



INTRODUCTION TO BASIC ACCOUNTING

FOR Beginners and Non Accounting Professionals

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INTRODUCTION

Hi,

Accounting is pictured as boring subject for many years. When you are seeing someone learning accounting, you will think what will be his future or why is he wasting his time?

But that person is clever.

In day to day life, accounting and finance is applicable in each transaction. It is starting from buying a shirt to purchasing your bungalow. You need to learn accounting to understand how business works, where is your salary going or whether your business is actually making profit or whether your investment is debt or asset? Via learning accounting, you not only understand more about money but also impress your boss or friends with your knowledge

In this book, you will become familiar with basic accounting and learn about principles of accounting, accounting cycle and financial statements.

Before you start reading this book, I invite you to join my udemy course (worth 59\$) on basic accounting at 99% discount at \$1 .

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Thanks, Tarannum



What is accounting?



Accounting is system of financial reporting that identifies , records and communicate transactions and result of business.

Three important elements of accounting are

- 1. Identification:** In account, first accountant is needed to identify the transaction and decide whether it should be recorded or not. He applies accounting principles in this process.
- 2. Recording:** After that, he records the transaction as per double entry system or accounting equation and following accounting cycle process.

Communication: Finally, financial statements are prepared from accounts and the result of business and position of assets and liabilities are communicated to stakeholders and management.

Through accounting, we can know result of business. Accounting is tool to measure result of business and leads to future plans.

Can you imagine Amazon without accounts? How can it measure sales without account management? How can it design growth strategy without accounts? How can it publish revenue and income reports to its stakeholders without maintaining accounts?

Account is simple but necessity in each business. From small proprietor to global enterprise, Accounting is must.

That's why it is necessary that each should get basic accounting knowledge to understand and do financial transactions smoothly in day to day life.



Career in accounting



Another side of learning accounting is make serious career in finance. Many consider finance as boring and time consuming activity but they are wrong. Finance has bright career opportunity if you consider and work in this career line with interest.

Here is opportunity of finance person in following **sectors**:

Commercial banking

Corporate finance

Insurance

Money management

real estate

With finance knowledge, a person can work as

Tax advisor

Financial adviser

Finance manager

Internal auditor

Investment analyst

Retail banker

Corporate treasure

Chartered Accountant (CPA)

Tax Investor

Actuary

Accounting technician

Business person

Manufacturer

If you select job as your career, Annual salary of finance profession is ranging **from \$70000 to \$150000 average**. You can earn more than triple if you start your own business in finance field. You can also use your finance skill in managing your business and increase profitability.

So learning finance is win- win situation for every person.



How Accounting works?

Financial transactions are recorded in four major accounting cycles:

Revenue cycle

Purchase

Payroll

General journal

We can elaborate various major cycles as per under:

Revenue cycle: In this cycle, order entries , cash receipts and account receivables are covered.

Purchase cycle: In this cycle, Purchase orders/ purchases, cash expenses or cheque and account payables are covered.

Payroll cycle: In this cycle, all the data regarding employees payroll (Employees salary) is recorded.



GAAP Principles

There are some basic accounting principles accepted by GAAP (Generally accepted accounting principles). Accounting is based on these principles and violation of those principles leads to inaccurate results of business.

Here is a brief overview of accounting principles as per GAAP:

Cost principles:

It means that assets of business are required to be recorded at cost value. Example: Cost of land is \$100,000 but market value of land is \$400,000. In this situation, we will record land at \$100,000 in financial statements.

Monetary unit assumption:

It means transactions which can be measured in money are only recorded in accounts. Example: efficiency of employees is useful in growth of business but it can't be measured in money. So it will not be included in accounting. Another assumption is that inflation is ignored in accounting.

Economy entity assumption:

As per this principle, owner of business and business should be considered as separate entities. That's why capital invested by proprietor or partner is shown as internal liability.

Time period assumption:

As per this assumption, accounts are written for specific time period. (One year). Year can be start from January or from April.

Matching concept:

As per this principle, revenue should be matched with expenses. Example: Business sale for quarter is \$200000. We will consider expense incurred to earn that revenue while calculating profit for that quarter. It is not relevant that expenses are paid or payable. This is called matching concept.

Going concern Principle:

As per this principle, it is assumed that there is no intention of winding up of business and business will be continued for long period.

Conservatism:

As per this principle, expected future income or gain should not be recognized but estimated future losses or expenses should be recognized in accounting.



Accounting Equation



Accounting equation is formula representing three factors: Asset , liability and capital.

Assets - Liability = CAPITAL.

Accounting equation is always remained in balance for each transaction of business.

Before understanding accounting equation, first we need to understand what is assets, liability and capital?

Assets: assets are property of business like land, building, furniture, machinery, plot, debtors, stock , cash, bank etc. Through asset, business will gain any future benefit or gain.

Liability: liability is debt of business like creditors, loans from bank, outstanding expenses etc.

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