Day 11 : Understand Accounting Fundamentals

Module (11) :

Basics of Accounting

1. Introduction to Accounting

- **Accounting kya hai?** Accounting ek system hai jo business ki financial information ko collect aur process karta hai. Jaise tum apni pocket money ka hisaab rakhte ho, waise hi businesses apne paison ka hisaab rakhte hain.

- **Language of Business:** Accounting ko business ki 'zubaan' bhi kehte hain. Agar business ki kahani samajhni hai, toh accounting samajhna padega!

- **Book-keeping ka Birth:** Business mein transactions ko systematic tareeke se record karne ki zaroorat ne hi book-keeping ko janam diya. Pehle log patthar pe likhte the, ab hum software use karte hain!

- **Only Money Matters:** Sirf wahi transactions record hote hain jo business se related hon aur jinko money terms mein express kiya ja sake. Matlab, agar kisi employee ka mood kharab hai, toh woh record nahi hoga, but uski salary record hogi.

The Accounting Process - Ek Flowchart Se Samjho!
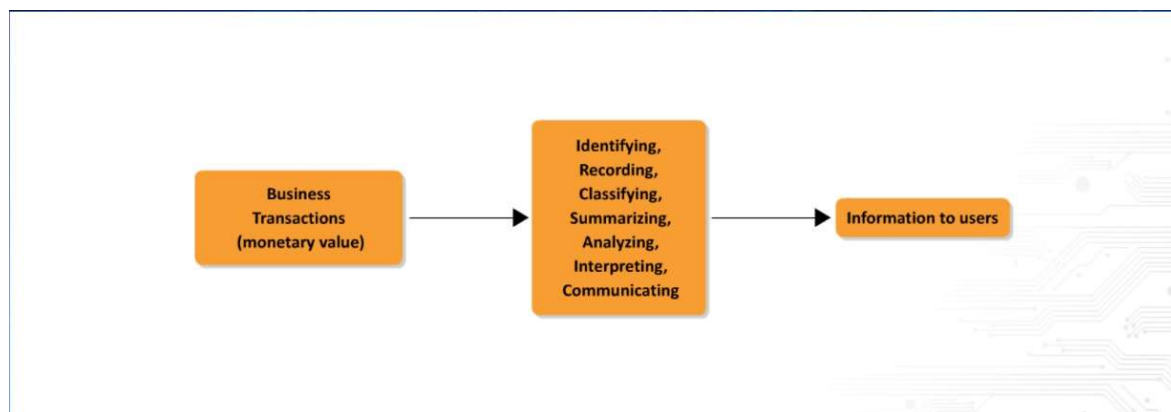
- **Identifying:** Pehle pehchaano ki kaun sa event business transaction hai.

- **Recording:** Phir unhe systematically record karo (jaise Journal mein).

- **Classifying:** Similar transactions ko ek saath group karo (Ledger mein).

- **Summarizing:** Bade data ko chote aur meaningful summaries mein banao (Trial Balance, Financial Statements).

- **Analyzing & Interpreting:** In summaries ko dekho aur samjho ki business kaisa perform kar raha hai.

- **Communicating:** Yeh information relevant users (owners, investors, etc.) tak pahunchao.

2. Accounting Cycle

Yeh accounting ka poora safar hai, ek cycle ki tarah jo har saal repeat hoti hai.

