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Review Article on Banking/Finance, Accounting And Bookkeeping Concepts

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ABSTRACT

An overview to bank, types of bank, functions of commercial bank, Primary Functions of Commercial Banks , Secondary Functions of Commercial Banks, Defination of cheque and advantages and Disadvantages of it ,Explanation of finance, classification of it, objective of finance, shares and difference Kind of shares, explanation of cash book, Petty cash book, Bookkeeping, tpes importance Objectives, Advantages and purpose / Importance of it.

Keywords : Bank, Shares, Finance, Cheque

INTRODUCTION

Bank

A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services, such as wealth management, currency exchange, and safe deposit boxes. There are two types of banks: commercial/retail banks and investment banks. In most countries, banks are regulated by the national government or central bank.

Types of Banks

1. Commercial Banks:

These banks play the most important role in modern economic organization. Their business mainly consists of receiving deposits, giving loans and financing the trade of a country. They provide short-term credit, i.e., lend money for short periods. This is their special feature.

2. Exchange Banks:

Exchange banks finance mostly the foreign trade of a country. Their main function is to discount, accept and collect foreign bills of exchange. They also buy and sell foreign currencies and help businessmen to convert their money into any foreign money they need. Their share in the internal trade of a country is usually small. In addition, they carry on ordinary banking business too.

3. Industrial Banks:

There are a few industrial banks in India. But in some other countries, notably Germany and Japan, these banks perform the function of advancing loans to industrial undertakings. Industries require capital for a long period for buying machinery and equipment. Industrial banks provide this type of Mock capital. Industrial banks have a large capital of their own. They also receive deposits for longer periods. They are thus in a position to advance long-term loans.

In India, the Central Government set up an Industrial Finance Corporation of India (IFC1) in 1948. Its activities have since then been greatly enlarged. Further the States have also set up State Financial Corporations. The Central Government has also established the Industrial Credit and Investment Corpor-ation of India (ICICI) and the National Industrial Development Corporation for the financing and promotion of industrial enterprises. In 1964 the Industrial Development Bank of India (IDBI) was established as the apex or top term-lending institution. These new institutions fill important gaps in our system of industrial finance.

4. Agricultural or Co-operative Banks:

The main business of agricultural banks is to provide funds to farmers. They are worked on the co-operative principle. Long-term capital is provided by land mortgage banks, nowadays called land-development banks, while short-term loans are given by co-operative societies and co-operative banks. Long-term loans are needed by the farmers for purchasing land or for permanent improvements on land, while short-period loans help them in purchasing implements, fertilizers and seeds. Such banks and societies are doing useful work in India.

5. Savings Banks:

These banks (perform the useful service of collecting small savings. Commercial banks too run “savings departments” to mobilize the savings of men of small means. The idea is to encourage thrift and discourage hoarding. Post Office Saving Banks in India are doing this useful work.

6. Central Banks:

Over and above the various types of banks mentioned above, there exists in almost all countries today a Central Bank. It is usually controlled and quite often owned by the government of the country.

7. Utility of Banks:

An efficient banking system is absolutely necessary for a country, if it is to progress economically. The services that an efficient banking system can render a country are indeed very valuable. Undeveloped banking system is not only an index of economic backwardness of a country; it is also an important cause of it. The banking system can be useful in the following ways, in addition to what has been mentioned in the functions of banks.

(i) The banks create instruments of credit which are very convenient substitutes for money. This means a great saving Actual movement of money is avoided and expenses saved.

(ii) The banks increase the mobility of capital. They bring the borrowers and the lenders together. They collect money from those who cannot use it, and give it to those who can. Thus, they help the movement of funds from place to place, and from person to person, in a very convenient and inexpensive manner.

(iii) They encourage the habit of habit by providing safe channels of investment. In the absence of banking facilities, people would just squander their funds.

(iv) By encouraging savings, the banks bring about accumulation of large amount of capital in the country from small individual savings. In this way, they make the resources of the country more productive, and thus contribute to the general prosperity and welfare, of the country.

Functions of Commercial Banks

Commercial banks are authorized to provide a variety of financial services which includes loans, savings accounts, etc.

