Meaning of accounting Accounting has rightly been termed as the language of business. The basic function of a language is to serve as a means of communication. Accounting serves this function by communicating the result of business operations to various parties who are interested in it..Accounting is an information system which receives data and inputs, process the same and given its output in the form of information which is useful for decision making.***Definition*** According to American Institute of Certified Public Accountants (AICPA) 1941 " accounting is the art of recording , classifying, summarising in a significant manner and in terms ofmoney, transaction and events which are, part at least of a financial character , and interpreting the result there of"***Features of Accounting****1- Economic event* Events which take place in a business and are capable of being expressed in terms of money are called economic event. Economic event can be external or internal**.**An external event involves the transfer or exchange of something of value between two or more entities. It is called a transaction.Internal event An internal event is an economic event which takes place entirely within theorganisation.2*- Identification, measurement, recording and communication Identification* means what transactions to record i.e., to identify events which are to be recorded. It involves observing activities and selecting those events offinancial character.Measurement means quantification of business transactions into financial terms by using monetary units. If an event cannot be quantified in monetary terms, it is not considered for recording in financial accounts.The economic events are recorded in books of accounts in monetary terms and in an orderly manner Communication means presenting of accounting information in a proper form and manner to the proper person.3*- Organisation* Organisation refers to a business enterprise, whether for profit or not profit motive.4*- Interested users of information* The users of accounting information are internal and external. Internal users include managers and owners. External users are of two types having direct interest and having indirect interest. External users having direct interest include investors, creditors and employees. External users having indirect interest include customers,government, trade associations, labour union, stock exchange, SEBI, registrar of companies etc***. Branches of accounting*** Accounting is mainly sub divided in to three financial accounting, cost accountingand management accounting.***Financial accounting*** Financial accounting is the field of accounting concerned with the summary, analysis and reporting of financial transactions pertaining to a business. This involves the preparation of financial statements available for public consumption**.*Cost accounting*** Cost accounting is the process of recording, classifying, analyzing, summarizing, and allocating costs associated with a process, and then developing various courses of action tocontrol the costs***.Management accounting*** The process of preparing management reports and accounts that provide accurate and timely financial and statistical information required by managers to make daytoday and short-term decisions.***Qualitative characteristics of accounting information***.*1- Reliability* Accounting information is said to be reliable if it is free from error and bias. To ensure this it must be verifiable.*2- Relevance* For the purpose of decision making the accounting information should be relevant and it must be available in time.*3- Understandability* Accounting information must be understood by those to whom it is communicate. The content must be enough to clearly convey matters with all its implications.*4- Comparability* Accounting reports should be comparable with other firms to identify similarities and differences. To achieve this the period, the format, unit of measurement etc. should be same ***Objectives of accounting*** The primary objective of accounting is to provide information to facilitate business decisions. The other objectives of accounting are 1- *To maintain records of business* It is very difficult to remember all the business transaction that take place.Accounting serves this purpose of record keeping by recording all the business transactions in the books of account.2- *Calculation of profit and loss* Accounting helps in ascertaining business result i.e., profit earned or loss suffered in business during a particular period. This is done through the preparation of profit and loss account or an income and expenditure account*. 3- Ascertain the financial position of the business*.The business man is always interested in knowing his financial position i.e.,where he stands, what he owes, and what he owns. That means the position of asset and liabilities. This objective is served by the balance sheet or position statement.*4- Providing information to users* The accounting information obtained from records should be communicated to interested parties in the form of reports, statements, graphs charts etc***.Advantages of accounting*** *1- Provide quantitative information* Accounting helps in providing quantitative information on profit earned and loss suffered by the business.*2- Helps in ascertaining the financial position of the business* Accounting helps the business to know the financial position that is total asset and liabilities.