Overview of Accounting

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1. Definition of Accounting:

- Accounting is the process of recording, summarizing, analyzing, and reporting financial transactions of a business entity.

2. Purpose of Accounting:

- Track financial transactions.
- Evaluate the financial performance of a business.
- Provide financial information to stakeholders for decision-making.

3. Types of Accounting:

- **Financial Accounting:** Focuses on providing financial information to external stakeholders like investors, creditors, and regulators.
- **Managerial Accounting:** Involves providing financial information to internal users like managers for decision-making.

4. Principles of Accounting:

- **GAAP (Generally Accepted Accounting Principles):** Standard guidelines for financial accounting used in the U.S.
- **IFRS (International Financial Reporting Standards):** Global accounting principles used in many countries outside the U.S.

5. Financial Statements:

- **Income Statement:** Summarizes revenues and expenses to determine net income or loss.
- **Balance Sheet:** Shows the financial position of a company at a specific point in time.
- **Cash Flow Statement:** Details the cash inflows and outflows during a specific period.

6. Accounting Cycle:

- **Identify Transactions:** Record all financial transactions.
- **Journal Entries:** Record transactions in chronological order.
- **Ledger Posting:** Transfer journal entries to the respective accounts.
- **Trial Balance:** Ensure debits equal credits.

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- **Financial Statements:** Prepare income statement, balance sheet, and cash flow statement.

7. Role of Accountants:

- **Financial Reporting:** Prepare and analyze financial statements.
- **Auditing:** Review financial records for accuracy and compliance.
- **Taxation:** Assist in tax compliance and planning.

8. Importance of Accounting:

- Helps in decision-making by providing accurate financial information.
- Ensures compliance with legal and regulatory requirements.
- Assists in evaluating the financial health and performance of a business.