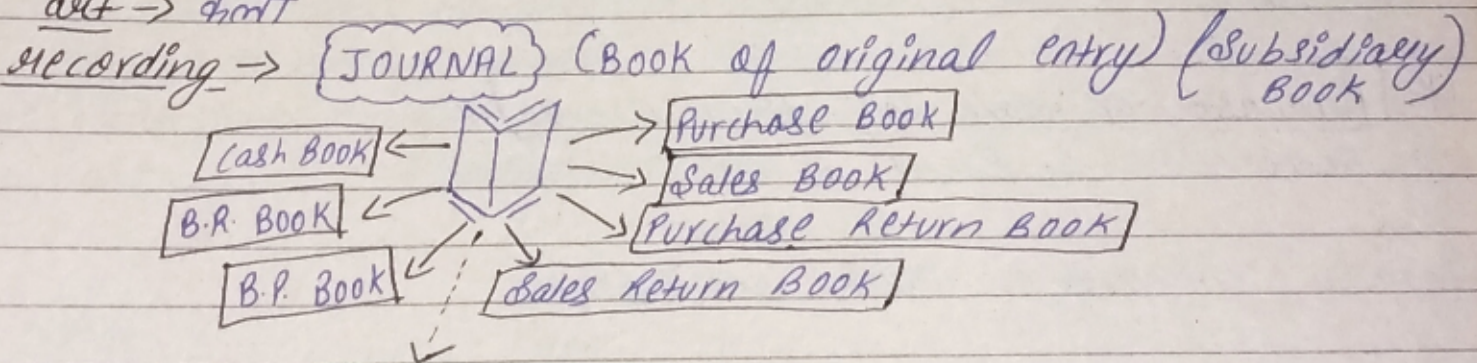


# Ch-1 Theoretical Framework (7-10 Marks)

## Unit 1 Meaning & Scope of Accounting

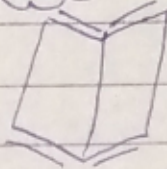
1. Accounting is an art of recording, classifying and summarising in a significant manner and in terms of money, transactions & events which are, in part at least, of a financial character, and interpreting the result thereof.

art → art



### Journal Proper

classifying → **ledger** (Principal Book)



Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.

Summarising → Trial Balance

\* Transactions & Events

performance of an act

Result of transaction

e.g. → Purchase of goods, Sale of goods, Capital Invt., Expenses incurred etc.

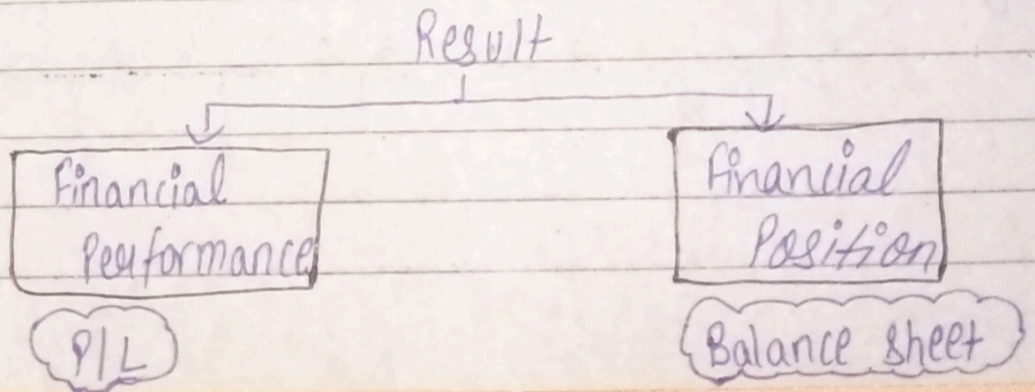
e.g. → Profit / Loss  
Closing Inventory left

\* Purchase or sale of fixed Assets?

→ Transaction & Event both.

Financial character → related to Business

Interpreting the results → conclusion (निष्कर्ष)



## 2. Functions of Accounting [given by Accounting Principle Board (APB) of American Institute of Certified Public Accountant (AICPA)]

- Recording
- Classifying
- Summarising
- Analysis & Interpretation
- Communicating to the users  
↳ "Details later"

## 3. Objectives of Accounting

- Systematic recording of transactions
- Ascertainment of results and financial positions.
- Providing information to users for rational decision making.
- To know the solvency position.

## 4. Evolution of Accounting

- as early as 4000 B.C [Egyptians]
- Romans used to prepare daybooks, where receipt & payments were recorded (700 B.C to 400 A.D)
- Kautilya (Minister in Chandragupta's Kingdom) wrote book named Arthashastra.

↳ (described how accounting records to be maintained)

→ 1494 - Double Entry Book Keeping (First Book)

Malik se dena  
(owed to the proprietor)



Luca Pacioli

in Venice



(Father of Accounting)

→ Debit :- It comes from Italian debito (which comes from Latin debita)

Credit :- It comes from Italian credita (which comes from Latin credo)  
[Belief / trust (in proprietor)] मालिक से लेना

6. Functions of Accounting - Different from (2)

- a) Measurement :- It measures the past performance of the business.
- b) Forecasting :- It helps in forecasting future performance using past data.
- c) Decision Making :- It provides relevant information to the users to help them in decision making.
- d) Comparison & Evaluation :- It provides basis for comparison (inter firm or intra firm) and evaluates result. (two B/S) P vs P  $\left\{ \begin{array}{l} 2010 \\ 2020 \end{array} \right\}$  (same B/S)
- e) Control :- It identifies weakness in the operational system of the business.
- f) Govt. Regulation & Taxation :- It provides necessary information to the govt. and helps in collection of taxes.

