

ICSE Class 9 Commercial Applications – Mechanics and Terminology of Accounting Systems

Chapter 4

4.1 Introduction

Accounting is the systematic process of recording, classifying, and summarising financial transactions to provide useful information for decision-making. Understanding its mechanics and terminology is essential for managing the financial health of any business.

4.2 Meaning of Accounting

Accounting is defined as the **art of recording, classifying, and summarising** business transactions in monetary terms and interpreting the results. It provides insights into a company's **financial position and performance**.

4.3 Objectives of Accounting

Objective	Description
Record financial transactions	Maintain accurate records of all business activities
Determine profit or loss	Assess performance over a specific period
Ascertain financial position	Understand assets, liabilities, and capital of the business

Aid in decision-making Provide data for future planning and control

Ensure compliance Maintain legal and tax obligations

4.4 Basic Accounting Terminology

Term	Definition
Transaction	Any financial activity between two or more parties
Account	A record of all financial transactions related to a person or item
Capital	Money invested by the owner in the business
Assets	Resources owned by the business (e.g., cash, equipment)
Liabilities	Obligations the business must repay (e.g., loans)
Revenue	Income earned from business operations
Expenses	Costs incurred in running the business
Profit/Loss	The difference between revenue and expenses

Journal Book of original entry for recording day-to-day transactions

Ledger Book of final entry containing classified accounts

Debit (Dr) Left side of an account (e.g., assets, expenses increase)

Credit (Cr) Right side of an account (e.g., liabilities, revenue increase)

4.5 Double Entry System of Accounting

Principle	Description
Every transaction has two aspects	One debit and one credit side
Accounting Equation	Assets = Liabilities + Capital
Helps in balancing books	Ensures total debits = total credits

Example:

If goods worth ₹10,000 are purchased in cash:

- Debit: Purchases A/c ₹10,000
 - Credit: Cash A/c ₹10,000
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4.6 Basic Accounting Process

1. **Identifying** financial transactions
 2. **Recording** in the journal
 3. **Posting** to the ledger
 4. **Preparing** the trial balance
 5. **Final accounts** (Trading, Profit & Loss A/c, Balance Sheet)
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4.7 Types of Accounts

Type of Account	Rule for Debit and Credit	Example
Personal Account	Debit the receiver, Credit the giver	Customer A/c, Bank A/c
Real Account	Debit what comes in, Credit what goes out	Cash A/c, Machinery A/c
Nominal Account	Debit all expenses/losses, Credit all incomes/gains	Rent A/c, Commission A/c

4.8 Importance of Understanding Accounting Systems

- Helps in **monitoring business performance**
- Builds **financial discipline**

- Essential for **transparency and audit**
- Aids in **budgeting and forecasting**
- Makes **tax filing and compliance** easier