Kuldeep Singh Suman

Assistant Professor (Commerce)

School of Management

Maharaja Agrasen University, Baddi- Himachal Pradesh

WHAT IS ACCOUNTING?

- Accounting is a process of identifying, recording, classifying, summarizing, interpretating and reporting of financial transactions which can be measure in the term of money.

Definition of Accounting?

- **Smith and Ashburn,** “Accounting is a science of recording and classifying business transactions and events, primarily of a financial character and the art of making significant summaries, analysis and interpretation of these transaction and event and communicating the result to person who must take decision form judgements.”
- **R.N. Anthony, “**Nearly every business enterprise has accounting system. It is a mean of collecting, summarizing, analysing, and reporting in monetary term, information about business.”

Characteristics of Accounting?

1. **Recording of financial Transactions only**
2. **Recording in term of money only**
3. **Classifying**
4. **Summarizing**
5. **Interpretation of the results**
6. **Communicating the results**
7. **It is art as well as science**

Scope/Functions of Accounting?

1. **To keep complete and systematic record**
2. **To protect the assets of the business**
3. **To communicate the financial results to various parties**
4. **To meet legal requirement**
5. **To fix responsibility**

Objectives of Accounting?

1. To keep systematic record of business transaction
2. To calculate profit or loss
3. To depict the financial position of the business
4. To communicate the information to the users
5. To detect and prevent errors and frauds

Advantages of Accounting?

1. Helpful in taking managerial decisions
2. Provides complete records
3. Provides information about profit and loss
4. Provides information regarding financial position
5. Enable comparative study
6. Useful for future planning
7. Facilitates control
8. Evidence in legal matters

Limitations of Accounting?

1. Based on personal judgements
2. Based on accounting concept and conventions
3. Unrealistic Information
4. Based on Historical cost
5. Suffers from window dressing
6. Absence of qualitative information

Accounting Principles

Accounting Principles

Accounting principles refer to the fundamental concepts, rules, and guidelines that guide the process of preparing and presenting financial statements and other financial information.

These principles ensure consistency, accuracy, and transparency in financial reporting, making it easier for stakeholders to understand and analyze a company's financial performance.

Types of Accounting Principles

1. Accounting Concepts
2. Accounting Conventions

1. Accounting Concepts

1. Going Concern Concept
2. Consistency Concept
3. Accrual Concept

1. Accounting Conventions

1. Separate legal Entity
2. Money Measurement Principle
3. Accounting Period Principle
4. Principle of full disclosure
5. Principle of Materiality
6. Principle of Conservatism
7. Principle of historical cost

Users of Accounting Information

Users of Accounting Information

Various stakeholders and individuals utilize accounting statements and information for different purposes. Accounting statements are essential financial documents that provide insight into the financial health and performance of a company. Some of the key users of accounting statements and information include:

1. Management and Internal Users: The management team of a company uses accounting information to make strategic decisions, assess the company's **financial performance, set goals, and plan** for the future. This includes **budgeting, forecasting, and resource allocation**.

Users of Accounting Information

2. Shareholders and Investors: Shareholders and potential investors rely on accounting statements such as the balance sheet, income statement, and cash flow statement to evaluate the financial position and profitability of a company. This information helps them make informed investment decisions.

3. Creditors and Lenders: Banks, financial institutions, and other creditors use accounting statements to assess the creditworthiness of a company before lending funds. They want to understand if the company can repay its loans and meet its financial obligations.

Users of Accounting Information

4. Employees: Employees may be interested in the financial health of their employer as it can **impact job security, salary increases, and potential benefits**. Additionally, some companies offer stock-based compensation, so employees might be interested in the company's financial performance.

5. Government and Regulatory Authorities: Government agencies and regulatory bodies use financial statements to ensure that companies comply with **financial reporting standards, taxation regulations, and other legal requirements**.

Users of Accounting Information

6. Suppliers and Vendors: Suppliers may assess a company's financial statements to determine their ability to pay for goods and services in a timely manner. This can impact credit terms and business relationships.

7. Customers: Customers may be interested in a company's financial health to ensure the stability and continuity of their supply of goods and services. For instance, a customer might be concerned if a supplier they rely on is facing financial difficulties.

Users of Accounting Information

8. Competitors: Competitors might analyze a company's financial statements to gain insights into its strategies, performance, and potential vulnerabilities. This information can help them adjust their own strategies and stay competitive.