Primary Functions of Commercial Banks

The primary functions of a commercial bank are as follows:

1. Accepting Deposits

Commercial banks accept deposits from people, businesses, and other entities in the form of:

Savings deposits: The commercial bank accepts small deposits, from households or persons, in order to encourage savings in the economy.

Time deposits: The bank accepts deposits for a fixed time and carries a higher rate of interestas compared to savings deposits.

Current deposits: These accounts do not offer any interest. Further, most current accounts offer overdrafts up to a pre-specified limit. The bank, therefore, undertakes the obligation of paying all cheques against deposits subject to the availability of sufficient funds in the account.

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2. Lending of Funds

Another important activity is lending funds to customers in the form of loans and advances, cash credit, overdraft and discounting of bills, etc.

Loans are advances that a bank extends to his customers with or without security for a specified time and at an agreed rate of interest. Further, the bank credits the loan amount in the customers' account which he withdraws as per his needs.

Under the cash credit facility, the bank offers its customers a facility to borrow cash up to a certain limit against the security of goods. Further, an overdraft is an arrangement that a bank offers to customers wherein a temporary facility is offered to overdraw from the current account without any security.

The limit is pre-specified. Additionally, banks also discount and purchase bills. In both of these cases, a bank credits the amount of the bill in the customer's account after deducting discounts and commissions. Subsequently, this amount is recovered from the debtors on the maturity of the instrument.

Secondary Functions of Commercial Banks

The secondary functions of a commercial bank are as follows:

Bank as an Agent

A bank acts as an agent to its customers for various services like:

- Collecting bills, draft, cheques
- Paying the insurance premium, rent, loan installments
- Working as a representative of a customer for purchasing or redeeming securities,in the stock exchange.
- Acting as an executor, administrator, or trustee of the estate of a customer
- Also, preparing income tax returns, claiming tax refunds
- General Utility Services

There are several general utility services that commercial banks offer like:

- Issuing traveler cheques
- Offering locker facilities for keeping valuables in safe custody
- Also, issuing debit cards and credit cards

Define Cheque

A cheque, or check (American English; see spelling differences), is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. The person writing the cheque, known as the drawer, has a transaction banking account (often called a current, cheque, chequing or checking account) where their money is held

Name printed cheque books

Plain cheque books (Without name printing)

However, depending upon the usage, the cheques are called as follows:

- Bearer cheque
- Order cheque
- Open cheque
- Crossed cheque

- Mutilated cheque
- Stale cheque
- Postdatedcheque
- Anti-dated cheque

Advantages of cheque

- It is more convenient than carrying cash around.
- Payments can be stopped if necessary.
- Cheques are safer if crossed.
- One does not have to count notes and risk making counting mistakes.
- A cheque can be drawn up anytime
- Instant money in hand, except taxes of course. (Hey, nothing is entirely free)
- There are no transaction fees with cash like there are with credit cards
- Minimizes bookkeeping, which means less stress & less hassle

Disadvantages of Cash:

- Money in the drawer can be tempting for some employees to steal
- A safe needs to be on site or frequent trips to the bank for deposits must be made, which takes time and money.
- Money at your location increases your risk for theft not just from employees but criminals as well.

What is Finance?

Finance is defined as the management of money and includes activities like investing, borrowing, lending, budgeting, saving, and forecasting. There are three main types of finance:

(1)Personal

(2) Corporate

(3) public/government.

Finance Examples:

The easiest way to define finance is by providing examples of the activities it includes.

There are many different career paths and jobs that perform a wide range of finance activities. Below is a list of the most common examples:

Investing personal money in stocks, bonds, or guaranteed investment certificates (GICs)

Borrowing money from institutional investors by issuing bonds on behalf of a public company

Lending money to people by providing them a mortgage to buy a house with

Using Excel spreadsheets to build a budget and financial model for a corporation

Saving personal money in a high-interest savings account

Developing a forecast for government spending and revenue collection

The Finance function has been classified into three:

Long-Term Finance : This includes finance of investment 3 years or more. Sources of long-term finance include owner capital, share capital, long-term loans, debentures, internal funds and so on.

Medium Term Finance : This is financing done between 1 to 3 years, this can be sourced from bank loans and financial institutions.

Short Term Finance : This is finance needed below one year. Funds may be acquired from bank overdrafts, commercial paper, advances from customers, trade credit etc.