7. Limitations of Accounting

- a) Accounting is not fully exact.  
→ It is based on Estimates (अनुमान)
  - ↳ provision for doubtful debts
  - ↳ Estimated useful life of asset etc.
- b) Accounting ignores qualitative aspects.
  - ↳ Honest, disciplined, Hard working
  - ↳ कर्म चर

→ Stewardship Accounting = root of financial accounting system

मुंशी (Purana concept है जब बड़े-बड़े राजा एक व्यक्ति को बोलकर Recordings कराते थे)

5. Subfields of Accounting

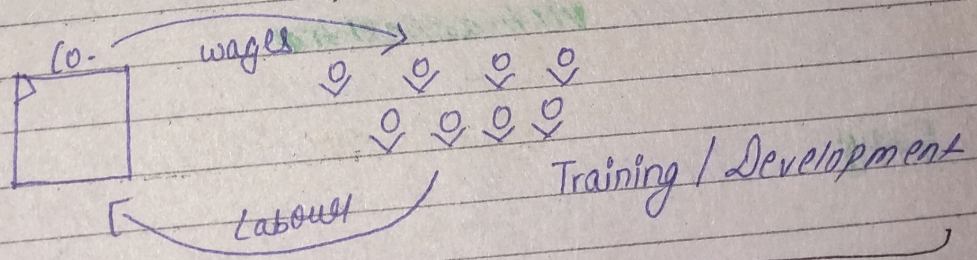
i) Financial Accounting → to ascertain profit or loss  
Profit/Loss निकालना

ii) Management Accounting → it helps the management in decision making.

iii) Cost Accounting → To ascertain cost of goods produced at lowest price Lage  
helps in fixation of price. Cost + Profit

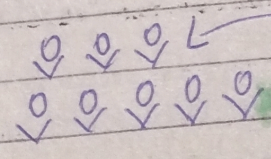
iv) Social Reporting Accounting → Social Cost + Social Benefits  
दुःख Carbondioxide Park

v) Human Resource Accounting → Reporting investment in human resource



BlS

Assets



Problem  
????

c) Accounting ignores price level changes

Machine — 1,00,000  
cost

~~M.V - 1,02,000~~  
~~M.V - 1,10,000~~  
ignore

d) These are occasions when accounting principles conflict with each other.

e) Window Dressing - Manipulation in books of Accounts.

Imp  
8. Book-Keeping

Accounting process : Identification → Measurement → Recording →  
Classifying → Summarising → Analysis →  
Communicating

→ Book-Keeping is an activity concerned mainly with recording of financial data relating to business operations in a significant and orderly manner.

→ Objectives of Book-Keeping

- a) Complete recording of transactions.
- b) Ascertainment of financial effect on the business.

(जत गत Financial effect पस रतत ए वा पसत  
wala ए एतत Financial position तं गत पतत पतत एतत ए)

Imp  
→ Book-Keeping vs Accounting

Book-Keeping	Accounting
1. It is concerned with recording the transactions.	It is concerned with summarising the recorded transaction.

2: It is a primary stage.

Accounting is a secondary stage. i.e., it begins where book keeping ends.

3: Financial statements do not form part of this process.  $(P/L + Bal)$

Financial statements are prepared in this process.

4: There is no sub-field of Book-keeping.

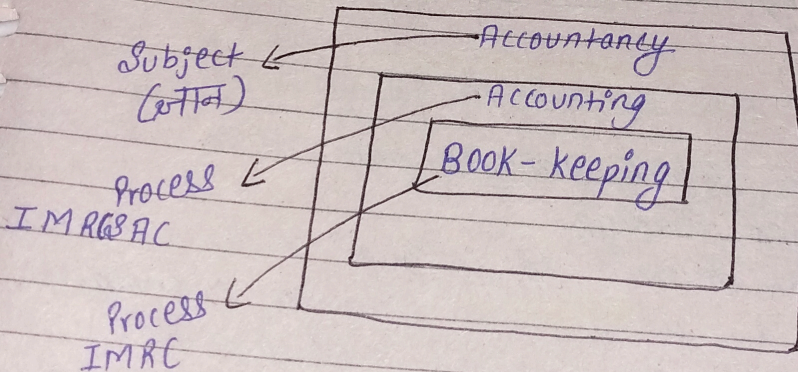
There are sub-field of accounting.

5: Managerial decisions cannot be taken on its basis.

Managerial decisions can be taken on its basis.

6: It is performed by junior staff (which requires no specialised skills)

It is performed by senior staff (which requires specialised skills)



### 9. Users of Accounting Information

- Internal users: access to the information
- External users: do not have access to information

- e) Investors - they provided capital to the bus.
- b) Employees - their growth is directly related to growth of organisation.
- c) Lenders - to assess credit worthiness  
उधार देने की शक्ति
- d) Creditors (Suppliers) - Timely payment of dues
- e) Customers - Stability of company, timely delivery of goods
- f) Government - Taxation
- g) Public - Their contribution to the economy as whole
- h) Management - helps in decision making

10. Relationship of Accounting with other disciplines

i) Accounting & Economics

- Accounting is a system, which provides data to the users to help them in decision making.
- Economics is viewed as science of rational decision making.
- However, there exists a wide gulf <sup>(difference)</sup> between economists' and accountants' concept of capital and income.
- At the macro level, Accounting provides the database over which economic decision models have been developed.

ii) Accounting & Statistics

- The use of statistics in accounting can be appreciated



better in the context of the nature of accounting records  
→ In Accounts, all the values are important individually because they relate to business. However in statistics values are represented as an aggregate.

