I Concept of Book Keeping

Bookkeeping is the process of recording your company's financial transactions into organised accounts on a daily basis. It can also refer to the different recording techniques businesses can use. Bookkeeping is an essential part of your accounting process for a few reasons. When you keep transactions records updated, you can generate accurate financial reports that help measures business performance. Detailed records will also be handy in the event of a tax audit.

Types of Book Keeping

Business entities choose from two types of bookkeeping systems, although some entities use a combination of both.

→ The single-entry system of bookkeeping requires recording one entry for each financial activity or transaction. The single-entry bookkeeping system is a basic system that a company might use to record daily receipts or generate a daily or weekly report of cash flow. (For smaller firms)

→ The double-entry system of bookkeeping requires a double entry for each financial transaction. The double entry system provides checks and balances by recording corresponding credit entry for each debit entry. The double entry system of bookkeeping is not cash-based. Transactions are entered when a debit is incurred or revenue is earned. (Larger Firms)

Methods of Book-keeping

→ The cash-based system of accounting records financial transactions when payment is made or recieved. This system recognizes revenue or income in the accounting period in which it is recieved and expenses in the period in which they are paid.

→ The accural-basis method, which is favoured under the generally accepted principals of accounting, records income in the accounting period in which it is earned and records expenses in the period incurred.

Single Entry Account Example :-

Date	Particulars	Note	Debit (Expense)	Credit (Income)	Balance
1 Jan	Starting a business				$5,000
9 Jan	Rent		$1000		$4,000
6 Feb	Invoice Paid			$500	$4,500
14 Feb	Supplies	Furniture	$1,500		$3,000
10 March	Ending Balance		—	—	$3,000

The Accural vs Cash Basis OF Accounting

- In order to properly implement book keeping, companies need to choose which basis of accounting they will follow. Companies can choose between two basis accounting methods: The cash basis of accounting or the accural basis of accounting. The difference between these types of accounting is based on the timing for when the company actually records a sale (money inflow) or purchase (money outflow) in the books.

- In cash - basis of accounting transactions are recorded only when cash is actually recieved or paid.

- In accural - basis of accounting transactions are recorded as when it occured, even if cash is not recieved or paid.

- For example, if you purchased 100 units of a product and will pay for it next month. If the book keeping is based on cash basis, no transaction will be recorded. If the book keeping is based on Accural basis, transaction will be recorded through an accounts payable (liability) account.