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Books of Accounts

Books of accounts are the records that document all the financial transactions and events of a business or organization. They form the foundational, systematic record-keeping system used to prepare financial statements (like the balance sheet and profit and loss statement) and ensure compliance with legal and tax requirements.

Types of Books of Accounts

Books of accounts are generally classified into two main categories:

1. Primary Books (Books of Original Entry)

These are the initial entry points where transactions are first recorded in chronological order as they occur.

- **General Journal:** Used to record transactions that do not fit into any specialized subsidiary books, such as initial entries, depreciation, and adjusting or closing entries.
- **Cash Book:** Records all cash receipts and payments, including bank transactions. It serves the function of both a journal and a ledger account for cash.
- **Special Journals (Subsidiary Books):** Used for frequent, similar types of transactions to keep the main ledger uncluttered and efficient:
  - **Sales Book (or Day Book):** Records all credit sales of goods.
  - **Purchases Book (or Day Book):** Records all credit purchases of goods intended for resale.
  - **Sales Returns Book (or Return Inwards):** Records goods returned by customers.
  - **Purchases Returns Book (or Return Outwards):** Records goods returned to suppliers.
  - **Bills Receivable Book:** Records details of all bills of exchange that the business expects to receive.

- **Bills Payable Book:** Records details of all bills of exchange that the business must pay.

2. Principal Book (Secondary Entry)

- General Ledger: This is the main book that contains a classified summary of all the individual accounts (assets, liabilities, equity, revenues, and expenses). Transactions are "posted" or transferred from the journals to their respective accounts in the ledger. The balances in the ledger accounts are used to prepare the trial balance and the final financial statements.

Information Recorded

Books of accounts include detailed records of:

- All sums of money received and expended.
- All sales and purchases of goods and services.
- The assets and liabilities of the business.
- All income, expenses, losses, and gains.

These records are crucial for monitoring business progress, preparing tax returns, and supporting items reported on financial statements during an audit.