

A Study on Accounting Types and Its Users

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Abstract: *This paper attempts to know the meaning and types of accounting as well as the users of accounting information. Accounting is identified as the language of business. There are mainly thirteen types of accounting. Accounting information is very useful to internal users of business like management, owners and employees as well as external users like investors, government, customers, financial institutions etc. They use accounting for the interpret and appraisal the financial performance, liquidity, solvency and debt repaying capacity as well as safety of return on capital employed. In a nutshell, accounting plays an indispensable role in business.*

Keywords: Accounting, the process of accounting, types of accounting, users of accounting Information

1. Introduction

Accounting is a system of recording and summarizing business-related financial transactions. As long as the cultures are engaged in the trade or the systematized system of government, record-keeping, accounting and accounting tools are used. Historians theorise that the main reason for the development of writing systems brought out the need to record business and business transactions.



Archaeologists discovered some of the earliest writings on clay from Mesopotamia and Egypt which contained accounts of ancient tax records that were from 3300 to 2000 BCE. In the 13th century when medieval Europe moved toward a fiscal economy, traders depended on bookkeeping in order to oversee numerous simultaneous transactions financed by bank loans.

The double-entry accounting system was invented in 1458 by Benetto Cotrugali, which revolutionized accounting. Double-entry accounting is well-defined as any bookkeeping that includes debit and/or credits entry for transactions. A system of record-keeping was invented by Italian mathematician and Franciscan monk Luca Pacioli (*Image: Right side*) that used a memorandum, journal and book. He wrote numerous books on accounting.

2. What is Accounting?

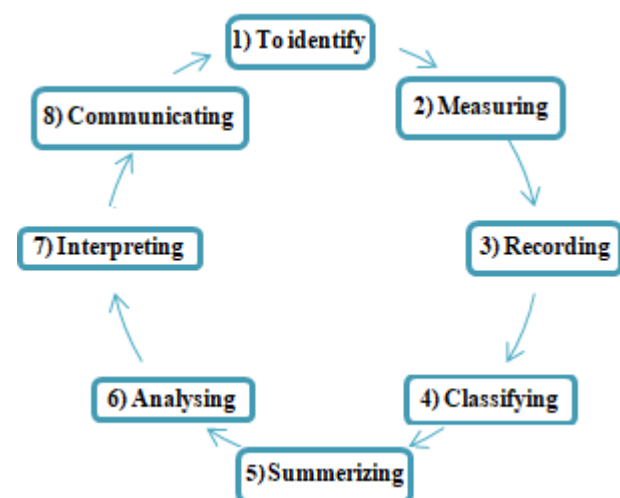
“Accounting is regarding the process that helps to record, summarize, interpret, and communicate data that involves financial transactions.”

“Accounting is the process of recording business-related financial transactions. The accounting process involves

summarizing, analysing and reporting these transactions to agencies, regulators and tax collection units. The financial statement used in accounting is a summary of financial transactions, as well as a summary of the company's operations, financial condition, and cash flows over the accounting period.”

“Accounting is the act or process of financial record keeping. It is the orderly recording, analysis and reporting of the financial transactions of an individual, business or organization. In business, it allows companies to analyse their financial performance.”

3. Process of Accounting



4. Types of Accounting



Accounting has various branches out of that each has a different purpose. Different accounting systems help in gathering and retaining records appropriately so those kinds of data that can be used in numerous reports. This creates a system in the business with several underlying investigations to reveal defects or frauds. Numerous kinds of accounting exist and each accounting is used in different fields.

4.1 Financial Accounting

Financial accounting comprises recording and classifying occupational transactions, and arranging and presenting financial accounts to be used by inside and outside users. In preparing financial accounts, strict compliance with generally accepted accounting principles (GAAP) is perceived. Financial accounting is mainly related to historical data.

4.2 Management Accounting

Management accounting is also known as managerial accounting. This can be well defined as the process of providing financial information and resources for managers to make the decision. Management accounting is used only by the internal team of the organization. In this process, financial information and reports such as invoices, financial balance particulars are shared by the finance administration with the support management. The object of management accounting is to make a better and accurate decision by using this statistical data to control the enterprise, business activities and progress.

4.3 Cost Accounting

Cost accounting can be defined as "Accounting for cost classification and analysis of expenditure because the total cost of any particular unit of production can be ascertained to a reasonable degree of accuracy and at the same time disclose that how much does the total cost. ". Thus cost accounting is the classification, recording, and appropriate distribution of expenditures for the determination of costs of products or services, and for the presentation of suitably organized data to guide management and control.

4.4 Forensic Accounting

Forensic accounting makes use of accounting, auditing and investigative abilities to escort an investigation into the finances of an individual or business. Forensic accounting renders an accounting analysis proper to be used in legal procedures. Forensic accountants are formed to look beyond the amounts and deal with the business actuality of a circumstance. Forensic accounting is usually practised in fraud and defalcation cases to explain the kind of financial wrongdoing in the judiciary.