9. Analysts and Financial Advisors: Financial analysts and advisors use accounting information to provide recommendations to clients, make investment decisions, and offer insights into market trends.

Users of Accounting Information

10. Educational and Research Institutions: Students, researchers, and academics use financial statements for educational purposes and to conduct studies related to financial analysis, corporate governance, and economic trends.

11. General Public: Individuals with an interest in the economy and business world may access accounting information to stay informed about the financial performance of companies and industries.

Overall, accounting statements play a crucial role in facilitating transparency, accountability, and informed decision-making in the business world.

Cash and Accrual Basis of Accounting

Cash and Accrual Basis of Accounting

Cash basis accounting and accrual basis accounting are two different methods used to record and report financial transactions in a business. They differ in terms of when revenue and expenses are recognized, providing distinct perspectives on a company's financial position and performance.

Cash Basis of Accounting

Cash Basis Accounting:

In cash basis accounting, transactions are recorded when cash is received or paid. This means that revenue is recognized only when cash is received, and expenses are recognized when cash is paid out. This method is relatively simple and is often used by small businesses or individuals

Advantages of Cash Basis of Accounting

Simplicity: Cash basis accounting is straightforward and requires less complex record-keeping.

Reflects Cash Flow: It accurately shows the cash inflows and outflows of a business

Disadvantages of Cash Basis of Accounting

Timing Differences: It may not accurately represent the actual financial performance, as revenue and expenses are not recorded when the economic activity occurs.

Not Conforming to GAAP: Generally Accepted Accounting Principles (GAAP) often require accrual basis accounting for financial reporting.

Accrual Basis of Accounting

Accrual basis accounting records transactions when they occur, regardless of when cash is exchanged. This means that revenue is recognized when it's earned, and expenses are recognized when they're incurred, regardless of when the actual cash flows occur.

Advantages of Accrual Basis of Accounting

Accurate Financial Performance: Accrual accounting provides a more accurate representation of a company's financial performance by matching revenues and expenses with the periods in which they occur.

Conforms to GAAP: Many accounting standards and regulations, including GAAP, require businesses to use accrual basis accounting for financial reporting.

Disadvantages of Accrual Basis of Accounting

Complexity: Accrual accounting can be more complex and require meticulous record-keeping.

Timing of Cash Flow: It might not align with the actual cash flow situation, which could be problematic for cash-strapped businesses.

Book-keeping

Book Keeping

Book Keeping is a composite term made of **‘Book’** and ‘**Keeping**’. The words ‘Book’ refers to a set of books or book of accounts and ‘Keeping’ refers to a set of books or book of account maintained in a systematic manner.

Thus **Book-keeping is the art of recording the financial transaction of a business, or an individual, in term of money, in a set of books, accurately and systematically in order obtain other necessary information required**.

Difference Between Book Keeping and Accounting

Book Keeping

1. Book-keeping includes:
   (i) Identifying the financial transactions
   (ii) Measuring the above transaction in the term of money and recording it.
   (iii) Classifying them in the ledger.

Accounting

1. Accounting in addition to book-keeping includes:
   (i) Summarizing the classified transactions
   (ii) Analysing and interpreting the summarized results and
   (iii) Communicating the result to the parties interested in them.

Difference Between Book Keeping and Accounting

Book Keeping

2. The main objective of book-keeping is to maintain complete and systematic record of transaction of financial nature.

3. Book-keeping is the primary stage.

4. The nature if book-keeping is routine and clerical in nature.

5. Book-keeping is performed by junior staff.

6. Book-keeper is not required to possess analytical skill.

Accounting

2. The main objective of accounting is to determine net results and financial position of the business and to communicate them to the interested parties.

3. Accounting is the secondary stage.

4. The accounting function is analytical in nature.

5. Accounting function is performed by senior staff.

6. The accountant is required to possess analytical skill.

Accounting Standards

Meaning of Accounting Standards

- Accounting Standards are a set of guidelines and principles that dictate how financial transactions and events should be recorded, presented, and reported in financial statements.

- These standards ensure consistency, comparability, and transparency in financial reporting across different organizations and industries.

- **Kohler defines** accounting standard as " a code of conduct imposed on accountants by customs, law or professional body."

