

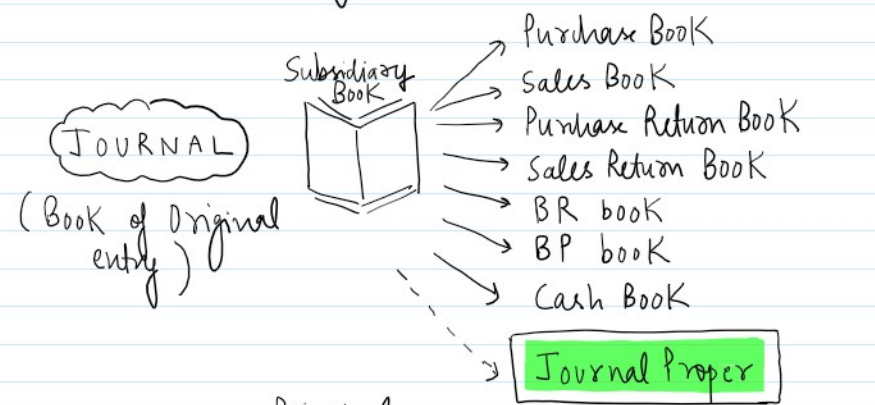
**CH:1** Theoretical Framework (7-10 Marks)

Unit 1 :- **Meaning + Scope of Accounting**

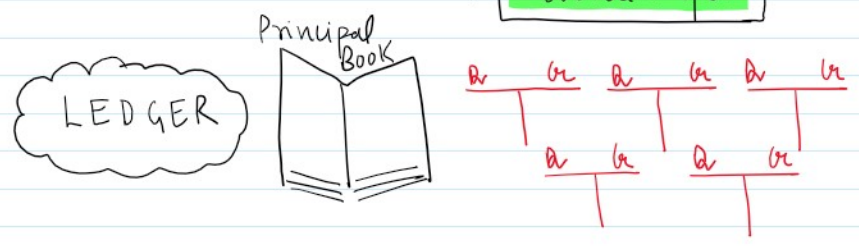
① Accounting is an **art** of **recording**, **classifying** and **summarising** in a significant manner and in terms of **money**, **transactions & events** which are in part at least, of a **financial character**, and interpreting the **result** thereof.

art → कला

recording →



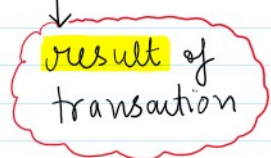
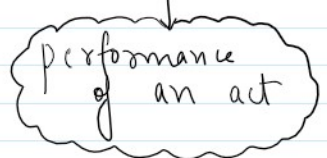
classifying →



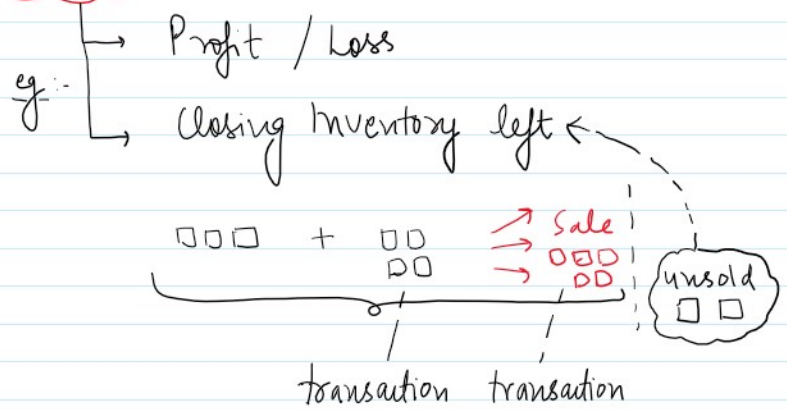
Summarising →



\* Transactions & Events

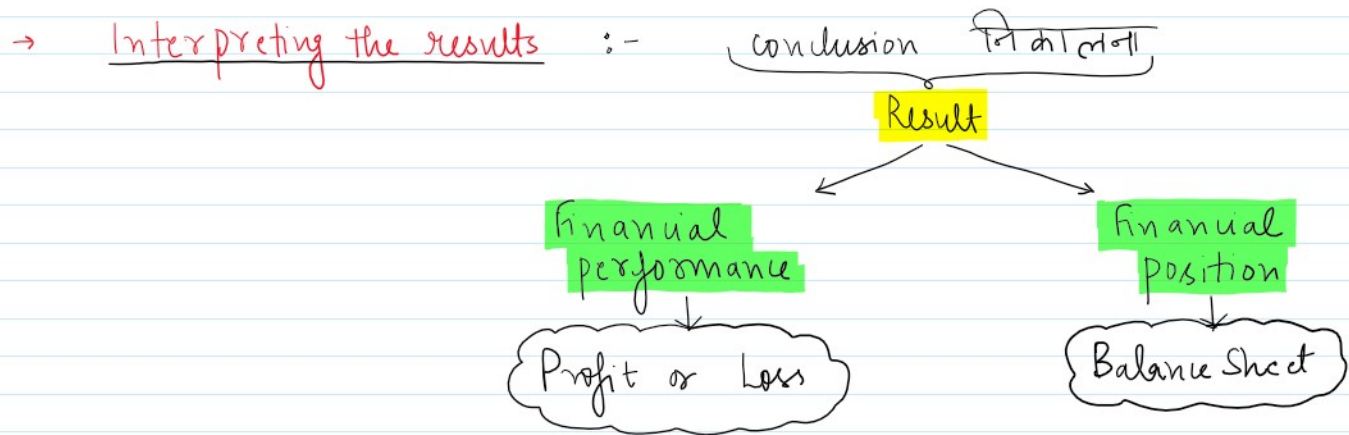


- eg:-
- purchase of goods
  - Sale of goods
  - Capital Investment
  - Expenses incurred
  - etc etc



\* Purchase or Sale of Fixed Asset  
 - Transaction & Event both.

→ Financial character :- related to Business



② Functions of Accounting (given by Accounting Principles Board (APB) of American Institute of Certified Public Accountant (AICPA))

- Recording - Journal
- Classifying - Ledger
- Summarising - Trial Balance → P&L Ac + B/S
- Analysis & Interpretation - Analysing the results
- Communicating to the user "Details Later" (Point 9)

③ Objectives of Accounting

- systematic recording of transactions
- Ascertainment of results and financial position  
 "profit/loss" "Balance Sheet"

"profit/loss"

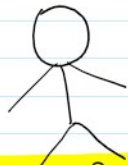
"Balance Sheet"

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

#### ④ Evolution of accounting

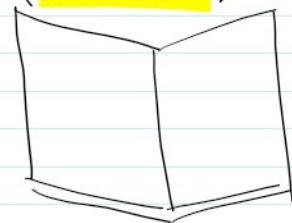
- as early as 4000 B.C (Egyptians)
- Romans used to prepare day books, where receipt & payments were recorded (700 B.C to 400 A.D)
- Kautilya (Minister in Chandragupta's Kingdom) wrote book named Arthashastra  
↓  
(described how accounting records to be maintained)

- 1494 - Double Entry Book Keeping (first book)



Luca Pacioli

(Father of Accounting)



- Debit - It comes from Italian Debito which comes from Latin Debita  
(owed to the proprietor)
- Credit - It comes from Italian Credito which comes from Latin credo  
(Belief / trust (in proprietor))

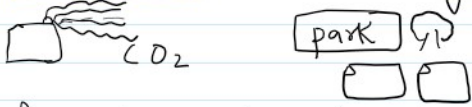
- Stewardship Accounting - root of financial accounting system.

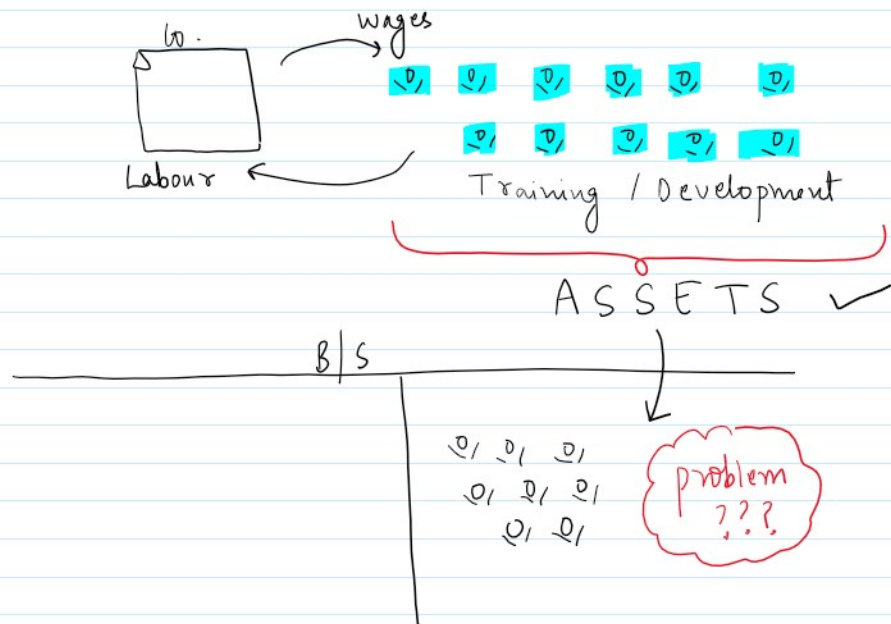
↓  
:-:~



Accounting system.

