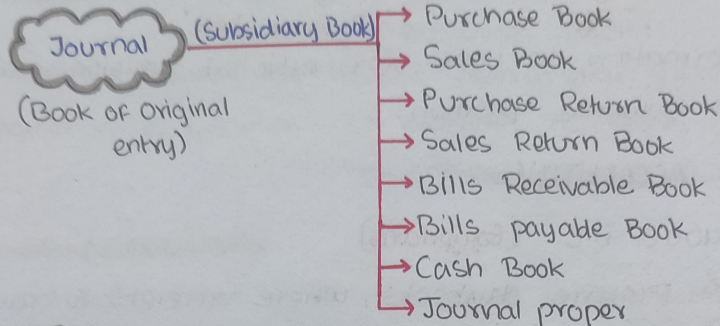


CH-1 Theoretical Framework

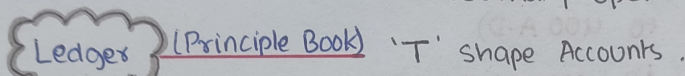
UNIT-1 Meaning and Scope of Accounting.

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

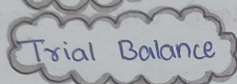
Recording:



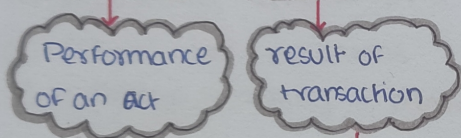
Classifying:



Summarising:



* Transactions & Events:



eg:- Purchase of goods
 Sale of goods
 Capital investment
 Expenses incurred .etc,

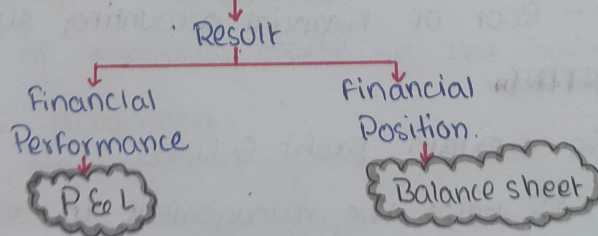
eg:- Profit / loss
 Closing inventory left.

* Q. Purchase or sale of fixed asset.

A. Transaction and event both.

Financial Character: related to business

Interpreting the results: Conclusion



→ FUNCTIONS OF ACCOUNTING (given by Accounting Principle Board (APB) of American Institute of Certified Public Accountant (AICPA))

- Recording - Journal
- Classifying - Ledger
- Summarising - Trial Balance → P&L A/c & BIS

- Analysis & Interpretation - Analysing the results
- Communicating to the Users - Providing P&L to users. (point 9)

→ 3. OBJECTIVES OF ACCOUNTING

- Systematic recording of transactions.
- Ascertainment of results and financial position
 ↓ "P&L" ↓ "Balance sheet"
- 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 receipts & 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.
- Father of Accounting 'LUCA PACIOLI' he wrote first book in the city 'Venice'.
- DEBIT - It comes from Italian word 'Debito' which comes from Latin word 'Debita'.
 (Owed to the proprietor)
- CREDIT - It comes from Italian word 'Credito' which comes from Latin word 'Credo'.
 (Belief / trust in proprietor)
- Stewardship Accounting - Root of financial accounting system.

→ 5. SUB FIELDS OF ACCOUNTING

- (i) Financial Accounting - to ascertain profit & loss.
- (ii) Management Accounting - It helps the management in decision making.
- (iii) Cost Accounting - To ascertain cost of product & it helps in fixation of price.
- (iv) Social Reporting Accounting - Social cost & social benefits.
- (v) Human Resource Accounting - Reporting investment in human resource

*** 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.
- e. Control - It identifies weakness in the operational system of the business.
- f. Government Regulation & Taxation - It provides necessary information to the government and helps in collection of taxes.

*** LIMITATIONS OF ACCOUNTING**

- (a) Accounting is not fully exact - It is based on **estimates**
 - ↓
 - Provision for doubtful debts
 - estimated useful life of asset.
- (b) Accounting ignores qualitative aspects.
- (c) Accounting ignores price level changes.
- (d) There are occasions when accounting principles conflict with each other.
- (e) Window dressing - Manipulation in books of Accounts.