4.5 Tax Accounting

Tax accounting is a structure of accounting methods. It focused on taxes in place of the presence of public financial statements. The Internal Revenue Code governs the tax accounting which dictates the precise rules. While preparing tax returns of companies and individuals, they must follow these rules. Tax accounting is the accounting tool which is used for tax purposes. It applies to all — individuals, businesses, corporations, and other entities. Those who are allowed to not pay tax must also participate in tax accounting. The purpose of tax accounting is to track the funds associated with individuals and companies.

4.6 Governmental Accounting

Governmental Accounting is also known as public accounting. It refers to the type of accounting system used in the public sector. There are different purposes of the state and privately-owned organisations that's why the need to have a distinct accounting system for the public sector arises. Governmental accounting ensures that the financial condition and performance of public sector institutions are determined within budgetary constraints.

4.7 Social Accounting

Social Accounting is also well-known as Corporate Social Responsibility Reporting and Sustainability Accounting. The social and environmental impact of an entity is measured by social accounting. Social accounting measures the environmental and social impact of an organization. Social accounting measures not only the normal formulation of financial statements but also the impact of firms on stakeholders. Therefore social accounting can be used to decide the answerability of the business. Non-profits and government organizations aim to raise the activities socially and environmentally, at that time social accounting becomes an essential tool for them. Active measurement and use of social accounting permits managers to emphasis on tasks that are particularly significant to participants

4.8 Project Accounting

An accounting practice that is applied to keep track of the financial advancement of a project throughout consecutive business statements. It is a specific category of management accounting. Project accounting is a mattering part of project management. Project accounting can be a source of competing for engagement for project-based businesses such as building organization.

4.9 Fund Accounting

Fund accounting is a method of accounting. It used by nonprofits to track the amount of cash entrusted to various purposes and the use of that cash. The purpose of fund accounting is not to ascertain an entity has made a profit or not. But the focus of fund accounting is on accountability rather than profitability. A nonprofit can use multiple funds, each of which is set up with separate accounts and a balance sheet to allow users to ascertain to what extent the cash is utilised for its planned purpose has gone. For example, the city government may have separate funding for road reconstruction, police, sewage line and schools. By adopting this approach, the organization has more control over the uses for which cash flow is used. Besides, the operating results of a program can be compared to expenditures coming from the respective funds, so that the nonprofit's proponents can evaluate to what extent the entity is meeting its goals.

4.10 Carbon Accounting

Carbon accounting extensively refers to the process that helps to measure the quantity of carbon dioxide released by a unit. This entity can be nations, states, corporations and individuals. There is a global political imperative and indeed an emergency to diminish carbon and other greenhouse gas levels. As nations and multinationals firms with critical resources to decide what action they should take and what to do, what the average company can do, and why companies will take these steps? In addition to environmental imperatives, carbon accounting is increasingly required by governments, or by shareholders and/or investors. Carbon accounting can play a physical role in triple bottom line accounting, which has been increasing in popularity in recent decades, with companies measuring performance in terms of traditional business economic indicators, as well as social and environmental performance.

4.11 Hedge Accounting

Hedge accounting is a method of accounting where entries and its adversary hedge are considered one to adjust the fair value of the security. Hedge accounting seeks to reduce the volatility created by frequent adjustments in the value of a financial instrument, known as fair value accounting or market to mark. This is done by adding a low volatility instrument and a hedge as an entry, which stops the opponent's movements. Since Hedge accounting relates to derivatives, it is used in corporate bookkeeping. Derivatives are usually used to offset the risks related to security to reduce the overall risk. It uses the information from the security and the associated derivative as a single item, reducing the appearance of volatility when compared to reporting each individually.

4.12 Lean accounting

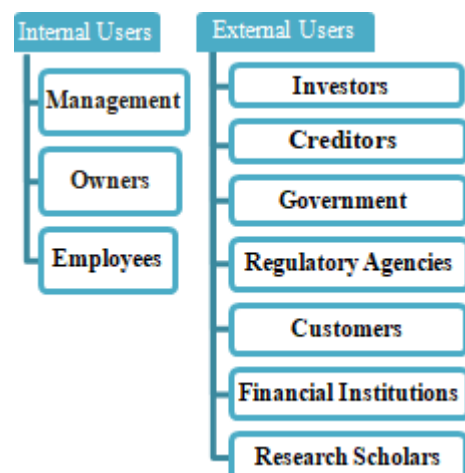
Lean accounting involves such as principles and processes which provide continuous feedback for manufacturers executing lean manufacturing and lean inventory practices. For example, inventory is treated as an asset in traditional accounting. A business can build parts that it next uses into

finished products that are sold to customers. If the focus on producing large quantities of a particular part, the traditional balance sheet will report the inventory produce as an asset, which increases net worth, even if it is in the warehouse on the shelf for a year. Despite, lean accounting considers the fact that unused and unsold inventory in the warehouse can be deleterious to the wellbeing of business as it carries space and needs labour and material costs in order to use to fill a more current order. Lean accounting provides the information that helps for making further the basis for changes and improvements that the lean accounting system can also measure and appraise.

