UNIT-1

01 January 2024 07:35 PM

UNIT - 1----------> **MEANING AND SCOPE OF ACCOUNTING**

INTRODUCTION

=> these two were examples of economic activities

transaction

A business , performance of
An act , an agreement

--> an individual invest RS.200000
--> purchases goods for RS.115000
-->sold goods for RS.147000

event

Happening as a consequence
Of transaction (s), a result

--> earning of RS.42000 surplus
Is an event
--> inventories in hand

ACCOUNTINH = also called language of business

MEANING OF ACCOUNTING

DEFINITIONS --------->

Accounting is the art of recording , classifying and summarizing

In terms of money

Transaction and events

Of financial character & interpreting the result thereof

PROCESS--------->

1. Identify event / transaction
2. Record it in journal (primary)
3. Transfer it in ledgers (secondary)
4. Summarize financial statements

MEASUREMENT------>

Transactions and events are to be measured in terms of money
At the ruling currency of a country

E.g.: rupee in India , dollar in USA , etc.

PROCEDURAL ASPECTS

1. Generating financial information
2. Using the financial information

=> 1. generating financial information

1. recording---------->

=>basic function = sales bill , pass book , salary slip etc.
=>recording is done in a book called journal.
=>journal is divided into several subsidiary books.

2.classifying----------->

=>systematic analysis of recorded data.

=>book containing classified information is called ledger.

3.summarising----------->

=> preparation of financial statement:

1. Trial balance
2. Profit & loss account
3. Balance sheet
4. Cash flow statement

4.analysing---------->

=>methodical classification of data given in financial statements.
=>figures given in FS will be helpful if they are in a simplified from.
=>for e.g. -->>all items relating to fixed assets put at one place while all items relating to current assets are put of other place.

5.interpreting---------->

=>in a manner that will enable the end-users to make a meaningful judgment about financial condition & profitability of the business.

6.communicating--------->

=> transmission of summarized , analyzed & interpreted information to the end users to make rational decision 's

=> it is done through preparation & distribution of accounting reports.

=>2.using the financial information.

1. Investors
2. Employees
3. Lenders
4. Suppliers
5. Customers
6. Government
7. public

=> accounting data is more useful if it stresses on substance rather then technical forms.
=>information is useless & meaningless unless it is relevant to users decision.
=>information should be free of any biases.

OBJECTIVE OF ACCOUNTING

S	A	A	P	TO KNOW
Systematic recording of transactions	Ascertainment of results	Ascertainment of financial position	Providing information to various users	To know solvency position

Book-keeping:
Journal , ledger
And trial balance

Trading , profit
& loss account

Balance sheet

Financial reports

EVOLUTION OF ACCOUNTING

=> accounting finds its roots as early as:

Egyptian ------4000 BC

=> Egyptians used some form of accounting for their treasuries.

=> the in - charge had to send day - wise reports to the WAZIR.

=> and wazir used to send monthly reports to the KING.

China------2000 BC

=> China started using sophisticated form of government accounting.

Romans------700 BC

=> romans using memorandum / daybook wherein receipts and payments were recorded.

India------300 BC

=> in India Chanakya wrote the book arthashastra which contains few detailed aspects of maintaining books of accounts.

Luca pacioli's --------------->>>>> (father of accounting)

1.) his book summa de arithmetical , geometries , proportion at proportionality is considered as the first book based on double entry book kipping

2.) he used the terms credit & debit in his books.

3.) he says all entries have to be double entries if you make one creditor , you must make some debtor.

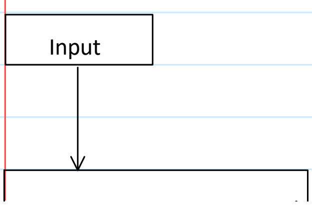
=> in it's oldest from , wealthy men employed stewards to manage their property.