## 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 fixation of **Price**
- (iv) Social Reporting Accounting → **Social cost** + **Social Benefits**  

- (v) Human Resource Accounting → Reporting investment in **human resource**



## 6) Imp. Functions of Accounting (Imp.) - 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**

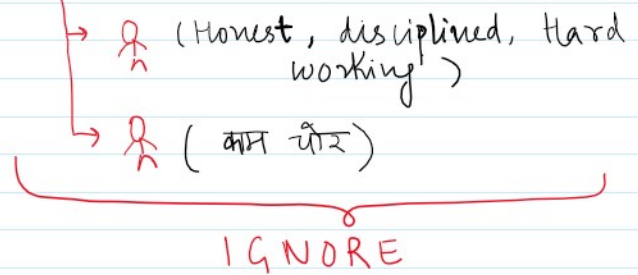
- c) **Decision Making** - It provides relevant information to the users to help them in decision making
- d) **Comparison & Evaluation** - It provides basis for comparison (Inter firm or Intra firm) & evaluates result  
 ☐ vs ☐      ☐ < 2010 vs 2020
- e) **Control** - It identifies weakness in the operational system of the business
- f) **Government Regulation & Taxation** - It provides necessary information to the government and helps in collection of taxes.

## 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

- (b) **Accounting ignores qualitative aspects**



- (c) **Accounting ignores price level changes**

Machine	— 100,000
	(COST)

~~M.V = 102,000~~

~~M.V = 110,000~~

IGNORE

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

- (e) **Reliability** - Manipulation in books of

(e) **Window Dressing** - Manipulation in books of Accounts.

8 <sup>Imp.</sup>

## BOOK-KEEPING

Accounting process :

Identification → Measurement → Recording → Classifying  
→ Summarising → Analysis → Communicating

→ <sup>Imp.</sup> 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.

→ **BOOK KEEPING VS ACCOUNTING** (v. Imp)

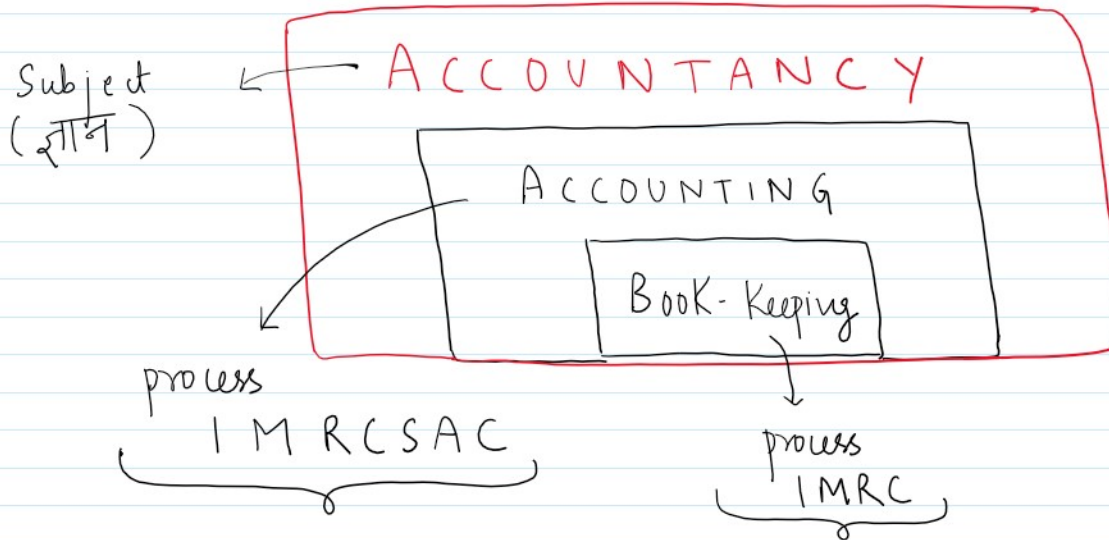
	Book Keeping	Accounting
1.	It is concerned with recording the transactions	It is concerned with summarising the recorded transaction.
2.	It is a primary stage <i>(P+L + B/S)</i>	Accounting is a secondary stage i.e. it begins where book keeping ends.
3.	<u>Financial Statements</u> do not form part of this process.	Financial Statements are prepared in this process
4.	There is no sub-field of book keeping.	There are sub-fields of accounting.
5.	Managerial decisions can	Managerial decisions can

5. Managerial decisions can not 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

- 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

g) Public - Their contribution to the economy as whole

h) Management - helps in decision making

(10)  
~~Imp~~

## 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 gulf 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 ratios are based on statistical methods. Statistical methods are helpful in developing accounting data & its interpretation.

### (iii) Accounting + Mathematics

- Knowledge of arithmetic and algebra is a



→ 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

eg:-  
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 -



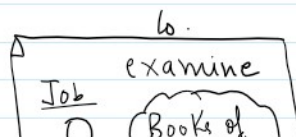
Co. Financial Statement

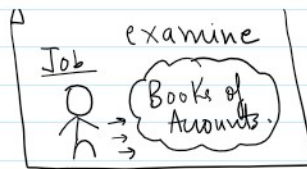


True & Fair View

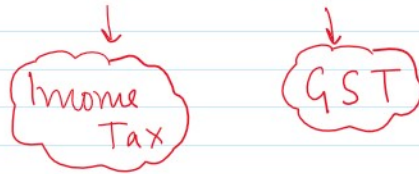
c) Internal Audit

- It is a management tool whereby internal auditor examines the accounting transactions.

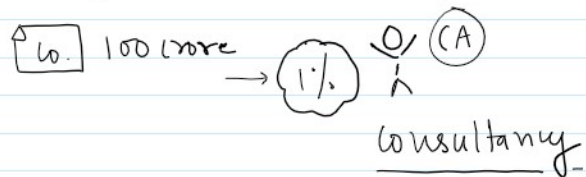
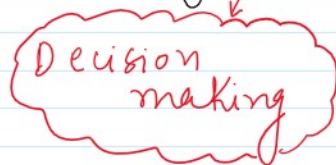




d) Taxation - Direct + Indirect taxation



e) Management accounting + Consultancy Service



f) Financial Advice

- Investments
- 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

Top level : CAs  
- 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

## UNIT- 2 (CH-1)

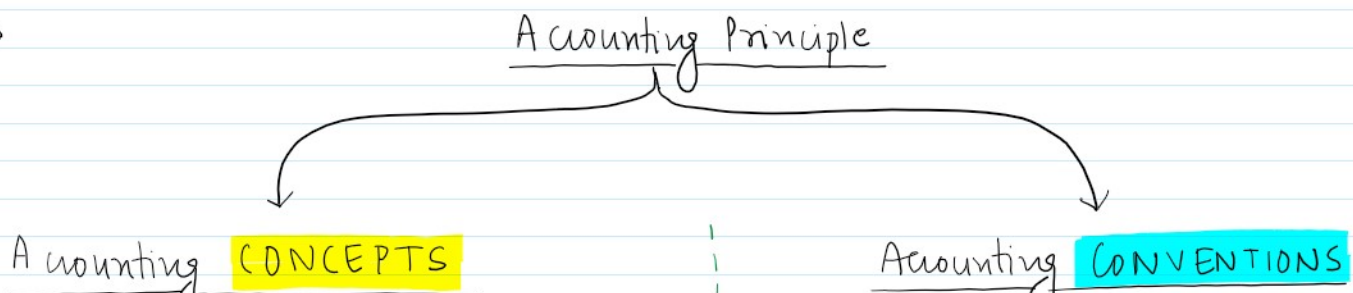
## Accounting Principles - Concepts & Conventions (V. Imp)

→ Accounting principles refer 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 followed consistently
- They should be able to reflect future predictions
- They should be informational to users.

