TOPIC

Unit 2

Basic Accountancy Procedures

TOPIC

Concepts / Assumption / Customs / Convention ⇒ "Fundamental Rules to followed in A/c"

There following are the main accounting concepts

Cost Concepts: Every business transactions is recorded in the books of accounts at cost price, e.g, the machinery is recorded in the books by that amount which is paid to the supplier plus the expenses of bringing and installing the machinery which are necessary to put it in working order.

" Show Assets in Books, at Cost Price " ⇒ " Every Exp. till Asset is Put to use " (Imp) ⇓ AS-10

Machinery ⇒ Cost ⇒
- ⇒ Purchase cost
- ⇒ Loading / unloading
- ⇒ Freight
- ⇒ Site Prepration
- ⇒ Installation
- ⇒ Trial Run Exp.

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Applications

- Fixed assets are kept at the cost of purchase and not their market value.
- Every transaction is recoded with the present value and not any future value.
- Unrealised gains are ignored.
- An item, that has no cost, is not taken in books

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"only money trans. are Accounted"

Money measurement concept: Every transaction that is recorded in books of accounts must be measured in terms of money. All the transactions are converted into a common form, which is money. Example, quarterly production, sales, wages, etc, all are converted in terms of money.

Applications

- Health of a proprietor or manager is not taken into the books although it may have a great impact on the overall business.
- We do not include any inflation or deflation or deflation in the value of any asset

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Business entity Concept: This concept separates the entity of the proprietor from the business transactions. The capital contributed by the owner is a liability for the business because business, which is an artificial person, is different from owner. "Business and owner are Sep. identity"

Applications

- Any money withdrawn by the proprietor is treated separately as drawings. ⇒ Capital – Drawings
- Profit is a liability while loss is an asset.
  ↳ liability to return to investor

Imp.

TOPIC

" Record Revenue in books if it is earned or realised "

Realisation concept: This concept tells us when is the revenue treated as realized or earned. It is treated as realized or earned on that date when the property in the goods pass to the buyer and he becomes legally liable to pay.

Applications

- No future income is considered.
- Goods sold on approval will not be included in sales but taken at cost only.
- The rules of revenue recognition determines that the earning process should be either complete or near completion.

B/S 1999
Asset 20cr.
B/S 2025
A = 20cr.

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Historical records Concept: In accounts, The historical cost principle states that businesses must record and account for most assets and liabilities at their purchase or acquisition price. In other words, businesses have to record an asset on their balance sheet for the amount paid for the asset.

Going concern concept: This concept indicates that the business is a going concern and the transactions are recorded accordingly. If an expense is incurred and its utility is consumed during the year, then it is treated as an expense, otherwise it is recorded as an asset.

" Assume that business will keep going on in near future " ⇒ Impact

Asset

Fixed Asset

Current Asset

TOPIC

Applications

→ long term → cost

- The fixed assets are valued at cost and not at market value.

→ 1000 / 900 Net Realisable Value

AS-2

- Current assets are valued at cost or the market value whichever is less. → Stock

1000 1200 / 900

- Depreciation is provided based on the total number of years of life of asset. Balances of one year are carried forward to the next year.
- Reserves and provisions are created for any future liability.

Income 1·4·25 – 31·3·26
Exp. 1·4·25 – 31·3·26

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Matching concept: This concept explains that we have to match the income of a certain period with expenses of that period only. The term matching refers to the close relationship that exists between certain expired cost and revenues realized as a result of incurring those costs. The justification of the matching concept arises from accounting period concept. "Income and Exp. Should be recorded related to Similar Period"

Applications

- All adjustments regarding prepaid expenses, outstanding expenses are made in the final accounts.
- Deferred revenue expenditure concept arises due to this.

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"follow A fix Accounting Period" 1·4·24· 31·3·25

Accounting period concept: An accounting period is the span of time covered by a set of financial statements. This period defines the time range over which business transactions are accumulated into financial statements, and is needed by investors so that they can compare the results of successive time periods.

Main Conventions of Accounting

Accounting of full disclosure: Entries are made in such a way, that they provide honestly all information relating to the activities of the business. The records should not conceal anything from outsider. Secret reserves should not be maintained as per this convention.

"Disclose everything, don't creat Secret Reserve"

TOPIC

"Ignore fraction value and Petty Exp" ↳ Sunday Exp

Convention of materially: All material information, must be recorded. What is material depends upon the value of the item involved and circumstances of individual case of business. Exp: Paisa is not recorded.

Convention of conservatism: While recording transactions, all possible losses must be taken into consideration, while all anticipated profits should be ignored. This is also called the principle of prudence. Imp

"Record expected loss immediately and Postpone Expected Profit till its Received"

Convention of consistency: If a method is selected for recording purposes, it must be regularly followed in the future also. Whenever it is necessary to change, the impact of such change must be given separately. "Do not change Accounting Policy frequently"

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Going Concern Entity

⇒ Asset - ⇒ FA, ⇒ CA
⇒ Depreciation
⇒ Reserve and Provision

The going concern concept of accounting implies that the business entity will continue its operations in the future and will **not liquidate or be forced to discontinue operations due to any reason.**

Journal ⟶ Ledger
L.F. (8)
Refrence

Double Entry System

⇒ 2 Party
⇒ 2 Aspect
⇒ DR. and CR.
⇒ Self Balancing A/c
⇒ Lucas Pacioli

8 Coloum ⇒ Ledger (Account) (8)

Dr.							Cr.
Date	Particulars	J.F. (Journal folio)	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Ram	15	80,000				

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loss = Record Immedi.
Profit = Postpone till Received

Principle of Conservatism / Prudence = Expected =

The conservatism principle is the general concept of recognizing expenses and liabilities as soon as possible when there is uncertainty about the outcome, but to only recognize revenues and assets when they are assured of being received.