→ In Accounting, number of financial and other ratios are based on statistical methods. Statistical methods are helpful in developing accounting data & its interpretation.

### iii) Accounting and Mathematics

→ Knowledge of arithmetic and algebra is a pre-requisite for accounting computations.

e.g.:- Interest, annuity etc.

→ Presently graphs & charts are also used for communicating accounting info.

→ In modern era, many accounting transactions are recorded in the matrix form.

### iv) Accounting and Law

→ e.g.:- The Indian Partnership Act, 1932

↳ provisions are there and accounting is done on the basis of these provisions.

### v) Accounting and Management

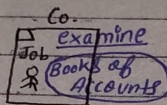
→ Accounting information helps the management in decision-making.

## 11) Role of Accountant in the society

a) Maintenance of Books of Accounts

b) Statutory Audit - Co. Financial statement  
CA → True & Fair view

c) Internal Audit - It is a management tool where by internal auditor examines the accounting transactions.



d) Taxation - Direct & Indirect Taxation  
↓  
Income Tax → GST

e) Management Accounting & Consultancy service

↓  
Decision Making

↓  
Co. 100 crore

→ 1%

CA  
↓  
consultancy

f) Financial Advice

→ Investments

→ Business expansions

→ Insurance

→ Investigations

→ Pension schemes etc.

g) Other services

→ Secretarial work

→ Company formation

→ Cost Accountants

→ Share registration work

→ Arbitrations

etc.

settle a dispute

## \* Chartered Accountant

→ In Industry

Top level : CAs

- Budgeting, Cost Accounting, Taxation, Management accounting

→ In Public Sector Enterprises

- CA prepares Accounts and reports of these enterprises.

→ In framing fiscal policies

- CA has important role in determination of fiscal policy (related to income & expenses)

→ In economic growth

- They help in increasing business efficiency

## \* Unit 2 Accounting Concepts, Principles & Conventions

→ Accounting principles refers to basic norms, general rules for accounting to avoid confusion and to achieve uniformity.

Imp

→ Accounting principles must satisfy the following conditions:-

- They should be based on real assumptions.
- They must be simple, understandable and explanatory.
- They must be following consistently.
- They should be able to reflect future predictions.
- They should be informational to users.

# Accounting Principle

## Accounting Concepts

→ Assumptions on the basis of which financial statements are prepared.  
(Fundamental Accounting Assumptions)

→ Going Concern } If nothing is  
Consistency } mentioned, then  
Accrual } it is assumed  
that these are  
followed.

## Accounting Conventions

→ Outcome of accounting Principles derived by usage & practice.

प्रथा (प्रचलित विधि)

## # Going Concern

→ It is assumed that business will continue for foreseeable future and there is no intention to close the business.

<sup>Imp</sup> → It is because of this assumption, we make distinction between Revenue expenditure & capital expenditure.

↓  
< 1 year  
Benefit

↓  
> 1 year  
Benefit

→ If this assumption is no longer valid then Fixed Assets are valued at Net Realisable value.  
(Market value)

## # Consistency

→ Accounting practice once selected and adopted should be applied year after year.

→ Accounting practice may be changed :-

a) If law requires

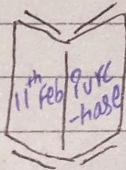
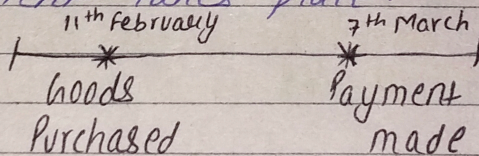
b) If Accounting Standards (AS) required.

↳ ICAI New Policies

c) for better presentation of financial statements (true & fair view).

## # Accrual

→ Transaction is recorded when it takes place, not when the settlement takes place.

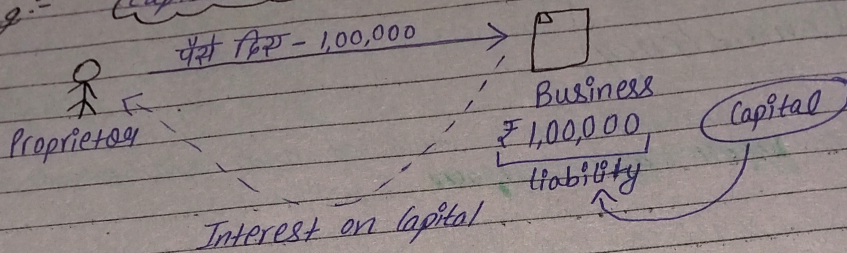


## • Business Entity Concept

→ Business is considered to be separate from owner.

→ Accounting is done from business point of view.

