CONCEPTS OF ACCOUNTING

1. Introduction

Everyday we, generally, exchange money and goods in our private and family life and also in institutions. These acts of giving and taking result in monetary changes to respective parties in every case. It is necessary to keep record of accounts of monetary transactions to know how much money has come in or how much money has gone out, what are the sources the income from or what purpose the expenditure has been incurred for. Even we need to keep records of transactions to know whether the income has increased or the expenditure has increased. We shall also keep records of transactions to know how much we owe to others and how much others owe us. Each and every person of the society is required to keep some accounts. In the stream of social and economic activities of today, each and every person or institution in accountable to some one or to other for his or its economic activities or the wealth acquired, income earned and the expenditure incurred. Different types of transactions occur in business. Without maintaining proper accounts, it is neither possible to ascertain profit or loss of the business nor to know the financial position of the business at any particular data. This chapter will describe meaning, evaluation, scope and objects of financial accounting. It also discusses importance and use of accounting in daily life. Let's go through the entire chapter and know introduction to financial accounting.

2. Meaning of Accounting

2.1 Definition of Accounting

Accounting is both the science and art of correctly recording in books of accounts all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording mercantile transactions in a regular and systematic manner; the art of keeping accounts in such a manner that a man may ascertain correct result of his business activities at the end of a definite period and also can know the true state of affairs of his/her business and properties by an inspections of his/her books.

Accounting has been defined as, "*the art of recording, classifying and summarizing in a significant manner in terms of money, transaction and events which are, in part at least, of financial character and interpreting the results there of*". This definition has given by the AICPA.

Accounting covers the following activities.

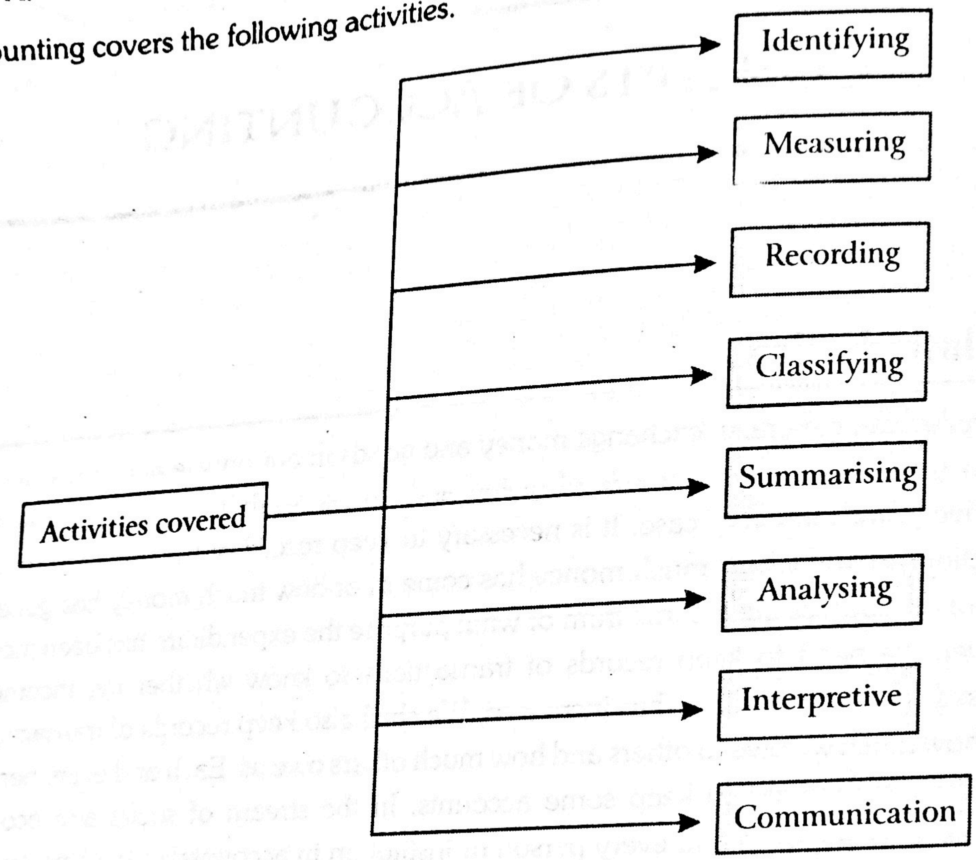


Fig. 1: Activities of Accounting

1. **Identifying the transactions:** A transaction is an exchange in which each participant receives or sacrifices value, while an event is happening of consequences to an entity.
2. **Measuring:** Accounting measures the transactions in terms of a common measurement unit like Rupee, Dollar, Pound etc.
3. **Recording:** It is concerned with the recording of financial transactions in an orderly manner in the proper books of accounts.
4. **Classifying:** It is related by maintaining the ledges in which different accounts are opened to which related transactions are posted at appropriate accounts. For example all purchases are written in one account known as purchases account.
5. **Summarising:** It is related with the summarisation of the classified transactions in a specified manner. It involves the preparation of various types of statements such as income statement, statement of cash flow & balance sheet etc.