Objectives of Finance Functions

Investment Decisions: This is where the finance manager decides where to put the company funds. Investment decisions relate to management of working capital, capital budgeting decisions, management of mergers, buying or leasing of assets. Investment decisions should create revenue, profits and save costs.

Financing Decisions: Here a company decides where to raise funds from. They are two main sources to consider from mainly equity and borrowed. From the two a decision on the appropriate mix of short and long-term financing should be made. The sources of financing best at a given time should also be agreed upon.

Dividend Decisions: These are decisions as to how much, how frequent and in what form to return cash to owners. A balance between profits retained and the amount paid out as dividend should be decided here.

Liquidity Decisions: Liquidity means that a firm has enough money to pay its bills when they are due and have sufficient cash reserves to meet unforeseen emergencies. This decision involves management of the current assets so you don't become insolvent or fail to make payments.

The Finance Function Involves

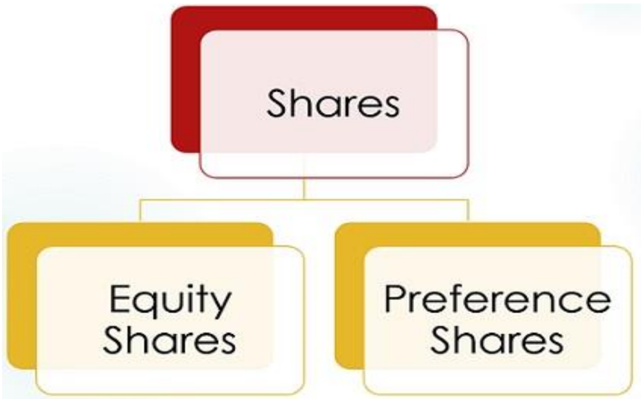
Ensure enough funds at reasonable cost.

Ensure safety of funds.

Ensure efficient effective and profitable utilization of funds.

Shares:

Definition: Shares can be described as the financial instrument issued by the company to raise funds from the general public. A share represents fractional ownership in a body corporate. Thus, a share is the smallest unit of the company's overall net worth.



Kinds of Shares

Basically, there are two kinds of shares, given as under:

Equity Shares:

Equity shares or otherwise called as ordinary shares are the shares, that carry – Voting rights at the Annual General Meeting of the company or Differential voting rights relating to dividend, voting etc.

Ordinary shareholders share profits of the firm, in the form of dividend declared by the company and bonus shares. The dividend is paid to them at last, i.e. after paying off all the taxes, interest and dividend to preference shareholders.

The rate of dividend is not fixed, i.e. whatever the company earns as a profit, a certain percentage of it is declared as a dividend by the company to the equity shareholders.

Again, at the time of winding up of the company, equity shareholders are paid at last, i.e. after settling the claims of creditors, debenture holders and preference shareholders.

Funds raised by issued equity shares bring permanent capital to the company. As the equity shareholders undertake the highest risk, they are regarded as the true owners of the company. The cost of these shares is usually high, as the shareholders expect a good return on their investment, against the risk taken.

Equity shares are of several types, i.e. right shares, bonus shares, sweat equity shares.

Preference Shares

Preference shares refer to the shares that carry preferential right concerning the dividend payment (i.e. either certain amount, or at a certain rate) and repayment, at the time of winding up of the company.

It is, in fact, a hybrid source of finance which contains the features of both equity capital as well as debt capital. It is identical to equity capital because it carries dividend which is not tax deductible, but at the same time, the dividend rate is fixed which makes it similar to debt capital wherein the interest rate is certain.

The shares get preference over the equity shares as to the distribution of dividend and surplus at the time of winding up of the company. These shares are redeemable in nature, i.e. after a specific period of time these shares are redeemed by the company either at par, premium or discount.

There are various types of preferences shares such as:

- Convertible preference shares
- Cumulative preference shares
- Non-cumulative preference shares
- Redeemable preference shares
- Participating preference shares
- Non-participating preference shares

Preference shares are usually cumulative as if the dividend is not paid for a year due to loss, then that will be carried forward for the next year. And if it continues consecutively for two years, then the preference shareholders get the right to vote at the AGM of the company.

The liability of the shareholders is limited to the face value of the shares, wherein the face value refers to the denominated value. Further, the shares are movable in nature, in the sense that it can be transferable in a way specified in the Articles of Association of the Company.