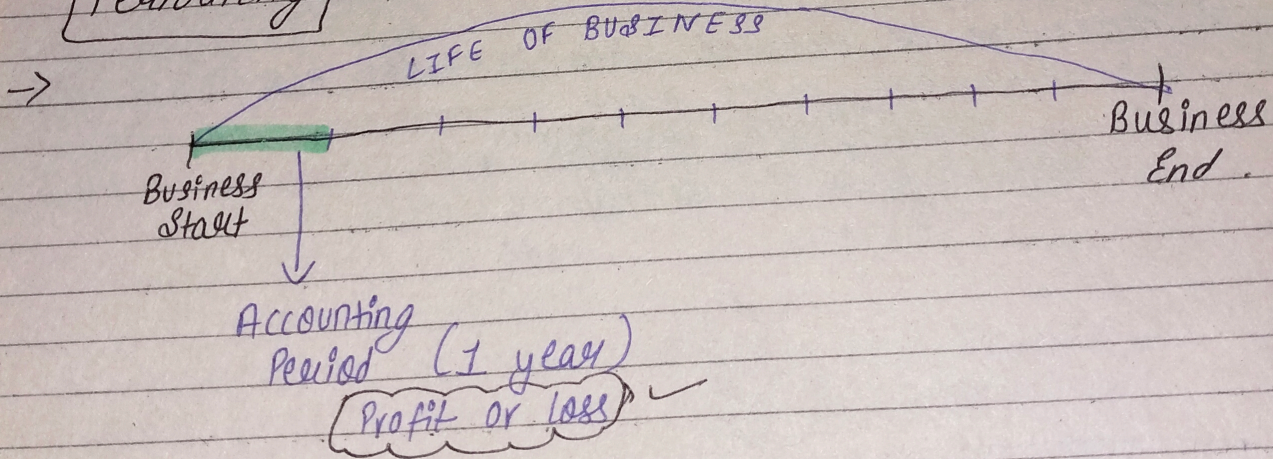
→ e.g.:- Capital is treated as liability



## • Money Measurement

→ Transactions & events that can be measured in money terms are recorded.

## • Periodicity

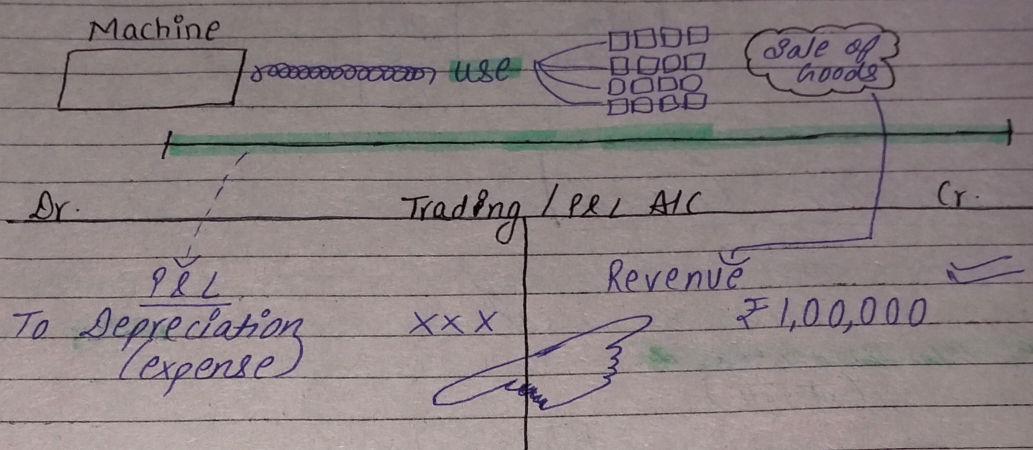


→ Life of an enterprise (Business) is broken into smaller periods.

→ Generally this period is of 1 year (i.e. known as Accounting Period)

**Matching Principle**

→ when an item of revenue is recognised as income (i.e. credited in P/L A/c) then expenses related to that revenue should also be recognised (i.e. debited in P/L A/c)



★ Depreciation is recorded because of Matching Principle.

Accrual + Periodicity + Matching works together for income measurement.

Dr.		P/L A/c for the year		Cr.
Accrual	To Salary	xx		
	(+) Old Salary	xx	xxx	
	To depreciation			By Revenue
	<b>Net profit (Income)</b>		xxx	

• **Cost Concept** (Historical Cost Principle)

→ According to this principle, fixed assets are recorded in the books at cost (ignore Market Value)

B/s	
Machine (cost)	1,00,000

• **Realisation Concept**

→ It follows cost concept only  
 → Change in value of asset is recorded only when the B/s realises it.  
 (बचना)

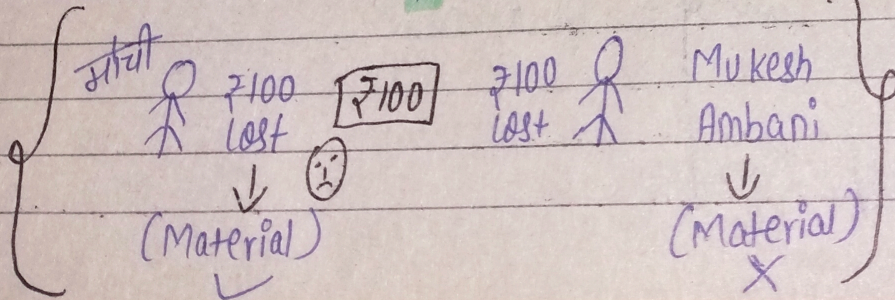
B/s		M.V.
Machine (cost)	1,00,000	1,20,000

बेच हुआ/दी

• **Materiality**

Full Disclosure Principle → सब कुछ बताना है (useful का)

→ Material means Importance.