Nature of Accounting Standards

1. **Guidance:** Accounting standards provide specific guidance on how to account for various transactions, ensuring uniformity and reducing ambiguity in financial reporting.
2. **Principles-Based:** They are often principles-based rather than rules-based, allowing for flexibility in application while maintaining the underlying conceptual framework.
3. **Adaptability:** Accounting standards evolve over time to reflect changes in business practices, economic environments, and regulatory requirements.

Nature of Accounting Standards

4. Global Applicability: Many countries have adopted international accounting standards to ensure consistency in financial reporting on a global scale.

5. Standard-Setting Bodies: Accounting standards are typically set by recognized bodies, such as the International Financial Reporting Standards (IFRS) Foundation or the Financial Accounting Standards Board (FASB) in the United States.

Characteristics Accounting Standards

Characteristics of Accounting Standards

1. **Relevance:** Standards aim to provide relevant and reliable information to various stakeholders for making informed decisions.
2. **Consistency:** They promote consistency in how transactions are recorded and reported, allowing for easier comparison of financial statements.
3. **Comprehensibility:** Standards ensure that financial information is presented in a clear and understandable manner.
4. **Comparability:** Similar transactions are treated similarly across different entities, facilitating meaningful comparisons.

Characteristics of Accounting Standards

5. **Transparency:** Standards emphasize disclosure of relevant information, ensuring transparency in financial reporting.

6. **Neutrality:** Accounting standards aim to be unbiased, not favoring any particular stakeholder group.

7. **Prudence:** While promoting transparency, standards also advocate for the exercise of caution in recognizing uncertain gains and losses.

Need and Importance Accounting Standards

Need and Importance Accounting Standards

1. **Consistency:** Standards promote consistency in financial reporting practices, enabling stakeholders to compare and analyze financial information effectively.
2. **Investor Confidence:** Transparent and standardized financial reporting enhances investor confidence and trust in the accuracy of financial statements.
3. **Decision-Making:** Reliable financial information based on accounting standards aids management, investors, creditors, and other stakeholders in making informed decisions.
4. **Globalization:** Common accounting standards are essential for international business transactions and investments, ensuring compatibility across different jurisdictions.

Need and Importance Accounting Standards

5. **Regulatory Compliance:** Many jurisdictions require businesses to adhere to specific accounting standards for regulatory compliance.

6. **Reduced Manipulation:** Standards reduce the potential for creative accounting and financial manipulation by providing clear guidelines.

7. **Credibility:** Adherence to accounting standards enhances the credibility of financial statements and reduces the likelihood of fraud or misrepresentation.

Types of Accounting Standards

Types of Accounting Standards

- National Accounting Standards
- International Financial Reporting Standards

National Accounting Standards

In India, the accounting standards are formulated and issued by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI). These standards are known as Indian Accounting Standards (Ind AS). The Ind AS is largely converged with the International Financial Reporting Standards (IFRS), which are globally recognized accounting standards.

The following entities are required to follow Ind AS:

- **Listed Companies:** All companies listed on stock exchanges in India and their subsidiaries, joint ventures, and associates.
- **Unlisted Companies:** Certain classes of unlisted companies based on their net worth and turnover thresholds.
- **Banks and Financial Institutions:** Banking companies, non-banking financial companies (NBFCs), and other financial institutions.

