipts, invoices etc, all the business transactions are entered in a chronological order.

(ii) classifying the transactions: Transactions of similar nature are grouped together and posted into another book called "The ledger". The purpose of classifying the transactions of similar nature is to known their combined effect.

(iii) Summarising the transactions: Summarising means preparation of a year end summary known as 'Final Accounts'.

(iv) Interpreting the results:- The last stage to analyse and interpret the results shown by the final accounts.