All the material items should be fully disclosed record करना चाहिए।

Full Disclosure Principle





e.g ① Find Capital

- Loan  $\Rightarrow$  1,00,000
- Creditors  $\Rightarrow$  70,000
- Mach  $\Rightarrow$  1,10,000
- Debtors  $\Rightarrow$  80,000
- Stock  $\Rightarrow$  80,000
- Cash  $\Rightarrow$  6,000

Solu Assets = Capital + Liabilities  
 $1,10,000 + 80,000 + 80,000 + 6,000 = \text{Capital} + 1,00,000 + 70,000$   
 $2,76,000 = \text{Capital} + 1,70,000$   
 $1,06,000 = \text{Capital}$

② Capital on 1<sup>st</sup> April  $\Rightarrow$  ₹20,000  
Capital on 31<sup>st</sup> March  $\Rightarrow$  ₹26,000  
Find Profit

Solu Profit  $\Rightarrow$  Closing Capital - Opening Capital  
 $26,000 - 20,000$   
 $6,000$

③ Capital on 1<sup>st</sup> April = ₹15,000  
Drawings during the year = ₹8,000  
Additional Capital = ₹7,000  
Capital on 31<sup>st</sup> March  $\Rightarrow$  ₹25,000  
Find Profit

Solu Profit  $\Rightarrow$  Closing Capital + Drawing - Additional Capital  
- Opening Capital  
 $\Rightarrow 25,000 + 8,000 - 7,000 - 15,000$   
 $= 33,000 - 22,000$   
 $= 11,000$

④ Find Total Assets if

Capital = 40,000

Bills Payable = 3,000

Creditors = 5,000

Solu

Total Liabilities = Total Assets

40,000 + 5,000 + 3,000 = Total Assets

48,000 = Total Assets

Total Assets = 48,000

Imp

⑤ Give one example of each of the following :-

	Given	Solutions
i)	↑ A ↓ A	Purchased goods for cash [Stock (+) Cash (-)]
ii)	↑ A ↑ L	Purchased goods on credit [Stock (+) Liability (+)]
iii)	↑ A ↑ C	Additional Capital Introduced [Capital (+) Cash (+)]
iv)	↓ A ↓ L	Payment to creditor [Cash (-) Liability (-)]
v)	↓ A ↓ C	Drawings [Cash (-) Capital (-)]
vi)	↑ L ↓ L	Accepted Bills Payable from Creditors [Bills Payable (+) Creditor (-)]
vii)	↓ L ↑ C	Conversion of loan into capital [Loan (-) Capital (+)]

Special

viii) 

↑L ↓C
-------

 Adjustment → Outstanding expense  
 [ 81s Lia (+) P/L (-) ]

• **Conservatism (Prudence)**

→ Do not anticipate profits but consider all prospective losses.

Future Profit & Loss Statement (Record X)

Future Profit & Loss Statement (Record ✓)

e.g. :- Provision for Doubtful debts.  
 Closing Inventory is valued at COST OR NRV whichever is lower

\* For conservatism concept, there should be three qualitative characteristics of financial statements as below:-

- **Prudence** - judgement about the possible future losses which are to be guarded.
- **Neutrality** - unbiased outlook
- **Faithful** - faithful representation of alternative values.

Imp  
**Financial Statements And Its Qualitative Characteristics**

↓  
 P/L & Balance Sheet  
 Cash Flow statement

क्या Quality होती याद है ?

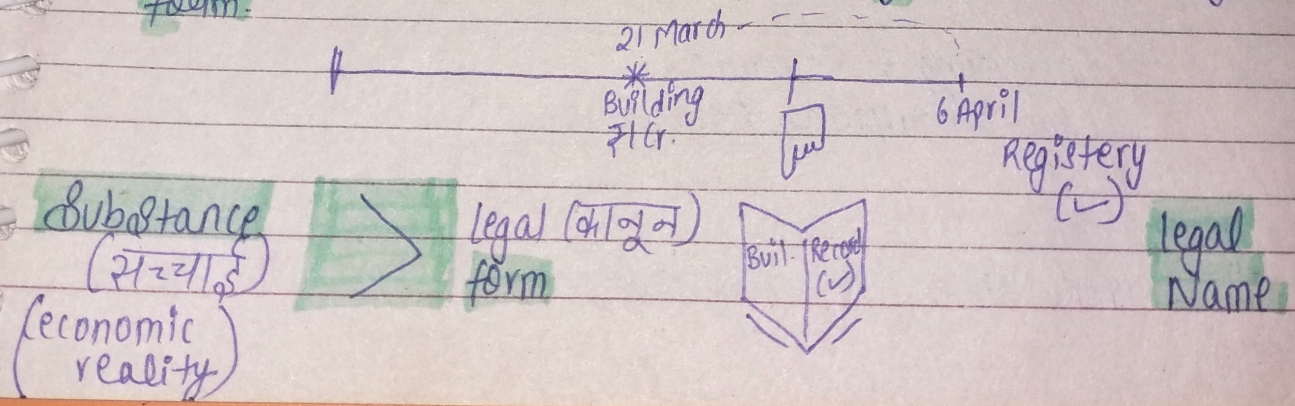
1. Understandability :- F.S should be **understandable** easily.
2. Relevance :- F.S must provide **useful** information to users.  
 (जितना जरूरी हो)
3. Reliability :- F.S should be **free from bias**.  
 (असंश्लेषित)
4. Comparability :- F.S must be easily **compare** by users.  
 ↳ Intra firm comparison  
 ↳ Inter firm comparison
5. Materiality :- Information is **material** if its **misstatement** could **influence** the economic decision of users.  
 (वैधानिक)

