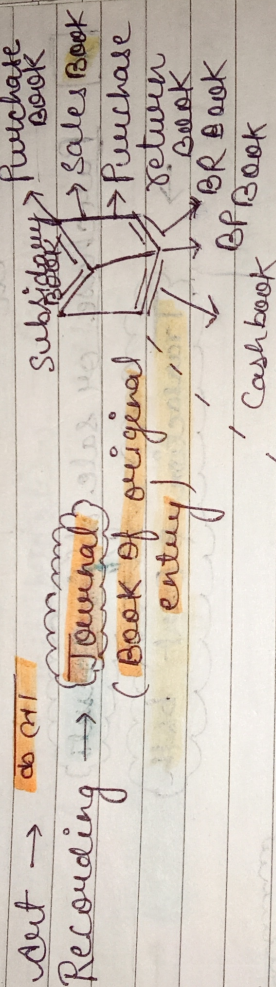


THEORETICAL FRAMEWORK (7-10 Marks)

UNIT :- 1- Meaning & scope of accounting

→ 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.



Journal Book



Classifying → LEDGER

Summarising → TRIAL BALANCE

Transactions & Events

performance of an act → Result of Transaction

Events

Profit / loss

Closing Inventory left

Transactions

Purchase of goods

Sale of goods

Capital Investment

Expenses incurred

etc.

Transaction, Unsold

transaction

Purchase or sale of fixed assets

Transaction & Event both

Financial character :- Related to business

Interpreting the results :- Conclusion

Result

Financial Performance

Profit or loss

Financial Position

Balance sheet

② Functions of Accounting (Given by accounting Principal board)

(APB) of American Institute of Certified Public Accountant (AICPA)

- Recording - Journal
- Classifying - Ledger
- Summarising - Trial balance → P/L A/c & B/S
- Analysis & Interpretation - Analysing the results
- Communicating to the Users "Details Later"

③ Objective of accounting

- Systematic recording of business ^{transaction}
- Ascertainment of results and financial _{Position}
 - ↓
 - P/L
- Balance sheet

- Providing information to users for rational ~~to~~ decision making
- To know the solvent position

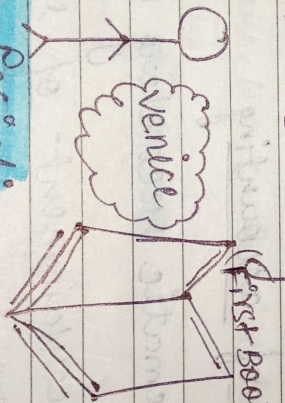
(4) Evolution of Accounting

- its early as 4000 BC (Egyptians)
- Romans used to prepare day books, where receipt & payments were recorded (700 BC to 400 AD.)

- Kautilya (Minister in Chandragupta's Kingdoms) wrote book Named **Arthashastra**

(Revised new accounting records to be maintained)

- **1494** - Double entry Book Keeping



Luca Pacioli

(Father of Accounting)

- **Debit** - It comes from Italian **Debito** which comes from Latin **Debita** (owed to the proprietor)

Date.....

• Credit - It comes from Italian (Credito)
which comes from Credo

(Belief / trust) (in Proprietor)

• Stewardship Accounting - Root of financial system
↓
(Right)

⑤ Sub-fields of Accounting

(i) Financial Accounting → to ascertain profit or loss

(ii) Management Accounting → It helps the management in decision making

(iii) Cost Accounting → To ascertain Cost of Product & It helps in

(iv) Social Accounting → ^{reporting} fixation of Price social cost & social benefits

(v) Human Resource Accounting → Reporting investment in Human Resource.

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Date.....

⑥ Functions of Accounting (Imp) - different from ②

- a) Measurement → It measures the past performance of 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 & intra firm) & evaluates results
- e) Control → It identifies weakness in the operational system of the business
- f) Government Regulation & Taxation →
→ It provides information necessary to the government and helps in collection of taxes.

(7) Limitations of Accounting

(a) Accounting is not fully exact - It is based on estimates

(अनुमानों पर आधारित)

- provision for doubtful debts

- Estimated useful life of asset

(b) Accounting ignores qualitative aspects

→ Human, disciplined, Hardworking

→ (मानव, अनुशासित, मेहनती)

IGNORE

(c) Accounting ignores price level changes

Machine - 100,000 (cost)

(100,000)

~~M.V. - 182,000
 M.V. - 10,000~~

(d) There are occasions when **accounting principles** are **conflict** with each other

(e) **Blindness dressing** — In books of accounts Manipulation in books of accounts.