*3- Systematic recording of data is possible* Accounting helps in making a systematic record of transaction which can be used for future reference.*4- Act as an information system* It provides necessary information to the interested users.*5- Beneficial to different users.****Limitations of accounting*** 1- It records only transactions which can be recorded in monetary terms. Qualitative aspects like managerial skill, service of experts etc. are not considered. 2- Accounting is a post mortem survey because it records events as they have taken place. From decision making point of view information is needed not only of past but also about the present and the future. 3- Effects of price level changes are not considered.Accounting records show only actual cost. The real value may vary from time to time.Thus the recorded cost cannot provide correct information.***Basic accounting terms*****.*****Entity***- Entity means a reality that has a definite individual existence***Business entity***- Business entity means a specifically identifiable business enterprise.Business entity is also called accounting entity.***Transaction***- Transfer or exchange of something of value between two or more entities called transaction ***Business transaction***- The term business transaction refers to any business dealings or event which has a value measurable in terms of money and which involve transfer of money or money's worth between the business and others.***Debtors-*** Debtor is a person who owes money to the business.***Sundry debtors***- The total amounts of debtors are collectively known as sundry debtors. Creditors- The creditor is a person to whom the business owes money.***Sundry creditors***- The amounts due to various parties are collectively known as sundry creditors.***Bills receivable-***A bill is a document accepted by the debtor undertaking to pay for the value owed by him. When the goods are sold on credit the seller may insist the buyer to accept a bill, such bill is called bills receivable. ***Bills payable*** When goods are purchased on credit and bill is made such bill is called bills payable.In this bill the businessman undertakes to pay the value owed by him.***Accounts receivable***- It includes amount due from debtors as well as on account of bills receivables.***Account payable***- It includes the amount due to creditors and bills payable.***Account***- A summary of all business transaction that have taken place during a particular period arranged in relation to one person, thing, expense or income is called a account.***Debit side and credit side***Accounts traditionally written in the form of 'T' having two equal halves, one on the left hand side and other on the right hand side. The left hand side is called debit side and the right hand side is called credit side.***Debiting and Crediting*** The recording of transaction on the debit side is called debiting and the recording of transaction on the credit side is called crediting.***Entry-*** The record of a transaction in an account is called entry.***Debit entry and credit entry*** If an entry is in the debit side of an account is called debit entry if it is in the credit side called credit entry.***Debit and Credit*** Every transaction has two aspects i.e. receiving aspect and giving aspect. The receiving aspect is called debit and the giving aspect is called credit.***Asset*** Assets are the material things or possessions or properties of the business including the amount due to it from others. Asset may be classified in to fixed asset and current asset. ***Fixed asset*** Assets which are required for relatively longer periods for carrying on the business are called fixed assets. They are help in the generation of income and are not meant for resale. Fixed assets are classified in *to* ***1- Tangible asset*** Assets having definite shape and physical existence are called tangible asset. E.g. Land, building, machinery etc.***2.intangible asset*** Asset having no physical value but are represented by rights in certain things are called intangible asset. E.g. Goodwill, patent, trademark etc.***3- Wasting asset*** Assets which exhausted to the extent of extraction are called wasting asset.e.g. Mines, quarries, oil fields etc.***4- Fictitious asset*** Assets which have no real value but are shown in the books of accounts only for technical reasons are called fictitious asset. Eg. Preliminary expenses discount on issue of shares and debentures, underwriting commission etc.***Current asset*** Assets which are held for a very short period are called current assets. These are assets acquired with the intention of converting them in to cash or consuming them during a year. E.g. Cash, stock, raw materials, finished goods, bills receivables etc. ***Equity***- The total claims of business are called equity ***Creditor's equity*** Liabilities are the claims of outsiders against the business and are called creditor's equity or outsider's equity.***Owners' equity***- Capital is the owner's claim against the business and is called owner'sequity.***Liabilities*** Liabilities are obligations or debts that an enterprise has to pay at some time in the future. Liability means amount which a business owes to others either for money borrowed or for goods and assets purchased on credit or for service rendered. Liabilities are divided in to two categories ***Current liabilities*** Liabilities which become due and payable within a short period i.e. within a year are called current liabilities. They arise out of normal trade activities. E.g. Creditors, bills payable, outstanding expenses etc. ***Fixed or long term liabilities*** Liabilities which are payable after a long period are termed as long term liabilities.E.g. Long term loan, debentures etc.