

Financial Accounting
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Lecture – 15
2.1 Types of Accounts

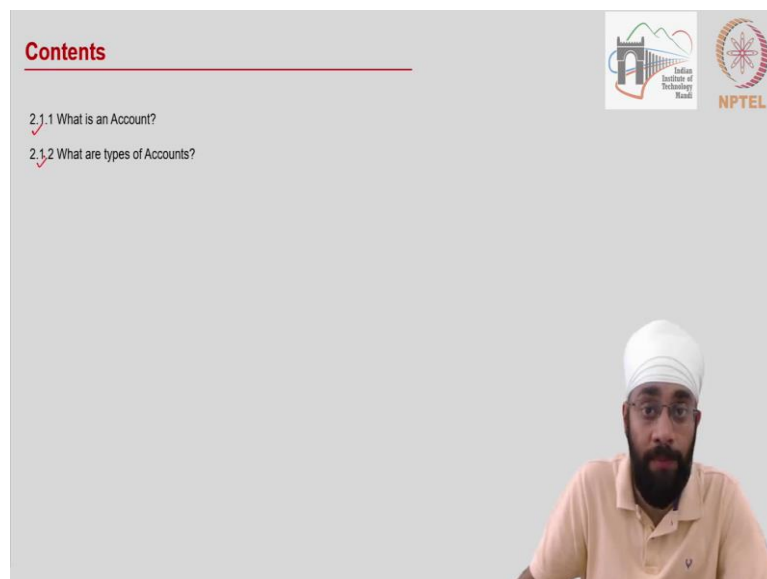
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The slide features a red rounded rectangle on the left containing the text "Financial Accounting" and "Dr. Puran Singh". In the top right corner, there is a circular logo with a gear-like pattern and the text "NPTEL". Below the main content area, a black bar contains the text "2.1: Types of Accounts". At the bottom left, there is a logo for the Indian Institute of Technology Mandi. A video feed of Dr. Puran Singh, wearing a white turban and a light-colored shirt, is visible in the bottom right corner.

The first item in the building blocks of the double entry system is account.

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The slide has a grey background. At the top left, the word "Contents" is written in red. Below it, two items are listed: "2.1.1 What is an Account?" and "2.1.2 What are types of Accounts?". In the top right corner, there are logos for the Indian Institute of Technology Mandi and NPTEL. A video feed of Dr. Puran Singh is visible in the bottom right corner.

Let us understand what is an account; and what are the types of accounts. So, this is the topic of discussion for this video, let us look at these two topics one by one.

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2.1.1 What is an Account?

✓ An account is a record of transactions of similar nature
 ✓ These accounts are not opened in bank

Bank A/C

- ✓ Passbook
- ✓ Online A/C
- ✓ Save
- ✓ Statement

Record kept/maintained by bank

Record of transaction
 Bank ↔ Acc. holder

B. NO. NEP

- A/C Curt 1
- A/C Curt 2
- A/C Curt 3

Purchase 100
 Pay 90
 Purchase 2 50
 Pay 80

An account is a record of transactions of similar nature. Typically, we associate the word account with our bank account. However, in accounting language we are not referring to the word account as our bank account only. Bank account is also an account. So, what is our mental association with our bank account, let us see.

Now, a bank account means that you know there is a passbook that is issued to you, there is an online account which you can access and transact through. You can save your money in this account, you could download a bank statement whenever you like, and you could do analysis of the transactions data from your bank account as well. So, that is the association we have with the bank account. Now, understand that a bank account is really just a record. It is a record that a bank keeps; a record kept or maintained by the bank. Why does the bank maintain this record? Because well, this is you and this is the bank. You go to the bank and say I want to deposit my money. If you want to deposit your money the bank is going to say alright let me let me create an account. So, there is a bank form that you fill. You fill in your name, details, how much money you want to deposit, what type of account you want and you open your bank account. And, then you can go to the bank later and say please give me 10 rupees back out of the 100 rupees I deposited. You can go again and say please deposit 20 rupee more and so on; you do these transactions. Now, you are not the only person who does that; there are lakhs and

crores of people who go to the bank. So, the bank is going to create separate records: record 1, record 2, record 1000 and lakhs for each of its customers. There are so many accounts in a bank. So, essentially an account is also given a unique code, a unique number which is called account number.