^{imp} ⑧ BOOK-KEEPING

Accounting: Identification → Measurement
Process → Recording → Classifying

→ Summarising → Analysis → Communication

→ ^{imp} 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

→ Book-Keeping vs Accounting (Vimp)

Date.....

BOOK-KEEPING

1. It is concerned with recording the transactions -

2. It is a primary stage

3. Financial Statement do not form part of this process

4. There is no sub-field of book-keeping

5. Managerial decision can not be taken

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

ACCOUNTING

It is concerned with summarising the recorded transactions

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

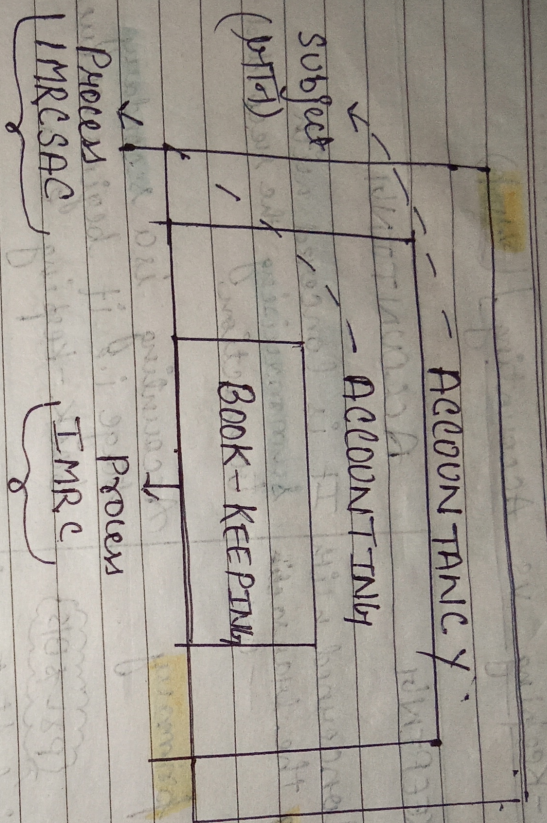
Financial statements are prepared in this process

There are sub-field of accounting

Managerial decision can be taken on its basis

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

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⑨ USERS OF ACCOUNTING INFORMATION

- INTERNAL USERS : access to the information
- EXTERNAL USERS : Do not have access to information

- a) Investors - they provided Capital to Business
- b) Employees - ~~There growth is directly~~ ^(The growth of organisation) There growth is directly related growth of organisation
- c) Lenders - To assess credit worthiness

$$x = \frac{n}{y^2}$$

$$1 = \frac{n}{(2)^2}$$

$$4 = n$$

If we say $y=6$ we have

$$x = \frac{n}{(y)^2}$$

$$x = \frac{4}{36}$$

$$= \sqrt{\frac{1}{9}}$$

Date

- d) Creditors (suppliers) — Timely Payment of dues.
- e) Customers — Stability of company, timely delivery of goods.
- f) Government — Taxation
- g) Public — Share contribution to the Economy as whole.
- h) Management — Helps in decision-making

(10.) Relationship of accounting with other Imp 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 gulf between economists and accountants

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Date.....

computations (eg Interest, annuity etc)

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

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

(iv) Accounting & Law

The Indian partnership act, 1932

Provision are there
and accounting is done
on the basis of these provision

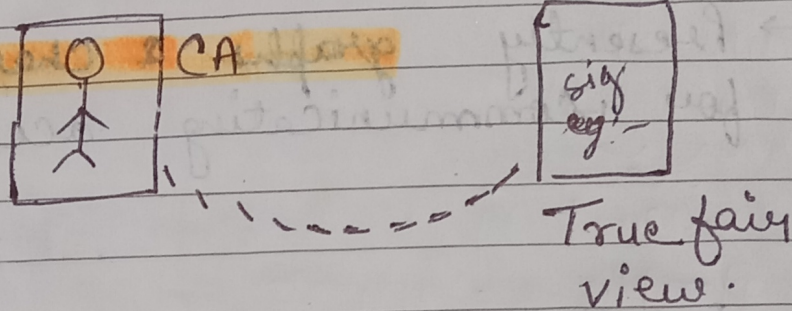
(v) Accounting & Management

→ Accounting information helps the manager in decision

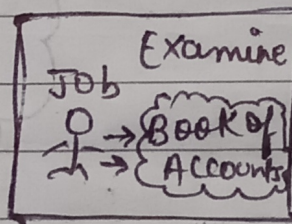
(11.) Role of Accountant in the society

a) ~~Maintenance~~ Maintenance of books of Accounts

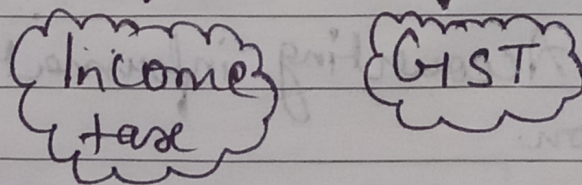
b) Statutory Audit — Co Financial statement



c) Internal Audit — It is a management tool where by internal auditor examines the Accounting transactions



d) Taxation — Direct & indirect taxation



Date.....