Accountancy is the practice of recording, classifying, and reporting on business transactions for a business. It provides feedback to management regarding the financial results and status of an organization

Objective of Accountancy

1. Identification and recording of transactions

The primary object of accounting is to identify the financial transactions and to record these systematically in the books of accounts. As a result, the true nature of each and every transaction is known without much exercise of memory.

With this end in view, the transactions are primarily recorded in general and in a special journal and later on permanently various accounts are kept in the ledger.

2. Ascertainment of results

Every business concern is interested to know its operating results at the end of a particular period.

The amount of profit or loss for a particular period of a business concern can be ascertained by preparing an income statement with the help of ledger account balances of revenue nature.

Surplus or deficit of revenue for a particular period of a non-trading concern can also be ascertained by preparing income and expenditure account or statement.

3. Ascertainment of financial affairs

Ascertainment of debts-liabilities, property, and assets i.e. total financial affairs of an organization at a particular date is another important object of Accounting.

Financial affairs of concern at a particular date can be ascertained by preparing a balance sheet.

The balance sheet is the statement of assets and liabilities of concern at a particular date.

4. Keeping accounts of cash

Cash book is a prominent book of the books of accounts.

Cash receipts and cash payments are accounted for in this book. A number of daily cash receipts, payments, cash in hand and cash at the bank can be known from this book.

Fraud, forgery, and misappropriation of money are reduced by keeping cash book scientifically and accurately.

5. Control over assets and liabilities

For running a business successfully a businessman is to acquire various assets like land, building, machinery, etc.

He is to face various debts and liabilities like accounts payable, notes payable, loan, bank overdraft, etc. side by side with die acquisition of assets.

The actual position of these debts-liabilities, property, and assets can be ascertained through the proper keeping of accounts.

A businessman can take the right steps for controlling the quantity of assets decrease and liability increase.

6. Controlling money defalcation and cost

Prevention of money defalcation through fraud and forgery and controlling the cost of concern are also the main objects of Accounting.

Prevention of money defalcation and cost control become easier if accounts are kept scientifically.

7. Providing economic data

Another noble object of accounting is to provide the concerned parties with all economic information preparing financial statements and reports etc. in time.

8. Helping tax fixation

Accounts prepared on the basis of accepted accounting principles in considered reliable to the income tax and VAT authorities for easy determination and settlement of tax and VAT.

9. Determination and evaluation of policy

The object of accounting is to help the management in determining and evaluating the management policies in running the business successfully by supplying necessary, information, interpreting and analyzing the financial statements.

10. Testing the arithmetical accuracy of accounts

One of the main objects of scientific methods of accounting is to make sure that accounts have been kept in a proper way. The arithmetical accuracy of accounts kept in the ledger can be assured by preparing a trial balance.

Agreement of a trial balance is the proof of the arithmetical accuracy of accounts. The advantage of taking loans due to the insufficiency of capital, borrowing capital from outsiders is felt necessary to run a business.

Loan givers are not willing to give a loan without knowing the financial position of a business. The financial statement of a business concern reflects the solvency or loan repayment capability of that concern.

11. Acceptability to others

Banks or financial institutions are interested to know the accurate financial position of business concern for sanctioning loans.

On the other hand, the government or other authorities may also ask about the financial position of business concern for various reasons.

In these cases, the accounts maintained in a disciplined way become easily acceptable to the interested institutions or authorities.

12. Creation of values and accountability

The object of accounts maintained in an acceptabl way is to create higher values among individuals an organizations and thereby creating awareness i preventing money defalcation, misappropriation c fund and cost control by ensuring transparency an accountability.

13. Following legal bindings and prohibition

As all kinds of business organizations have to abid by some legal bindings and prohibitions, they are t maintain their accounts accurately.

For example;

Partnership law, income tax law, and company law etc. compel business organizations to maintain thei accounts in an appropriate manner.

The main objectives of accounting are maintaining complete and systematic record of all transaction and analyzing the financial position of a business.

Every individual or a business concern is intereste to know the results of financial transactions an their results are ascertained through the accountin process.

A businessman can ascertain the operating results and financial position of his business at any time through Accounting.