AICPA- Association of International Certified Professional Accountants.

6. **Analysing:** It is related with the establishment of relationship between the various items takes income statement or balance sheet. The main purpose is to identify the financial strength or weakness of the organisation.

7. **Interpreting:** It is concerned with explaining the meaning of the relationship between various items. The accountant has to concentrate on the interpretation aspects of accounting. The accountant has to explain why it happened and what is likely to happen under given condition.

8. **Communicating:** Accounting is an information system, which communicates the accounting information to the users for taking suitable decisions.

3. More Definitions of Accounting

3.1 American Accounting Association (AAA)

AAA defines *"Accounting refers to the process of identifying measuring and communicating economic information to permit informed judgement and decisions by users of the information"*.

3.2 According to A.W. Johnson

"Accounting may be defined as the collection, compilation and systematic recording of business transactions in terms of money, the preparation of financial reports, the analysis and interpretation of these reports and the use of these reports for the information and guidance of management".

3.3 Weygandt, Kieso & Kimmel

"Accounting as an information system that identifies, records and communicates the economic events of an organization to interested users".

The modern view of Accounting is, *"Accounting seen as a service activity"*. It is a link between business activities decision-makers.

First, accounting records data on business activity for future use. Second, through data processing, the data are stored until needed, then processed in such a way a to become useful information. Third, the information is communicated, through reports, to those who can use it in making decisions.

A.W. Johnson defined accounting as the collection, compilation and systematic recording of business transactions in terms of money, the preparation of financial reports, the analysis and interpretation of these reports for the information and guidance of management.

You will find two terms: Book-keeping and Accounting. These two are not same. Book-keeping is the art of recording transactions. This is elementary part. Accounting deals with constructive part of book-keeping. In fact, bookkeeping is complimentary to the accounting process. Where book-keeping is the systematic recording of financial and economic transactions. Accounting is the analysis and interpretation of book-keeping records.

4. Accounting as Information System

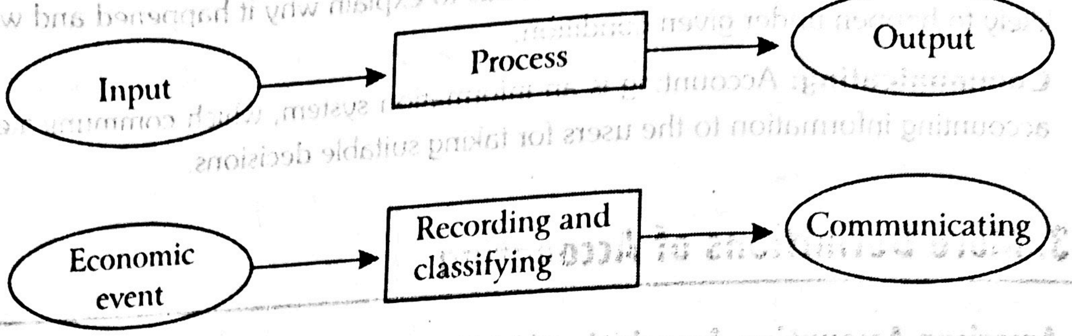


Fig. 2: Information system of accounting

4.1 Accountancy

Refers to a systematic knowledge of accounting. It refers why and how to prepare the books of accounts and how to summarise the accounting information.

4.2 Accounting

Accounting refers to the actual process of preparing and presenting the accounts. Thus it covers many activities like-identifying, measuring, recording, classifying, summarising, analysing, interpreting and communicating.

4.3 Book-keeping

Book-keeping is a part of accounting and it is concerned with record keeping and it is in routine work and clerical in nature. It covers the four activities like (a) Identifying (b) Measuring (c) Recording and (d) Classifying.