e) Management accounting & Consultancy Science

Decision making

[Co] 100 crore $\rightarrow$ (1%) of C.A

Consultancy

f) Financial Advice

$\rightarrow$ Investment

$\rightarrow$ Insurance

$\rightarrow$ Business expansions

$\rightarrow$ Investigations

$\rightarrow$ Pension & schemes

g) Other Services

$\rightarrow$ Secretarial work

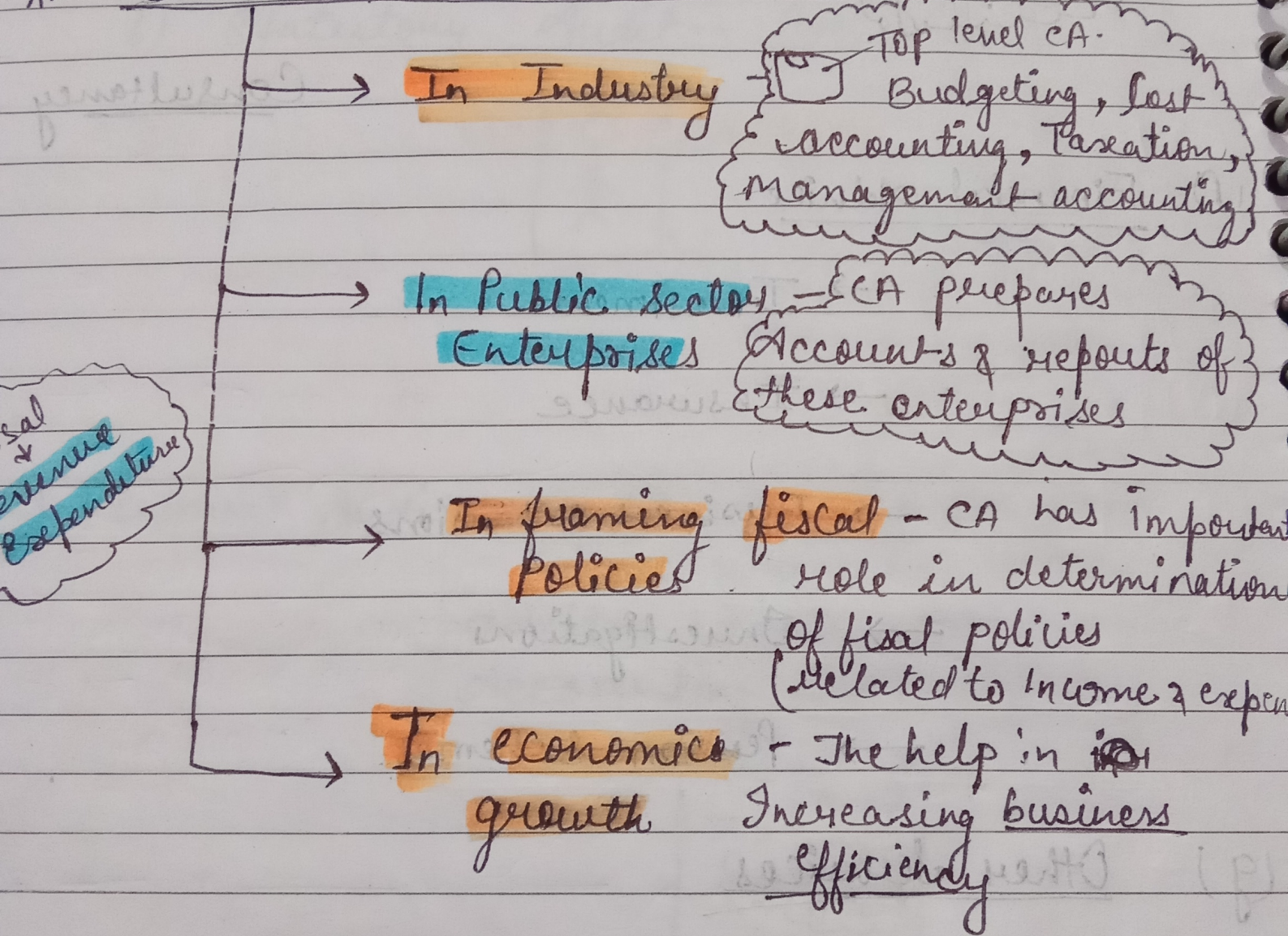
$\rightarrow$ Share registration work

$\rightarrow$ Company formation

$\rightarrow$ Arbitrations — Settle a dispute

→ Cost Accountants
Etc

* Chartered Accountant



Accounting Principles - Concepts & Conventions

(V. Imp) अति

→ Accounting Principles refers to basis norms, general rules for accounting to avoid Confusions and to achieve uniformity

* → Accountancy principal must satisfy the Imp following Conditions :-

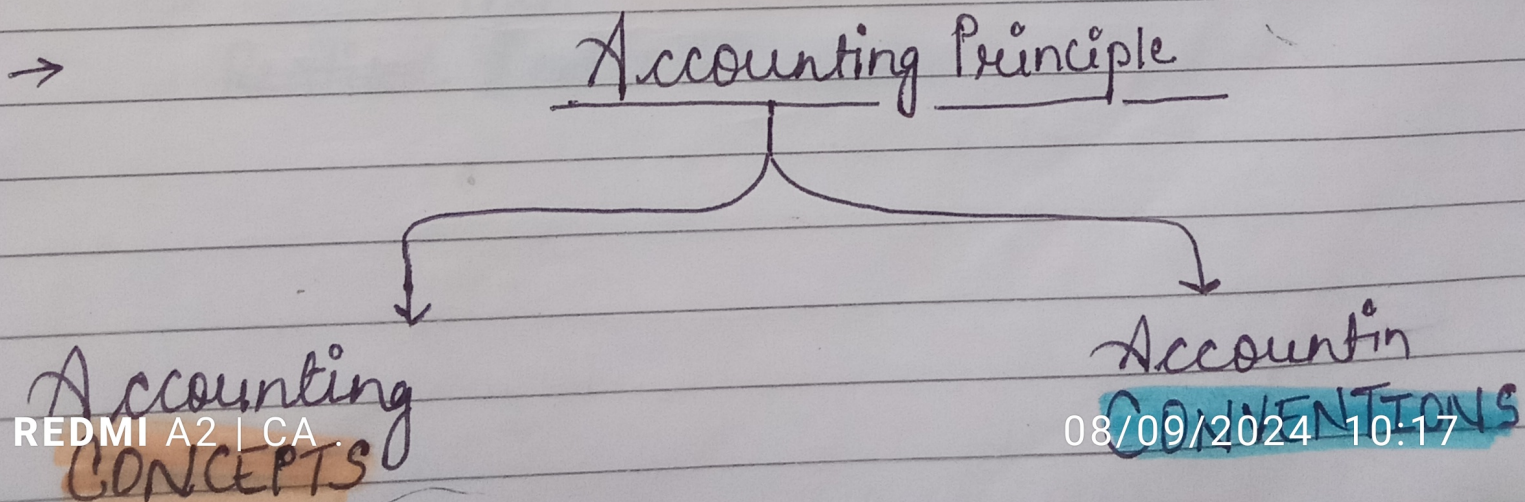
a) They should be based on real assumptions

b) They must be simple, understandable and explanatory

c) They must be followed consistently

d) They should be able to reflect future predictions

e) They should be informational to users.



Accounting CONCEPTS

Account CONVENTIONS

Date.....

Assumptions on the bases of which financial statements are prepared

Outcome of Accounting principles derived by usage & practice

प्रशा (शा-चीन काम)

Fundamental Accounting Assumptions

→ Going Concern

→ Consistency

→ Accrual

* If nothing is mentioned, then it is assumed that these are followed

x — x — x — x —

Date.....

① GOING CONCERN

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

→ It is because of this assumption, we make distinction between revenue expenditure and Capital expenditure

< 1 year benefit

Eg:- Stationery Purchase

Dr. in P&L A/c

> 1 year benefit

Eg:- Machine Purchase

Assets in B/S

→ If this assumption is no longer valid

then FIXED ASSETS are valued at Net Realisable value

② [CONSISTENCY]

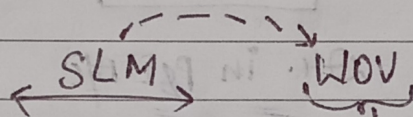
→ Accounting Practice once selected and adopted should be applied year after year.