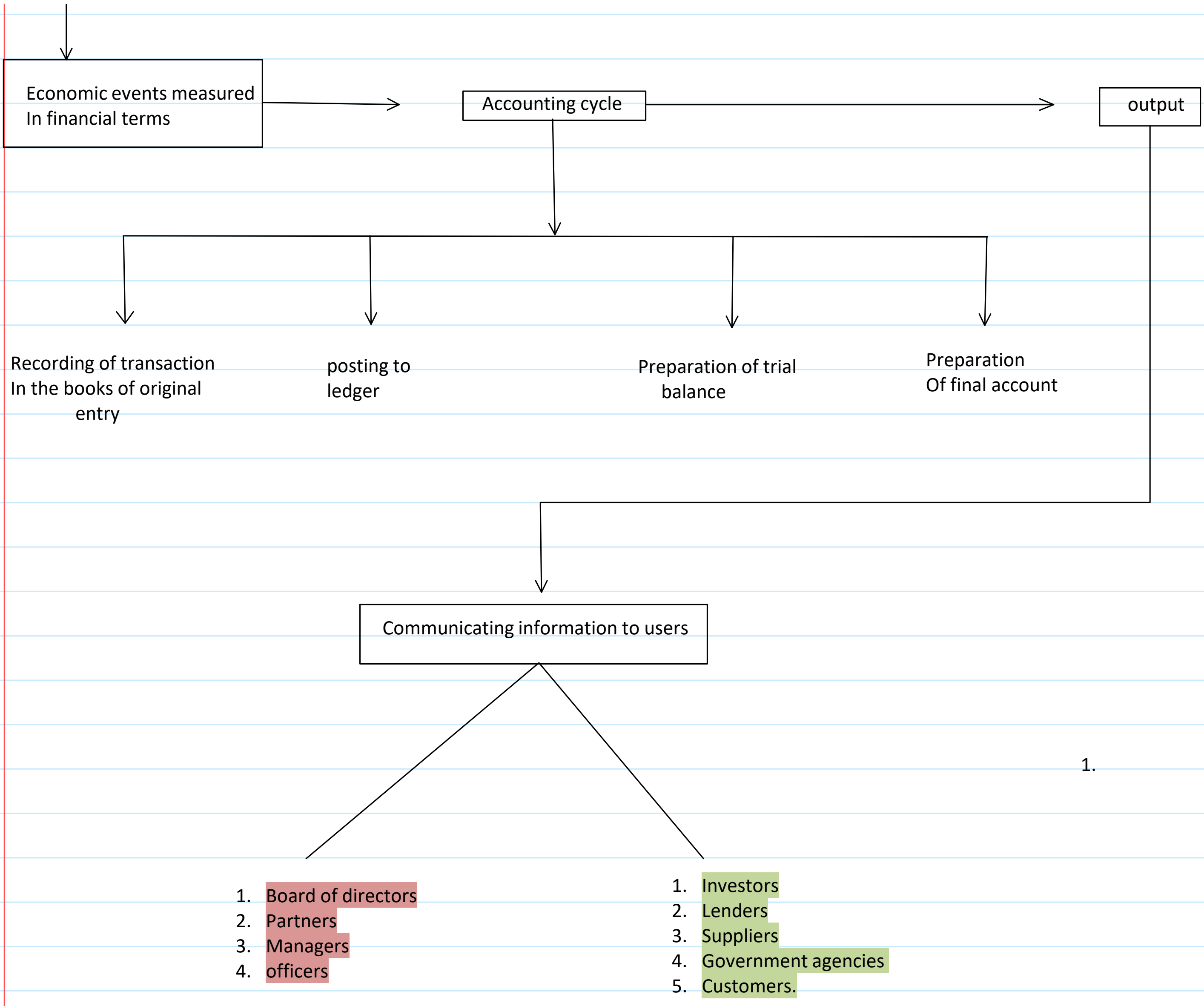
=> the stewards periodically turned towards the function of accounting which rooted the stewardship accounting

=> the idea of financial accounting emerged with the concept of joint stock company and divorce of ownership from the management.

PROCESS OF ACCOUNTING

Identification of transaction





FUNCTIONS OF ACCOUNTING

1.measurement---------->

=>Measures past performance & depicts current financial position.

2.government regulation---------->
& taxation

=>provides necessary information to the government to exercise control & in collection of tax revenues.

3.decision making---------->

=>It provides relevant information to users for decision making.

4.forecasting ---------->

=>forecasting future performance & financial position.

5.control---------->

=>identifies weaknesses & provides feedbacks to check weaknesses.

6.comparison evaluation---------->

=>performance is assessed in relation to targets disclose information regarding accounting policies & contingent liabilities for predicting Comparing.

LIMITATIONS OF ACCOUNTING

1.)=> balance sheet cannot reflect value of factors like loyalty.

2.)=> balance sheet shows the position as on day not for future day.

3.)=> ignores changes money factors like inflation etc.

4.)=> accounting estimates depend on personal judgment.

5.)=> accounting principles may conflict each other.

6.)=> only considers those items which are of the nature of monetary assets.

7.)=> different accounting policies for same item leads to manipulations.