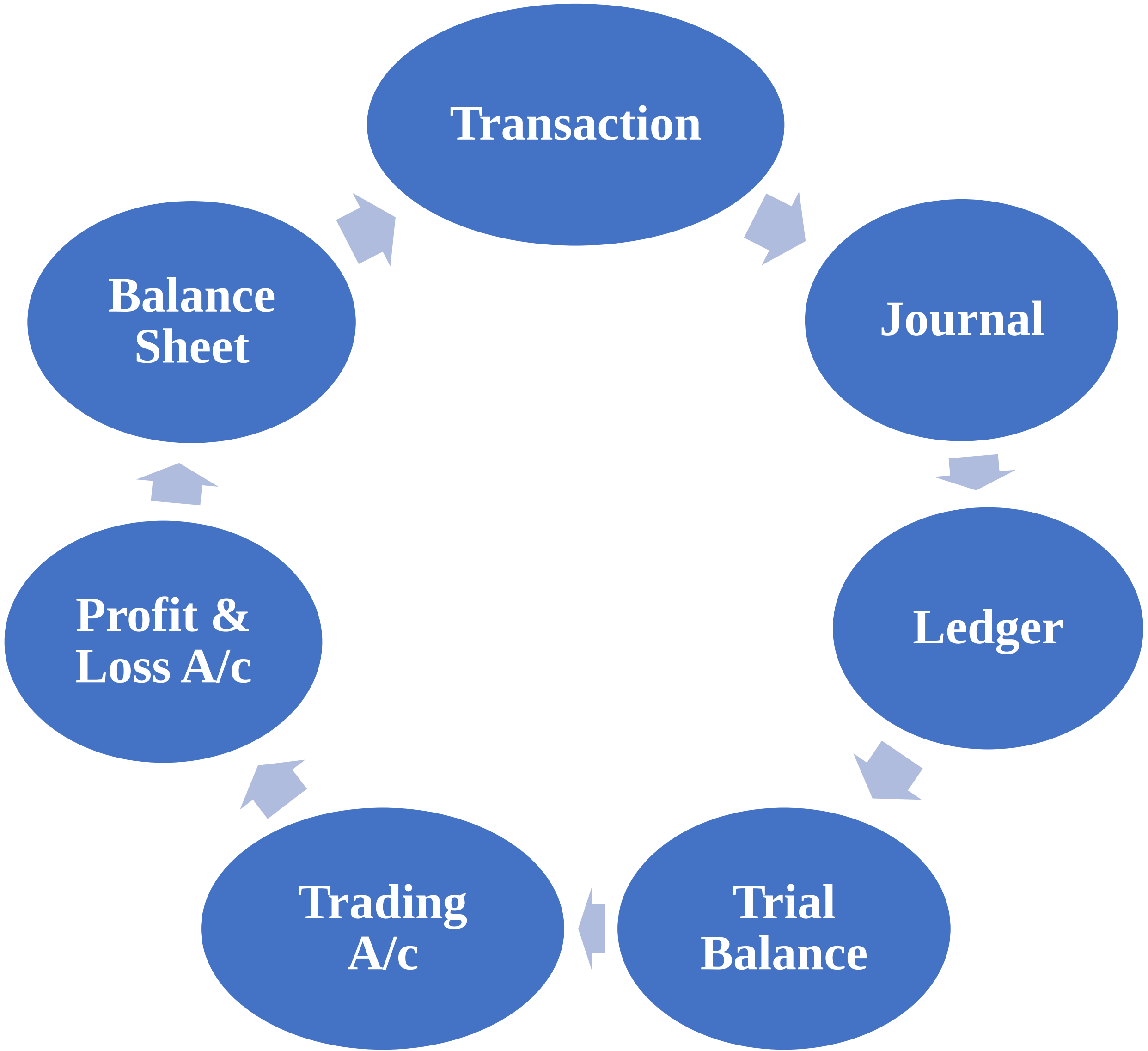
As on 1st April, 2015 these were 32 accounting standards issued by ICAI compliance of all of which mandatary for the company list in the next slide

S.no.	Number of the AS	Title of the Accounting Standards
1.	AS-1	Disclosure of Accounting policies
2.	AS-2 (Revised)	Valuation of Inventories
3.	AS-3(Revised)	Cash flow statements
4.	AS-4 (Revised)	Contingencies and events occurring after the balance sheet date
5.	AS-5(Revised)	Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
6.	AS-6(Revised)	Depreciation account
7.	AS-7(Revised)	Construction contracts
8.	AS-8(withdrawn pursuant to AS-26 becoming mandatory)	Research and development
9.	AS-9	Revenue recognition
10.	AS-10	Fixed assets
11.	AS-11(Revised)	The changes in foreign exchange rates
12.	AS-12	Government grants
13.	AS-13	Investments
14.	AS-14	Amalgamations
15.	AS-15(Revised)	Employee benefits
16.	AS-16	Borrowing costs