→ Accounting Practice may be changed:-

a) If Law requires

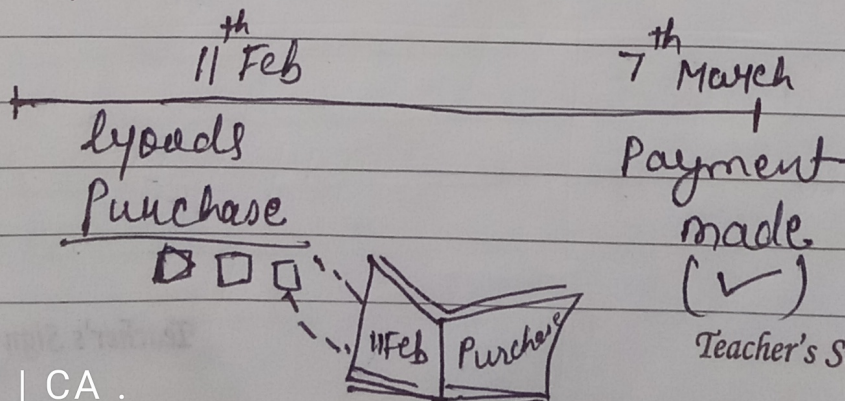
b) If Accounting standards (AS) requires

c) For better presentation of financial statement (true & fair view)



③ [ACCRUAL]

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



Teacher's Sign.....

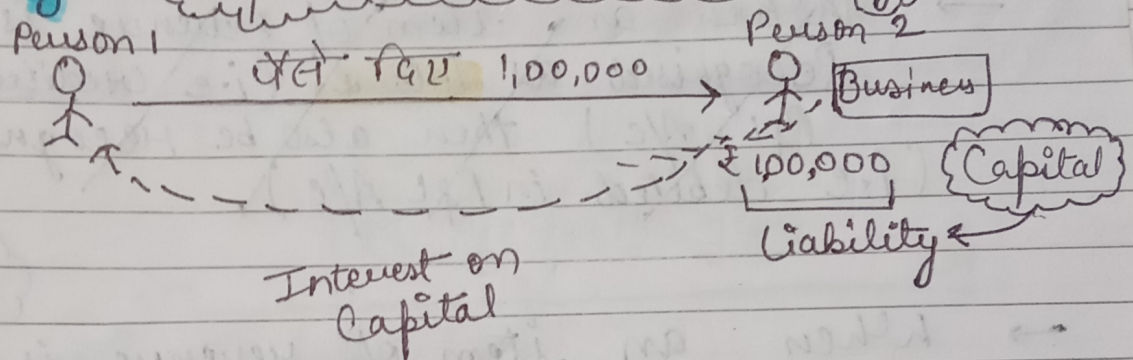
Date

④ [BUSINESS ENTITY PRINCIPLE]

→ Business is considered to be separate from owner

→ Accounting is done from business point view

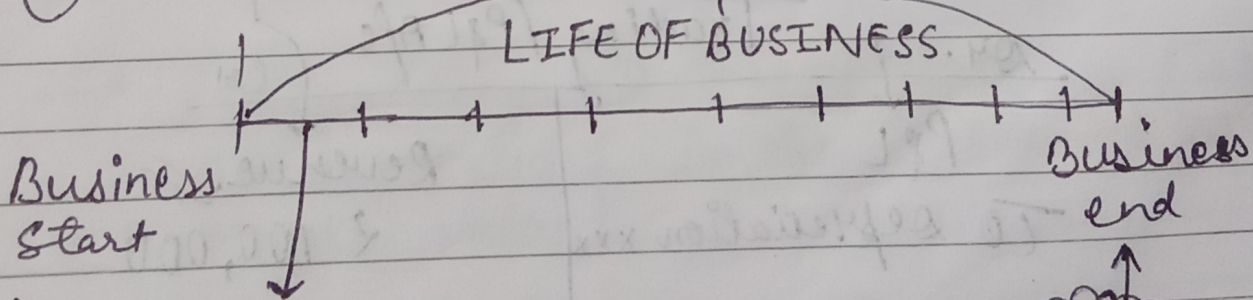
→ eg:- Capital is treated as liability



⑤ [MONEY MEASUREMENT]

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

⑥ [PERIODICITY]



A counting

Spiral period (1 year)

P&L

Teacher's Sign

Date.....