→



## Accounting CONCEPTS

Assumptions on the basis of which financial statements are prepared

- Fundamental Accounting Assumptions
- Going Concern
  - Consistency
  - Accrual

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

## Accounting CONVENTIONS

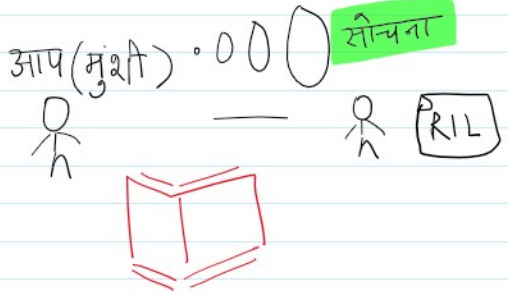
Outcome of accounting principles derived by usage + practice

प्रथा (प्राचीन काल)

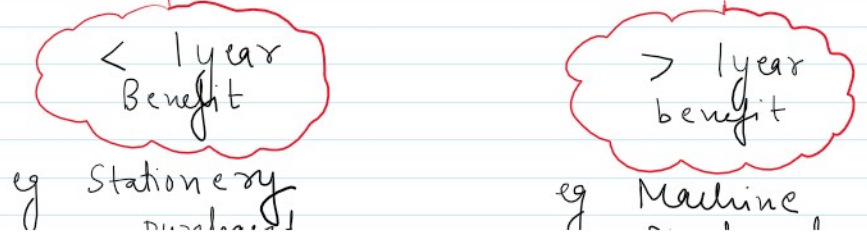
Dr	Cr
<del>To</del>	<del>By</del>
<del>To</del>	<del>By</del>
<del>To</del>	<del>By</del>

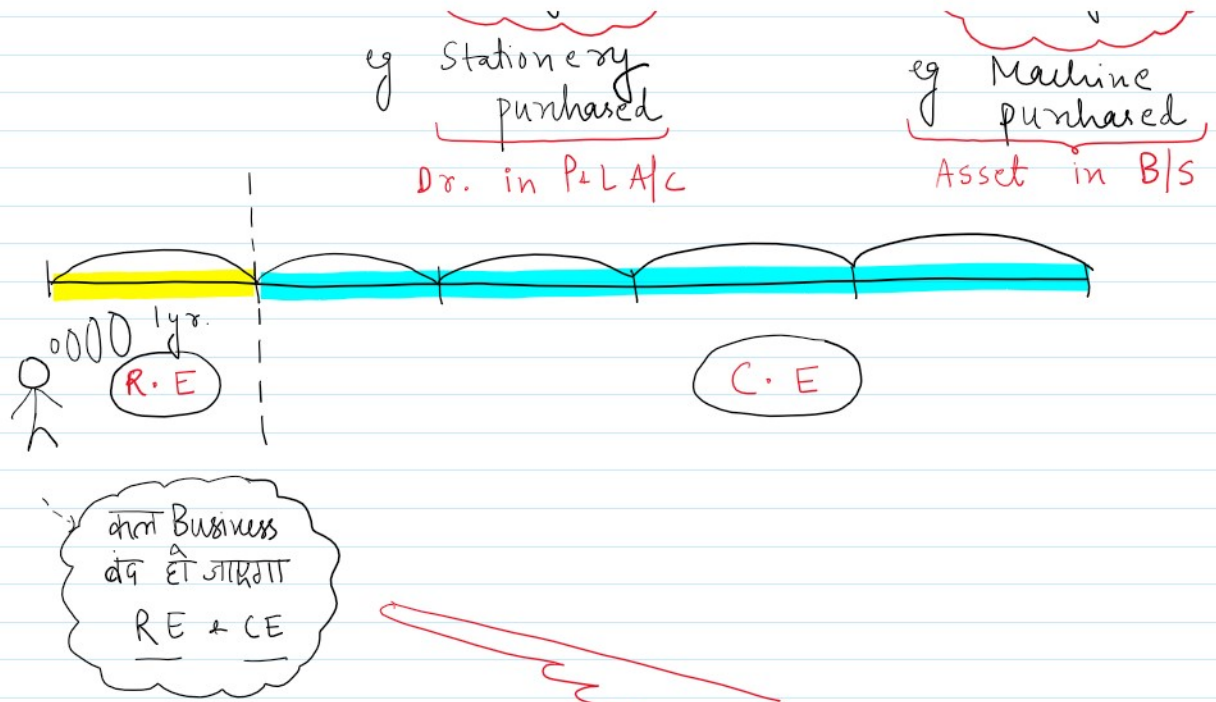
### ① GOING CONCERN

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



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

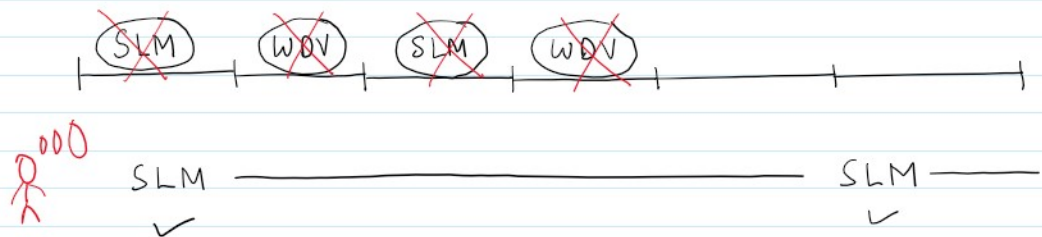




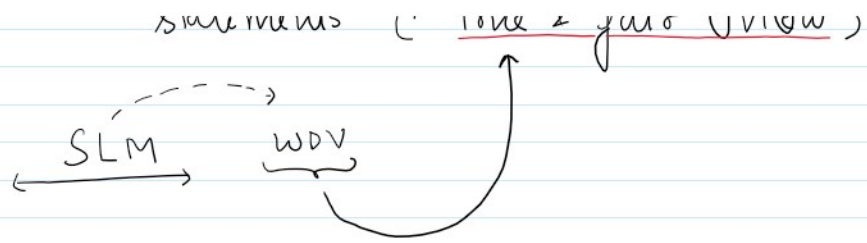
→ If this assumption is no longer valid then **FIXED ASSETS** are valued at **Net Realisable Value**

## ② CONSISTENCY

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

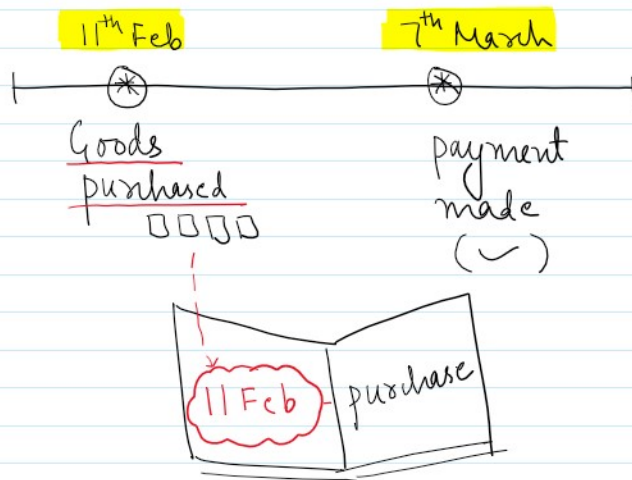


- Accounting Practice may be changed :-
- if **Law** requires
  - if **Accounting Standards (AS)** require
  - for **better presentation** of financial statements (true & fair view)
- एक ही का प्रयोग



### 3 ACCRUAL

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

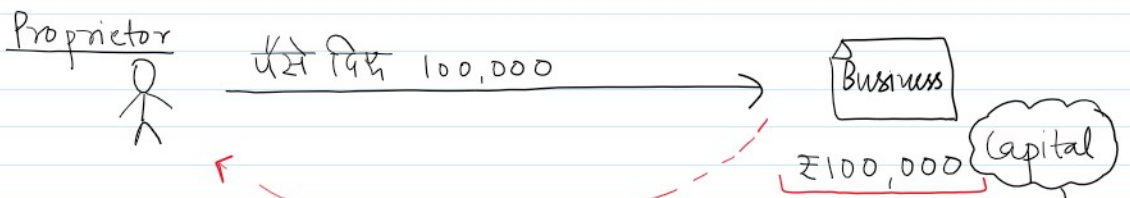


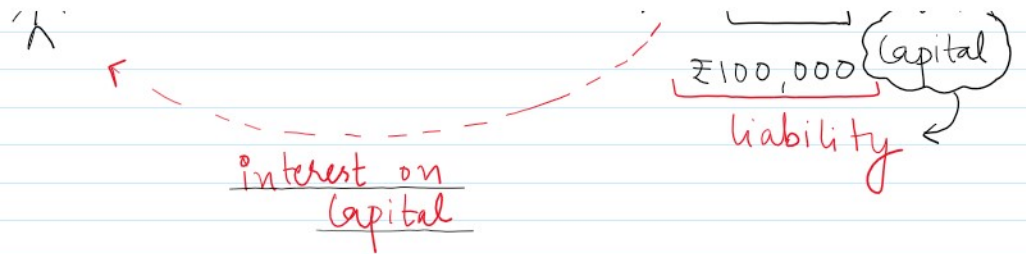
### 4 BUSINESS ENTITY PRINCIPLE

→ Business is considered to be separate from owner



→ Accounting is done from business point of view  
 → eg :- Capital is treated as liability