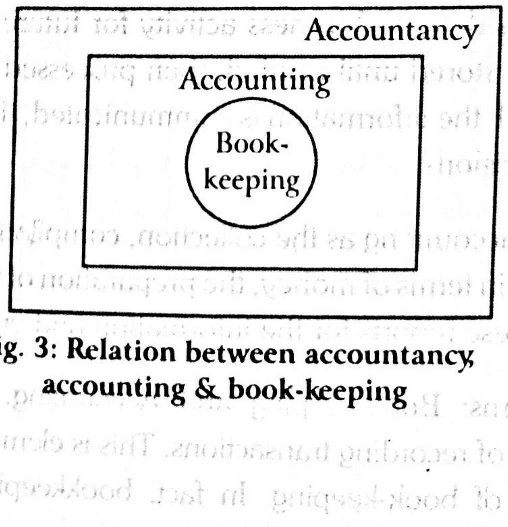


Fig. 3: Relation between accountancy, accounting & book-keeping

4.4 Difference between Book-keeping and Accounting

S.N.	Basic of Difference	Book-keeping	Accounting
1.	Scope	Book-keeping usually involves only the recording of economic events and is, therefore. Just part of accounting process.	In accounting process *i.e.*, Identifications, measurement recording and communication of financial information.
2.	System	Book-keeping records the transactions in the form and system set up by accounting.	Accounting designs and develope the appropriate system for recording of transaction.
3.	Purpose	Primary recording of business transactions.	To ascertain profit-loss and financial position by preparing final accounts.
4.	Knowledge	No necessity of any specific knowledge or work is completed by accounting machines and computers.	Efficient and trained persons are required for this.
5.	Time of recording	Transactions are recorded on the same day they occur.	Accounting starts after the book-keeping is over.
6.	Final accounts	It does not include final accounts.	It includes final accounts.

5. Scope of Accounting

The scope of field of accounting is very wide. Accounting is needed not only by business class but also by non-business class. Starting from the private life of a man, the financial activities of school, college, club, society, hospitals and government institutions come within the purview of accounting. The jurisdiction of accounting also includes the financial activities of professionals including doctors, engineers and lawyers. The monetary transactions which take place in the private life of a man are recorded properly in the books of accounts; it becomes possible to ascertain his receipts and expenditure as well as personal assets and properly in the books of accounts, it becomes to ascertatin his receipts and expenditure of as well as his personal assets and liabilities. When the financial transactions of a business occur, it is essential to maintain accounts of non-profit organizations like school, colleges, hospital, club, society etc. In the same way, it is necessary to keep accounts of professionals like service-holders, doctors, lawyers, actors/actress etc. to ascertain their incomes and calculation of income tax on the basis of those incomes. Maintaining accounting is practiced to determine the income and expenditure preparing and evaluating national plan and budget with the help of accounting it is possible to know the development and deterioration of the country. Hence, in a nutshell, we can say that the scope of accounting is wide enough to cover all the fields of the society.

6. Objectives of Accounting

The principal object of accounting is to keep permanent record of all monetary transactions effected by a person or enterprise during a definite period and ascertainment of results of those transactions at the end of the said period. The main objects of accounting are enumerated below:

1. **Proper recording of transactions:** The first and foremost object of accounting is to keep record of monetary transactions in a systematic manner.
2. **Determination of results:** Every person or institution is always interested to know the results of his/its monetary transactions at the end of a definite period. So, ascertainment of result of financial transactions is an important object of accounting.
3. **Ascertainment of financial position:** Another object of accounting is the ascertainment of debtors and creditors, assets and liabilities and the overall financial position.
4. **Supplying financial information:** Another important object of accounting is to make available all sorts of financial reports and statement to all parties interested in the affairs of the concerned institution as soon as possible after preparing those reports and statements.
5. **Defalcation prevented:** Another special object of accounting is the prevention of defalcation of money made through fraud by the officials of the institution as well as control of expenditure.

7. Necessity and Importance of Accounting

The necessity and importance of accounting is limitless or unbounded to men in their day-to-day personal life, family-life and intuitional life. The necessity of accounting is described below:

7.1 Institutional Necessity

1. Accounting supplies numerical information to the institution relating to its management and administration.
2. Exact results of the institution are disclosed through accounting.

3. The firm can ascertain the financial status of the business operation.
4. Firm can compare the financial position of two/more years.
5. Books accounts are very valuable documents.
6. Proper accounting makes the firm credible to other party.
7. Tax authority can assess taxes for the firm using the accounting information.
8. Firm can determine the actual assets and liabilities.
9. Using accounting data a firm can formulate policy and take many decision on future operation.

7.2 Use of Accounting in Day-to-Day Life

1. Someone can ensure smooth financial management in his life.
2. He/she can bring financial solvency because financial plan helps to be economical.
3. Accounting helps in preparing personal budget.
4. Accounting promote saving habits.
5. Accounting helps to solve family and social disputes as it provides for authentic records.