- Life of an enterprise (Business) is Broken into smaller period
- Generally this period is of 1 year (i.e.) known as (Accounting period)

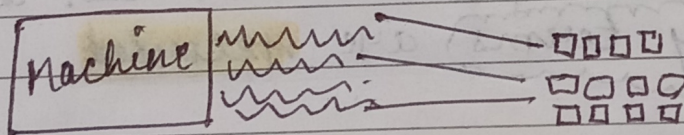
(7)

[MATCHING] PRINCIPLE

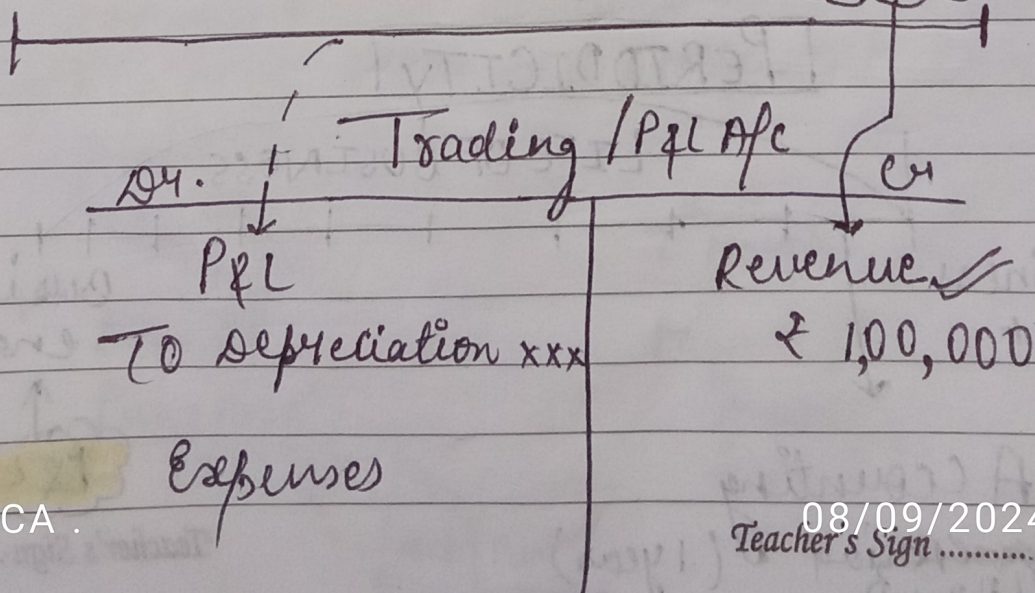
- When an item of revenue is Recognised as income (i.e. Credited in P&L A/c) then also be recognised (i.e. debited in P&L A/c).

record

- 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)



Sales of Goods



Date

★★

* Depreciation is recorded because of **MATCHING** principle

{ [ACCRUAL] (+) [PERIODICITY] (+)
[MATCHING] works together
for **Income measurement** }

P&L A/c for the year

Dr				Cr
	Accrual	To Salary xx		
	(+)	O/S Salary xx		
		To depreciation	By revenue	
		[Net Profit (Income)]		
		<<<		

⑧ COST CONCEPT (Historical Cost principle)

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

Teacher's Sign

Date

B/S

Machine
(Cost)

1,00,000

⑨

Realisation Concept

→ It follows cost concept only

→ Change in value of assets is recorded only when the business realises it.

B/S

Machine
(Cost)

1,00,000

MV = 1,20,000

बिना

⑩

Materiality

Material means **IMPORTANCE**

All the **material** items should be fully disclosed

Date.....

Full Disclosure Principle - सब कुछ बताना
इसका

Eg:- Contingent liabilities are
shown as foot notes

Liabilities (80-100% have to pay)		B/S	
	Creditors	10,000	
	Bills payable	20,000	
	O/S expense	5,000	

Notes to Accounts

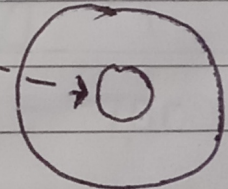
50% - 50%
to pay

Court Case : Damages claim
₹ 500,000

(11)

Revenue Recognition

(Accrual का
स्वरूप है)



→ Revenue is recognised
when transaction takes
place and obligation to
receive is established,
not when the actual
receipt is received.