***Capital*** Capital refers to the money or money's worth introduced or invested by the owners into business. Capital is the owners claim against the business and is called owner's equity.***Drawings*** It is the amount of cash or other asset withdrawn by the owner for his personal purpose.***Revenue*** Revenue represents the amount a business earns by selling its products or providing service to its customers. Sales are the major revenue of the business. E.g. Commission,interest, rent etc.***Expense*** The term expense denotes the cost incurred by a business in the process of earning revenue. E.g. rent, salary, wages etc.***Expenditure*** Spending money or incurring a liability for some benefit, service or property received is called expenditure. E.g. payment of rent, salary, purchase of goods, machinery etc.***Revenue expenditure*** If the benefit of expenditure expires within a year it is treated as an expense and also called revenue expenditure. E.g. payment of rent, wages, salary, commission, etc. ***Capital expenditure*** If the benefit of expenditure lasts for more than a year it is treated as an asset and also called capital expenditure or expenditure which has been incurred to derive long term advantage for the business. Eg. Purchase of asset ***Loss*** It is the excess of expense over revenue. It decreases in owner's equity. It also refers money or money's worth lost without receiving any benefit in return. E.g. cash or goods lost by theft or fire, loss on sale of fixed asset etc.***Profit*** Profit is the excess of revenue over expenses. It represents increase in owner's equity.***Gain*** A profit that arises from events or transactions which are incidental to business such as sale of fixed asset, winning a court case, appreciation of value of asset etc. are called gain. ***Income*** Income is the increase in the net worth of an organisation either from business activity or from other activities. It includes profit also .***Discount*** Discounts are deductions allowed either on the selling price or on the amount due. Discounts are two typesTrade discount. The concession given by the seller to the buyer for making bulk purchase is called trade discount. Normally trade discount is deducted from the actual price and the net amount is shown in the invoice. Therefore trade discount will not come in the books of accounts Cash discount.It is a deduction granted by the creditor to the debtor as an inducement for making prompt payment. The discount is a loss to the creditor and a gain to the debtor. When discount granted by the creditor it is called discount received and discount granted to the debtor it is called discount allowed***.Voucher*** The documentary evidence in support of a transaction is known as voucher.***Goods*** Goods are the Product and articles which are purchased and are meant for resale. For stationery merchant stationery items like books, pen, pencil etc. are goods and for a furniture dealer furniture items like table, chairs etc. are goods for correct accounting of goods they are called by different names purchase, sales, purchase return and sales return.***Purchase*** The total amount of goods procured by a business concern both for cash and credit and is meant for resale is termed as purchase.***Purchase return*** Return of goods already purchased to suppliers are called purchase return ***Sales*** Sales are the total revenues from goods or services sold or provided to customers. Sales are the act of exchange of an item of value for cash or credit.***Stock*** The goods lying with a business for sale on any given date are called stock.***Closing stock*** The value of goods remaining unsold at the end of an accounting period is known as closing stock.***Opening stock*** The closing stock of a particular period becomes the opening stock for the next period. ***Theory base of accounting*** Accounting is considered as the language of business. To make the language convey the same meaning to all people there are certain guidelines and practices that are followed while recording transactions and in preparing financial statements. Such principles and guidelines are called GAAP. The Generally Accepted Accounting Principles (GAAP) refers to the rules or guidelines adopted for recording and reporting of business transactions. These principles are also referred as concepts or conventions. The term concepts refers to the necessary assumptions and ideas which are fundamental to accounting practice and the term convention denotes customs or traditions as a guide to the preparation of accounting statements. From the practicability view point, it is observed that the various terms such as principles, conventions, modifying principles, assumptions, etc. have been used interchangeably and are referred to as Basic Accounting Concepts. So GAAP include accounting concepts, accounting conventions and accounting standards. ***Basic accounting concepts*** ***1- Business entity concept*** According to this concept the entity of business is different from its owners. It means that for the purpose of accounting business and its owners are to be treated as two separate entities. This principle states that the affairs of business will not be mixed up with the private affairs of the owner. According to this principle capital is treated as a liability of business towards