Accounting cycle
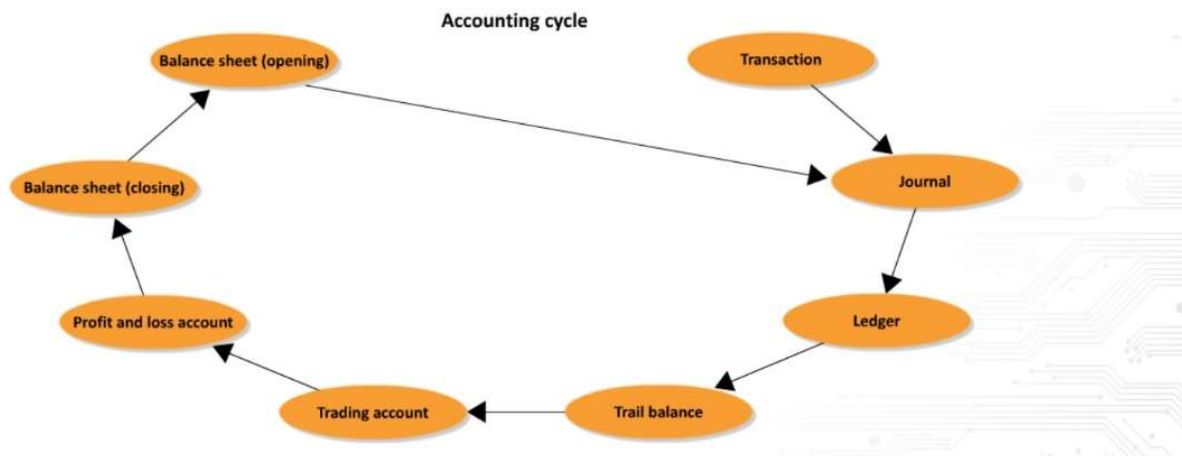
- **Balance Sheet (Opening):** Saalan ke shuru mein business ki financial position.

- **Transaction:** Pure saal hone wale business dealings.

- **Journal:** In transactions ki pehli entry yahan hoti hai. Jaise tumhari rough copy.

- **Ledger:** Journal entries se accounts banaye jaate hain. Ye tumhari fair copy hai.

- **Trial Balance:** Saare ledger balances ko ek list mein laate hain, check karne ke liye ki debits aur credits match ho rahe hain ya nahi.

- **Trading Account:** Goods ki buying aur selling se kitna Gross Profit/Loss hua, ye pata chalta hai.

- **Profit and Loss Account:** Business ke saare incomes aur expenses se kitna Net Profit/Loss hua, ye dikhata hai.

- **Balance Sheet (Closing):** Saalan ke end mein business ki financial health ki snapshot.

3. Double Entry System of Accounting

Yeh accounting ka superpower hai! Har transaction ke do pehlu hote hain.

- **Do Pehlu, Har Baar!** Har amount kam se kam do accounts mein record hota hai. Jaise agar tumne kisi ko Rs. 100 diye, toh tumhare paas se Rs. 100 gaye (giving aspect) aur uske paas Rs. 100 aaye (receiving aspect).

- **Debit and Credit Aspects:**

  1. **'Receiving Aspect' / 'Expenses/Loss Aspect' / 'Incoming Aspect'**: Isko **Debit (Dr.)** karte hain.

  2. **'Giving Aspect' / 'Income/Gain Concept' / 'Outgoing Aspect'**: Isko **Credit (Cr.)** karte hain.

- Accounting Equation Approach:

Assets=Liabilities+Stockholders'(Owner's)Equity

- **Expense:** Yeh company ke liye loss hai aur capital ko kam karta hai.

- **Income:** Yeh company ke liye profit hai aur capital ko badhata hai.

4. Account Classification

Accounts ko teen categories mein divide kiya gaya hai, taaki hum unhe sahi se handle kar sakein.

S.No.	Name of Account	Debit Aspect	Credit Aspect
1	Personal	The Receiver	The Giver
2	Real	What comes in	What goes out
3	Nominal	All expenses and losses	All incomes and gains

- **Personal Accounts:** Ye individuals, firms, ya companies se related hote hain (jaise Ram ka account, SBI Bank ka account).
  - Debit the Receiver: Jab Ram ko paise milenge, toh Ram ka account Debit hoga.
  - Credit the Giver: Jab Ram paise dega, toh Ram ka account Credit hoga.
- **Real Accounts:** Ye assets se related hote hain (jaise Cash account, Furniture account, Building account).
  - Debit What Comes In: Jab cash business mein aayega, toh Cash account Debit hoga.
  - Credit What Goes Out: Jab furniture business se bahar jayega, toh Furniture account Credit hoga.
- **Nominal Accounts:** Ye expenses, losses, incomes, aur gains se related hote hain (jaise Salary account, Rent account, Sales account).
  - Debit All Expenses and Losses: Salary di toh Salary account Debit hoga.
  - Credit All Incomes and Gains: Commission mila toh Commission account Credit hoga.