BOOK - KEEPING

=> book-keeping is an activity

↓

Concerned with the recording
Of financial data

↓

Relating to business operations

↓

In a significant and orderly manner.

OBJECTIVES

=> OBJECTIVES

Complete recording of transaction

Complete & permanent record Of all transactions in systematic & logical manner.

Ascertainment of financial effect on the business

Ascertains combined effect of all Transactions upon financial position Of business.

DISTINCTION BETWEEN

BOOK - KEEPING		ACCOUNTING
=> recording of transactions.	meaning	=>summarising of recorded data.
=> base for accounting.	constitutes	=> language of business.
=> does not form part of this process.	Financial statements	=> prepared in this process.
=> cannot be taken.	Managerial decisions	=>taken.
=> no sub - field.	Sub - field	=> several sub-fields like financial accounting or MGT accounting.
=> cannot be ascertained.	Financial position	=> ascertained based on accounting reports.

SUB - FIELDS OF ACCOUNTING

1.financial accounting---------->

=>preparation & interpretation of financial statements.
=>historical in nature as records transactions already occurred.
=>final step is preparation of profit & loss account & balance sheet.

2.management accounting---------->

=>different ways of grouping information & preparation reports as desired by managers for discharging their function.
=>it is concerned with internal reporting to managers.
=>to discharge functions of stewardship , planning ,control & decision making ,management needs variety of information.

3.cost accounting---------->

=>process of accounting for cost. which begins with recording of income & expenditure ends with preparation of periodical statements & reports for ascertaining & controlling costs.

4.social responsibility accounting---------->

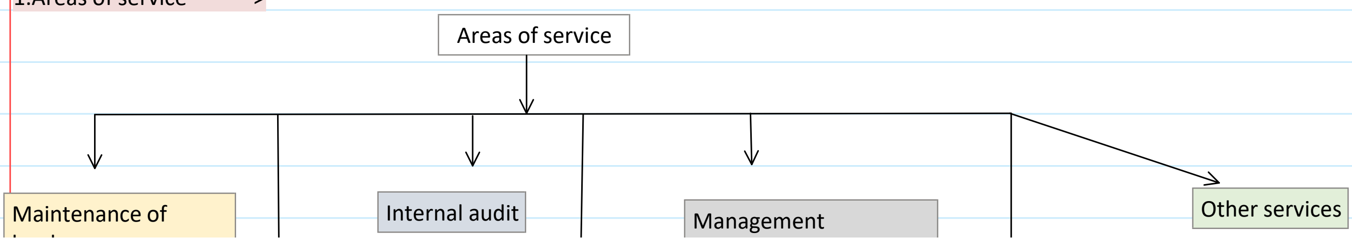
=>concerned with accounting for social costs incurred by the enterprise & social benefits created.

5. H.R. accounting---------->

=>attempt to identify , quantify & report investments made in human resources not presently accounted under conventional accounting practice.

ROLE OF AN ACCOUNTANT

1.Areas of service--------->



Maintenance of books of accounts

Statutory audit

Internal audit

taxation

Management accounting And consultancy services

Financial advice

Other services

2. CA in industry--------->

=> he works with the functional departments and translates the organization's aims in terms of financial expectations.

3. CA in public sector enterprises---------->

=> it is the duty of the accountants to prepare the accounts and reports of public corporations to enable the general public to understand the FS.

4. CA in framing fiscal policies--------->

=> accountants have a positive role to play the determination of proper fiscal policies and advancement of trade , commerce and industry.

5. CA and economic growth--------->

=> accountants have to accept a positive role and do their best to encourage efficiency in businesses.

UNIT-2

05 January 2024 09:42 AM

UNIT - 2 **ACCOUNTING CONCEPTS , PRINCIPLES AND CONVENTIONS**

INTRODUCTION

To avoid confusion & To achieve uniformity

Accounting process is applied within the conceptual framework of 'GAAP'

=> these GAAPS are the backbone of the accounting information system, without which the whole system cannot even stand.

=> accountant also adheres to various accounting standards issued by the regulatory authority for the standardization of accounting policies.

ACCOUNTING PRINCIPLES

=> accounting principles are basic norms and assumptions on which the whole accounting system has been developed and established.

=> satisfy following conditions:

1. Based on real assumptions
2. Simple understandable
3. Followed consistently
4. Reflect future predictions
5. Informal for The users

ACCOUNTING CONVENTION'S

=> emerge out of accounting practices adopted by various
organizations over a period of time.

=> may be changed to improve the quality of accounting information.