4.13 Environmental Accounting

The relationship between the environment and economy is close and mutually beneficial. Environmental accounting is an important tool for understanding the role played by the environment in the economy. The Environmental Account contains information on the role of natural resources in bringing about economic well-being and the costs incurred by pollution or degradation of resources. The environmental account contains the data on the cost and impact of environmental preservation activities. It helps in improving the effectiveness of one's conservational activities. Environmental accounting is also known as "resource accounting", "green accounting" or "system of integrated economic and environmental accounting" (SEEA).

5. Users of Accounting Information



Accounting is considered the language of business. It conveys life to lifeless business actions. It acts as a channel between accounting information users and transactions inside the business. The accounting information is useful to internal as well as external stakeholders of the business.

5.1 Internal users of accounting Information

Financial data which are important using for taking good decision are provided by accounting to the managers and owners. Some internal users of accounting information and their requirements are briefly discussed below:

5.1.1 Management

Management uses accounting information for assessing and analyzing the financial performance and status so that it can

take crucial decisions and suitable actions with a view to enhancing the business performance in a matter of profitability, financial position and cash flows. One of the foremost roles of management is to establish rules and processes to accomplish the goals of the organisation. For this purpose, management uses accounting information generated by not only financial but also managerial accounting system of the organization

5.1.2 Owners

Owners are not only the legal stakeholders of the business but also the decisive signing authority. They use accounting information intending to track their investment and check their return on investment. They use it for Spotting their capital invested and appraising it's rising or downhill move. Through accounting information, the owners can keep their eyes on the wellbeing of the business

5.1.3 Employees

Employees are interested in knowing how well a company is doing because it can have indications for their job assurance and income. Employees use accounting information for checking the whole financial health and stability of the company because it affects their salary and job security. They use accounting information for the decision making in the matter of shared based payment like ESOPs offered by the employers.

5.2 External Users of Accounting

External users are those persons who are concerned about accounting information of an organization however they are not part of the administrative process of the organization. Outside users have either direct or indirect interest in accounting information. Some external users of accounting information and their necessities are briefly discussed below:

5.2.1 Investors

Investors are always interested in whether their investment is performing well or not. Investors essentially trust the financial statements issued by companies to evaluate the profitability, valuation and risk of their investment. Investors use accounting information intending to ascertain whether an investment is a fit or not for their portfolio and whether they should continue, enhance or reduce their investment. Accounting information is useful not only the present investors but also potential investors. Potential investors check financial statements of the company before investing in the company. Accounting information helps potential investors to know the safety of the investment

5.2.2 Creditors

Creditors are individuals who provide goods on creditor bankers or lenders of money. Logically, these individuals or groups are interested in knowing financial soundness before allowing credit. The growth and prosperity of the company to which credits are increased are extensively viewed by creditors from security and additional credit. Balance Sheet and Profit and Loss Account are helped creditors to know the soundness of the company.

5.2.3 Government

The government assures that the disclosure of accounting information of a company is as per the regulations which are in a position to protect the interest of numerous stakeholders who depend on such accounting information informing their decisions. The government describes and monitors accounting thresholds like sales revenue and net profit to fix the size of each business to ensure that it executes with the suitable employee, consumer and safety regulations.

5.2.4 Regulatory Agencies

There are numerous government agencies and departments like company registrars, company law boards and tax authorities use accounting information. They require accounting information as a base for tax assessment. whether several businesses perform well or not under law-related requirements, for that they use accounting information to evaluate them.

5.2.5 Customers

Customers are buyers of goods or services. They can occur at any stage of a business cycle. They can be manufacturers, manufacturers, retailers, etc. They use accounting information for checking the continuous stock inflow and the movement of the entire production. They also use the accounting information to estimate the financial position of its suppliers which is required to secure a stable source of supply.

5.2.6 Financial Institutions

Bank and financial institutions provide the loan to the business. This is the reason they are interested to know about the creditworthiness of the business. Before lending money, the groups need accounting information intending to analyse the profitability, liquidity, solvency and financial position. They also keep on eye on the results of operation and monetary position of the business with the help of accounting information.

5.2.7 Research Scholars

To know about the financial performance of the business, accounting information is quite useful. Accounting information has immense value for the research scholar who wants to study about the financial performance of a particular firm. To conduct a study in the financial operations of a particular firm, the research scholar has detailed accounting information related to the purchase, sale, expense, cost of materials used, current assets, current liabilities, immovable assets, long-term liabilities and shareholders' funds is required which is available in the accounting records kept by the firm. to conduct a study about the particular firm's financial operations, the research scholar requires accounting information relating to the balance sheet and income statement maintained by the firm which is available in the accounting records.

6. Conclusion

The method or arrangement of keeping accounts is identified as accounting. Accounting has not only its special utility but also its own rules and principles. It is both Science and Art. The role of accounting is essential for any operating business as it helps record the information of income and

expenditure properly, ascertain legal compliance and provide accounting information to internal as well as external users which can be used for deciding for the business. The boundaries of the use of accounting information are expanding, which explains the importance of accounting information.

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