Accounting concept: refers to the basic assumptions and rules and principles which work as the basis of recording of business transactions and preparing accounts

There are a number of conceptual issues that one must understand in order to develop a firm foundation of how accounting works. These basic accounting concepts are as follows:

- **Accruals concept :** Revenue is recognized when earned, and expenses are recognized when assets are consumed. This concept means that a business may recognize revenue, profits and losses in amounts that vary from what would be recognized based on the cash received from customers or when cash is paid to suppliers and employees. Auditors will only certify the financial statements of a business that have been prepared under the accruals concept.
- **Conservatism concept :** Revenue is only recognized when there is a reasonable certainty that it will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred. This concept tends to result in more conservative financial statements.
- **Consistency concept.** Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, financial statements prepared in multiple periods can be reliably compared.
- **Economic entity concept :** The transactions of a business are to be kept separate from those of its owners. By doing so, there is no intermingling of personal and business transactions in a company's financial statements.

- **Going concern concept :** Financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.
- **Matching concept :** The expenses related to revenue should be recognized in the same period in which the revenue was recognized. By doing this, there is no deferral of expense recognition into later reporting periods, so that someone viewing a company's financial statements can be assured that all aspects of a transaction have been recorded at the same time.
- **Materiality concept**: Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, financial position, and cash flows of a business.

Bookkeeping

The activity or occupation of keeping records of the financial affairs of a business Bookkeeping is the activities concerned with the systematic recording and classification of financial data of an organization in an orderly manner. It is essentially a record-keeping function done to assist in the process of accounting. It is a key component in forming the financial statements of the organization at the end of the financial year.

Bookkeeping also concerns itself with the classification of financial transactions and events. Such classification of transactions is essential to maintain proper financial accounts. It also involves preparing source documents for the financial transactions and other business operations being carried out.

There are many methods of book-keeping. The most common ones are the double-entry system and the single-entry system. But even methods other than these, which involves the process of recording financial transactions in any manner are acceptable book-keeping systems or processes.

Objectives of Bookkeeping

The main objective of book-keeping is to keep a complete and accurate record of all the financial transactions in a systematic orderly, logical manner. This ensures that the financial effects of these transactions are reflected in the books of accounts.

Then the second main objective is to ascertain the overall effect of all recorded transactions on the final statement of the company. Book-keeping will eventually ascertain the final accounts of the company, namely the Profit and Loss Account and the Balance Sheet.

Need for Bookkeeping

One of the main reasons for bookkeeping is so records can be maintained to show the financial position of each and every head/account of income and expenditure. Through book-keeping, detailed information about each expense or income could be obtained instantaneously.

Say for example a company makes sales in both cash and credit. Each of these sale transactions will be recorded. When a credit sale is made, the creditor’s account will be recorded. So at any time, the management of the company can determine which creditors owe them how much money by just looking at the records/accounts.

Also, the maintenance of books of accounts and financial statements is a legal requirement in many cases. In the case of companies or banks or insurance companies, there are acts that require such firms to keep and maintain financial records. In such a case, book-keeping becomes mandatory.

Activities of Bookkeeping

Book-keeping comprises of a lot of functions and activities bundled together. Some such activities are

- Recording all financial transactions
- Posting debit and credits in the respective ledgers
- Producing and organizing all source documents such as invoices
- Payroll accounting and upkeep may also be clubbed in with book-keeping

Importance of Bookkeeping

Bookkeeping is beneficial to business owners. It helps the businesses to effectively manage cash flows, planning for future and being well informed about running of business. Further, it does comply with federal and local tax agencies requirements. The importance of bookkeeping can be explained with the help of following points

Ease in Making Routine Business Decisions: How would you decide what amount you owe to your supplier if you have no bookkeeping? It will be very tough task. However, if the bookkeeping is done properly, you can easily get all the accounting records at instance. Hence, bookkeeping helps in making routine business decisions easier and smoother.

Making Business Evaluations: How can you determine whether your business is growing or not? This can exactly be known by keeping financial records through a bookkeeping mechanism. Bookkeeping helps to formulate Trial Balance and Balance Sheets. Performance evaluations of businesses can be made on quarterly basis by making effective comparison between aspects of profit and growth. This helps to give you a fair outlook on the growth prospects of the business.