*** BOOK-KEEPING**

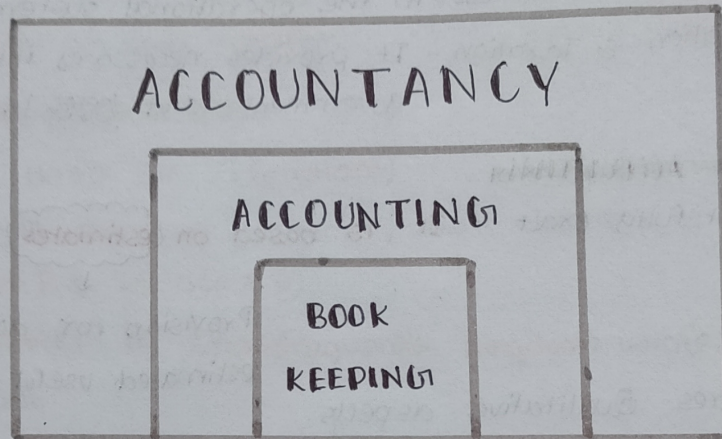
Accounting Process : **identification** → **Measurement** → **Recording** → **Classifying** → **Summarising**
 → **Analysis** → **Communicating**.

- * 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 ~
 - Complete recording of transactions
 - Ascertainment of financial effect on the business.

*** u.s.m Book-keeping VS Accounting.**

BOOK-KEEPING	ACCOUNTING
1. It is concerned with recording the transaction.	1. It is concerned with summarising the recorded transaction.
2. It is a primary stage	2. Accounting is a secondary stage i.e it begins where book keeping ends.
3. Financial statements do not form part of this process.	3. Financial statements are prepared in this process.

4. There is no sub-field of book-keeping.	4. There are sub-fields of accounting.
5. Managerial decisions can not be taken on its basis.	5. Managerial decisions can be taken on its own basis.
6. It is performed by junior staff (which requires no specialised skills)	6. It is performed by senior staff (which requires specialised skills)



→ 9. USERS OF ACCOUNTING INFORMATION

USERS

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

- Investors - They provided capital to business.
- Employees - Their growth is directly related to growth of organisation.
- Lenders - To assess credit worthiness.
- Creditors (Suppliers) - Timely payment of dues.
- Customers - Stability of company, timely delivery of goods.
- Government - Taxation.
- Public - Their contribution to the economy as whole.
- Management - Helps in decision making.

→ 10. RELATIONSHIP OF ACCOUNTING WITH OTHER DISCIPLINES

(i) Accounting & Economics

- Accounting is a system, which provides data to users to help them in decision making.
- Economics is viewed as science of rational decision making.
- However, there exists a wide gap between economists and accountants concept of capital and income.

→ At the macro level accounting provides the data base 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 Accountancy, number of financial and other ratio are helpful in developing accounting data & its interpretation.

(iii) Accounting & Mathematics

→ Knowledge of arithmetic and algebra is a pre-requisite for accounting computations. (eg: Interest, annuity etc)

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

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

(iv) Accounting & Law

The Indian partnership Act, 1932



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

(v) Accounting & Management

→ Accounting information helps the management in decision making.

→ II. ~~ROLE OF ACCOUNTANT IN THE SOCIETY~~

a. Maintenance of Books of Accounts

b. Statutory Audit

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

f. Financial advice

- Investment

- Insurance

- Business expansions

- Investigations

- Pension Schemes

g. Other services

- Secretarial work
- Share registration work
- Company formation
- Arbitrations - Settle a dispute
- Cost Accountants etc...

CHARTERED ACCOUNTANT

- IN INDUSTRY - Budgeting, Cost accounting, Taxation, Management accounting
- IN PUBLIC SECTOR ENTERPRISES - CA prepares accounts & reports of these enterprises.
- IN FRAMING FISCAL POLICIES - CA has important role in determination of fiscal policies (related to income & expenses)
- IN ECONOMIC GROWTH - They help in increasing business efficiency.