5. Journals & Ledgers

Yeh accounting ke do most important books hain, jaise tumhari rough aur fair copy.

Journals	Ledgers
1. Process of making entries in the books.	1. It is principal book containing all the accounts.
2. Gives snapshot of an account with all the separately with double entry system.	2. Gives snapshot of an account with all the transactions.

- **Journals:** Yeh transactions ko record karne ki pehli kitaab hai. Isme entries chronological order mein hoti hain. Think of it as a daily diary of all financial events.

- **Ledgers:** Journals se entries ko classify karke Ledgers mein post kiya jata hai. Har account ka apna ek ledger hota hai, jo us account se related saari transactions ka summary deta hai.

- **Base for Ledgers:** Journals Ledgers ke liye base provide karte hain. Matlab, journal ke bina ledger banana mushkil hai.

- **Facilitates Final Accounts:** Yeh dono books company ke final accounts banane mein help karte hain.

6. Accounting Assumptions

Yeh kuch basic ideas hain jinpar accounting built hai, jaise ghar ki neev.

- **Accounting Entity Assumption:** Business aur uska owner do alag-alag entities hain. Businessman ka personal kharcha aur business ka kharcha alag-alag record hota hai.

- **Money Measurement Assumption:** Sirf woh transactions record hote hain jinhe money terms mein measure kiya ja sake.

- **Accounting Period Principle:** Business ki life ko chote periods (usually 1 year) mein divide kiya jata hai taaki performance ko regularly measure kiya ja sake.

- **Going Concern Assumption:** Yeh maana jata hai ki business future mein bhi chalta rahega, band nahi hoga.

7. Accounting Principles and Concepts

Yeh rules hain jo accountants follow karte hain, taaki sab uniform tareeke se kaam karein.

- **Dual Aspect Principle:** Har transaction ke do pehlu hote hain (Debit aur Credit).

- **Revenue Realisation (Recognition) Concept:** Revenue tab record kiya jata hai jab woh earned ho jaye, chahe cash mila ho ya na mila ho.

- **Historical Cost Concept:** Assets ko unki original purchase price par record kiya jata hai, market value changes ko ignore karte hue.

- **Matching Concept:** Expenses ko unhi revenues ke saath match kiya jata hai jinhe generate karne ke liye woh kharche kiye gaye the.

- **Full Disclosure Concept:** Financial statements mein saari relevant information provide karni chahiye.

- **Verifiable and Objective Evidence Concept:** Accounting information facts par based honi chahiye jo proofable ho.

8. Modifying Principles

Yeh principles thode flexible hote hain, jo accounting ko aur practical banate hain.

- **Cost-benefit principle:** Information provide karne ki cost uske benefit se zyada nahi honi chahiye.

- **Materiality principle:** Sirf material (important) items ko hi separately disclose kiya jana chahiye. Choti-moti cheezein club ki ja sakti hain.

- **Consistency principle:** Accounting methods aur policies har saal consistent rehni chahiye, taaki comparisons easy hon.

- **Prudence principle (Conservatism):** Future ke profits ko anticipate mat karo, lekin future ke losses ke liye provision bana lo. Jab doubt ho, tab cautious raho.

9. Final Accounts

Yeh business ke ultimate report cards hain, jo saal ke end mein bante hain.

- **Profitability aur Financial Soundness:** Ye business ki profitability aur financial soundness dikhate hain.

- **Prepared at Year End:** Usually, accounting year ke end mein banaye jaate hain.

- **External aur Internal Reporting:** Ye external users (investors, banks) aur internal management (planning, decision-making, control) dono ke liye useful hote hain.