=> need not have universal applications.

CONCEPTS , PRINCIPLES & CONVENTIONS

1. entity concept---------->

=> business is a separate identify from its.

=> helps in keeping business affairs free from the influence of personal affairs of owner.

2. money measurement concept---------->

=> only those transactions which can be measured in terms of money are recorded.

=> E.g. = employees are assets but their measurement is not in monetary terms so not included in books.

=> measuring unit for money = currency of ruling country.

3. periodicity concept---------->

=> also called as concept of definite accounting period.

=> as per 'going concern' concept an indefinite life of entity is assumed.

=> periodicity concept facilitates in :

A. Comparing financial statements of different periods.
B. Uniform & consistent accounting treatment.
C. Matching periodic revenues with expenses.

4. accrual concept---------->

=> effects of transactions & other events are recognized on mercantile basis.

=> accrual means recognition of revenue & costs as they are earned or incurred.

5. matching concept---------->

=> all expenses are matched with revenue of that period.

=> based on accrual concept.

6. going concern concept---------->

=> Preparation of financial statements based on normal assumption that:

A. An enterprise is a going concern.
B. Will continue in operation for the foreseeable future.

7. cost concept---------->

=> value of asset is determined on the basis of historical cost (acquisition cost)

=>limitations:

A. In inflationary situation acquisition cost looses its relevance.
B. Historical cost based accounts may loose comparability.
C. Many assets do not have acquisition costs.

E.g. = human assets

8. realization concept---------->

=> it closely follows cost concept.

=> change in value of asset is recorded only when business realizes it.

=> now - a - days revaluation of assets has become a widely accepted practice.

=> adjust such change through revaluation (capital) reserve.

9. dual aspect concept---------->

=> every transaction or event has two aspects.

E.X. 1.=> a new machine is purchased paying RS 50000 in cash [A↑ A↓].

2.=> cash paid to repay bank loan to the extent of RS 50000 [A↓ L↓].

10. conservatism concept---------->

=> do not anticipate income provide for all possible losses.

=> for this concept 3 qualitative characteristics namely

i. Prudence.
ii. Neutrality.
iii. Faithful representation.

CONCEPTS PRINCIPLES & CONVENTIONS - AN OVERVIEW

11. consistency concept---------->

=> to achieve comparability follow accounting policies consistently from one period to another.

=> change in accounting policy in any circumstances:

1. To bring books of account's in accordance with issued accounting standards.
2. To compliance with provision of law.
3. To reflect more true & fair picture.

12.materiality concept---------->

=> other concept's are ignored if effect is not considered material.

=> it is an exception of full disclosure principle.

=> all items having :

1. significant economic effect = disclosed.

2. insignificant economic effect = not to be disclosed

=> it is a subjective term based on judgment.

=> depreciation on small items like books , calculator = 100% in year of purchased though used for more than one year.

=> materiality depends:

1. Size
2. Nature
3. Level of information
4. Level of person making the decision

Item material to one person may be immaterial to another person.

FINANCIAL STATEMENTS

1. understandability---------->

=>Financial statement must be readily understandable by users.

=>option that users have a reasonable , knowledge of business & economic activities & accounting.

2. relevance.---------->

=> information must be relevant to the decision - making needs of users.

=> influences economic decision of users to evaluate past , present , or future events.

3. reliability---------->

=> information is free from material misstatement.

4. comparability---------->

=>to identify trends in its financial position , performance & cash flows.

5. materiality---------->

=> information is material if its misstatements (i.e. omission or erroneous statements) could influence economic decisions of users.

6. faithful representation---------->

=> balance sheet should represent faithfully transactions & other events that result in assets , liabilities & equity which meet recognition criteria.

=> items that are uncertain should not be recognized.

E.X. => internally generated goodwill

7. substance over form---------->

=> rights & beneficial interest are transferred but documentations & legal formalities pending.

8. neutrality---------->

=> financial statements are not neutral if they influence decision to achieve a predetermined result.

9. prudence---------->

=> Includes a degree of caution in making estimates required Under conditions of uncertainty such that:

1. Assets
2. incomes

=> are not overstated & liabilities or expenses are not understand.

10. full , fair & adequate disclosure---------->

=> full disclosure nothing should be omitted.

=> fair disclosure show true & fair view.

=> disclosures provided in the form of footnotes , annexure etc.

11. completeness---------->

=> to be reliable information must be complete within the bounds of materiality & cost.

=> omission can cause in formation to be false or misleading & thus unreliable.

