Meaning of Accounting

It is that method of recording financial transactions in the books of accounts, on the basis of which transactions are identified, measured and communicated to those persons who wants to know its results by its interpretation and abridgement.

Definitions of Accounting

In the words of **Foulke**, “ Accounting is a financial language. It is a means to record those activities and value in Arabic figures which presents daily business transactions”.

According to **Carter,** “ Accounting is an art and science of recording all those business transactions whose result is transfer of money or money’s worth, in the correct books of accounts”.

Nature of Accounting

1. **Accounting: An Art:** Art means to do something in the best possible manner so that objectives can be achieved. Accounting is an art because in this, principles are not just studied but put to use as well.
2. **Accounting: A Science:** Accounting is a science because its subject matter is studied in an orderly and systematic manner. Recording of transactions in the books of accounts is based on principles. Although accounting cannot be called actual science because principles of accounting lack firmness and universality. These principles are based on traditions, practice, logic and experience.
3. **Accounting:** A Service Activity: Accounting is called a service activity because it provides complete financial information related to business which are used to take important decisions by parties having direct or indirect interest in the business.
4. **Accounting:** A Profession: Accounting is also known as a profession because like other professions it also requires, specialized knowledge, training, experience and relevant skill and intelligence. An accountant provides services using all this and receives remuneration.
5. **Accounting:** An Intellectual Discipline: Decision occupies an important place in business. Financial informations received from accounting are investigated, analysed and interpreted in taking decisions. Thus, accounting is also considered as an intellectual discipline.

Scope of Accounting

Financial Accounting– It covers the preparation and interpretation of financial statements and communication to the users of accounts. It is historical in nature as it records transactions which had already been occurred. The final step of financial accounting is the preparation of Profit and Loss Account and the Balance Sheet. It primarily helps in determination of the net result for an accounting period and the financial position as on the given date.

(ii) Management Accounting – It is concerned with internal reporting to the managers of a business unit. To discharge the functions of stewardship, planning, control and decision-making, the management needs variety of information. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control.

(iii) Cost Accounting– The terminology of Cost Accounting published by the Institute of Cost and Management Accountants of England defines cost accounting as:

"the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs."

(iv) Social Responsibility Accounting –The demand for social responsibility accounting stems from increasing social awareness about the undesirable by-products of economic activities. As already discussed earlier, social responsibility accounting is concerned with accounting for social costs incurred by the enterprise and social benefits created.

(v) Human Resource Accounting –Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organization that are not presently accounted for under conventional accounting practice.

Introduction of Double Entry System

The Double Entry System was developed in the 15th century in Italy by Luca Pocioli. The Double Entry System is the basic framework of present day accounting. Every transaction has two aspects and according to this system, both the aspects are recorded. For example, if a business requires something then either it must have been given by someone or it must have been acquired by giving up something. On purchase of furniture, either the cash balance will be reduced, or a liability to the supplier will arise. This has been made clear already. The Double Entry System is so named since it records both the aspects of a transaction. This system has proved to be systematic, and has been found of great use for recording the financial affairs for all institutions requiring the use of money.

DEFINITIONS OF JOURNAL AND LEDGER

Journal : Transactions are first entered in this book to show which account should be debited, and which credited. Journal is also called primary book, as it is a book of first entry. Transactions are recorded in it in chronological order.

Ledger : Accounts are prepared on the basis of entries made in the journal. The book, that contains the accounts is called a „ledger‟. A ledger is also called secondary book, as the entries in the ledger are made subsequent to the journal.

The Journalising Process

Transactions are either written as they occur in the various documents, or papers, are filed, in the order in which transactions occur (chronological). On the basis of these records, first, one writes out which accounts are to be credited, and which accounts are to be debited. This is done in the Journal, the format of which is given below:

JOURNAL

Date (1	Particulars (2)	L.F. (3)	Dr. Amount (4)	Cr. Amount (5)

Note: The columns have been numbered for reference only.

1. In the first column, the date of the transaction is entered. The year is written at the top, then the month and in the narrow part of the column the date is entered.

2. In the second column, the name of the account to be debited is written first, and it is written close to the line marked (A). The word "Dr." is written near the line marked (B). In the next line the name of the account to be credited is written preceded by the word "To". This is written a few spaces away from the line (A). There must be an explanation of the entry and this should be recorded. This is known as narration. Narration records the facts leading to the entry and facilitates quick understanding.

3. In the third column, the number of the page in the ledger on which the account is written up is entered.

4. In the fourth column, the amounts to be debited to the various accounts concerned are entered. The amount is written in the extreme right hand side of the column.

5. In the fifth column, the amount to be credited to various accounts is entered in the extreme right hand side of the column.

Ledger Posting

The ledger is the most important book of accounts. It is the principal book of accounts and contains all the information regarding business. It is very difficult to prepare a final account in the absence of the ledger. The ledger provides the necessary information regarding various accounts. The personal account in the ledger shows how much money the firm owes to debtors, and how much money creditors owe to the firm. The real account shows the value of asset and the value of stock. Nominal accounts reflect the sources of income, and amount spent on various items.

Till now, with the help of journal entries, we are able to ascertain how the accounts are to be debited and credited and also the amounts involved. Through ledger posting we will learn how to prepare a summarized and classified form of all the accounts.

Consider the following entry

April 8 Furniture Account Dr. 500

To ABC Furniture & Co. 500

From the above journal entry, we will prepare two ledger accounts: the Furniture Account, and the ABC Furniture & Co.