S.no.	Number of the AS	Title of the Accounting Standards
17.	AS-17	Segment reporting
18.	AS-18	Related party disclosures
19.	AS-19	Leases
20.	AS-20	Earning per share
21.	AS-21	Consolidated financial statements
22.	AS-22	Taxes on income
23.	AS-23	Investments in Associates in Consolidated Financial Statements
24.	AS-24	Discontinuing operations
25.	AS-25	Interim financial reporting
26.	AS-26	Intangible assets
27.	AS-27	Financial reporting of interests in joint ventures
28.	AS-28	Impairments of assets
29.	AS-29	Provisions, contingent liabilities & contingent assets
30.	AS-30	Financial instruments: Recognition & measurements
31.	AS-31	Financial instruments: Presentation
32.	AS-32	Financial instruments: Disclosures

Accounting Process

Accounting Process



Accounting Process

1. Identification of Transaction
2. Recording
3. Classifying
4. Summarising
5. Analysing
6. Interpretating
7. Reporting

Double Entry System

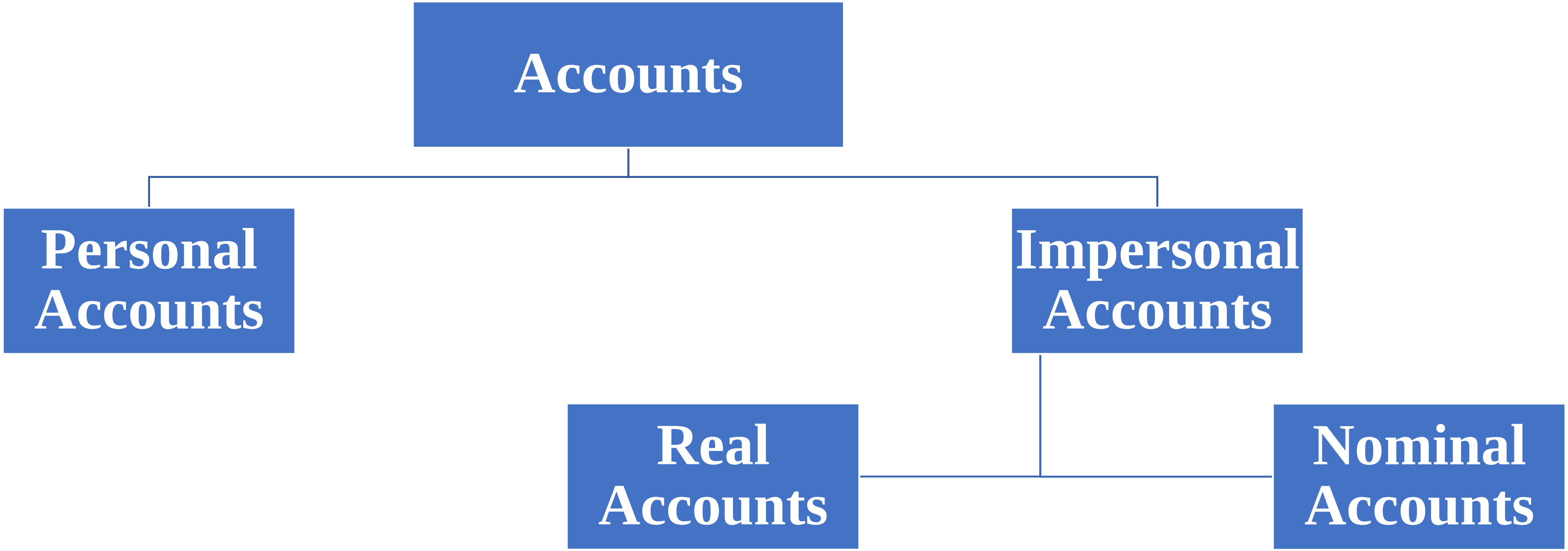
Double Entry System is based on the principle that every transaction has two fold aspects. In other words every transaction needs at least two persons. For example Hari purchased goods from Narain for Rs. 50000, this transaction was performed by two persons i.e. Hari and Narain. Only one person can not enter for transaction. Similarly no transaction is as such has one aspect only.

Thus every business transaction affects at least two accounts or two sides and accordingly record the transaction in two related heads of accounts in known as double entry system.

Principles of Double Entry System

1. Every Transaction affects two account
2. Recording in two accounts
3. Recording of both aspects as per specified rules
4. Preparation of trial balance

Classification of Accounts



1. **Personal Accounts:** are those which are opened under the name of individual, firm, company, institution, etc. for Example Dinesh's account, Murari bros. Account, Punjab National Bank Account etc.

