Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities. The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position, and [cash flows](https://www.investopedia.com/terms/c/cashflow.asp).

KEY TAKEAWAYS

* Regardless of the size of a business, accounting is a necessary function for decision making, cost planning, and measurement of economic performance.
* A bookkeeper can handle basic accounting needs, but a Certified Public Accountant (CPA) should be utilized for larger or more advanced accounting tasks.
* Two important types of accounting for businesses are managerial accounting and cost accounting. Managerial accounting helps management teams make business decisions, while cost accounting helps business owners decide how much a product should cost.
* Professional accountants follow a set of standards known as the Generally Accepted Accounting Principles (GAAP) when preparing financial statements.
* Accounting is an important function of strategic planning, external compliance, fundraising, and operations management.

## What Is the Purpose of Accounting?

Accounting is one of the key functions of almost any business. It may be handled by a bookkeeper or an accountant at a small firm, or by sizable finance departments with dozens of employees at larger companies. The reports generated by various streams of accounting, such as cost accounting and managerial accounting, are invaluable in helping management make informed business decisions.

The financial statements that summarize a large company's operations, financial position, and cash flows over a particular period are concise and [consolidated reports](https://www.investopedia.com/terms/c/consolidatedfinancialstatement.asp) based on thousands of individual financial transactions. As a result, all professional accounting designations are the culmination of years of study and rigorous examinations combined with a minimum number of years of practical accounting experience.