Unit-3

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UNIT - 3

CAPITAL & REVENUE EXPENITURES & RECEIPTS.

introduction

Why to analyze expenditures as capital & revenue ?

=> for ascertaining the periodical business results the nature of transactions are to be analyzed that whether they are of capital or revenue nature:

a. Profit & loss a/c (for revenue transactions)

b. Balance sheet (for capital transactions)

Capital & revenue receipts

1. revenue receipts---------->

=> Receipts obtained in course of normal business are revenue receipts.

e.g. => sale of goods , receipts of interest.

=> credited to profit & loss a/c

2. capital receipts---------->

=> Receipts which are not revenue in nature are capital receipts.

e.g. => sale of fixed asset.

=> carried to balance sheet.

Capital & revenue expenditure

1. revenue expenditure---------->

=> expenditures related to normal business
i.e. Day to day operations are revenue expenditures.

e.g. => monthly salary , rent , etc.

=> debited to profit & loss a/c

2. capital expenditure---------->

=> expenditures that generate enduring benefits over more than 1 year are capital expenditures.

e.g. => purchase of fixed asset , demolition expenses.

=> carried to balance sheet.

Key differences

Capital exp.	Revenue exp.
=> Long - term period	=> current period
=> Enhancing capacity	=> maintaining capacity
e.g.=> purchase of machinery	e.g.=> repairs & maintenance

Considerations in determination

REVENUE EXPENDITURE	CAPITAL EXPENDITURE
1. nature of business	
=> for a furniture dealer purchase of furniture is revenue in nature.	=> for a other dealers purchase of furniture is capital in nature.
2. recurring nature of expenditure	
=> frequency of expenses are recurring.	=> expenses are not recurring.
3. purpose of expenses	
=> repairs in normal course of maintenance.	=> major repairs that increases its productive capacity.
4. revenue generating capacity	
=> it generates revenue / income for current period only.	=> it generates revenue / income over more than one accounting period.
5. materiality of amount involved	
=> relatively lower or immaterial.	=> high or material.

Unit-4

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UNIT - 4

CONTINGENT ASSET & CONTINGENT LIABILITIES

Contingent assets

Meaning ------>

A possible asset

↓

That arises from past events

↓

Whose existence will be confirmed only after

or

occurrence | Non occurrence

Of one or more uncertain future events

↓

Not wholly within control of an enterprise.

E.X. => a claim pursuing through legal process , where outcome is uncertain.

Recognition---------->

=> as per concept of prudence contingent asset should not be recognized.

=> because , uncertainty in realization of claim results in unrealized claim.

Disclosure---------->

If inflow of economic benefits.

Are not probable

=> Don't disclose in

Financial statements

Are probable

=> disclose in the report

Of approving authority

Contingent liabilities

Meaning-------> A possible obligation

That arises from past event

Whose existence will be confirmed only after

or

occurrence

Non occurrence

Of one or more uncertain future events

Not wholly within control of an enterprise.

=> a present obligation that arises from past events.

=> but is not recognised because:

[i.] => not probable outflow of resources embodying economic benefits required to settle obligation.

[ii.] => a reliable estimate of the amount of obligation cannot be made.

Disclosure------->

=> disclosed by way of notes , unless possibility of outflow is remote.

Remember -------->

=> difference between liability and contingent liability.

Present obligation

Possible obligation

provisions

Meaning----->

A present liability of uncertain amount

Which can be measured reliably

By using substantial degree of estimation.

Recognition criteria ------>

a. => enterprise has present obligation arising form past events: an outflow of resources embodying economic benefits is probable.

and

b. => a reliable estimate CAN be made of the amount.

Disclosure---->

=> shown in the balance sheet.

Difference between contingent liability and provision.

PROVISION	CONTINGENT LIABILITY
1. definition	
=> provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	=> a contingent liability is a possible obligation that may or may not occur depending on the occurrence or non-occurrence of one or more uncertain future events.
2. recognition criteria	
=> a provision meets the recognition criteria.	=> a contingent liability fails to meet the same.
3. when is it recognized ?	
=> provision is recognised when: a.---> an enterprise has a present obligation arising form past events; an outflow of resources embodying economic benefits is probable. b.---> a reliable estimate can be made of the amount of the obligations.	=> present obligations that do not meet the recognition criteria because either: a.---> it is not probable that settlement of those obligations will require outflow of economic benefits . b. ---> the amount cannot be reliably estimated.
4. disclosure.	
=> provision is recognized in the balance sheet.	=> contingent liability is disclosed by the way of notes.