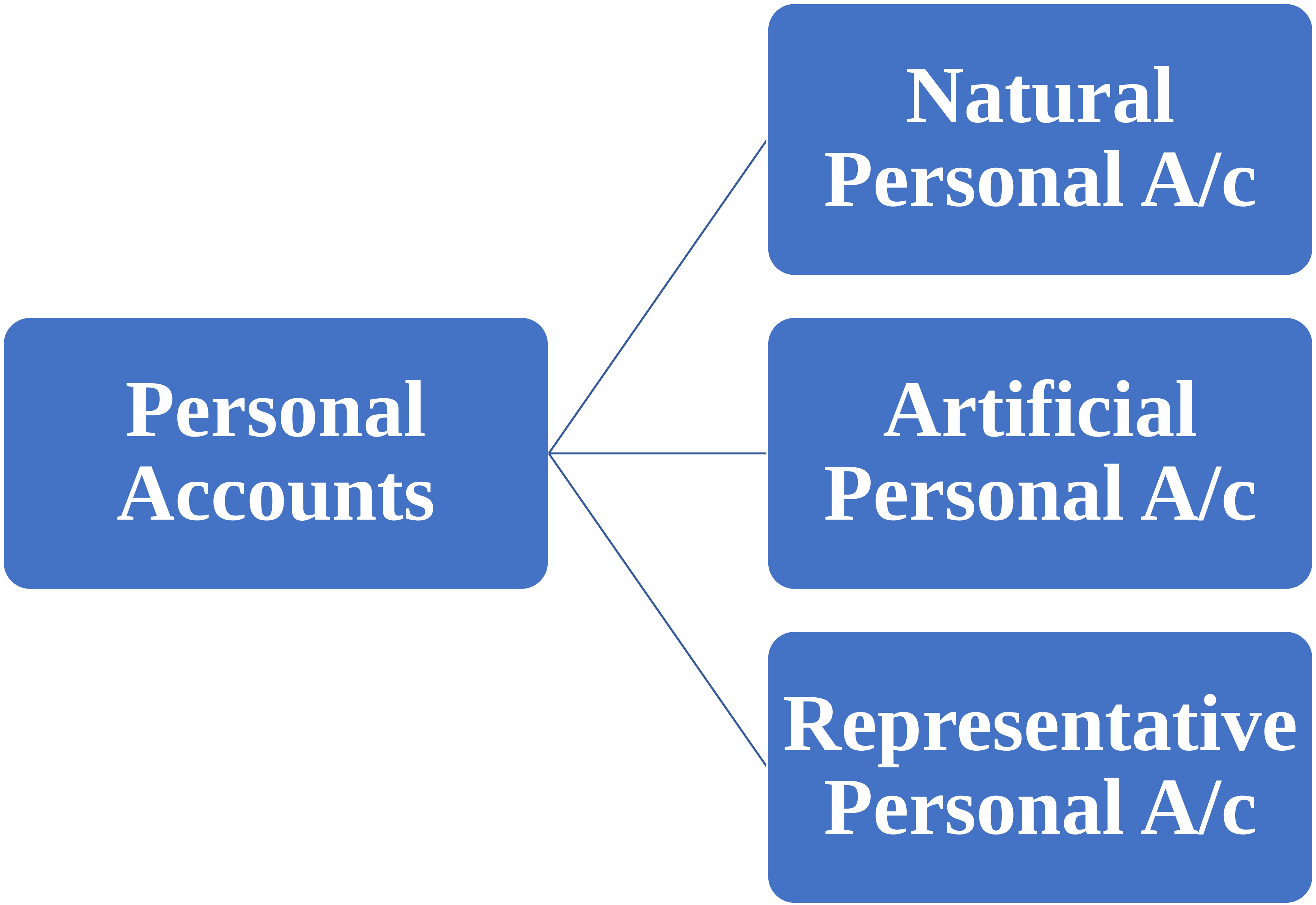
Rule:

DEBIT THE RECEIVER,

CREDIT THE GIVER.

Example: Cash Rs. 5,000 paid to Ram, entry will be;

Ram A/c	**Dr.**	**5,000**	
To cash A/c			**5,000**


Personal Accounts
Natural Personal A/c
Artificial Personal A/c
Representative Personal A/c

accounts can be classified into following three catego

Personal Accounts

1. Natural Personal A/cs

(i) Person's A/c e.g., Ram's A/c, Shyam's A/c etc.