owners. ***2- Money measurement concept*** As per this concept transactions involving money or money's worth will be recorded in the books of the business. Events or transactions which cannot be expressed in terms of money will not be recorded in the books. ***3- Going concern concept*** According to this concept it is assumed that the business will last for a long time. There is no intention to close the business in the immediate future. It is based on this assumption that the suppliers deliver goods on credit, fixed assets are recorded at original cost and are depreciated in a systematic manner, prepaid expense, outstanding income etc. are treated. ***4- Accounting period concept*** According to going concern concept the business is supposed to continue for longer period of time. The true result of the business can be ascertained through the preparation of financial statements only after the closure of the business unit. But information made available to the users after closure of the business will not serve its purpose. So the accounts are prepared periodically. The period of interval for which accounts are prepared and presented for ascertaining the result and financial position of business is called accounting period. ***5- Cost Concept*** This principle requires that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transportation, installation and making the asset ready to use.***6- Dual aspect or duality Concept*** This is the basic principle of accounting. As per this principle every transaction has two aspects, i.e. receiving aspects and giving aspect. Accounting equation is developed on the basis of this principle. The double entry system of book keeping is also based on this principle. ***7- Revenue recognition/realisation Concept*** The concept of revenue recognition requires that the revenue for a business transaction should be included in the accounting records only when it is realised. Revenue is assumed to be realised when a legal right to receive it arises or it is realised in money. On the basis of this principle credit sales are treated as revenue and accrued income, income received in advance, outstanding expenses, prepaid expenses are recorded in the particular accounting year. **8- *Matching Concept*** These principles states that expenses incurred in an accounting period should be matched with revenues during that period in order to ascertain the profit or loss. It is because of this principle the adjustment are made for outstanding expense, accrued income, prepaid expenses etc. ***9- Full disclosure Concept*** This principle demands that accounting statement should disclose all material facts for the benefit of the users. Full discloser does not mean that irrelevant information should be disclosed but all important information should be shown fully. ***10- Consistency Concept*** Accounting policies and practices adopted must be same for a reasonable period of time. The frequent changes in such policies will adversely affect the reliability and comparability of financial information. Thus comparison is possible only if there is consistency in accounting. ***11- Conservatism/prudence Concept*** This principle states that while recording accounting information anticipated profits are not to be considered but only possible losses are considered. According to this principle a reasonable provisions are made for anticipated losses. It is because of this principle stock are valued at market price or cost price whichever is less, creating provision for doubtful debts, discount on debtors, writing of intangible asset like goodwill patent etc. ***12- Materiality Concept*** This principle states that important should be given only to material facts, ignoring insignificant details. Otherwise accounting will be overloaded. **13- *Objectivity Concept*** This principle states that the accounting data provided in the books of accounts should be verifiable the figures recorded in the financial statements should have supportive evidence such as bills, vouchers etc. These are called source document. It ensures the credibility and dependability of the recorded data. ***Accounting standards*** Accounting standards are written statements of uniform accounting rules and guidelines or practices for preparing the uniform and consistent financial statement in order to eliminate non comparability of financial statements for enhancing reliability of financial statements. The Institute of Chartered Accountants of India (ICAI) constituted an Accounting Standard Board (ASB) in April 1977for developing accounting standards in India. International Financial Reporting Standards (IFRS) are globally accepted accounting standards developed by International Accounting Standard Board (IASB). The objective of IFRS is to facilitate international comparison for true and fair valuation of business enterprises. ***Need for Accounting Standards*** Accounting information can serve the interest of different users only if it possesses uniformity and full disclosure of relevant information. There can be alternate accounting treatment and valuation norms which may be used by any business entity. Accounting standard facilitate the scope of those alternatives which fulfil the basic qualitative characteristics of true and fair financial statement. ***Benefits of Accounting Standards*** 1. Accounting standard helps in eliminating variations in accounting treatment to prepare financial statements. 