Court Case :- ₹ 1 damage  
 X

Court Case :- ₹ 1 Cr. damage  
 ✓

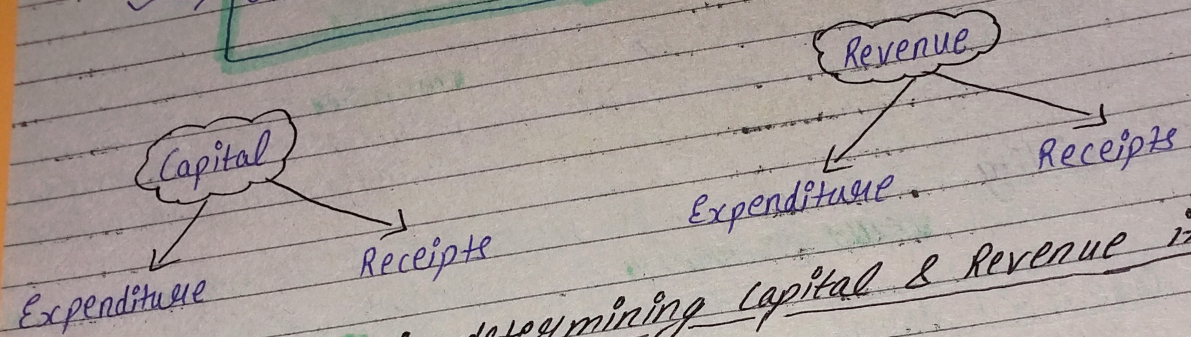
6. Faithful Representation

Imp  
 7. Substance over form :- It is necessary that transactions are accounted for and presented in accordance with their **substance** & **economic reality** and not merely their **legal form**.



- 8. Neutrality (✓)
- 9. Prudence (✓)
- 10. Full, fair & adequate disclosure (✓)
- 11. Completeness :- F.S must be complete \*

\* Unit 3 Capital and Revenue Expenditures and Receipts \*



→ Consideration in determining Capital & Revenue items

1. Nature of Business
  - Furniture dealer :- Furniture → Revenue
  - Builder :- Furniture → Capital
2. Recurring Nature
  - Recurring :- Revenue
  - Non-recurring :- Capital
3. Purpose
  - Productive Capacity Increase :- Capital

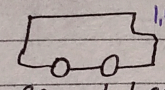
Resale / No productive capacity :- Revenue increase

#### 4. Materiality of amount involved

→ ₹1 :- Revenue  
₹1,00,000 :- Capital

### → Capital Expenditure

1. Acquisition of fixed Assets
2. Repairs that increase productive capacity
3. Any expenditure incurred on the same day just after purchase of second hand asset to make it suitable for use.

 1,00,000  
Second hand car + paint 20,000 + Alloy 50,000 + K.S 10,000 + etc.

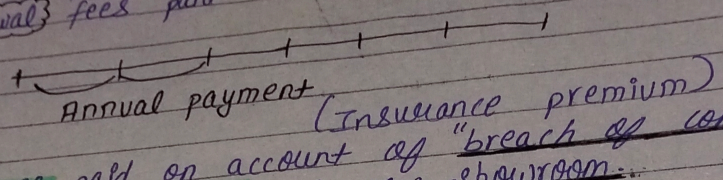
Capital expenditure

4. Amount spent on obtaining license / rights successfully.
5. Trial run expenses of "new asset".
6. Cost of temporary huts while construction of building.
7. Demolition cost.
8. etc. etc. etc. etc.

### → Revenue Expenditure (Expense)

1. Directly related to sales revenue like salary, rent etc.
2. Benefit expires within 1 accounting period.

- 3. Maintenance expenses like whitewash
- 4. Amount spent on obtaining license right (unsuccessfully)
- 5. Renewal fees paid.



- 6. Damages paid on account of "breach of contract"
- 7. Inauguration expenses of new showroom.

\* If Revenue Expenditure is treated as Capital Expenditure then it will lead to overstatement of profits and assets.

\* Security deposits and advances are neither capital expenditure nor revenue expenditure.

### → Capital Receipts

- 1. Loan taken (short term or long term) (↑L)
- 2. Share capital raised (↑L)
- 3. Sale of fixed asset (↓A)
- 4. Insurance claim received (Non Recovering Nature)
- etc. etc. etc. etc.