Date.....	
1 July	31 May
F.D	
Investment	P&L A/c
1,00,000	Int 9,000
@ 12% p.a.	A/c
	Interest receive 12,000

Imp
 (12) (4-5 marks)

Dual aspect Principal

→ Every transaction has ~~two~~ two aspects (i.e. debit and credit)

$$\text{Debit} \rightarrow \text{ASSETS} = \text{Capital + liabilities}$$

Eg:- ① Find Capital

Loan	1,00,000	Debtors	80,000
Creditor	70,000	Stock	80,000
Machine	110,000	Cash	6,000

Solⁿ:- Assets = Capital + liabilities

$$110,000 + 80,000 + 80,000 + 6,000 = \text{Capital} + 1,00,000 + 70,000$$

$$276,000 = \text{Capital} + 1,70,000$$

$$\text{Capital} = 106,000$$

Date

Eg:- ② Capital on 1st April = 20,000
Capital on 31st March = 26,000

Find profit

Solⁿ :- Profit = 26000 - 20,000 = 6,000

Eg:- ③ Capital on 1st April = 15,000
Drawings during the year 8,000
Additional Capital = 7,000
Capital on 31th March = 25,000

Find profit

Solⁿ :-

Profit = closing capital	+	drawings	-	Additional Capital
			-	opening capital

= 25,000 + 8,000 - 7,000 - 15,000

= 11,000

Eg:- ④ Find total assets if

Capital = 40,000

Creditors = 5,000

B/P = 3,000

Teacher's Sign

Date

Sol :- Assets = Capital + Liabilities
 $= 40,000 + 8,000$
 $= 48,000$

eg:- ^{*}⑤ Give one example of each of the following :-
 (Learn it)

Given	Solution
(i) $\uparrow A$ and $\downarrow A$	Purchased goods for cash (Stock $\oplus$ Cash $\ominus$)
(ii) $\uparrow A$ and $\uparrow L$	Purchased goods on credit (Stock $\oplus$ Creditor $\oplus$)
(iii) $\uparrow A$ and $\uparrow$ Capital	Addition Capital Introduced
(iv) $\downarrow A$ and $L \downarrow$	Payment to creditor (Cash $\ominus$ Liability $\ominus$)

Date

Drawing

(v) $\downarrow$ A and $\downarrow$ Capital

(vi) $\uparrow$ L and $\downarrow$ L

Accepted bills payable
from creditor
BP (+) Creditor (-)

★★

(vii) $\downarrow$ L and $\uparrow$ Capital

Conversion of loan into
Capital

(viii) $\uparrow$ L and $\downarrow$ Capital

Adjustment - outstanding
expense.

(13) CONSERVATISM (Prudence)

→ Do not anticipate profits but Consider all
prospective losses.

Future में
लगा रहा है
Profit होगा
(Record X)

Future में
लगा रहा है
Loss होगा
(Record (✓))

e

Date.....

Eg:- Provision for doubtful debts

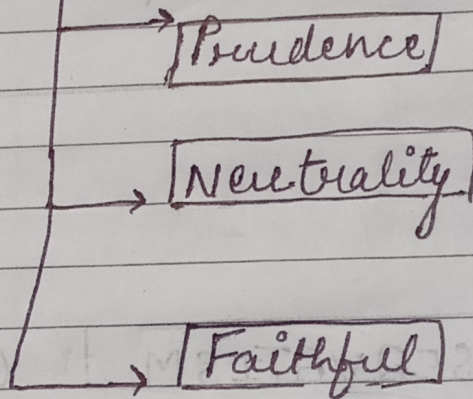
Eg:- closing Inventory is valued at

AS-2

COST OR NRV

Whichever is LOWER

* For Conservatism Concept, there should be three qualitative characteristics of financial statement, as below:-



Prudence - ~~good~~ Judgement about the possible future losses which are to be guarded.

Neutrality - Unbiased outlook

Faithful - Representation of alternative values.

Imp

Date.....

* Financial statement and its Qualitative Characteristics

क्या Quality
होनी चाहिए?

- ① Understandability — F.S should be understandable easily.
- ② Relevance — (जितना जरूरी हो) — FS must provide useful information to user.
- ③ Reliability — (भरोसेमंद) — FS should be free from bias.
- ④ Comparability — user can compare FS

→ Intrafirm Comparison
→ Interfirm Comparison

Imp

- ⑤ Materiality → Information is material if its misstatement could influence the economic decision of user.

Court case & 1st damage

⑥ Faithful representation

- ★ ⑦ Substance over form — It is necessary that transaction are accounted for and presented in accordance with their

Date.....

