

In order to fulfill above objectives, accounting provides various types of reports to the interested parties. These reports are generally termed as Financial Statements. These financial statements are based on business transactions.

3. Business transactions

When a business carries out its activities, it requires to exchange resources with various parties. For example, when a business purchases goods on cash basis, cash and goods are exchanged between the business and the supplier. Accordingly, a transaction can be identified as an exchange of resources between a business and other parties. In a business, there can be various types of transactions. Among those transactions, the transactions of which their amounts can be measured in terms of money, are considered in accounting.

Examples :- Sales of goods for Rs 100 000 Monthly salary payment of Rs 50 000 Obtain a bank loan amounting to Rs 300 000 Payment of Rs 5 000 for electricity

In addition to the exchange of resources mentioned above, some events that had occurred in businesses are also considered in accounting.

Examples :- Damage of trade stocks - Rs. 10 000 A trade receivable that becomes a bad debt - Rs. 3 000

These events are also considered as transactions in a broader sense in accounting. Most of the transactions that occur in a business are associated with purchases and sales of goods and providing services. Such transactions could be made either on cash or credit basis. If the value of the transaction is settled at the point of the transaction, it will be considered as a transaction on cash basis. On the other hand, if the settlement is made later, it will be considered as a transaction on credit basis.