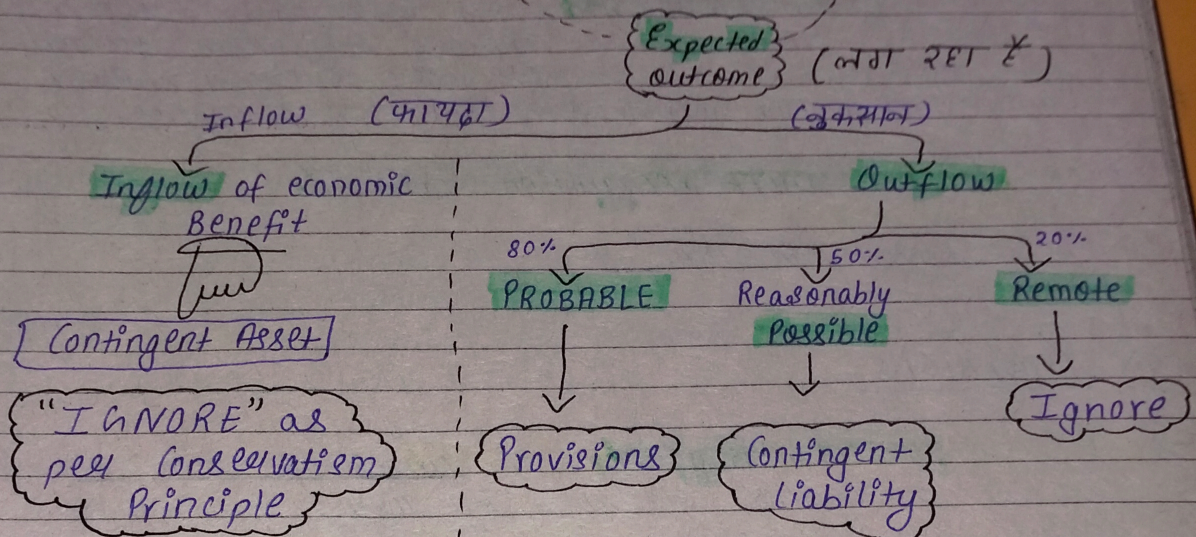
### → Revenue Receipts

- 1. Receipts from sale of goods or services.
- 2. Interest income, dividend income, bad debt recovered etc. (items Cr. in P/L A/c)

\* ————— \*



## Unit 4 Contingent Assets & Contingent Liabilities



### 1. Contingent Assets

→ It is a possible asset that arises from past event & whose existence will be confirmed only after occurrence or non-occurrence of one or more uncertain future events not wholly within the control of enterprise.

→ As per the concept of prudence (or conservatism), contingent assets should not be disclosed.

→ If it becomes virtually certain then recognised it in the books of Accounts.

→ Generally contingent assets are disclosed in Report of Board of Directors.

## 2. Contingent Liabilities

- It is a possible obligation that arises from past events & whose existence will be confirmed only after occurrence or non-occurrence of one or more uncertain future events not wholly within the control of enterprise.
- It does not meet recognition criteria. (i.e. it is not recorded)
- It is shown in the Notes to Accounts (NOTES)

## 3. Provisions

- It is a present obligation of uncertain amount which can be measured reliably by using substantial degree of estimation.
- It meets the recognition criteria (i.e. it is recorded in books)

## Unit 5 Accounting Policies

- Accounting policies refer to specific accounting principles and methods of applying those principles.

- e.g.:- Valuation of Inventories  
Valuation of Investment  
etc. etc.

FIFO, LIFO, W. Avg etc.

Imp → Selection of Accounting Policies is based on :-

Prudence

Substance over form

Materiality

→ Change in Accounting Policies

- a) if law requires
- b) if Accounting standards requires
- c) for better presentation of financial statements (true & fair view)

\* Disclose the effect of change on financial statement.

AS-1

प्रतिव

Unit 6 Accounting as a Measurement Discipline - Valuation Principles & Accounting Estimates

① Measurement - elements

Identification of objects & events to be measured.

Selection of standard or scale to be used

Evaluation of dimension of measurement standard or scale

e.g

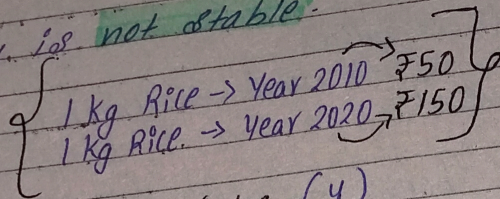
Delhi — kms/cms/m ??? — Haridwar

② Accounting as measurement discipline

- Money is the scale of measurement.
- Money as a measurement scale has No Universal determination. (₹, \$, etc)
- Money lacks universal applicability.

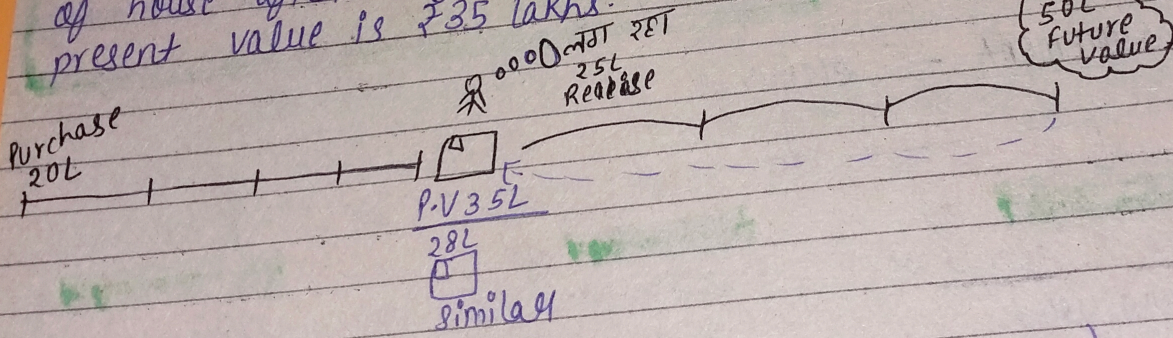
$$\boxed{\text{₹500}} \xrightarrow{X} \text{US}$$

→ Money is not stable.



