a) **Investors:** Accounting information enables investors to identify promising investment opportunities. They need information to decide which investments to buy, retain, or sell, as well as the timing of the purchases or sales of those investments. They also need information to monitor management performance and to assess the ability of the enterprise to pay dividends.

b) **Lenders:** Lenders such as banks and denture-holders need to know about the financial stability of a business that approaches them for funds. They are interested in information that enables them to determine whether their loans, and the related interest will be paid when due.

c) **Suppliers:** Present and potential suppliers are interested in the enterprise as an outlet for their products or services and, if the enterprise is a major customer, they will be interested in assessing the likelihood of the situation continuing. They are interested in information that enables them to determine whether amounts owed to them will be paid when due.

B). Public Group:

a) **Government Agencies:** The three levels of government in India – central, state and local - are interested in the allocation of resources and, therefore, in the activities of enterprises. They also require information in order to regulate the business practices of enterprises, determine taxation policies, and provide a basis for national income and similar statistics.

b) **Employees:** They are interested in information about the enterprise about the enterprise as well as its general operations, stability and profitability.

c) **Customers:** Present, potential and past customers are interested in the financial affairs of an enterprise in deciding how much business to do with it, and in assessing the likely ability of the enterprise to service to the product or to honor warranty agreements.

d) **Security Analysts and Advisers:** They serve the needs of investors by providing them with skilled analyses and interpretation of financial reports. Securities firms to recommend to their clients whether to buy, sell or hold their investments use Analysts' reports.

Basic Terms

- Assets - resources owned by a business
- Liabilities - debts and obligations of the business
- Common stock - stock representing the primary ownership interest in a corporation
- **Expenses:** Expenses are the costs of assets consumed or services used to generate revenues Examples... Store operating expenses, General and administrative expenses, Interest expense

- Auditor's Report

General Guide for Financial Accounting

- Generally
- Accepted
- Accounting
- Principles

Rules of Double Entry System:

There are separate rules of the Double entry system in respect of Personal, real and nominal accounts which are discussed below:

Rules of Debit and Credit

	Personal Accounts	Real Accounts	Nominal Accounts
Debit :	The receiver	What comes in	All expenses and losses
Credit :	The giver	What goes out	All incomes and gains

Figure 2.1 Rules of Double entry

III. CLASSIFICATION OF ACCOUNTS:

A) Personal Accounts: Personal account includes the account of persons with whom the business deals. These account can be classified into three categories

1. **Natural personal Account**–Example: Mohan's account, Sohan's account.
2. **Artificial personal account**-An account recording financial transaction with an artificial person created by law. Example: Account of club, Government, Bank.
3. **Representative Personal account**-An account indirectly representing a person is known as a representative personal account. Example: Salaries outstanding account, prepaid Insurance account.

B) Impersonal Accounts:

1. Real Account: It represents assets like plant and machinery, land and buildings goodwill, etc. As on a particular date, this account shows the worth of the asset.

2. Nominal Account: It consists of different types of expenses or incomes or loss of profit. These accounts show the amount of income earned or expenses incurred for a particular period say a month, a year, etc.

An example of a balance sheet

	(£, 000)
FIXED ASSETS	
Net fixed assets	100
Investments	50
	150
CURRENT ASSETS	
Stocks	25
Debtors	25
Cash	25
TOTAL ASSETS	225
CURRENT LIABILITIES	
Creditors	50
TOTAL ASSETS LESS CURRENT LIABILITIES	175
Long term liabilities	50
	125
CAPITAL AND RESERVES	
Called up share capital	25
Share premium	75
Profit and loss account	25
SHAREHOLDERS FUNDS	125

Relation between the P&L statement and the balance sheet

It is worth looking more closely at the link between the profit and loss account and the balance sheet. How can a company grow – that is, how can it increase its assets? Look again at the identity

Entity: assets = liabilities + shareholder funds

It is clear that the only ways to increase the assets are to increase the liabilities (to borrow) or to increase the shareholders funds. How can a company increase the latter? There are two possibilities: it can issue more shares or it can plough back profits (assuming of course that it is making some). Ploughing back profits is the simplest but not necessarily the cheapest source of long term finance for a company. Also the more a company ploughs back the less, in the short run at least, there will be available for paying dividends.