Final Accounts Ka Structure
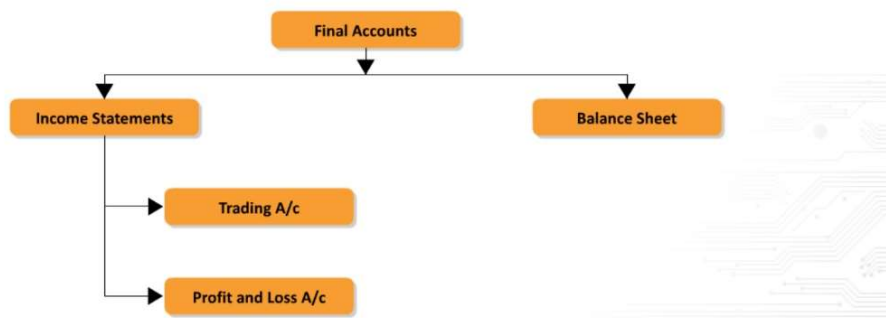
10. Income Statement

Yeh statement ek particular period mein business ki profitability dikhati hai.

- **Profitability during a given period:** Income statement shows how profitable the company was during a specific period.

- **Two things considered:** Profitability report karte waqt do cheezein consider ki jaati hain:
  - **Revenues:** Jo paise kamaye.
  - **Expenses:** Jo paise kharch hue.

Revenues & Expenses - Accounting Treatment
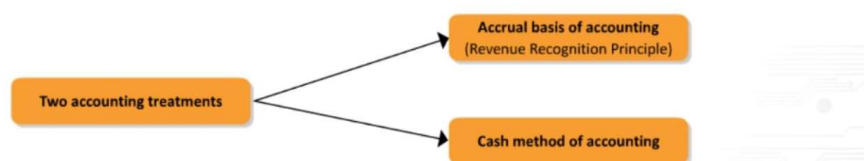
- **Cash Method:** Jab cash aaye ya jaye, tab record karo. Simple!

Method	Record when money is:
Cash method	Received / Paid
Accrual basis	Earned / Incurred (Matching Principle)

- **Accrual Basis:** Revenue tab record karte hain jab woh *earn* ho jaye, aur expense tab record karte hain jab woh *incur* ho jaye, chahe cash ka exchange hua ho ya na hua ho. Ye Matching Principle ko follow karta hai.

11. Balance Sheet

Yeh ek specific point in time par business ki financial position (assets, liabilities, and owner's equity) ki snapshot hai.

- **Financial statement that records company's assets, liabilities and stockholder's equity.**

- **At a specific point in time.**

Example Balance Sheet:

Assets	Liabilities & Stockholders' Equity
Cash	500,000
Total Assets	500,000

12. Assets

Yeh woh resources hain jo business own karta hai aur future mein economic benefits provide karenge.

- **Assets are the resources for a company, which provide economic benefits.**

- **Examples:**
  - Cash in bank
  - Securities
  - Motor Vehicle / Real Estate
  - Accounts receivable (paise jo humein future mein milenge)
  - Prepaid expenses (expenses jo pehle hi pay kar diye hain)

Asset Valuation

- **Cost principle:** Assets ko original cost par record kiya jata hai, even if market value increases.

- **Conservatism:** The value may be reduced if needed (prudence principle).

- Depreciation: Assets ki value time ke saath kam hoti hai (except land).

BookValue=Cost−TotalDepreciation

Land is never depreciated.

- **Current assets:** Inki values market value ke close hoti hain, they tend to "turn over" in short periods of time.

13. Liabilities

Yeh business ki obligations hain, woh paise jo use future mein dusron ko dene hain.

- **Liabilities are the obligations of the company to others.**

- **Examples:**
  - Loan payable (loan jo wapas karna hai)
  - Interest payable (interest jo dena baki hai)
  - Accounts payable (paise jo humein dusron ko dene hain)
  - Deferred income (income jo advance mein mil gayi hai but abhi earn nahi ki)
  - Outstanding expenses (expenses jo ho gaye hain but abhi pay nahi kiye)

14. Stockholder's Equity (Owner's Equity)

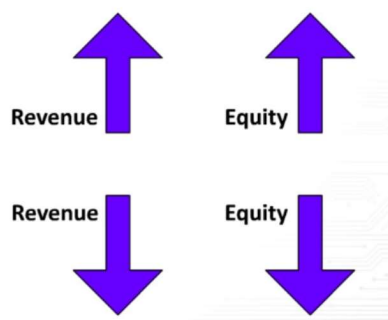Yeh owner ka business mein claim hai, yaani Assets minus Liabilities.

