UNIT – 1

Book Keeping & Accounting

For any business organisation, both bookkeeping and accounting are extremely crucial processes for prolonged sustainability. In the simplest of terms, bookkeeping is responsible for the recording of financial transactions whereas accounting is responsible for interpreting, classifying, analysing, reporting, and summarizing the financial data.

Bookkeeping and accounting may appear to be the same profession to an untrained eye. This is because both accounting and bookkeeping deal with financial data, require basic accounting knowledge, and classify and generate reports using the financial transactions. At the same time, both these processes are inherently different and have their own sets of advantages. Read this article to understand the major differences between bookkeeping and accounting.

What is the difference between an accountant and a bookkeeper?

Bookkeepers and accountants sometimes do the same work. But in general, a bookkeeper's first task is to record transactions and keep you financially organized, while accountants provide consultation, analysis, and are more qualified to advise on tax matters.\

S. No.	Book-keeping	Accounting
1.	It is a process concerned with recording of transactions.	It is a process concerned with summarising of the recorded transactions.
2.	It constitutes as a base for accounting.	It is considered as a language of the business.
3.	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book-keeping records.
4.	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5.	There is no sub-field of book-keeping.	It has several sub-fields like financial accounting, management accounting etc.
6.	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

Bookkeeping process

Bookkeeping is a mechanical task which involves the following steps:

- Collection of basic financial information.
- Identification of events and transactions with financial character i.e., economic transactions.
- Measurement of economic transactions in terms of money.
- Recording financial effects of economic transactions in order of its occurrence.
- Classifying effects of economic transactions.
- Preparing an organized statement known as trial balance.

Examples of bookkeeping tasks

- Billing for goods sold or services provided to clients.
- Recording receipts from customers.
- Verifying and recording invoices from suppliers.
- Recording payment made to suppliers.
- Processing employees pay, ESI, PF, etc.,
- Monitoring individual accounts receivable.
- Recording depreciation and other adjusting entries.
- Providing financial reports.

Understanding 10 of the most important accounting principles

Economic entity assumption : It refers to the separation between various divisions in a company. Each unit maintains its own accounting records specific to the business operations. External stakeholders like; Governments and investors use a company's financial records to assess its performance. Hence, it is important that the transactions reflect the activities of the entity accurately. According to the economic entity assumption, a person evaluating a company's records assumes all the transactions pertaining to the business are being reviewed.

Monetary unit assumption : The monetary unit assumption principle dictates that all financial activity be recorded in the same currency. It is the reasoning behind why you have to complete your business bookkeeping for foreign transactions. Moreover, another assumption under this basic accounting principle is that the purchasing power of currency remains static over time. In other words, inflation is not considered in the financial reports of a business, even if that business has existed for decades.

Specific time period assumption: The specific time period assumption requires that a business' financial reports show results over a distinct period for comparisons. Additionally, this accounting principle specifies that all financial statements must indicate the specific time period that they're considering for review, on the actual document. It is because of this principle that your balance sheet always reports information as of a certain date and your profit and loss statement encompasses a date range.

Cost principle : Cost Benefit Principle – limits the required amount of research and time to record or report financial information if the cost outweighs the benefit. Thus, if recording an immaterial event would cost the company a material amount of money, it should be forgone. This basic accounting principle is important because it reminds business owners not to confuse cost with value. Although the value of items and assets changes over time, the gain or loss of your assets is only reflected in their sale or in depreciation entries. If you need a true valuation of your business without selling your assets, then you'll need to work with an appraiser, as opposed to relying on your financial statements.

Full disclosure principle: This principle requires that any knowledge that would materially affect a financial statement user's decision about the company must be disclosed in the footnotes of the financial statements. This prevents companies from hiding material facts about accounting practices or known contingencies in the future. Basically, this principle states that all financial activities related to the company must be presented accurately, without any hidden numbers to the business owner/accountant, to ensure full transparency to business' finances.