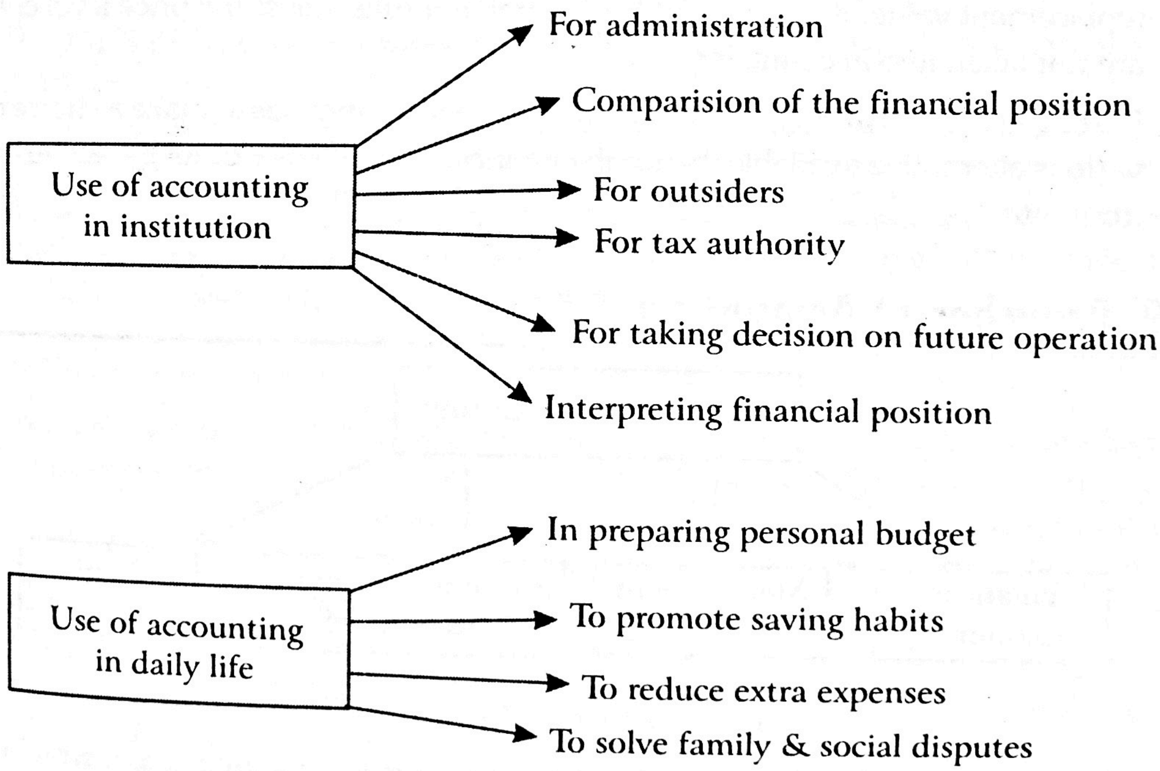


Fig. 4: Uses of accounting

8. Limitations of Accounting

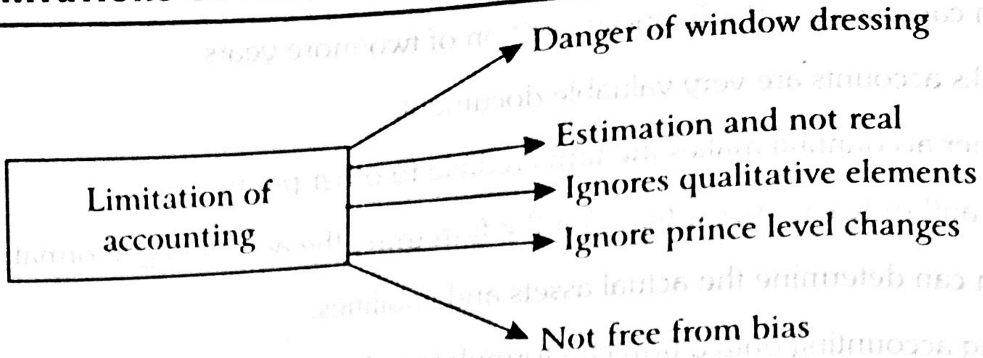


Fig. 5: Limitations of accounting

1. **Danger of Wind Dressing:** When management intentionally enter wrong and artificial figure, the income statement and balance sheet will fail to show true and fair picture of the financial position of the organisation.
2. **Estimation and No Real:** Financial statements are always prepared on a going concern hence they show only the estimated periodic results and not the real position of the organisation.
3. **Ignores Qualitative Elements:** Since the main job of accounting is confined to the monetary matters only the qualitative elements are generally ignored and avoided.
4. **Ignores Price Level Changes:** If financial statements are prepared on historical cost basis, the fixed assets are shown after deducting depreciation and not on replacement value. It will not yield comparable results unless the price level changes are not taken into account.
5. **Not Free from Bias:** In many situations, the accountant has to make a choice out of various alternative available, hence the financial statements cannot be said to be free from bias.

