Meaning& Definition of Accountancy

According to American Institute of Certified Public Account (AICPA), "Accounting is the art of recording, classifying, summarising in a significant manner and in terms of money transactions and events which are of a financial character and interpreting the result thereof."

In other words, accountancy is an art as well as science of recording, classifying and summarising of business transactions which are of a financial character. From the above definition, it can be summarised that it is having mainly four elements:

1) Recording of transactions and events in terms of money.
2) Classification, which means preparation of accounts.
3) To make summary, which means to the preparation of profit and loss account and balance sheet.
4) To make interpretation of accounts means driving conclusions from accountancy records.

❖ Systems of Accounting

1. Cash system: Under the cash system of accounting, entries are passed only when cash is paid or received. No entry is passed when a payment or receipt is merely due. Similarly, credit transactions, if any, are not at all recorded until the cash is actually paid or received. Institutions like clubs, societies, hospitals, educational institutes, generally do their

accounting on cash basis. The professionals like lawyers, doctors, professors etc. keep their records on cash system of accounting.

Under this method, an income and expedition account is prepared to calculate income for the accounting period.

2. Accrual System: Under this system, entries are passed on the basis of expenses and incomes having become due. This system recognises the fact that if an event has occurred, its consequences cannot be avoided and hence should be recorded to find out the profit or loss and financial position of the enterprise.

This is called mercantile or accrual system because most of the merchants or business houses do their accounting on the accounting on the accrual or due to their accounting on the accrual or due basis of expenses and incomes.

3. Double Entry System: Under this system, every business transaction has two-fold effect i.e. it touches two accounts at a time. If one accounted is debited, the other account will have to be credited with the same amount. Eg, if goods are purchased for cash, goods are coming in the business and cash is going out of the business, hence purchases account will be debited and cash account will be credited.

Double entry system is used by most of the accountants as it is the only system that fulfils all objectives of systematic

accounting. The following basic accounting equations are based on the double entry system-

Assets = Capital + Liabilities

Capital = Assets – Liabilities

Liabilities = Assets – Capital

4. Single Entry System: This system has been developed by some small scale business concerns, who for their convenience keep only same essential records. This system is not reliable as all records are not kept. According to Kohler "It is a system of book keeping in which as a rule only records of cash and personal accounts are maintained, it is always an incomplete double entry, varying with circumstances.