The idea is that the bank should be able to uniquely identify you as an account holder and when you come to the bank and you want to deposit or withdraw or get the pass book updated, you want to know the balance in your account then the bank should know which account to pull up. So, they have a unique ID and also with this ID they have associated all your transaction records.

Now, everybody knows this but I wanted to emphasize that all that account does is to help you maintain a record of transactions. Record of transactions that happen between the bank and the account holder; that is exactly the purpose of an account in the business.

Now, business is going to transact with so many different customers. So, business is going to transact with customer 1, customer 2, customer 3. So, businesses have to maintain an account for customer 1, account of customer 1, account of customer 2 and account of customer 3. So, there is a separate account for each customer. When there are different transactions with these customers- for example, this customer purchases goods worth 100 and then it pays you rupees 90, 10 is balance; it again purchases two more of 50 each and pays 80 rupee, then, you need to maintain record of each customer separately. So, each record in business is going to be called an account.

Notice that we do not have a bank account here; it is only a paper record that we create. There is no bank account being created, but we are going to call customer 1 account. Possibly this is a notebook, this is a register. Whenever customer 1 comes to the business and wants to purchase something from the business we are going to write in this book, only for customer 1.

Similarly, we have a register notebook for customer 2 and customer 3 as well. So, we are going to maintain it separately: that is it. An account is a record which is kept to note down, to memorize, to be able to go back and refer to the transaction that you had with that individual, that person or an artificial legal person.

So, summarizing an account is a record of transactions of similar nature, the nature is defined by, in this case, this person- one account for this person. It is different from a bank account, in

the sense that these accounts in the business are not bank accounts, but a record that you keep for each person. Let us move forward.

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2.1.1 What is an Account?

• An account is a record of transactions of similar nature

Asset Account	✓ Furniture Account
Liability Account	✓ Capital Account
Income Account	✓ Sales Account
Expense Account	✓ Salary Account

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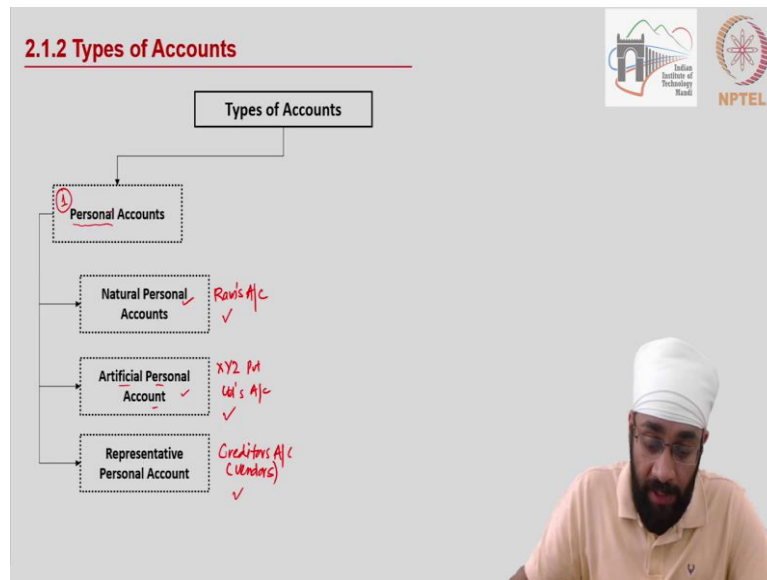
We know these four terms very well – assets, liabilities, incomes, and expenses. Now, for each asset when you maintain a record you are going to call it an asset account. When you maintain the record for a liability you will call it a liability account and so on. Therefore, an account could be maintained for any item and there are you know all items in the business. I keep on saying items, I refer to various items generated in various transactions. It will become clearer as we move forward.

So, an account can be created for asset, liability, income, expense. We know that asset can be of multiple types. There can be noncurrent assets, there can be current assets. Within noncurrent assets you can have land, building, machinery, office furniture and so on. So, you can create an account for each of the types of assets that you can name.