9. Branches of Accounting

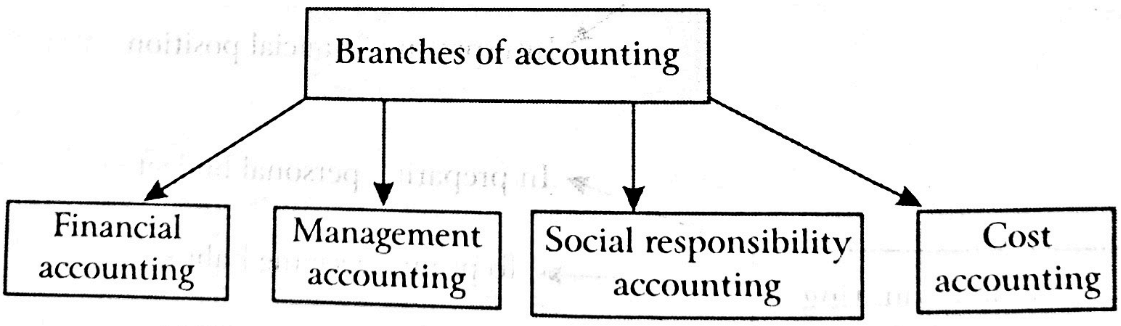


Fig. 6: Branches of accounting

1. **Social responsibility accounting:** It is the process of identifying, measuring and communicating the social effects of decisions to permit decisions by the users management is always responsible for the social well being and process. In the same manner, accounting for environment and ecology is a part of social responsibility accounting.

2. **Cost accounting:** It is the process of accounting and controlling the cost of a product. The main purpose is to ascertain the cost and to control the cost so that it may be used in taking decisions.

3. **Management accounting:** Management accounting is comprised of two words 'Management and Accounting'. It is the study of managerial aspect of accounting. The emphasis of management accounting is to redesign accounting in such a way that it is helpful to the management in formation of policy, control of execution and appreciation of effectiveness. It is that system of accounting which helps management in carrying out its functions more efficiently.

4. **Financial accounting:** Financial accounting may be defined as the science and art of recording and classifying business transactions and preparing summaries of the same for determining year end profit or less and the financial position of the concern. It is that part of accounting which is employed to communicate the financial information of a business unit.

The object of financial accounting is to find out the profitability and to provide information about the financial position of the concern. Two principal statement of financial accounting are income and expenditure statements and balance sheet.The income and expenditure statement is prepared for a particular period, say a year. All remove transactions relating to that period are include in this statement with a view to determine the profitability of the concern. The balance sheet is prepared on a particular data and it determines the financial position of the concern on that date.

10. Difference between Financial Accounting & Management Accounting

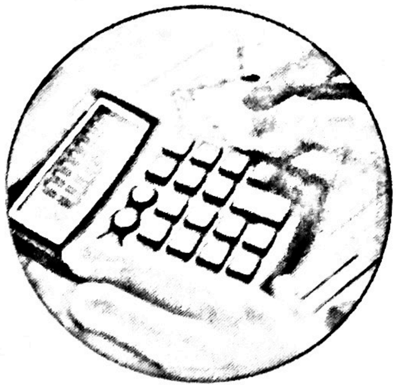
Basis	Financial Accounting	Management Accounting
Object	The basic objective of financial accounting is to measure and assess the business result and financial of a concern.	The objective of management accounting is to facilitate managerial decisions.
Analysis of Performance	Financial accounting indicates the position of the business as a whole in the final accounts prepared for the purpose of reporting an overall-performance of the business.	Management accounting can be applied for making the cost accounting more purposeful and management oriented.
Scope	Under financial accounting the financial aspect of the firm is dealt with by way of preparing trading A/c, profit and loss A/c and balance sheet.	Whereas, management accounting is a way of accounting information system which covers financial accounting, cost accounting and all aspects of financial management.

Orientation	Financial accounting is concerned with money as the economic resources *i.e.*, cash.	Management accounting is concerned with all situations including monetary and non-monetary economic events from the point of view of management.
Time Factor	Financial accounts focus attention on past and current operations	Management accounting concentrates on future operations and profitability.
Compulsion	The indian companies act has made it obligatory for the companies to maintain a system of financial accounting.	The setting up of management accounting system is at the discretion of the management.

UNIT-I

Chapter

2



ACCOUNTING STANDARDS

1. Meaning

Generally accepted accounting principles may be defined as those rules of action which are derived from experience and practice and when they prove useful, they become accepted as principles of accounting.

According to the American Institute of certified public accountants (AICPA), the principles which have substantial authoritative support become a part of the generally accepted accounting principles.

1.1 Criteria

The general acceptance of the accounting principles depends upon now well they meet the following three criteria.

1. **Feasibility:** A principle is feasible to the extent, it can be implemented without much complexity.
2. **Objectivity:** Objectivity can notes reliability and trustworthiness. A principle is objective to extent the accounting information is not influenced by personal bias or judgement of those who provide it.
3. **Relevance:** A principle is relevant to the extant it results in information that is meaningful.

