INTRODUCTION OF ACCOUNTING

Accounting is the language of finance. It conveys the financial position of the firm or business to anyone who wants to know. It helps to translate the workings of a firm into tangible reports that can be compared. So it is essential that we know the meaning of accounting.

Meaning of Accounting

Accounting is all about the process that helps to record, summarize, analyze, and report data that concerns financial transactions. Let’s understand the components a little better to understand the true meaning of accounting.

Recording

The first and foremost function that accounting looks forward to achieving is the recording of the different transactions that are made within the firm. This can also be referred to as bookkeeping which is a process of recognizing the transactions and setting them up as records.

Bookkeeping is only concerned with the recording segment and nothing else. Accounting maintains a few books for the cause of recording. The maintenance of the procedure happens in a systematic manner.

The three different ways of recording are:

- Putting up a system that will help in maintaining the records.
- Tracking the financial transactions.
- Aggregating the reports to present a final set of financial reports.

Summarizing

Raw data is generally the result of recording transactions. However, these raw data are not of much significance to the organization. They have no part to play in the decision-making process. As a result of this, the accountants divide these raw data into several categories. So the recording of the transactions is then followed up by summarizing.

Reporting

The affairs in any company are the responsibility of the management. The owners must know about the various operations happening within the firm using their money. Therefore, to take care of this, owners receive reports. They receive these reports quarterly and at the end, they receive an annual report that summarizes all their performances.

Analyzing

Finally, there is an analysis of all the results so far. After recording and summary, it is very important to draw conclusions. It is the responsibility of the management to check for the positive and negative points.

Therefore, to analyze all of this, accounting introduces the concept of comparison. Comparing profits, sales, equity, and so on with one another to determine and analyze the performance and growth of an organization.

Basic Fundamentals of Accounting

Accounting is all about the term ALOE. Do not confuse it with the plant! ALOE is a term that has an important role to play in the accounting world and the understanding of the meaning of accounting. Here is what the acronym, “A-L-O-E” means.

- A – Assets
- L – Liabilities
- O – Owner’s Equity

This is one of the basic concepts of accounting. The equation for the same goes like this:

Assets = Liabilities + Owner’s Equity

Here is the meaning of every term that ALOE stands for.

- Assets: Assets are the items that belong to you and you are the owner of it. These items correspond to a “value” and can serve you cash in exchange of it. Examples of Assets are Car, House, etc.
- Liabilities: Whatever you own is a liability. Even a loan that you take from a bank to buy any sort of asset is a liability.
- Owner’s Equity: The total amount of cash someone (anyone) invests in an organization is Owner’s Equity. The investment done is not necessarily money always. It can be in the form of stocks too.

Objectives of Accounting

Maintaining Records

As we mentioned, accounting is the spoken language of transactions. The human brain cannot store endless information. And so accounting takes the charge of keeping the records of all the transactions made within a firm.

Profit and Loss

Business is directly proportional to profits. It is all about earning profits. The accounting chart of profit and loss determines whether there is a profit or loss made in the business. The income and expenditure decide the profit and loss.

Utility of Resources

Resources are a very crucial part of any organization and for a firm to function smoothly, they play a significant role. The records hold the responsibility to report to the firm about the different activities along with its timing. Hence, it becomes easy for the management to take a note of the details before putting in the money.