So, all I am saying is all the names of assets, liabilities, income and expenses, all types of assets, liability, income, expenses that you know you can create a record for each of them and you can call it you know asset account, furniture account, building account and so on. So, here are some examples. So, if you have a stock of furniture you call it a furniture account; simply means a furniture record, but account is a convention that we use to refer to the record.

Capital is a liability, when you maintain the record of capital you call it capital account; sales account; salary account. So, whatever the name of the item suffixes the word account to it and you are referring to the record for that account. That is what account is.

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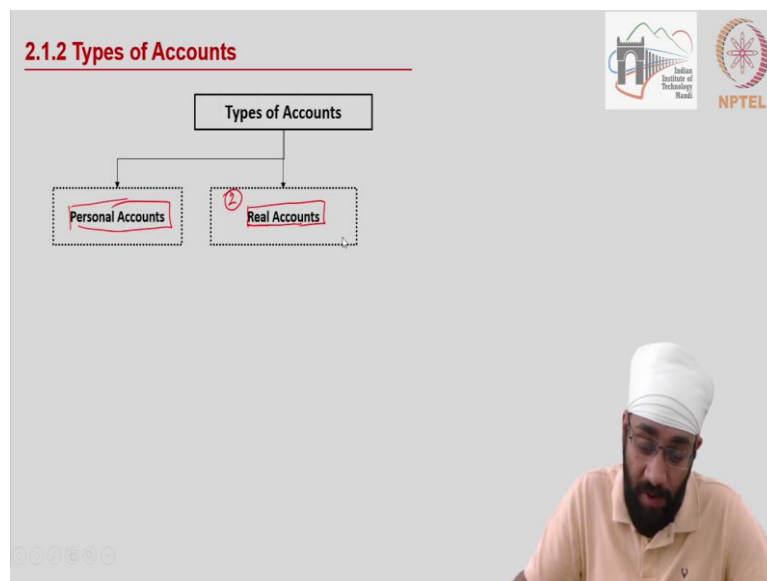
Let us go to types of accounts. Now, the nature of accounts we have a typology based upon nature of accounts and the first type of account is called personal account. This categorization is going to help us understand the double entry system. Please remember that this is the reason why we are doing this categorization.

Now, personal accounts are a record when you maintain a record for a person and the person can be a natural person, real person or can be an artificial person as well. When you are maintaining records for these people then whatever account you are creating, for example, I can create a person say Ram's account; this account is personal account in nature.

So, that is how we categorize the different types of accounts first of all into personal accounts. This is the first category and you can have a natural person which can be a customer's name. So, you can say Ram's account or you can have an artificial person's account which can be XYZ Private Limited's account; this is a company that you are dealing with. And, the third is a representative personal account which means the account that the record that you are trying to create relates to either a natural person or an artificial person; the example of this is creditors. Creditors' account; creditors are the liabilities of business; creditors are the vendors of business, suppliers of business to whom the money is owed by the business.

So, you know this is the first type of account. If you have an account which is maintaining records of transactions with an individual who is real or artificial or you are maintaining records for an item which represents a natural person or artificial person; we call such accounts as personal accounts. The word personal has nothing to do with you having your personal belongings. Try to step away from the English language connotations of the word personal- it simply means that you are talking about a person here.