2. Accounting Principles

Accounting principles are also termed as accounting standards. "*Accounting principles are those rules of action or conduct which are adopted by the accountants, universally while recording accounting transaction.*"

The principles are classified into two catagories.

Accounting Principles

Accounting Concepts | Accounting Conventions

Fig. 1: Types of accounting principles

2.1 Accounting Concepts

Accounting Concepts or assumptions are the foundation of systematic and proper accounting. They include those basic conditions upon which the science of accounting is based. They are as follows:

1. Separate entity concept
2. Going concern concept
3. Money measurement concept
4. Cost concept
5. Dual aspect concept
6. Accounting period concept
7. Periodic matching of cost and revenue concept
8. Realization concept.

1. **Separate entity concept:** A business is treated as a separate entity that is distinct from its owner (s), and all other economic proprietors. For example: If Mr. Agarwal the proprietor of XYZ firm invested ₹ 50,000 in it. It is the liability of XYZ firm, ₹10,000 from business, total liability of business for Agarwal for Agarwal is ₹40,000 (50,000 – 10,000). The concept of separate entity is applicable to all forms of business organization.

2. **Going concern concept:** According to this assumption the enterprise is normally viewed as a going concern, that is, continuing in operation for the foreseeable future. It is because of the going concern assumptions.
   (i) That the assets are classified as current assets and fixed assets.
   (ii) The liabilities are classified as short-term liabilities and long- term liabilities.
   (iii) The unused resources are shown as unutilised casts (or unexpired costs) as against the break-up values as in case liquidating enterprise.

3. **Money measurement concept:** Accounting records only monetary transactions. Transactions or events which can not be expressed in terms of money are not recorded in books of account. Measurement of business events in money helps in understanding the state of affairs of business in a better way.

For Example: If a business has 100 kg of raw material and 2 cars ⇒ These transactions can not be expressed in terms of money are not recorded in books of account.

Where as if it says that it has raw material of ₹ 25,000 and 2 cars of worth ₹7,00,000 then it tells position of assets of the firm. So it is recorded in books of account.

4. **Cost concept:** It is closely related to going concern, it says.

   (i) An asset is ordinarily entered in the accounting records at the price paid to acquire it.

   (ii) This cost is the basis for all subsequent accounting for the assets.

   For Instance: If a building is purchased for ₹ 80,000 while the market price of the building at that time is ₹ 85,000 it would be recorded at ₹ 80,000. In the following year if the value of building become ₹ 70,000 in the market, it will still be noted as ₹ 80,000. However, the value of assets can be changed by charging appreciation or depreciation.

5. **Dual aspect concept (duality):** This is the basic concept of accounting every business transaction has a dual effect. This duality is the basis of double entry records. The entry made for each transaction is composed of two parts one for debit and another for credit. Every debit has equal amount of credit. So the total of all debits must be equal to the total of all credits.

   For Instance: If a firm purchase a building of ₹ 80,000 from the creditors. It means assets increased by ₹ 80,000 and liabilities also increased by ₹ 80,000.

   Liabilities + Capital = Assets

   ₹ 80,000 + 0 = ₹ 80,000

6. **Accounting period concept:** The life of the business is divided into appropriate segments for studying the results shown by business after each segment.

   It has been done so, because if going concern concept is followed, the measurement of income and studying the financial position of the business after a very long period would not be useful.

   Therefore, it is necessary to 'pause' and 'review' what has been done. At each accounting period an income statement and balance sheet are prepared, which depicts the financial position of the business at that time.

7. **Periodic matching of costs and revenue concept:** This is based on accounting period concept. In order to know the profit made by business during a period it is necessary that 'revenues' of the period should be matched with the cost of the period. In other words the income earned by the business during a period can be measured only when expenditure incurred are compared with it.

   For Instance: Commission paid to a salesman for sales in the year X_1, in the year X_2 should be charged as the cost for sales in the year X_1 only.

8. **Realization concept:** Revenue is recognized and recorded only when a sale is made. Sale is considered to be made at the point when the property in goods passes to the buyer and he become legally liable to pay.

   For instance: Mr. Bansal places an order of 100 chairs with Mr. Agarwal, a furniture manufacturer. Mr. Agarwal manufactures 100 chairs and delivers them to Mr. Bansal. Mr. Bansal pays for them. Here sales take place at the time of delivery of chairs to Mr. Bansal not at the time of placing the order.

9. **Exception of concept:** In case of hire purchase the ownership of the goods passes to the buyer only when the last instalment is paid, and sales are made to the extent of instalment received and outstanding.