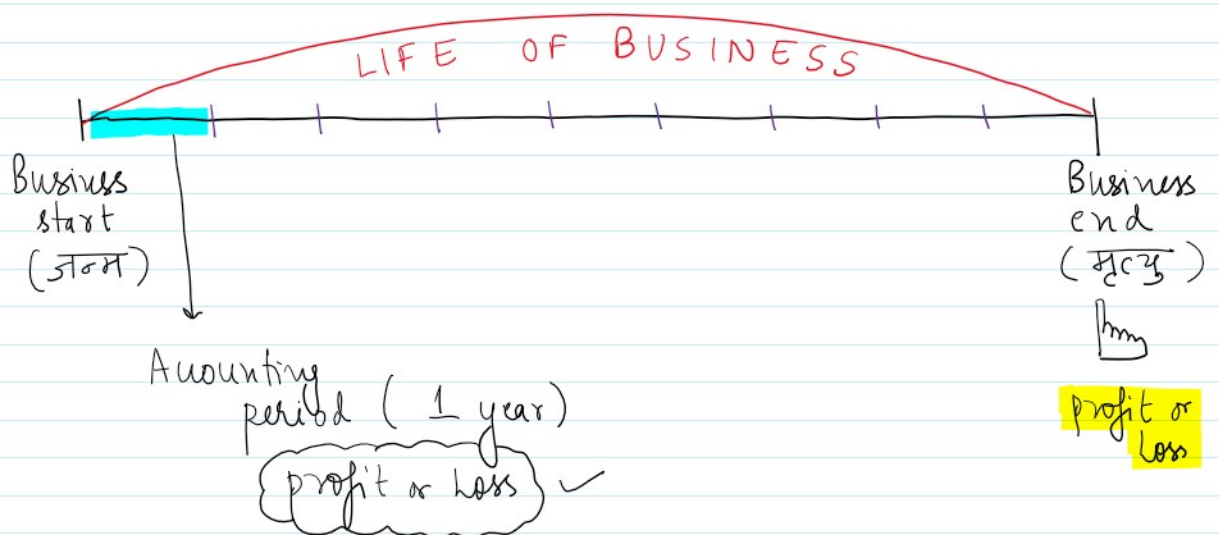




## 5 MONEY MEASUREMENT

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

## 6 PERIODICITY



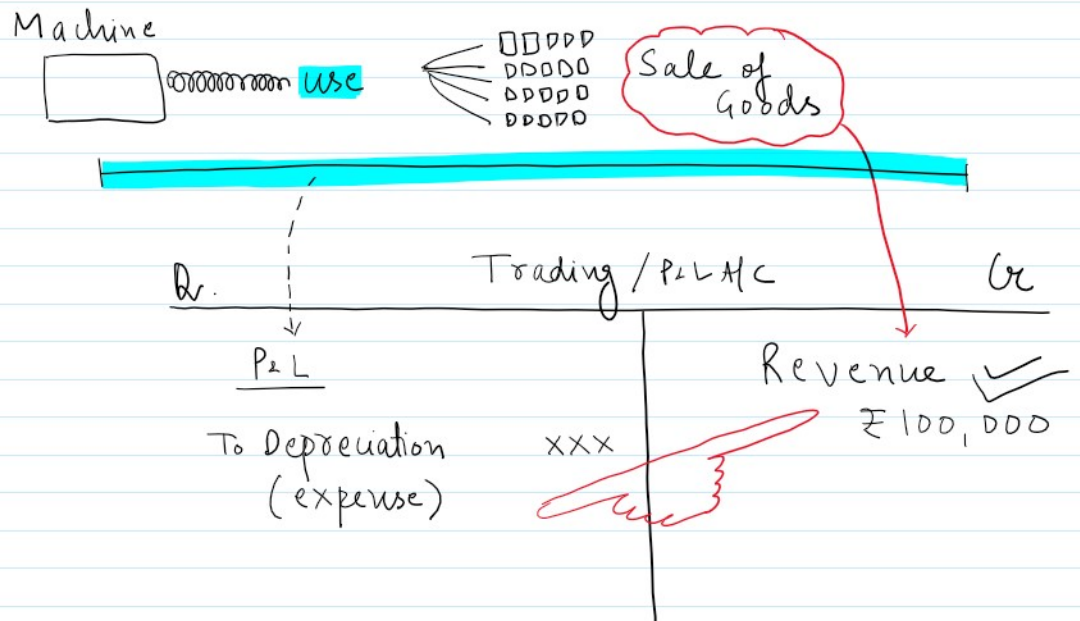
→ Life of an enterprise (Business) is broken into smaller period.

→ 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 expenses related to that revenue should also be recognised (i.e. debited in P&L A/c)

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**

P&L A/c for the year	
Dr.	Cr.
To Salary xx	By Revenue
(+) o/s Salary xx	
To depreciation	
<b>Net profit (income)</b> <<<	

Accrual

Matching



8

**COST concept**

(Historical cost principle)

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

B/S	
Machine (lost)	100,000

9

**Realisation concept**

बेचना

→ It follows cost concept only  
→ Change in value of asset is recorded only when the business realises it.

B/S	
Machine (lost)	100,000

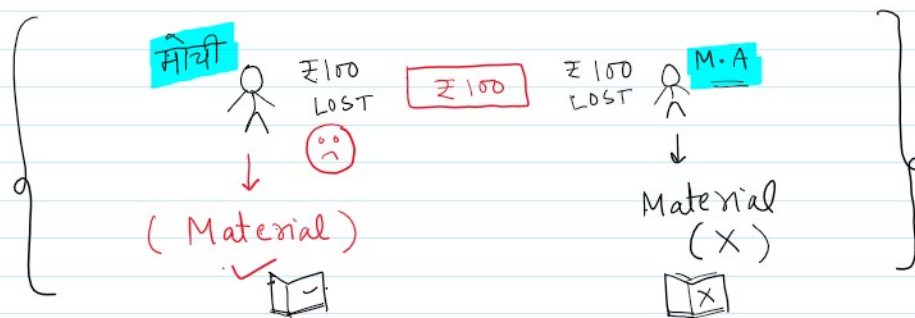
MV = 120,000

बेच दी

10

**Materiality**

Material means **IMPORTANCE**



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

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

**Full Disclosure principle**

सब कुछ बताना  
₹ user को

eg :- **Contingent liabilities** are shown as Foot notes

	B/s
Creditors	10,000
Bills payable	20,000
O/S expense	5,000

liabilities  
(80-100% sure to pay)

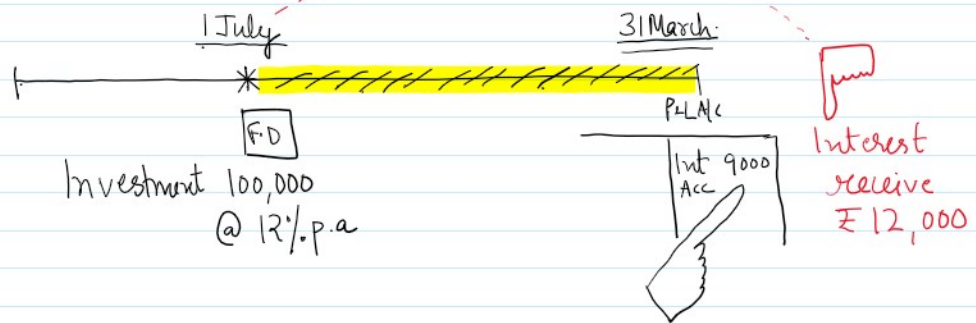
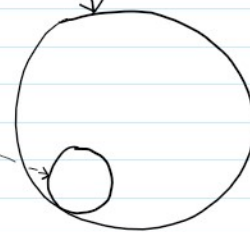
Notes to Accounts

50% - 50% to pay → Court case : Damages claim ₹ 500,000

11 **Revenue Recognition**

(Accrual का हिसाब)

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



12 Imp  
(4-5 Marks)

**Dual aspect principle**

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

Debit

Credit

and (credit)

$$\rightarrow \begin{array}{c} \text{Debit} \\ \text{ASSETS} \end{array} = \begin{array}{c} \text{Credit} \\ \text{Capital + liabilities} \end{array}$$

eg ① Find Capital

Loan	100 000	Debtors	80 000
Creditors	70 000	Stock	80 000
Machine	110,000	Cash	6 000

Sol:- Assets = Capital + liabilities

$$110,000 + 80,000 + 80,000 + 6,000 = \text{Capital} + 100,000 + 70,000$$

$$276,000 = \text{Capital} + 170,000$$

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

eg ② Capital on 1<sup>st</sup> April = 20,000

Capital on 31<sup>st</sup> March = 26,000

find profit.

$$\text{Sol:- Profit} = 26,000 - 20,000 = 6,000$$

eg 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 = 25,000

find profit

$$\begin{aligned} \text{Sol:- Profit} &= \text{closing Capital} + \text{drawings} - \text{Additional Capital} \\ &\quad - \text{Opening Capital} \\ &= 25,000 + 8,000 - 7,000 - 15,000 \\ &= 11,000 \end{aligned}$$

eg ④ find total assets if.