Proper Reporting to Investors: Investors own a stake in business and have the capability to make effective decisions. They are most concerned about whether their money has been utilized properly or not. They would certainly want to know whether the business is making money or not. They would also like to know the potential of businesses. These aspects are easily handled by bookkeeping. Profit and Loss account made periodically reports the profits and also determines the potential on the basis of revenues. The performance charts and various information can be easily prepared and documented. Hence, bookkeeping helps to avoid the hassles involved in reporting results to investors.

Managing Cash Flows: Tracking cash flows is an important task of any business. It is possible only when the businesses follow the adequate steps to record the financial data effectively through bookkeeping. Bookkeeping helps to make the cash flow management useful as it depicts the sources from where the cash flows are coming and use where cash is spent. Many businesses get hit by unexpected cash crunch. This can be resolved through bookkeeping only.

Effective Tax Compliance: Tax reports are prepared to effectively assess the tax payable to the federal and local authorities. Tax reports can only be prepared with the help of recorded financial transactions. Effective bookkeeping will keep the tax affairs at ease and businesses can easily calculate the exact amount of taxes to be paid. The information which has to be filed in tax reports has to be accurate and presented in professional manner. Failure to keeping tax affairs updated may lead to serious repercussions and huge fines and litigations. Hence, to avoid such fines and litigations, bookkeeping plays a pivotal role to provide the required date in a well-presented manner and on a timely basis.

Double Entry Bookkeeping

In the double-entry system, transactions are recorded in terms of debits and credits. Since a debit in one account offsets a credit in another, the sum of all debits must equal the sum of all credits. The double-entry system of bookkeeping or accounting makes it easier to prepare accurate financial statements and detect errors.

Types of Accounts

Bookkeeping and accounting are ways of measuring, recording, and communicating a firm's financial information. A business transaction is an economic event that is recorded for accounting/bookkeeping purposes. In general terms, it is a business interaction between economic entities, such as customers and businesses or vendors and businesses.

Under the systematic process of accounting, these interactions are generally classified into accounts. There are seven different types of accounts that all business transactions can be classified:

- Assets
- Liabilities
- Equities
- Revenue
- Expenses
- Gains
- Losses

Bookkeeping and accounting track changes in each account as a company continues operations.

Debits and Credits

Debits and credits are essential to the double entry system. In accounting, a debit refers to an entry on the left side of an account ledger, and credit refers to an entry on the right side of an account ledger. To be in balance, the total of debits and credits for a transaction must be equal. Debits do not always equate to increases and credits do not always equate to decreases.

A debit may increase one account while decreasing another. For example, a debit increases asset accounts but decreases liability and equity accounts, which supports the general accounting equation of Assets = Liabilities + Equity. On the income statement, debits increase the balances in expense and loss accounts, while credits decrease their balances. Debits decrease revenue and gains account balances, while credits increase their balances.

The Double-Entry Accounting System

Double-entry bookkeeping was developed in the mercantile period of Europe to help rationalize commercial transactions and make trade more efficient. It also helped merchants and bankers understand their costs and profits. Some thinkers have argued that double-entry accounting was a key calculative technology responsible for the birth of capitalism.

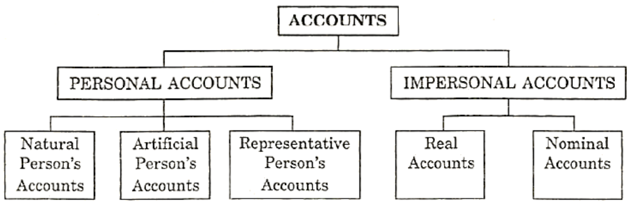
The accounting equation forms the foundation of the double-entry accounting and is a concise representation of a concept that expands into the complex, expanded and multi-item display of the balance sheet. The balance sheet is based on the double-entry accounting system where total assets of a company are equal to the total of liabilities and shareholder equity.

Essentially, the representation equates all uses of capital (assets) to all sources of capital (where debt capital leads to liabilities and equity capital leads to shareholders' equity). For a company keeping accurate accounts, every single business transaction will be represented in at least of its two accounts.

For instance, if a business takes a loan from a financial entity like a bank, the borrowed money will raise the company's assets and the loan liability will also rise by an equivalent amount. If a business buys raw material by paying cash, it will lead to an increase in the inventory (asset) while reducing cash capital (another asset). Because there are two or more accounts affected by every transaction carried out by a company, the accounting system is referred to as double-entry accounting.