2. Accounting standard may call for disclosures of certain information which may not be required by law, 3. Accounting standard facilitate comparability between financial statements of inter and intra companies. ***Limitations of Accounting Standards*** 1. Accounting standard makes choice between different alternate accounting treatments difficult to apply. 2. It is rigidly followed and fails to extend flexibility in applying accounting standards. 3. Accounting standard cannot override the statute. The standards are required to be farmed within the ambit of prevailing status. ***Applicability of Accounting Standards*** Except the purely charitable organisation which does not have any commercial, industrial and business activity, accounting standard is applicable to: 1. Sole proprietorship unit 2. Partnership firm 3. Societies 4. Trusts 5. Hindu undivided family 6. Association of persons 7. Cooperative societies 8. Companies ***International Financial Reporting System*** There have been vast changes in the global economic scenario with the emergence of globalisation, liberalisation and privatization. In order to make economy more dynamic, competitive and to boost confidence amongst international analysts and investors, it is important that the financial statements put forward by the business organisations across the countries are comparable on similar parameters, investor friendly, fair, transparent and decisions worthy. In view of this, a trend towards global convergence of accounting standards is seeking momentum for international financial reporting. ***Systems of accounting*** The systems of recording transactions in the books of accounts are generally classified in to two double entry system and single entry system. ***1-Double entry system of accounting*** The double entry system of accounting or double entry book keeping is that system of accounting which records both the aspect of a transaction i.e. receiving aspect and giving aspect. This system is a complete system accurate and more reliable. This system can be implemented by big as well as small business organisation mainly profit making organisations. ***2.Single entry system of accounting*** An accounting system not based on double entry is known as single entry system. It is not a complete system of maintaining records of financial transaction. Under this system only personal and cash aspect of each transaction are recorded. This system is incomplete unsystematic and not reliable. ***Basis of accounting*** From the point of view the timing of recognition of revenue and costs, there can be two approaches to accounting cash basis and accrual basis. ***1-Cash basis of accounting*** Under this system only actual cash receipts and payments are recorded no credit transactions. This system is followed by government organisations and non-trading concerns. This system is incompatible with the matching principle, which states that the revenue of a period is matched with the cost of the same period. ***2-Accrual basis of accounting*** Under the accrual basis, revenues and costs are recognised in the period in which they occur rather when they are paid. This is a more appropriate basis for the calculation of profits as expenses are matched against revenue earned in relation thereto. ***Goods and Service Tax*** GST is a destination based tax on consumption of goods and services. It is proposed to be levied at all stages from manufacture to final consumption with credit of taxes paid at previous stages available as set off. That means only value addition will be taxed and burden of tax is to be borne by the final consumer. The concept of destination based tax on consumption implies that the tax would accrue to the taxing authority which has jurisdiction over the place of consumption. ***Components of GST*** There are three main components of GST which are CGST, SGST and IGST. CGST means Central Goods and Services Tax. Taxes collected under CGST will constitute the revenues of the Central Government. The present central taxes like central excise duty, additional excise duty, special excise duty, central sales tax etc., will be subsumed under CGST. SGST means State Goods and Services Tax. A collection of SGST is the revenue of the State Government. With GST all state taxes like VAT, entertainment tax, luxury tax, entry tax etc, will be merged with GST. IGST means Integrated Goods and Services Tax. Revenue collected under IGST is divided between Central and State Government as per the rates specified by the Government. IGST is charged on transfer of goods and services from one state to another. ***Characteristics of Goods and Services Tax*** 1. GST is a common law and procedure throughout the country under single administration (One Nation One Tax). 2. GST is a destination based tax and levied at a single point at the time of consumption of goods and services by the end consumer. 3. GST is charged on both goods and services with the benefit of input tax credit. 4. There is no scope for levy of cess, resale tax, additional tax, turnover tax etc. 5. There is no multiple levy of tax on goods and services, such as sales tax, entry tax, octroi, entertainment tax or luxury tax etc. ***Advantages*** 1. Introduction of GST has resulted in the abolition of multiple types of taxes in goods and services. 2. GST widens the tax base and increased revenue to Centre and State Governments. 3. GST has removed the cascading effect on taxation (tax on tax). 4. It reduces the cost of production. 5. It will promote the economic efficiency of the nation.

F A Z E A N N A N W O R K S !