Capital = 100,000

eg (4) find total assets if.

Capital = 40,000

Debtors = 5,000

B/P = 3,000

Sol:-  

$$\begin{aligned} \text{Assets} &= \text{Capital} + \text{liabilities} \\ &= 40000 + 8000 \\ &= 48000 \end{aligned}$$

eg (5) <sup>\*</sup> Give one example of each of the following :-

	Given	Solution
(i)	↑ A and ↓ A	Purchased goods for cash (Stock ⊕ Cash ⊖)
(ii)	↑ A and ↑ L	Purchased goods on credit (Stock ⊕ Creditor ⊕)
(iii)	↑ A and ↑ Capital	Additional Capital Introduced
(iv)	↓ A and ↓ L	Payment to Creditor (Cash ⊖ Liability ⊖)
(v)	↓ A and ↓ Capital	Drawings
(vi)	↑ L and ↓ L	Accepted Bills Payable from Creditor BP ⊕ Creditor ⊖
<sup>*</sup> (vii)	↓ L and ↑ Capital	Conversion of loan into capital
(viii)	↑ L and ↓ Capital	Adjustment - Outstanding expense

13

# Conservatism (Prudence)

→ Do not anticipate profits but consider all prospective losses

Future में  
लाभ रहेगा  
Profit होगा  
(Reward X)

Future में  
नुकसान रहेगा  
Loss होगा  
(Reward ✓)

अनुमान  
AIR-1

10000

बुरा सपना  
0  
400

(R) eg :- Provision for doubtful debts.

(R) eg :- Closing Inventory is valued at COST OR NRV whichever ever is lower.

AS-2

100,000

exam

\* 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** representation of alternative values

Imp: \*

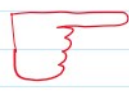
## Financial statements and its Qualitative characteristics

P+L A/c  
Balance Sheet  
Cash flow Statement



क्या  
QUALITY हैनी  
चाहिए ??

P+L A/c  
Balance Sheet  
Cash flow Statement



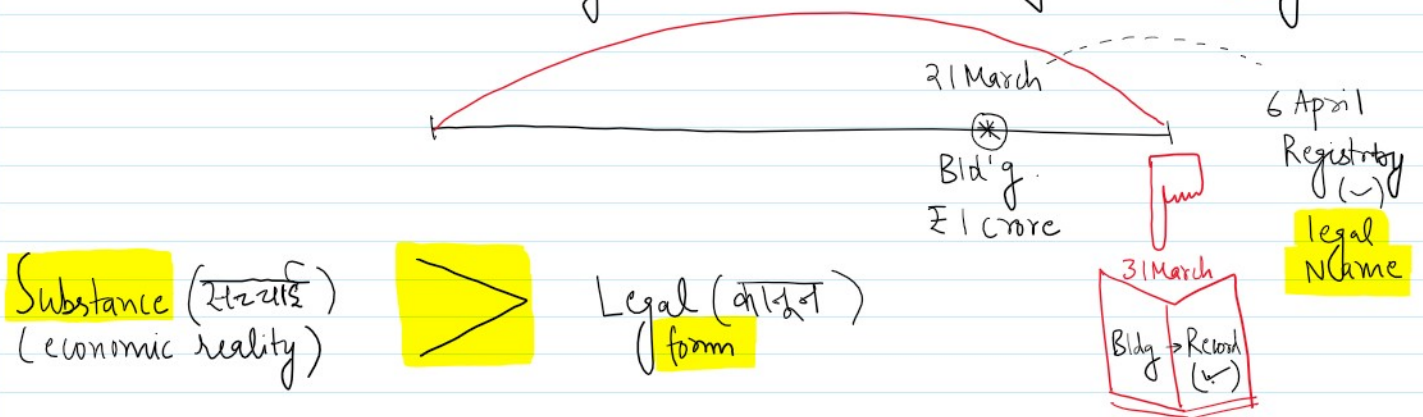
क्या  
QUALITY होती  
चाहिए ??

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

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

⑥ Faithful representation

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 (✓)

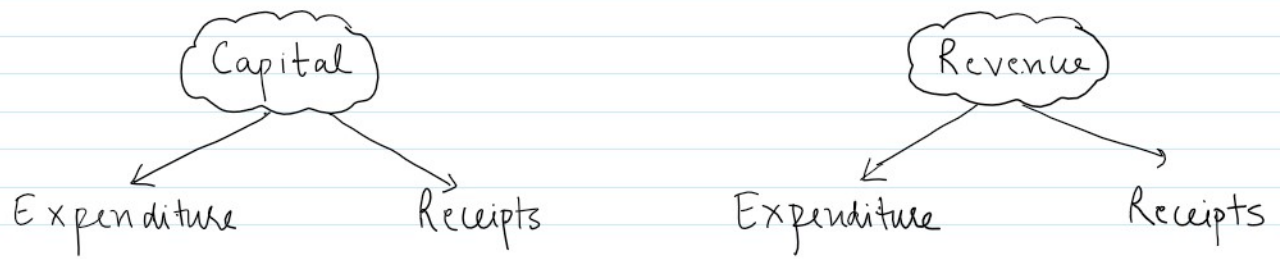
⑩ Full, fair & adequate disclosure (✓)

(10) Full, fair & adequate disclosure (✓)

(11) Completeness - F.S must be complete

X — X — X — X — X — X — X — X

UNIT-3 Capital & Revenue expenditure + Receipts (Imp.)



→ Consideration in determining Capital & Revenue items

(1) Nature of business

- Furniture dealer → Furniture → Revenue
- Stationery shopkeeper → Furniture → Capital
- Builder → Building - Revenue

(2) Recurring Nature

- Recurring : Revenue
- Non Recurring : Capital

(3) Purpose

- Productive Capacity "Increase" : Capital
- Resale / No productive capacity increase : Revenue

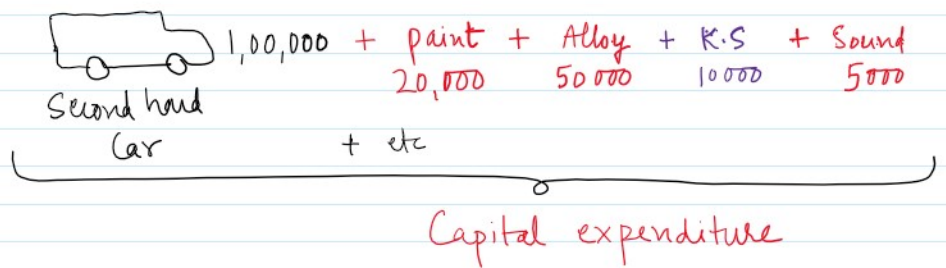
(4) Materiality of amount involved

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

T ( . . . L 0 F . . . 1 . 1 . ( . . . )

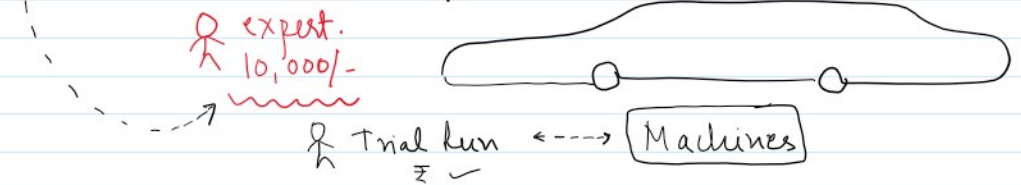
# I. Capital Expenditure (शर्त)

- Acquisition of **fixed assets**
- Repairs that **increase productive capacity**
- Any expenditure incurred on the **same day** just after purchase of **second hand asset** to make it suitable for use \*

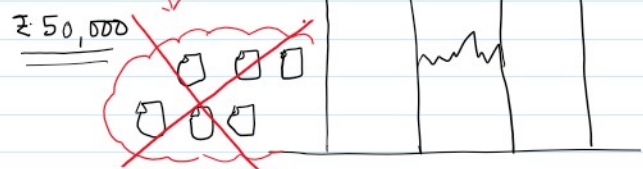


- Amount spent on obtaining **license/rights successfully** \*

- **Trial Run expenses** of "new asset"