Imp  
③ Valuation Principles (4)

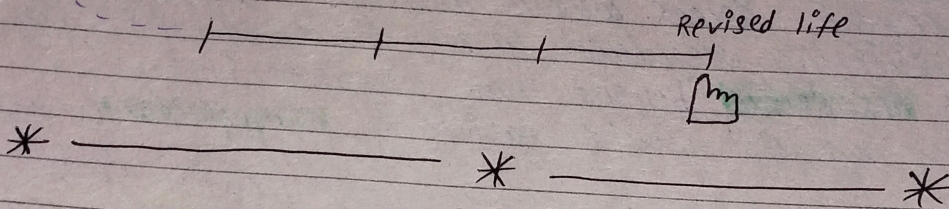
A home was purchased 5 years back for ₹20 lakh. Now we estimate its realisable value ₹25 lakhs. Also, a similar house can be purchased today for ₹28 lakhs. The future value of house after 3 years will be ₹50 lakhs, whose discounted present value is ₹35 lakhs.



- ① Historical Cost ⇒ 20,00,000
- ② Current Cost ⇒ 28,00,000 (similar asset at value)
- ③ Realisable Value ⇒ 25,00,000
- ④ Present Value ⇒ 35,00,000 (Mathematically calculated)
- ⑤ Future Value ⇒ 50,00,000

#### 4. Accounting Estimates

- The measurement of certain assets and liabilities is based on estimates of uncertain future events.
- The process of estimation involves judgements based on latest information available.
- The estimates may be revised if changes occur in some circumstances.
- e.g.:- Provision for doubtful debts  
Estimated useful life of asset  
Provision for taxation



#### Unit 7 Accounting Standards (AQS)

→ Accounting standards are written policy documents issued by the expert accounting body set by the govt. or other regulatory body covering aspects of :-

- Recognition of events & transactions in the financial statements.
- Measurement of these transactions & events.
- Presentation of these transactions & events in the financial statements in the manner that is meaningful and understandable to the reader.
- Disclosure requirements (which enables the users to get an insight into the financial statements).

→ Objectives of Accounting Standards

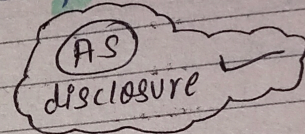
- a) Eliminate the non-comparability of financial statements and thereby by improving the reliability of financial statements. इसे नहीं कानन सकते भरोसा
- b) Ensures transparency & consistency.
- c) Provides a set of accounting policies, norms and disclosure requirements. rules

5 marks

→ Benefits of AoS alternative Standardisation (सबको समान कर दिया)  
 OR → (Standardisation of accounting treatments)

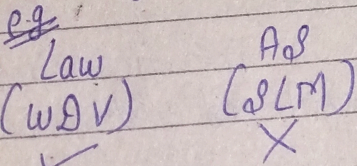
- a) AoS reduces the confusing variation in the financial statements.
- b) There are certain areas where important information are not statutorily required to be disclosed. AoS may call for the disclosure beyond that required by law. (कानून)
- c) The application of AoS would facilitate comparison.

→ Law :- disclosure requirement (statutory)



→ Limitations of AoS

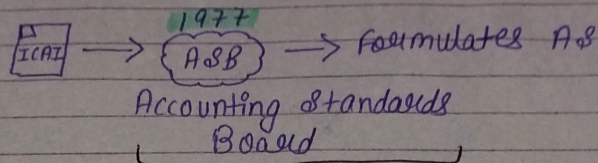
- a) Difficulties in making choice between different treatments.
- b) AoS cannot override the statute (i.e. Restricted Scope). कानून (Law)
- c) AoS may lead to Rigidity. → flexible नहीं



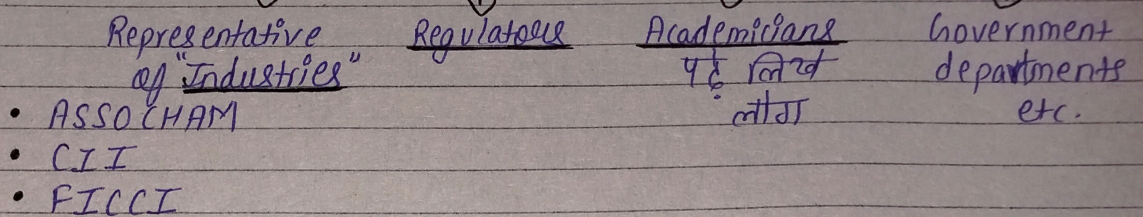
→ [AoS-2] Inventory Valuation

- FIFO OR
- W. Avg.

→ Process of formulation of AS



Composition

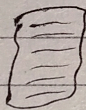


किस चीज पर Rule बनाना है।

Indentification of Area

Constitution of Study Group

Group बनाना और देखना क्या Problem है।

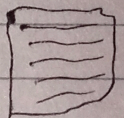


Preparation of draft & its circulation

अपनी राय/view बनारना।

Ascertainment of views of different bodies on draft

Finalisation of Exposure Draft



Comments Received on Exposure Draft

Modification of the Draft

Issued of AS

→ List of AS (Not to Remember)

AS-29

AS-1, AS-2, AS-3, AS-4, AS-5

Disclosure

Invt.

Cash  
Flow

~~6~~  
10 #  
1121

~~8~~  
26 #  
1121