2.2 Accounting Conventions

Accounting conventions are those customs or traditions which guide the accountant while preparing the accounting statement. They are as follows:

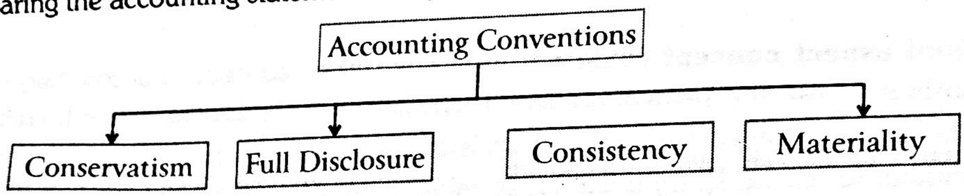


Fig. 2: Types of accounting conventions

1. **Convention of conservatism:** There may be a condition when the anticipated profits do not materialize. This gives less acceptability of accounting figures and statements. For this reason the accountants follow the rule "anticipate no profit but provide for all possible losses" while recording business transactions. On account of this convention inventory is valued 'at cost or market price which ever is less.' The provisions are made of bad and doubtful debts.

   Because of this convention the income statement shows a lower net income and balance sheet understates assets and overstates liability.

2. **Full disclosure convention:** Accounting must disclose all material information. It should be honestly prepared free any bias favour or prejudice. Figures should not be manipulated. Various accounting concepts / assumptions should be considered while recording transactions. No material information should be concealed. Disclosure of material facts does not mean leaking out the business secrecy, but disclosing information of proprietors' and investors interest.

3. **Convention of consistency:** The accounting practices should remain unchanged from one period to another.

   For Instance: If stock is valued at 'cost or market price which ever is less' this principle should be followed year after year. This is necessary for the purpose of comparison.

   The consistency does not mean that, changes to adopt improved accounting techniques can not be adopted.

4. **Materiality convention:** Only important things should be recorded and insignificant details should be ignored. This is done so that accounting is not over burdened with unnecessary details. The materiality may differ from subject to subject.

   For Instance: The companies Act permits ignoring of '**paise**' while preparing financial statements whereas for tax purposes income has to be rounded to nearest '**ten**'.

3. Accounting Standards

3.1 Concept

Accounting standards are codified as statements of accounting rules and guidelines for preparing the uniform and consistent financial statements.

Accounting standards are written policy documents issued by expert accounting body covering such aspects as measurement and disclosure of accounting transaction in the financial statements accounting standards are the norms of the accounting policies by means of gridlines to direct as to how the items should be dealt with the accounts.

Accounting standards primarily deal with financial measurements and disclosures used in financial statements.

3.2 Objectives of Accounting Standards

The main objectives of accounting standards are as under:

1. **Increases comparability:** Accounting standards increase the comparability, credibility and understandability of the financial statements.
2. **Providing reformation:** The main purpose of accounting standard is to provide information to the users.
3. **Remove the effect of diverse accounting:** Accounting standards remove the effect of diverse accounting practices and policies, so that financial statements may become more meaningful.

3.3 Advantages of Accounting Standards

The main advantages of accounting standards are as under:

1. **Facilitates companion:** The application of accounting standards facilitates comparison of financial statements of organization situated at different parts of the world.
2. **Reduction of variations:** Accounting standards eliminates confusing variations in the accounting treatments.
3. **Disclosure of facts:** Accounting standards help in disclosure of many important facts before the users.
4. **Improving credibility:** The accounting standards create a sense of confidence amongst the users of the accounting information. The value of the accounting information of a firm is enchanted and it can be compared easily.

5. **Measuring efficiency:** Accounting standards are useful in measuring the efficiency of the management regarding profitability & liquidity.
6. **Consistency and comparability:** Accounting standards provide consistency and comparability.
7. **Reform in accounting theory:** Accounting standards help to make reform in accounting theory and practices.

3.4 Limitations of Accounting Standards

The disadvantages of accounting standards are as under:

1. **Rigidity:** The accounting standards are very rigid in application.
2. **Can not override the statute:** The accounting standards can not override the statutes and law framed in this connections.
3. **Restriction on alternative treatments:** Accounting standards do not provide any chance of selection out of set standards fixed.

4. Development of Accounting Standards

In 1970, it became clear that the standard setting was a fascinating process that had become intertwine with the economic self interests of affected parties.

In 1972, International accounting standards committee (IASC,) was formed for developing international accounting standards. During 3 decades, the IASC has issued 40 IAS's through a due process.

4.1 Accounting Standards Board (ASB) in India

The Institute of C.A. of India, recognizing the need to harmonise the diverse accounting policies in India, has constituted the accounting standard Board on 21st April, 1977.