- **Cost of temporary huts** while construction of building



- **Demolition cost** ₹ 20,000

- ETC ETC ETC

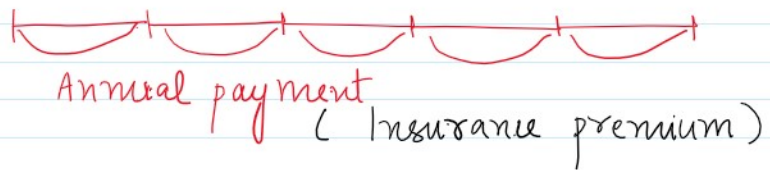
# III. REVENUE EXPENDITURE (शर्त)



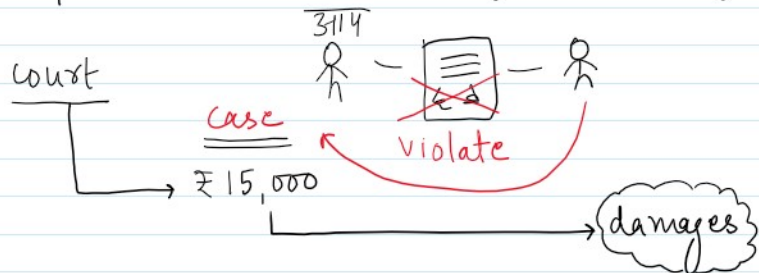
# III. REVENUE EXPENDITURE (रकार)

Expense

- Directly related to Sales revenue like Salary, Rent etc
- Benefit expires within 1 accounting period
- \* → Maintenance expenses like whitewash
- ~~productive capacity ↑~~
- Amount spent on obtaining license/right (unsuccessfully)
- Renewal fees paid



- Damages paid on account of "breach of contract"



- Inauguration expenses of new showroom.

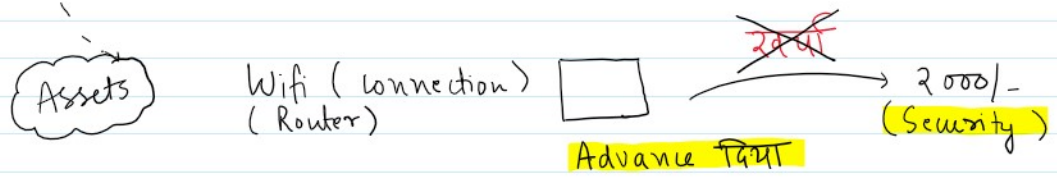
\* If R.E is treated as C.E then it will lead to OVERSTATEMENT of profits and assets

Dr.	P+L
→ Rent 100	G.P 1000
→ Salary 200	

(R.E)

R.E	→ Rent	100	G.P	1000	
	→ Salary	200			
	→ <del>KKK</del>	<del>300</del>			
	N.P	<del>400</del>			
B/S			Asset		
Capital	100	Machine	100		
		KKK	<u>300</u>		

\* Security deposits + advances are neither Capital expenditure nor revenue expenditure.



### III Capital Receipts (पैसा मिला)

- (L ↑) → Loan taken (Short term or Long term)
- (L ↑) → Share Capital raised
- (A ↓) → Sale of fixed asset
- Insurance claim received (NON Reverting)
- Etc

### IV Revenue Receipts

- Receipts from Sale of Goods or Services
- Interest income, dividend income, bad debt recovered etc

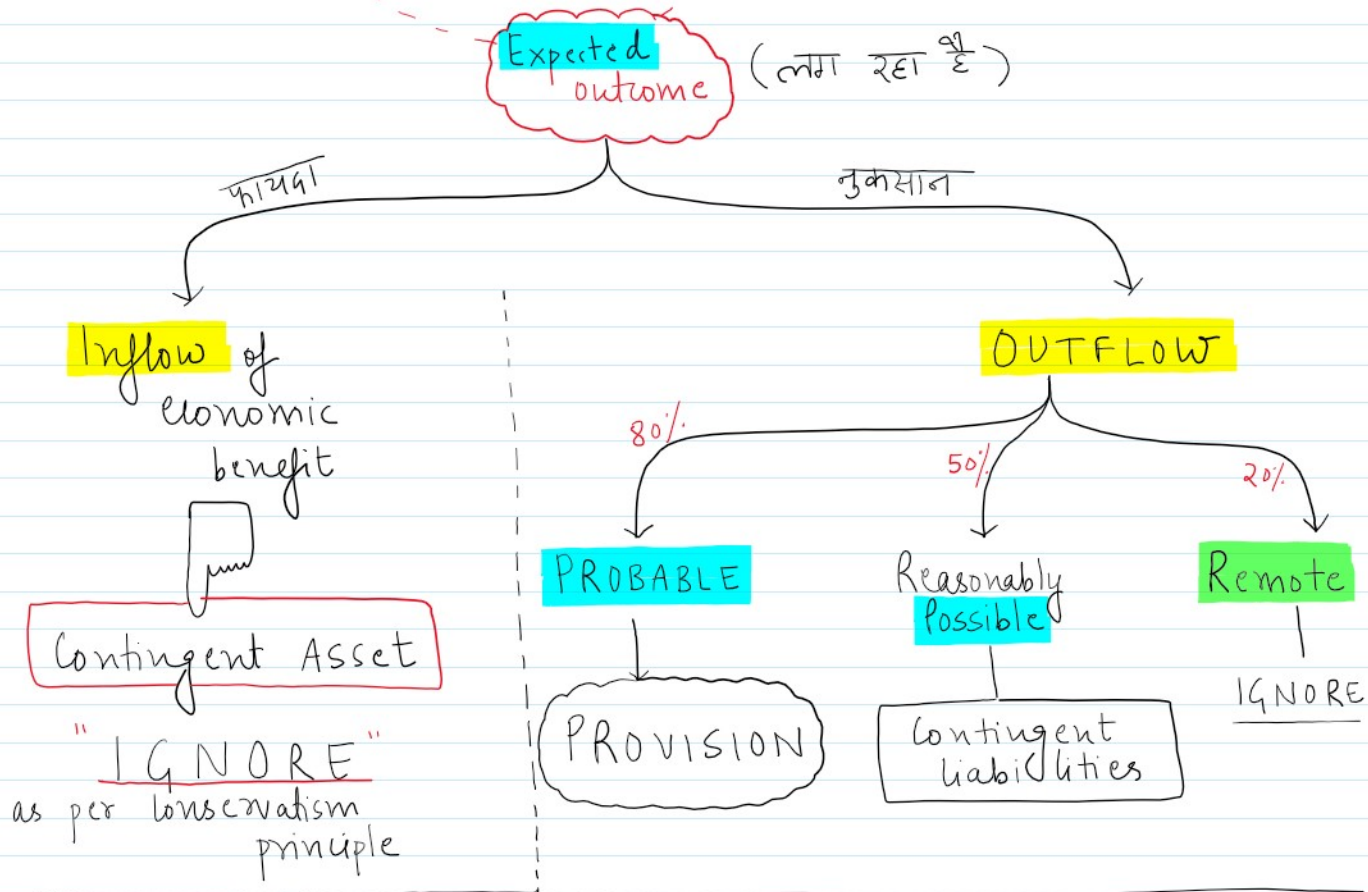
debt recovered etc

( items Cr. in P+L A/c )

x ——— x ——— x ——— x ——— x ——— x ——— x

Unit 4

Contingent Assets, Contingent liabilities and Provisions



① CONTINGENT ASSETS

- It is a possible asset that arises from past event and whose existence will be confirmed only after occurrence or non occurrence of one or more unertain 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 recognise it in the books of Accounts.