Going concern principle: Also referred to as the "non-death principle," the going concern principle assumes the business will continue to exist and function with no defined end date—meaning the business will not liquidate in the foreseeable future. It is because of this basic accounting principle, why you defer the recognition of expenses to a later accounting period.

Matching principle: This principle states that all expenses must be matched and recorded with their respective revenues in the period that they were incurred and not when they are paid. This principle works with the revenue recognition principle ensuring all revenue and expenses are recorded on an accrual basis. These expenses can include wages, sales commissions, certain overhead costs, etc. That being said, even if your tax return is based on the cash method of accounting, your accountant may prepare your financial reports using the accrual basis of accounting. Ultimately, accrual-based reports not only reflect the matching principle but also provide a better analysis of your business' performance and profitability than cash-based statements.

Revenue recognition principle: This principle requires companies to record revenue when it is earned instead of when it is collected. This accrual basis of accounting gives a more accurate picture of financial events during the period. The purpose of this principle is to accurately report an income or revenue when the sale is made, even the payment is received at a later stage. With this basic accounting principle, your business could earn a monthly revenue even if you haven't received any actual cash that month.

Materiality principle: This principle highlights an accountant's ability to exercise judgment and use their professional opinion—since businesses come in all sizes, an amount that might be material for one business may be immaterial for another—and it's up to the accountant to make this decision. When an accountant is reconciling a set of books or completing a business tax return, if, during that time the accountant finds any misses or discrepancy, they may deem it as immaterial. In such a scenario, it's up to the accountant to use their professional judgment to determine if the amount is immaterial.

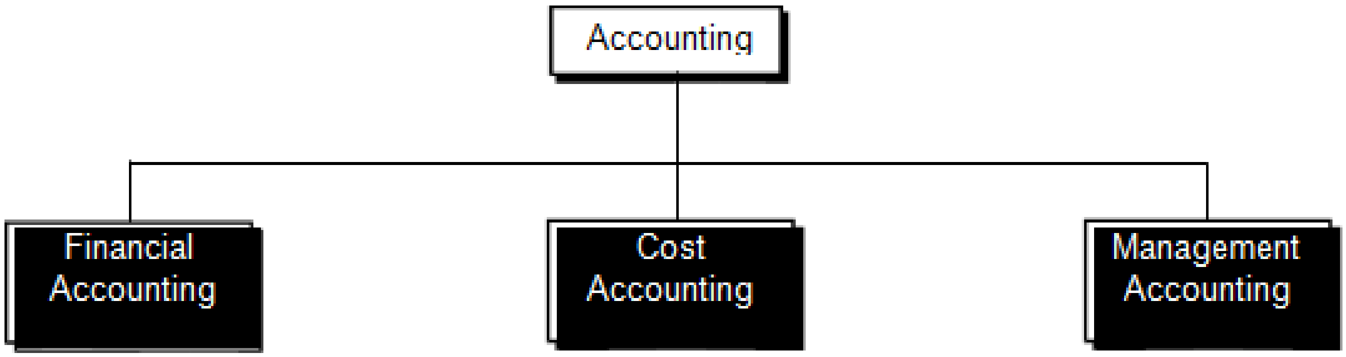
Principle of conservatism: When there's more than one acceptable way to record a transaction, the principle of conservatism instructs the accountant to record expenses and liabilities as soon as possible, but to only record revenues and gains when they occur. Using this accounting principle, then, your accountant will be more likely to anticipate losses in your reports, but not revenues or profits—hence they're being more conservative with the business's financial success. It's important to understand, however, that this basic accounting principle is only invoked when there are multiple acceptable ways for the accountant to record the transaction. The principle of conservatism does not allow a business accountant to completely disregard other accounting principles.

Golden Rules of Accounting

All the above classified accounts have two rules each, one related to Debit and one related to Credit for recording the transactions which are termed as golden rules of accounting, as transactions are recorded on the basis of double entry system.

Types of Account	Account to be Debited	Account to be Credited
Personal Account	Receiver	Giver
Real Account	What comes in	What goes out
Nominal Account	Expense and losses	Income and gains

Types of Accounting or Branches of Accounting



Process of Accounting