(ii) Proprietor's Capital A/c

(iii) Proprietor's Drawings A/c e.g., Life Insurance Premium, Income Tax etc.

(iv) Debtors A/cs include Debtors of Goods A/cs, Debtors of Loan A/cs

(v) Creditors A/cs etc.

2. Artificial Personal A/cs

(i) Firm's A/c

(ii) Limited Company's A/c

(iii) Bank A/c

(iv) Institution's A/c

(v) Club's A/c

(vi) Insurance Company's A/c

(vii) Govt. Department's A/c etc.

3. Representative Personal A/cs

(i) Outstanding Expenses A/c

(ii) Prepaid Expenses A/c

(iii) Accrued Income A/c

(iv) Unearned Income A/c or Income received in advance

(v) Central Sales Tax Collected A/c

(vi) VAT Collected A/c etc.

2. Real Accounts: are those which are related to money's worth. For example Building Account, Furniture Account, Cash Account, etc. Money includes cash+ assests. Assests means those things that can be converted into cash.

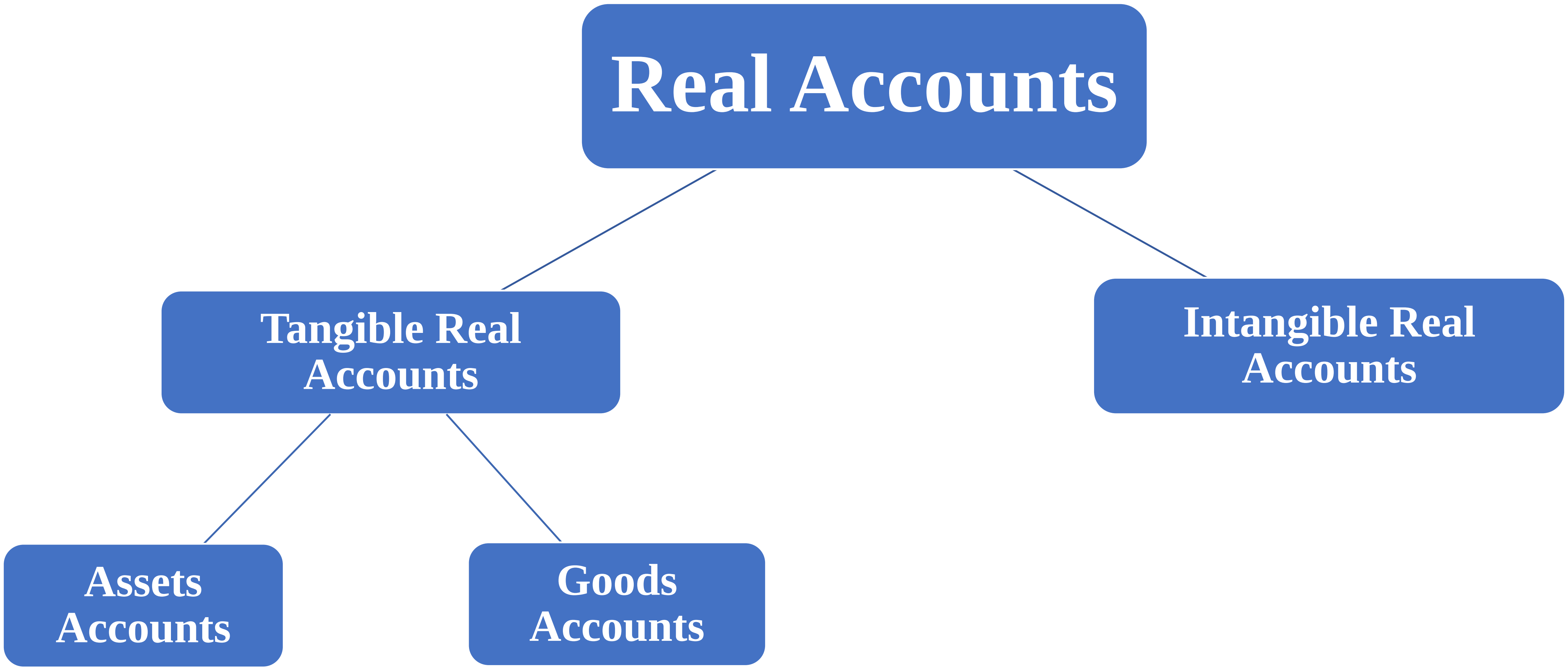
Rule:

DEBIT WHAT COMES IN,

CREDIT WHAT GOES OUT.