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 event and 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

## 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. recorded in books.

## Unit 5

### Accounting Policies

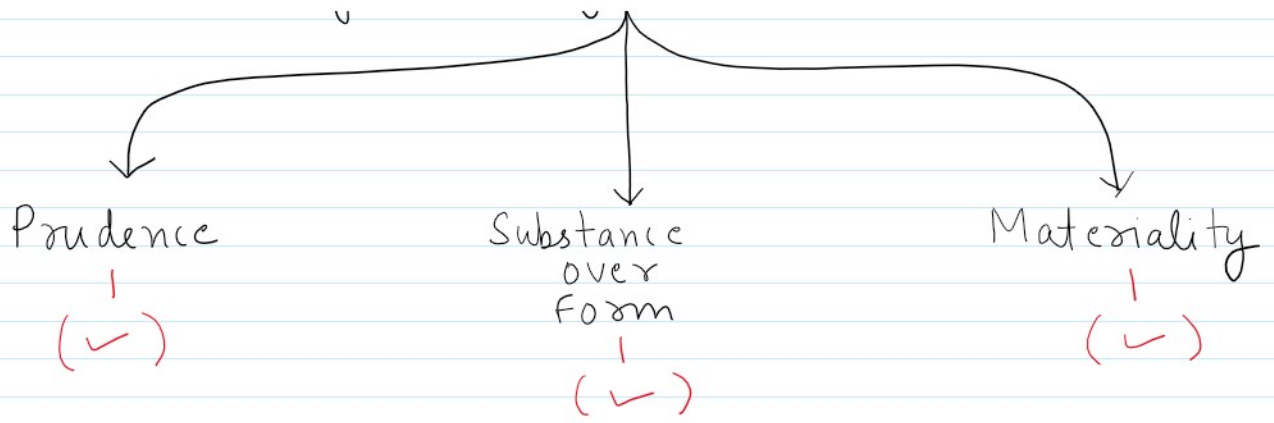
→ Accounting Policies refer to specific accounting principles and methods of applying those principles

→ eg :- Valuation of "Inventories"  
Valuation of Investment  
etc etc

FIFO, LIFO, W. Avg etc

Imp → Selection of Accounting Policies is based on :-





→ Change in Accounting Policies

- if Law requires
- if AS requires
- for better presentation of financial statements (true + fair view)

\* Disclose the effect of change on financial statements  
प्रभाव

Unit 6

Accounting as a measurement discipline

(Valuation Principles + Accounting Estimates)

① Measurement - elements

Identification of objects and events to be measured

Selection of standard or scale to be used

Evaluation of dimension of measurement standard or scale

② Accounting as Measurement discipline

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

universal denomination (₹, \$, ₹ etc)

→ Money lacks universal applicability

₹ 500 → US

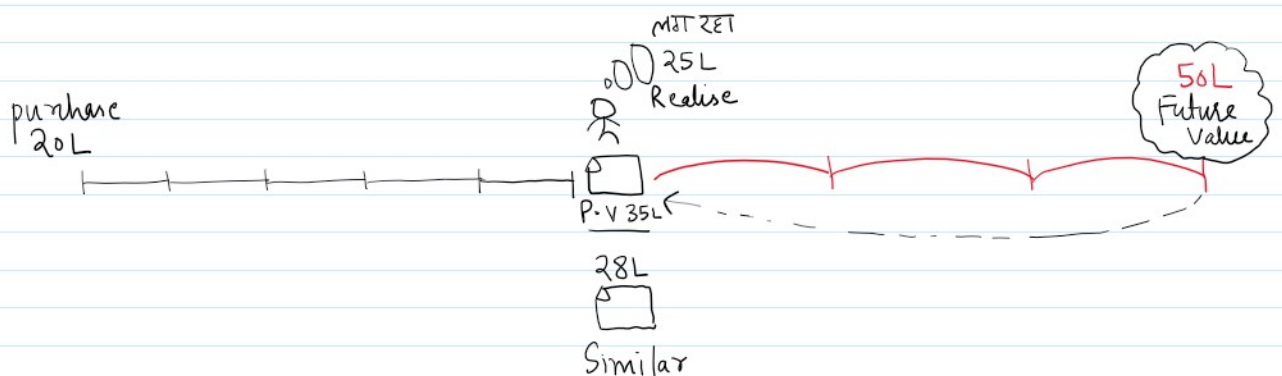
→ Money is not stable

{ 1Kg Rice → Year 2010 → ₹ 50  
1Kg Rice → Year 2020 → ₹ 150 }

### 3 <sup>imp</sup> Valuation Principles (4)

A home was purchased 5 years back for ₹ 20 lakhs. 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 value)

③ Realisable Value = 25,00,000

④ Present Value = 35,00,000 (Mathematically calculated)

⑤ ~~Future Value = 50,00,000~~

4

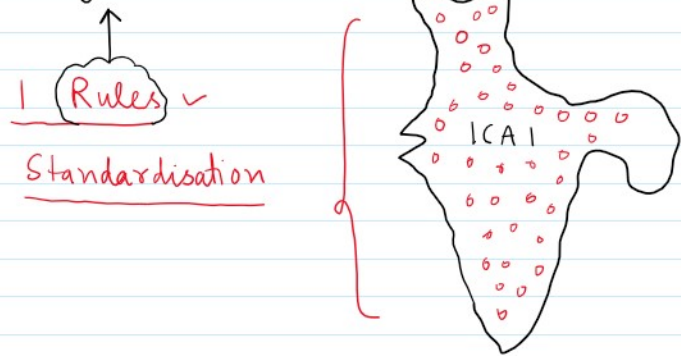
## Accounting Estimates

- 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.
- eg :- Provision for doubtful debts.  
Estimated useful life of asset  
Provision for taxation



## Unit 7

### Accounting Standards (AS)

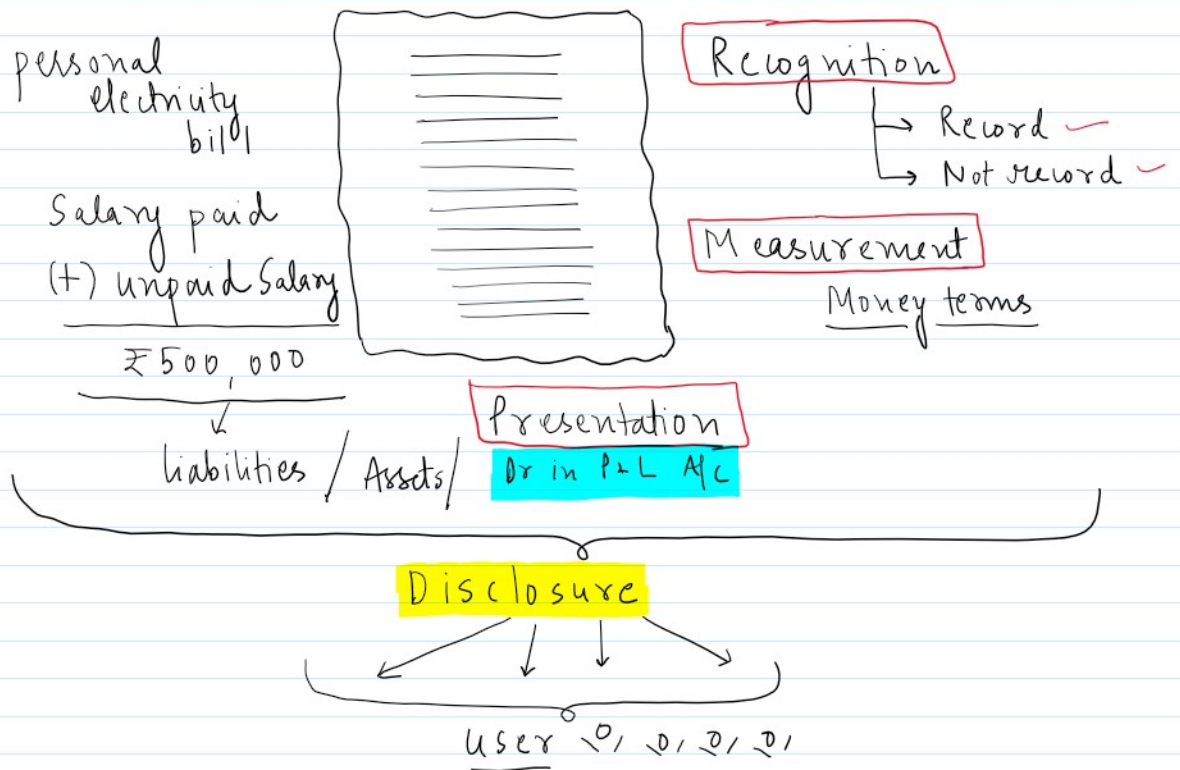


→ Accounting Standards are **written policy documents** issued by the expert accounting body or by the government or other regulatory body covering aspects of :-

- (i) **Recognition** of events & transactions in the financial statements
- (ii) **Measurement** of these transactions & events
- (iii) **Presentation** of these transactions & events in the financial statements in a manner that is meaningful and understandable to the reader

Financial statements in a manner that is meaningful and understandable to the reader

(iv) Disclosure requirements (which enables the users to get an insight into the financial statements)