Substance & economic reality and not merely their legal form

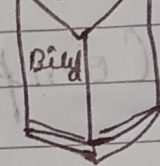
21 March

⊗
Build
51 Grove

6 April
Registry
(✓)

Legal
Name

31 March



Substance
(economic reality)

Legal form

⑧ Neutrality (✓)

⑨ Prudence (✓)

⑩ Full, fair & adequate disclosure (✓)

⑪ Completeness — F.S must be complete

x — x — x — x — x —

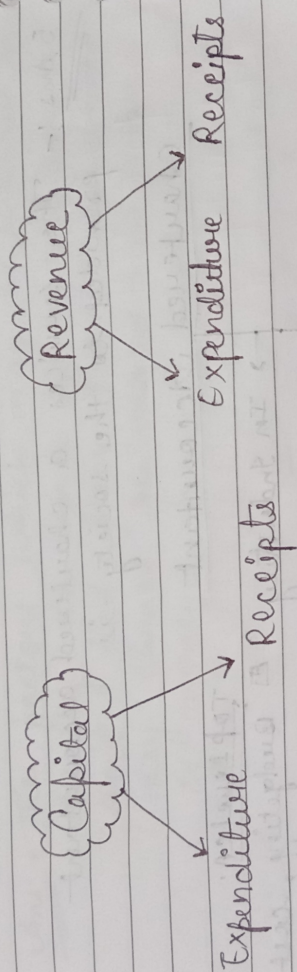
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Date.....

UNIT-II

Imp

Capital & Revenue, expenditure & Receipts



→ Consideration in determining Capital & Revenue items

① Nature of business

- Furniture dealer → Furniture → Rev
- Stationary shopkeeper → Furniture → ^{Capital} ~~Rev~~
- Building Builder → Building → Revenue

② Recurring nature of expenditure

- Recurring : Revenue
- Non Recurring : Capital

Date.....

③ [purpose]

→ Productive capacity "Increase"

∴ Capital

→ Resale / No productive capacity increase ∴ Revenue

Importance

④ [Materiality of the amount involved]

→ ₹ 1 Revenue

→ ₹ 1,00,00,000 Capital

I. Capital Expenditure

→ acquisition of fixed assets

→ Repairs that increase productive capacity

→ Any expenditure incurred on the same Assets only just after purchase of second hand assets to make it suitable for use.

Teacher's Sign.....

Spiral

Date.....

 1,00,000 + pent + alloy + tk. st
Second hand 10,000 - 5000 10000
Car
Sound + etc.
5000

Capital expenditure

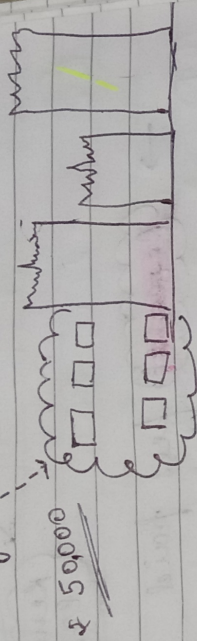
I. Capital Expenditure

→ Amount spent on obtaining license /
rights successfully → 5,00,000
no license
revenue
Expenditure
Capital expenditure

→ Trial run expenses of "new asset"
Expected 10,000/-
Capital expenditure
Cost of BMW
Trial run

Date.....

→ Cost of temporary huts while construction Building



→ Demolition cost ₹ 20,000

→ ETC ETC ETC Cinema hall
(200) → (250)

REVENUE EXPENDITURE

→ Directly related to sales revenue
Expense like salary rent etc.

→ Benefits expires within 1 accounting period

→ Maintenance expense like whitewash

~~Productive capacity ↑~~

→ Amount spent on obtaining license/ right

Teacher's Sign

Date.....

(unsuccessfully)

₹ 50,000

Revenue
Exp

→ (Renewal) fees paid



Annual payment

(Insurance premium)

→ Damages paid on amount of "breach
of contract"

→ Inauguration expenses of new showroom

* { If revenue expenditure is treated as
Capital expenditure then it will
lead to OVERSTATEMENT of profits and
assets }

Date.....

Dr	PL
→ Rent 100	GP 1000
→ Salary 200	
→ KKK 300	
→ NP. 100	

Dr	Asset
Capital 100	Machine 100
	KKK 300

* Security deposits & advance are neither Capital expenditure nor revenue expenditure

→ wifi (connection) [] → 2000/-
(Security)
(Router) Advance for

III [Capital Receipts]

- (LT) → Loan taken (short term or long term)
- (LT) → Share capital raised
- (AT) → Sale of fixed asset
- Insurance claim received (Non Recurring)
- Etc

IV [Revenue Receipts]

- Receipts from sale of goods or services
- Interest income, dividend income, Bad debt recovered etc

(Item cr. in P&L A/c)

X ————— X —————