Example: Furniture is bought for cash Rs. 9,000.

Furniture A/c (Dr. what comes in)	**Dr.**	**9,000**	
To cash A/c (Cr. What goes out)			**9,000**


Real Accounts
Tangible Real Accounts
Intangible Real Accounts
Assets Accounts
Goods Accounts

Real Accounts

1. **Tangible Real Accounts**
   - **Goods A/cs**
     - Purchases A/c
     - Purchase Returns A/c
     - Sales A/c
     - Sales Returns A/c
   - **Assets A/cs**
     - Land and Building A/c
     - Cash A/c
     - Closing Stock A/c
     - Plant and Machinery A/c
     - Furniture and Fittings A/c
     - Investments A/c
     - Live Stock A/c e.g. horse
     - Motor Vehicle A/c etc.
2. **Intangible Real Accounts**
   - Goodwill A/c
   - Copyright A/c
   - Patents A/c
   - Trademarks A/c etc.

3. Nominal Accounts: are those which relate to expense, losses, incomes and gains. These accounts have no existence except mere in name , hence the name nominal.

- Rent paid, salary paid, discount allowed etc. are the examples of expenses.
- losses from fire, loss from theft or accidents are the examples of losses.
- Interest, commission, discount received are the example of incomes
- Profit on sale of fixed assets, amount won from kaun bnega crodpati are the examples of gains.

Rule:

DEBIT ALL THE EXPENSES AND LOSSES,

CREDIT ALL THE INCOMES AND GAINS.

Example: **Paid salary Rs. 8,000.**

Salary A/c (Dr. the expense)	**Dr.**	**8,000**	
To cash A/c (Cr. what goes out)			**8,000**

Accounting Process - Journal

Journal

Meaning: In accounting, a journal refers to a record-keeping system used to chronologically record all financial transactions of a business. It serves as the initial entry point in the double-entry accounting system, which is a standard method for tracking financial transactions. The purpose of a journal is to provide a detailed and organized account of all financial activities within a company.

Definition of Journal: A journal, often referred to as a "book of original entry," is a chronological log or record where all financial transactions of a business are first recorded in their raw form before they are classified and summarized in other accounting records.

Functions of Journal

The primary function of a journal is to provide a complete and systematic record of financial transactions as they occur. Each transaction is recorded individually, including details such as the date, description of the transaction, the accounts affected, and the monetary amounts involved.

Format of Journal:

Journal Entries

Date	Particulars		L.F.	Amount(Dr.)	Amount(Cr.)
Year Month Date	Name of the Account to be Debited	Dr.		XXXX	
	Name of the Account to be Debited	Dr.		XXXX	
	To Name of the Account to be Credited				XXXX
	(......................Narration.........................)				

Steps in Journalizing

1. **Identify the Transaction:** Begin by identifying the financial transaction that needs to be recorded. This could be a sale, purchase, payment, receipt, loan, investment, or any other business activity that involves the exchange of money or goods.
2. **Determine the Accounts Affected:** Determine which accounts are impacted by the transaction. Identify at least two accounts for each transaction—one account to be debited (to record the increase) and another to be credited (to record the decrease). The choice of accounts depends on the nature of the transaction.
3. **Determine the Amounts:** Determine the monetary amounts involved in the transaction. The amount to be debited should equal the amount to be credited to ensure that the accounting equation (Assets = Liabilities + Equity) remains in balance.
4. **Choose the Date:** Record the date of the transaction in the journal. This is typically the date when the financial event occurred.
5. **Write a Description:** Provide a brief description or explanation of the transaction. This description should be clear and concise, helping anyone who reads the journal entry understand the nature of the transaction.

Steps in Journalizing

6. Make the Journal Entry: Record the journal entry using the format:

Date: Write the date on the left side of the journal entry.

Account Titles: Write the names of the accounts to be debited and credited on the left and right sides, respectively.

Debit: Record the amount to be debited on the left side, typically aligned with the account title.

Credit: Record the amount to be credited on the right side, aligned with the account title.

Description: Provide a brief description of the transaction below the journal entry.

Thank you!