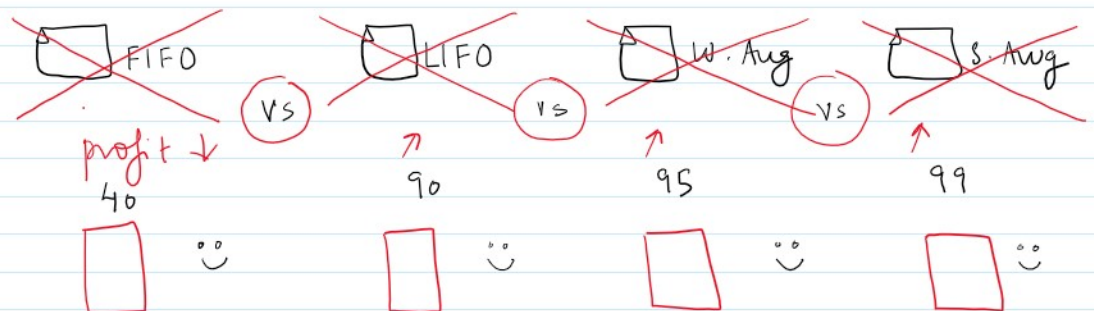


→ Objectives of AS

(i) Eliminate the non-comparability of financial statements and thereby improving the reliability of financial statements

(ii) Ensures transparency & consistency

(iii) Provides a set of accounting policies, norms and disclosure requirements



5M →

Benefits of AS



5M →

## Benefits of AS

- (i) AS reduces the confusing variations in the financial statements
- (ii) There are certain areas where important information are not statutorily required to be disclosed. AS may call for the disclosure beyond that required by law.
- (iii) The application of AS would facilitate comparison

Standardisation of alternative accounting treatments

Law (Statutory) → disclosure requirement ☹️

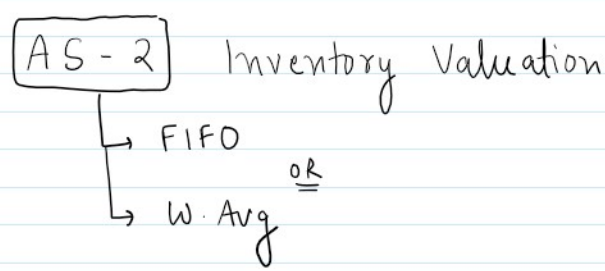
AS disclosure ✓

5M →

## LIMITATIONS of AS

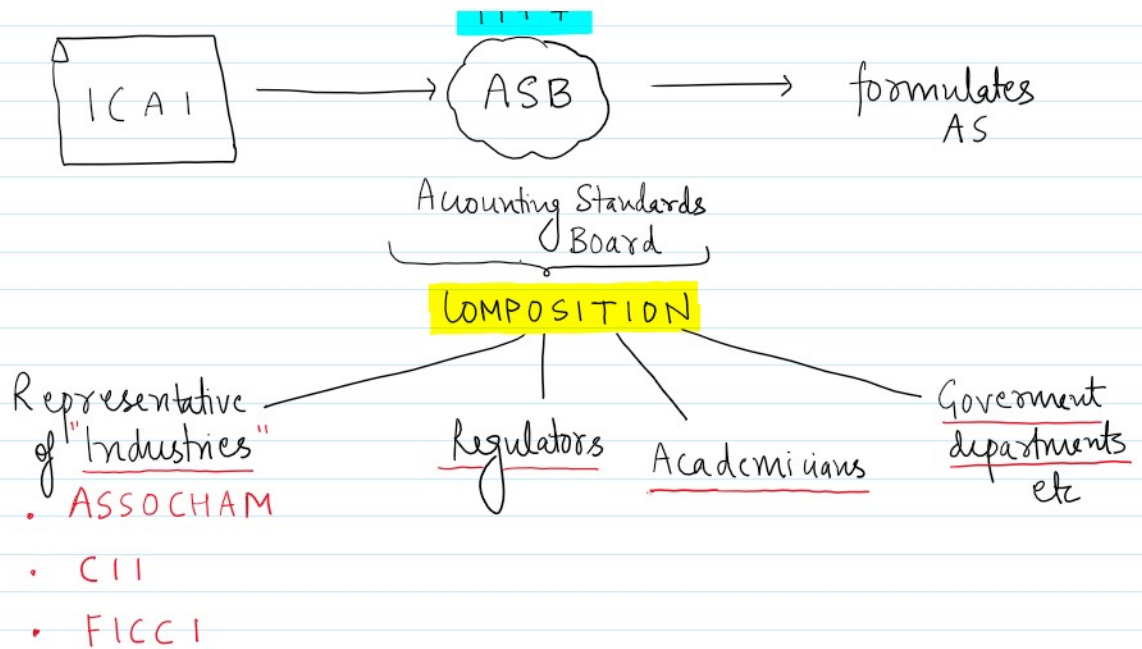
- (i) Difficulties in making choice between different treatments
- (ii) AS cannot override the statute (i.e. Restricted Scope) <sup>Law (कानून)</sup>
- (iii) AS may lead to Rigidity

flexible अर्थ

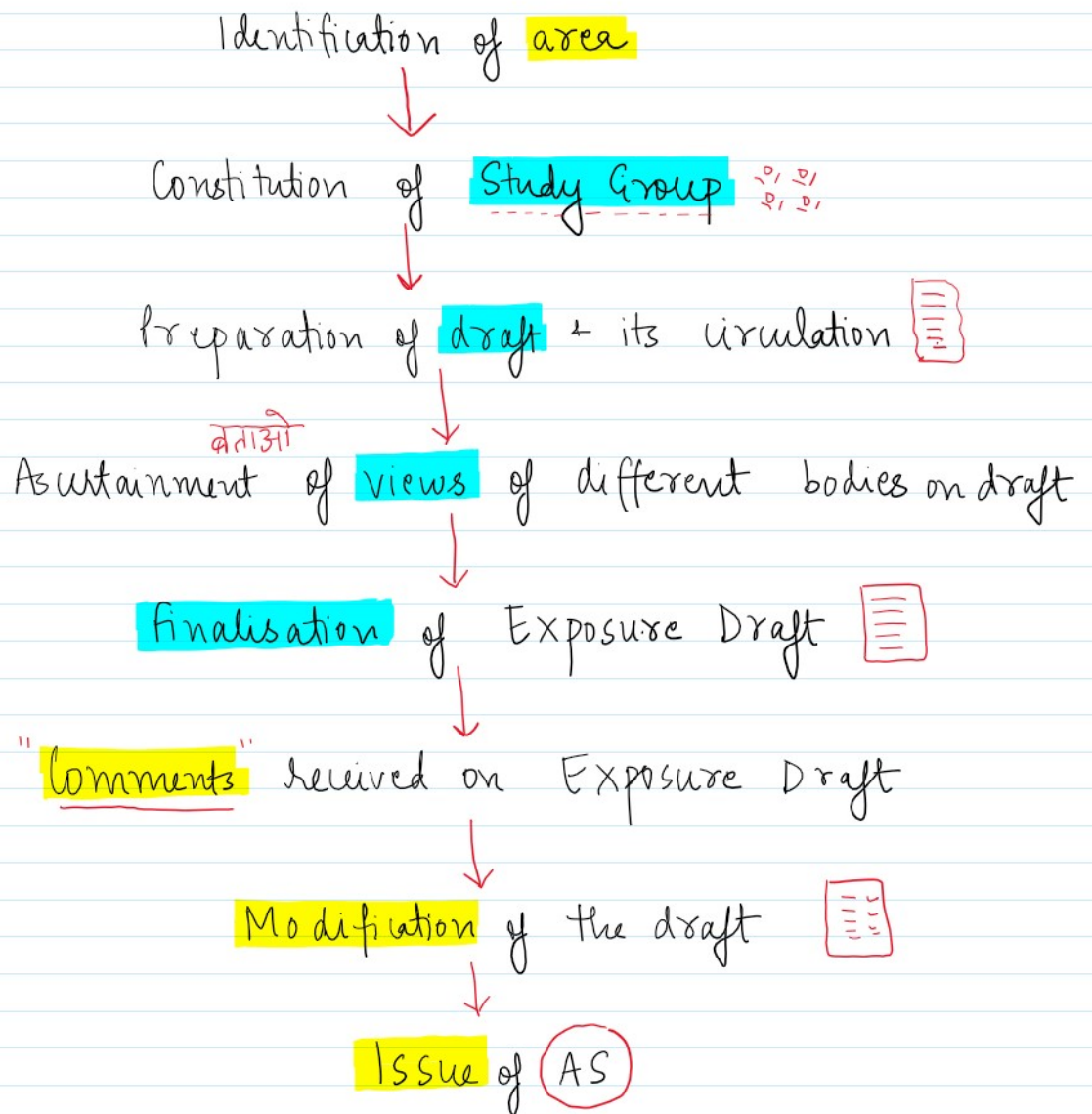


## Formulation of AS / Process





\*



→ LIST of AS (Not to Remember)

AS-1, 2, 3, 4

----- 29

~~(6)~~

~~(8)~~