4.1.1 Procedure for Issuing Accounting Standards

The following procedure will be adopted for formulating accounting standards:

1. To determine the broad areas in which accounting standards must be formulated.
2. To issue the draft of the proposed standard for necessary comments.
3. To hold a dialogue with govt. public sector, industry and other organisation for obtaining their views.
4. To finalise the draft of the proposed standard.
5. To submit the final draft to the council of the institute.

4.1.2 Scope of Accounting Standards

The scope of Accounting standards is as under:

1. Accounting standards will be issued which are in conformity with the provisions of laws, customs and business environment in India.

2. The accounting standards are intended to apply only to those items which are useful and valuables. A particular standard will come into effect will be specified by |CA|.
3. Emphasis would be on laying down accounting principles and not the detailed rules for applications.
4. The ASB may consider any issue regarding interpretation of any accounting standard.
5. The standards formulated by ASB include paragraphs in bold italic type.

4.1.3 National Accounting Standards

For the establishment of accounting standards in India. The Institute of Chartered Accounts of India (ICAI) established Accounting Standard Board on 21st April, 1977. Its main function is to formulate the standards after taking into consideration the applicable laws, customs, usages and business environment.

At first Accounting Standard Board (ASB) issued first document on Ist January 1979. In this, nature scope and procedure of standard is explain which is known as 'Preface to Statement Accounting Standard' (PSAS), the standard issued by (ICAI) were not provided legal recognition upto 1999.

Accounting standards by ICAI: The institute of charted accountants of India has issued 32 accounting standards upto Ist April 2011. These are effective from the data mentioned in front of them. These standards are as under:

Accounting Standards

(Issued by ICAI)

No. of Accounting Standard	Title of the Accounting Standard	Date from which Mandatory
AS –1	Disclosure of Accounting Policies	1-4-93
AS –2	Valuation of Inventories	1-4-99
AS –3	Cash Flow Statement	1-4-01
AS –4	Contingencies and Events Occuring After Balance Sheet Date	1-4-98
AS –5	Net Profit or Loss-Prior Period items and charged in Accounting Policies	1-4-96
AS –6	Depreciation Accounting	1-4-95
AS –7	Accounting for Construction Contracts	1-4-03
AS –8	Withdrawn is Included in AS-26	1-4-03
AS –9	Revenue Recognition	1-4-93

AS -10	Accounting for fixed Assets	1-4-93
AS -11	Effects if Changes in Foreign Exchange Rates	1-4-04
AS -12	Accounting for govt. Grants	1-4-04
AS -13	Accounting for Investments	1-4-95
AS -14	Accounting for Amalgamation	1-4-95
AS -15	Accounting for Retirement Benefit in the financial statements of employers	1-4-95
AS -16	Borrowing costs	1-4-2000
AS -17	Segment Reporting	1-4-2001
AS -18	Related Partly Disclosures	1-4-01
AS -19	Leased	1-4-01
AS -20	Earnings per shares	1-4-01
AS -21	Consolidated Financial Statement	1-4-01
AS -22	Accounting for Taxes on Income	1-4-01
AS -23	Accounting for Investment in Associated in Consolidated Financial Statement	1-4-03
AS -24	Discontinuing Operations	1-4-04
AS -25	Interim Financial Reporting	1-4-02
AS -26	Intangible Assets	1-4-03
AS -27	Financial Reporting of Interest in Joint Venture	1-4-02
AS -28	Impaiement of Assets	1-4-04
AS -29	Provisions, Contingent Liabilities and Contingent Assets	1-4-04
AS -30	Financial Instrument Recognition and Measurement	
AS -31	Financial Instrument Presentation	
AS -32	Financial Instrument - Disclosures	

4.2 Generally Accepted Accounting Principles (GAAP)

4.2.1 US GAAP

1. No specific format is required for the preparation of a financial statement, as long as they comply with the disclosure requirement of US accounting standards.
2. Consolidation of group company accounts is compulsory.
3. Deferred tax assets or liabilities should be looked using the asset liability approach.

4. Disclosure of earning per share data is compulsory.
5. Revolution of assets is not permitted. Depreciation is over the useful economic lives of assets.

   Depreciation and profit/loss on sale are based on historical costs.
6. Investment in own shares is permitted. It is shown as a reduction from shareholders equity.
7. Research and development costs are expenses as incurred.
8. Goodwill is treated as any other intangible asset, and is capitalized and amortized. The carry forward period is 40 years.
9. The concept of pre-operative expenses does not exist.
10. Current and long-term components of assets and liabilities should be disclosed separately.
11. Exchanged gain/loss is taken to the income statement the concept of capitalization of exchange fluctuations arising from foreign current liabilities incurred for acquiring fixed assets does not exist.
12. Mandatory fair values are ascertained based on certain specific principles for items such as loans, current assets, current liabilities etc.
13. Financial lease is to be capitalized.