Accounts Theory

Accounting → Accounting is the art of recording, classifying and summarising in significant manner and in terms of money. This recording is done in Journal or subsidiary books, also known as primary books.

Procedural aspects of Accounting

Generating financial Information

→ Recording (basic f(n)) done in journal
→ classifying (group transcation) done in ledger
→ Summarising (presentation) prepration of financial statements.

→ Analysing (classification of data) establishment of relation b/w P&L A/C and Blance sheet.

→ Interpreting
↳ (Final function)
↓
Explaining the meaning & significance of relationship.

→ Communicating
transmission of summarised, analysed & interpreted information to the end-users.
So, that they can make rational decision.

Using financial Information

Accounting is useful if it is
- Relevant
- Unbiased
- Reliable
- Clear & under standable

RCS A IC

Objectives of Accounting	Functions of Accounting
→ Systematic recording of transactions	* Measurement
→ Ascertainment of results of above recorded transactions.	* forecasting.
→ Ascertainment of financial position of business.	* decision-making.
→ Providing info to users for ration decision-making.	* Comparison.
→ To know the solvency positions	* Control.
	* Government regulation & Taxation.

Book keeping	Accounting
• Process concerned with recording of transaction.	• Process of summarising of recorded transactions.
• It is the base of accounting	• Language of business.
• Financial statements are not the part of this process.	• Financial statements are necessary to be prepared.
• Managerial decision cannot be taken with these records.	• Management decision can be taken with these records.
• It can be done by any person.	• It can be done by professionals only.

Sub-Fields of Accounting

→ Financial Accounting
→ Management Accounting
→ Cost Accounting
→ Social Responsibility Accounting
→ Human Resource Accounting.

Users of Accounting Informations

→ Investors
→ Employees.
→ Lenders
→ Suppliers & ~~Cr~~ Creditors
→ Customers.
→ Government & Agencies
→ Public
→ Management.

ACCOUNTING with other Disciplines

① Accounting & Economics

* Economics is study of efficient use of scarce resources.
* Accounting provides data for decision-making.

Economics helps in developing decision-making tools, while Accounting provides actual data.

Economics focus on concept Accounts make them ~~pr~~ practical.

② Accounting & Statistics

* Statistics help in analyzing accounting data
* Accounting gives the exact numbers.

* Statistical methods are helpful in developing accounting data and in their interpretation.

③ Accounting & Mathematics.

* Accounting heavily uses arthematic & algebra.

* Double entry bookkeeping is expresed in algebra.

* Graphs, charts, help in presenting data.

Accounting & Law

All the transactions with Suppliers & customers ~~are~~ are governed by Contract Act, the SOGA NI Act.

Transactions and events are always guided by laws of land.

Accounting & Management

* Management refers to planning, controlling, decision-making.

A large portion of accounting transaction is prepared for management decisions.

Limitations

→ Accounting ignores changes in some money factors like infation.
→ Accounting principles conflicts with each other.
→ Shows the past events, not future plans.
→ Ignores qualitative aspects.
→ Items like Dep, provision for DD based on assumptions not exact.
→ Affected by Window Dressing.
→ Sometimes Incomplete.

Services a Chartered Accountant provide to Society

Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws & matters and in general management problems.

Some services rendered by CA to the society are:-

(i) Maintenance of books of Accounts.
(ii) Statutory Audit
(iii) Internal Audit
(iv) Taxation.
(v) Management Accounting & Consultancy Services
(vi) Financial Advice & financial Investigations.
(vii) Other services like secretarial work, share registration work, Company formation, arbitrations etc.

ACCOUNTING Concepts.

Accounting Concepts define the assumptions on the basis of which financial statements of a business entity are prepared.

ACCOUNTING Principles

Accounting principles are a body of doctrines commonly associated with the theory and procedures of accounting. ~~serving as an explanation~~

Should be based on real assumption.
Must be simple, understandable
Must be followed consistency.
Should be informational for users.
Should be able to reflect future.

ACCOUNTING Conventions

Accounting Conventions emerge out of accounting ~~principles~~ practices. These conventions are derived by usage & practice.

* **Business Entity Concept / Accounting entity Concept**
This concept assumes that business has a distinct and separate entity from its owner. Therefore business transactions are recorded in the books of accounts from the business point of view not owner.

* **Money Measurement Concept**
This concept states that transactions and events that can be expressed in money terms are recorded in books of accounts. Non-Monetary transactions cannot be recorded in the books.

* **Going Concern Concept (Perpectual Sucession).**
This concept assumes that business shall continue to carry irrespective of their partners, ~~Manager~~ Managers, directors etc.

* **Accounting period Concept.**
Accounting period refers to the span of time at the end of which financial statements are prepared to know the profits or loss and financial position.

* **Cost Concept or Historical Concept.**
According to this concept all assets are recorded in the books of accounts at the purchase price which includes purchase, cost of acquisition, transportation & installation.

* **Dual aspect Concept**
According to this concept every transaction entered in the books has two aspects.
$\boxed{\text{Assets} = \text{Liabilities} + \text{Capital}}$

* Revenue Recognition Concept (Realisation Concept).
Revenue is considered when we have the right to ~~recee~~ receive revenue then it is called revenue is realized.

* Matching Concept
Expenses incurred in an accounting period should be matched with revenues during that period.

* Full Disclosure Concept
There should be complete and understandable reporting on the financial statements of all significant information relating to the economic affairs of the entity.

* Consistency Concept
This concept states that accounting practices followed by an enterprise should be uniform and consistant over a period of time.
eg → SLM/WDV.

* Conservation Concept (Prudence Concept).
It is ~~depic~~ described by using a phrase.

"Do not anticipate a profit, but provide for all possible losses".

This concept takes into consideration of all prospective losses but not the prospective profits.

* Materiality Concept
Accounting should focus on material facts. ~~[illegible]~~

* Objectivity Concept or Verifiable objective Concept.
Accounting should free from personal ~~ba~~ bias.

Three fundamental Accounting Assumptions

Going Concern | Consistency | Accrual

Qualitative characteristics.
Understandability, Relevance, Reliability, Comparability, Materiality, faithful representation, full & fair.

Capital Expenditure	Revenue Expenditure
Any Expenditure incurred to provide a benefit over a long-term period is capital expenditure.	Any Expenditures incurred to provide benefit during the current period is called revenue expenditure.
eg → Purchase of Machine	Eg → Repairs & Maintenance.

Capital Receipts	Revenue Receipts.
* Receipts which are not revenue receipts are Capital receipts.	* Receipts which are obtained in course of normal business activities
* Eg → Sale of fixed Asset Investment.	* Eg → Sale of goods & Services.

Contingent Assets	Contingent Liability
A possible asset arises from past events and their existence will be confirmed only after occurrence or non-occurrence of one ora more uncertain future events.	A possible obligation arising from past event and may arise in future depending on the ~~a~~ occurrence or non-occurence of one ora more uncertain ~~a~~ future events.

Provisions

Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.

Liability & Contingent Liability

→ The distinction between liability & a contingent liability is generally based on the judgement of management.

→ A liability is defined as the present financial obligation of an enterprise, which arises from past events. which require an outflow of ~~resour~~ resources.

→ Contingent liability is possible obligation that may or may not become payable in future. because it depends on uncertain event.

Accounting Standards

Accounting ~~ap as de~~ Standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of ~~reg~~ recognition, measurement, presentation & disclosure of accounting transactions & events in financial statements.

Objectives

(1) Eliminate the non-comparability of financial statements.

(2) Improve ~~reali~~ reliability of financial statements.

(3) Provide a set of standard accounting policies, valuation norms & disclosure requirements.