Account :

a record or statement of financial expenditure and receipts relating to a particular period or purpose.



1. Asset accounts:

Assets are things or items of value owned by a business and are usually divided into tangible or intangible. Tangible assets are physical items such as building, machinery, inventories, receivables, cash, prepaid expenses and advance payments to other parties. Intangible assets normally include non-physical items and rights. Examples of intangible assets include goodwill, trademarks, copyrights, patent rights and brand recognition etc.A separate account for each tangible and intangible asset is maintained by the business to record any increase or decrease in that account.

2. Liability accounts:

Liabilities are obligations or debts payable to outsiders or creditors. The title of a liability account usually ends with the word "payable". Examples include accounts payable, bills payable, wages payable, interest payable, rent payable and loan payable etc. Besides these, any revenue received in advance is also a liability of the business and is known as unearned revenue. For example, a marketing firm may receive marketing fee from its client for the forthcoming quarter in advance. Such unearned revenue would be recorded as a liability as long as the related marketing services against it are not provided to the client who has made the advance payment.

3. Capital or owner's equity accounts:

Capital is the owner's claim against the assets of the business and is equal to total assets less all liabilities to external parties. The balance in capital account increases with the introduction of new capital and profits earned by the business and decreases as a result of withdrawals and losses sustained by the business.

In sole proprietorship, a single capital account titled as owner's capital account or simply capital account is used. In partnership or firm, each partner has a separate capital account like John's capital account, Peter's capital account etc. In corporate form of business there are many owners known as stockholders or shareholders and the title capital stock account is used to record any change in the capital.

4. Withdrawal accounts:

Withdrawals are cash or assets taken by a business owner for his personal use. In sole proprietorship and partnership, an account titled as drawings account is used to account for all withdrawals. In corporate form of business withdrawals are more systematic and usually termed as distributions to stockholders. The account used for recording such distributions is known as dividend account.

5. Revenue or income accounts:

Revenue is the inflow of cash as a result of primary activities such as provision of services or sale of goods. The term income usually refers to the net profit of the business derived by deducting all expenses from revenue generated during a particular period of time. However, in accounting and finance, the term is also used to denote all inflows of cash resulted by those activities that are not primary revenue generating activities of the business. For example, a merchandising company may have some investment in an oil company. Any dividend received from oil company would be termed as dividend income rather than dividend revenue. Other examples of income include interest income, rent income and commission income etc. The businesses usually maintain separate accounts for revenues and all incomes earned by them.

6. Expense accounts:

Any resource expended or service consumed to generate revenue is known as expense. Examples of expenses include salaries expense, rent expense, wages expense, supplies expense, electricity expense, telephone expense, depreciation expense and miscellaneous expense.

Traditional approach

According to traditional approach, the accounts are classified into four types – personal accounts, real accounts, nominal accounts, and valuation accounts. A brief explanation of each is given below:

1. Personal accounts:

The accounts related to real persons and organizations are classified as personal accounts. Examples of personal accounts include John's account, Peter's account, Procter and Gamble's account, Vibrant Marketing Agency's account and City bank's account etc. The business keeps a separate account for each individual and organization for the purpose of ascertaining the balance due from or due to them.

2. Real accounts:

Real accounts are accounts related to assets or properties (both tangible and intangible) owned by a business enterprise. A separate account for each asset is maintained to account for increases and decreases in that asset. Examples of real accounts include cash account, inventory account, investment account, plant account, building account, goodwill account, patent account, copyright account etc.

3. Nominal accounts:

The accounts related to incomes, gains, expenses and losses are classified as nominal accounts.These accounts normally serve the purpose of accumulating data needed for preparing income statement or profit and loss account of the business for a particular period. Examples of nominal accounts include sales account, purchases account, wages account, salaries account, and interest account, rent account, gain on sale of fixed assets account and loss on sale of fixed assets account etc.

4. Valuation account:

Valuation account (also known as contra account) is an account used to report the carrying value of an asset or liability in the balance sheet. A popular example of valuation account is the accumulated depreciation account. Companies maintaining fixed assets in the books of accounts at their original cost also maintain an accumulated depreciation account for each fixed asset. In balance sheet, the balance in the accumulated depreciation account is deducted from the original cost of the asset to report it at its book value or carrying value. Another example of valuation account is allowance for doubtful accounts. In balance sheet, the balance in allowance for doubtful accounts is deducted from the total receivables to report them at their net realizable value or carrying value.