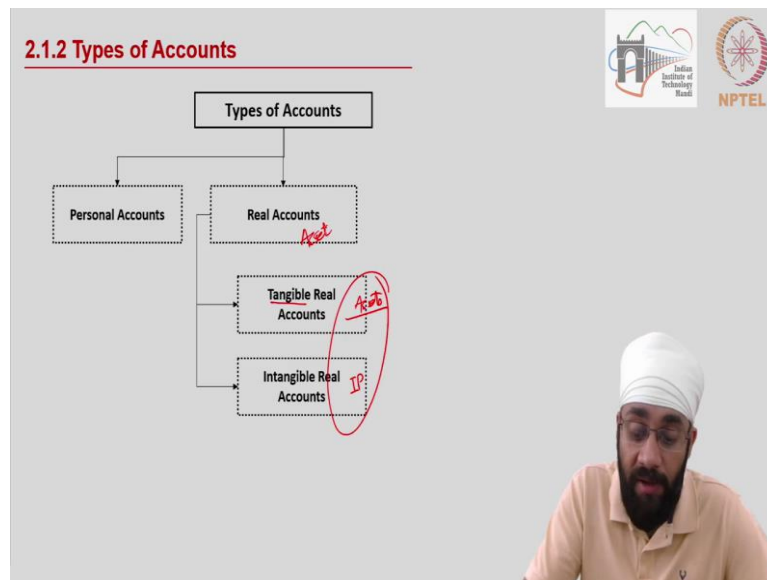
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Let us go to the second category of accounts which is real accounts. Again, the connotation of real is something which exists and so on but that is not the intention here. Just think of these types of accounts as three names that I am telling you- personal account, real account and the third account. These are simply some names given to categories. For example, you know sports persons who have a number on their back on their jersey; Sachin Tendulkar has number 10 written- 10 would have some value for that cricketer, but for us when we see number 10 we know who the person is.

But, that number 10 in counting would mean that 10 is greater than 9 and you know less than 11. But, it does not matter, it does not mean that another cricketer who has number 9 written is an inferior player to somebody who has written 99 on his jersey.

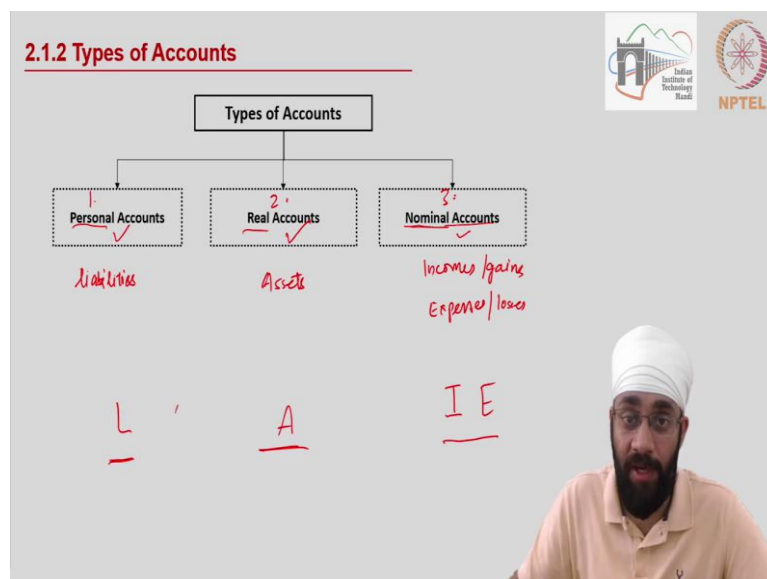
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So, these names are just representative, they do not necessarily mean in a literal sense. So, in real accounts you have tangible real accounts and you have intangible real accounts. This means the items which you can see and feel. If you are creating an account for that for example, all your assets, right furniture, building land all of that can be seen and your intellectual property IP if you are creating a record for that that is going to be an intangible real account.

So, effectively if you are creating an account for an asset that is going to be called a real account in nature.

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Finally, you have nominal accounts. Again as I said do not go by the English language meaning of nominal; it has nothing to do with which accounts are classified as nominal. All that you need to know is that all incomes and all expenses are categorized as nominal accounts.

So, you have incomes and there can possibly be gains as well, expenses and losses. And, you have all the assets here which can be real accounts and you have all the liabilities here which are personal accounts. So, we know four terms: assets, liabilities, incomes and expenses. So, there you go; all assets are real accounts, all liabilities are personal accounts, all incomes and expenses are nominal accounts.

One more time the words personal, real, nominal- do not interpret them as per the English language. You could also memorize this categorization by saying let me call it category 123, it does not matter. The idea is that there are going to be some rules of the double entry system based upon this categorization which we need to learn. So, we need to categorize these categories 1, 2, 3.

Good to go!

I will see you in the next video.