1. Difference between the asset and liability:

Stockholders'Equity=Assets−Liabilities

2. **It comprises:**
   - Common stock
   - Preferred stock
   - Retained earnings
   - Current year's net income

Revenue & Equity Relationship

- **Revenue increases Equity.** Jab business ko profit hota hai, toh owner ka share badhta hai.

- **Expenses decrease Equity.** Jab business ko loss hota hai ya expenses hote hain, toh owner ka share kam hota hai.

15. Debit and Credit Rules

Yeh rules account ke type ke hisaab se apply hote hain.

Account Category	Debit	Credit
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Capital	Decrease	Increase
Incomes	Decrease	Increase
Expenses	Increase	Decrease

- **Assets:** Jab Assets badhte hain, toh Debit karte hain. Jab kam hote hain, toh Credit karte hain.

- **Liabilities:** Jab Liabilities badhti hain, toh Credit karte hain. Jab kam hoti hain, toh Debit karte hain.

- **Capital:** Jab Capital badhta hai, toh Credit karte hain. Jab kam hota hai, toh Debit karte hain.

- **Incomes:** Jab Incomes badhti hain, toh Credit karte hain. Jab kam hoti hain, toh Debit karte hain.

- **Expenses:** Jab Expenses badhte hain, toh Debit karte hain. Jab kam hote hain, toh Credit karte hain.

16. Cash Flow Statement

Yeh statement business mein cash ke inflows aur outflows ko dikhata hai.

- **Shows inflows and outflows of cash and cash equivalents of a company.**

- **Three Sections:**

  - **Operating activities:** Business ke core operations se cash flow. (e.g., Cash from sales, cash paid for expenses).

    - *Current Assets & Current Liabilities* se related.

  - **Investing activities:** Long-term assets ki buying aur selling se cash flow. (e.g., Buying property, selling equipment).

    - *Long-term Assets* se related.

  - **Financing activities:** Debt aur equity ki dealing se cash flow. (e.g., Issuing shares, repaying loans).

    - *Long-term Liabilities & Stockholder's Equity* se related.

17. Adjusting Entries

Yeh entries accounting period ke end mein banayi jaati hain taaki revenue recognition aur matching principles ko follow kiya ja sake.

- **Some common items which need to be adjusted at the time of preparing final accounts are as below:**
  - Outstanding expenses (expenses incurred but not yet paid)
  - Prepaid expenses (expenses paid in advance but not yet incurred)
  - Accrued income (income earned but not yet received)
  - Income received in advance (income received but not yet earned)
  - Interest in loan
  - Dividend payout
  - Provision for bad debt
  - Accrued receivables/payables

18. EOY (End Of Year) Closure

Saal ke end mein kuch accounts ko close kiya jata hai.

- **Temporary accounts (Income and expense accounts) are closed to the Capital/Retained earnings account.** Inka balance next accounting year mein carry forward nahi hota.
- **Permanent accounts (Assets, Liabilities, and Equity) are not closed.** Inka balance automatically next accounting year mein carry forward ho jata hai.
- **Net amount is then moved to retained earnings, which is the part of total capital contributed of a company.**

19. Accounting Standards

Yeh rules aur guidelines hain jo financial statements ki preparation ko govern karte hain.

- **International Accounting Standards Committee (IASC):**
  1. Formed in 1973.
  2. To formulate the accounting standards.
  3. To minimize differences in accounting.
- **IASC became IASB (B for Board) in 2001.**
  1. Published new IFRSs (International Financial Reporting Standards).
  2. Some developed languages will use new IFRSs.
- **In India:** The Institute of Chartered Accountants of India (ICAI) constitutes Accounting Standard Board (ASB) to formulate and issue accounting standards.