Cash book:

A cash book is a book of accounts in which all the cash transactions are recorded and maintained.

Cash Book is a Book in which all cash receipts and cash payments are recorded. It is also one of the books of original entry. It starts with the cash or bank balance at the beginning of the period. In case of new business, there is no cash balance to start with. It is prepared by all organisations. When a cash book is maintained, cash transactions are not recorded in the Journal, and no cash or bank account is required to be maintained in the ledger as Cash Book serves the purpose of Cash Account.

Objective of Cashbook:

To make systematic and permanent record of all cash and banking transactions.

To control over cash and banking transactions effectively.

To show the position of cash account, bank account, budget expenditure account, advance account and miscellaneous account

SINGLE COLUMN CASH BOOK

All cash receipts are recorded on the debit side and all cash payments are recorded on the credit side. This book is nothing but a cash account.

FORMAT

Format

Debit Side **Single Column Cash Book of ....** Credit Side

Date	Particulars	R. N.	L. F.	Amount Rs.	Date	Particulars	V. N.	L. F.	Amount Rs.

Receipt Number (R.N.) - Serial number of the cash receipt

Voucher Number (V.N.) – Serial number of the voucher for which payment is made.

Ledger Folio (L.F.) – The ledger page of every account in the cash book is recorded against it.

DOUBLE COLUMN CASH BOOK

- Cash book with discount and cash columns.

In this cash book, another column added to record discount allowed on debit side and discount received on credit side.

FORMAT

Dr. **Cash book with cash and discount columns** Cr.

Date	Receipts	R.N	L.F	Amount ₹		Date	Payments	R.N	L.F	Amount ₹	
				Discount	Cash					Discount	Cash

- **Cash book with cash and bank columns.**

In this cash book, separate column on either side of the cash book to record the bank transactions. It is useful when bank transactions are more in number.

FORMAT

FORMAT OF CASH BOOK WITH BANK COLUMN

Dr. Cr.

Date	Particulars	L.F.	Cash ₹	Bank ₹	Date	Particulars	L.F.	Cash ₹	Bank ₹

CONTRA ENTRY

When an entry affect both cash and bank accounts, it is called as contra entry. In contra entries both the debit and credit aspects of a transaction are recorded in the cash book itself.

Example: Cash paid into bank

Bank A/c Dr. xxxx

To Cash A/c xxxx

In the debit side 'To Cash A/c 'will be entered in the particulars column and the amount will be entered in the bank column. In the credit side 'By Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column.

Contra entries are denoted by writing the letter 'C' in the L.F. column on the both sides of the cash book.

TRIPLE COLUMN CASH BOOK

This cash book has three amount columns (cash, bank and discount) on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on credit side.

FORMAT

Page No:___

Dr. (Receipts) CASH BOOK Cr. (Payments)

Date	Description	VN	PR	Disc	Cash	Bank	Date	Description	VN	PR	Disc	Cash	Bank

PETTY CASH BOOK

Petty Cash Book is maintained to record small expenses such as postage, stationery, telegram. A separate column is allotted for each type of expenditure. The difference between the total of the debit items and that of the 'total column' on the credit represents the balance of the petty cash in hand.

Simple Petty Cash Book

Simple Petty Cash Book is just like the main cash book. Cash received by the petty cashier is recorded on debit side and all payments for petty expenses are recorded on credit side in one column.

Format of Simple Petty Cash Book

Specimen of Simple Petty Cash Book

Cash Received	C.B. Folio	Date	Particulars	V.N.	Total Payment ($)

Analytical Petty Cash Book

It is the most advantageous method of recording petty cash payments. In this type, a separate column for each petty expense is provided on credit side. When petty expense is recorded in total payment column, the same amount is recorded in the relevant petty expense column.

Format/Specimen of Analytical Petty Cash Book

Specimen of Analytical Petty Cash Book

Cash Received	C.B. Folio	Date	Particulars	V.N.	Total Payment	Postage	Stationery	Traveling Exp.	Sundry	Office Exp.

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