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Academic Education CBSE › Class 11 Commerce › Accountancy

Introduction to Accounting

Master the Basics of Accounting for Future Success!

DEFINITION

> Accounting is the systematic recording, reporting, and analysis of financial transactions. It helps businesses track their income and expenses to make informed decisions.

KEY CONCEPTS

Financial Statements

These are formal records of the financial activities of a business, including the balance sheet and income statement.

Double Entry System

This accounting method requires every transaction to be recorded in at least two accounts, ensuring accuracy.

Debits and Credits

Debits increase asset or expense accounts, while credits increase liability, equity, or revenue accounts.

Accounting Cycle

This is the process of identifying, recording, and summarizing financial transactions over a specific period.

Accrual vs. Cash Basis

Accrual accounting records revenues and expenses when they are incurred, while cash basis records them when cash is exchanged.

EXAMPLES

→ Recording a sale of goods on credit.

→ Paying rent for the office space.

→ Calculating total expenses for the month.

MEMORY TIPS

★ Remember 'DEAL' for Debits increase Expenses, Assets, and Losses.

★ Use 'CREEP' for Credits increase Revenues, Equity, and Profits.

★ Visualize the Accounting Cycle as a circular flow of transactions.

COMMON MISTAKES

✗ Confusing debits and credits in transactions.

✗ Neglecting to record all financial transactions.

✗ Failing to differentiate between cash and accrual accounting.

QUICK RECAP

Accounting is essential for tracking financial health in businesses. Key concepts include financial statements, the double entry system, and understanding debits and credits. Mastering these basics sets the foundation for advanced accounting topics.