Basis of Accounting

Cash Basis
only Cash trans
⇒ Cash Book
⇒ Cash flow Statement

Accrual Basis
Record all trans. [Cash + Credit]
All Records

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J.F. = Journal folio
Ref. Point in ledger about Journal

Record Keeping Basics

Journal

⇒ Also a $\boxed{\text{Subsidiary Book}}$ ↳ common trans.

Journal records $\boxed{\text{each transaction.}}$ ⇒ Date wise ⇒ Book of original Entry ⇒ $\boxed{\text{Book of first entry}}$

→ ledger folio = Ref. Point in Journal about ledger.

Journal Entries

Date	Particulars		L.F.	Amount(Dr.)	Amount(Cr.)
Year Month Date	Name of the Account to be Debited	Dr.		XXXX 20000	
	Name of the Account to be Debited	Dr.		XXXX 30000	
	To Name of the Account to be Credited				XXXX 10000
	To Name of the Account to be Credited				XXXX 40000
	(.....................Narration........................)				
	↳ "Short explanation of transaction"				

"Total of DR. Side and total of Cr. Side Should be equal"

TOPIC

Ledger ⇒ Account ⇒ Journal $\xrightarrow{\text{Posting}}$ Ledger

Imp

The Ledger is the principal book of accounts where similar transactions relating to a particular person or property or revenue or expense are recorded.

Ledger follows Double entry System i.e. every trans. have 2 Impact (DR, CR)

Formate: = 8 Coloum

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹

* 'Machinary Purchased from Satyendra ₹ 20L' ⇒

⇒ Machinary A/C Dr. 20L
To Satyendra A/C 20L

Machinary A/C

DR.	CR.
To Satyendra 20L	

Satyendra A/C

	By Machinary 20L

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S. No.	Basis of Difference	Journal	Ledger
1.	Entry	Journal is the Book of Original entry.	Ledger is the Book of Secondary Entry
2.	Record	Journal is the Book for Chronological record.	Ledger is the Book of analytical record.
3.	Classification of Data	The basis of recording in the journal is transaction.	The basis of posting in the ledger is Journal.
4.	Process of Recording	Process of recording in the Journal is known as journalizing.	Process of recording in the ledger is known as ledger posting.
5.	Type of Book	Book of Primary Entry + Subsidiary Book	Book of Secondary Entry + Principal Book

All Common Exp. Recorded

TOPIC

TOPIC

TOPIC

Assertion (A): Under the conservatism principle, unrealized profits are not recorded.
Reason (R): Anticipated profits should always be disclosed for decision-making.

A. Both A and R are true, and R is the correct explanation.
B. Both A and R are true, but R is not the correct explanation.
C. A is true, but R is false.
D. A is false, but R is true.

TOPIC

Assertion (A): Under Ind AS 109, Expected Credit Loss (ECL) replaces the incurred loss model.
Reason (R): ECL aligns with international IFRS practices to anticipate credit risk earlier.

A. Both A and R are true, and R is the correct explanation.
B. Both A and R are true, but R is not the correct explanation.
C. A is true, but R is false.
D. A is false, but R is true.

TOPIC

Assertion (A): Business Entity concept separates owner from the business.
Reason (R): Owner's drawings are treated as an income to the business.

A. Both A and R are true, and R is the correct explanation.
B. Both A and R are true, but R is not the correct explanation.
C. A is true, but R is false.
D. A is false, but R is true.

TOPIC

Which of the following statements are TRUE regarding Money Measurement Concept?
1. Only transactions measurable in money are recorded.
2. Inflation impact is included in valuation of assets.
3. Manager's health is recorded if it affects business.
4. All financial data must be in a common currency unit.

A. 1 and 4 only
B. 1, 2 and 3
C. 1, 3 and 4
D. All of the above

TOPIC

Identify the correct statements about the Matching Concept:

1. Relates current income with future expenses. ✗
2. Forms basis for deferred revenue expenditure.
3. Adjustments for accruals are applied.
4. Supports preparation of profit & loss account.

A. 2, 3, 4
B. 1, 2, 3 ✗
C. 1 and 4 only ✗
D. All are correct ✗

TOPIC

Regarding Indian Accounting Standards (Ind AS), identify the true statements:

1.Ind AS are converged with IFRS.
2.Applicable to listed and large unlisted firms.
3.RBI has implemented Ind AS since 2019.
4.Ind AS 109 applies Expected Credit Loss model.

A. 1, 2 and 4
B. 2, 3 and 4
C. 1 and 3 only
D. All are correct

TOPIC

Which of these are correct about the Historical Cost Principle?

1. Assets are recorded at market value. ×
2. Historical cost provides objectivity.
3. Does not consider inflation effects.
4. Used in preparing balance sheet. ✓

A. 2, 3 and 4
B. 1 and 4 only ×
C. 2 and 3 only
D. All are correct ×

TOPIC

Concerning IFRS, which of the following is accurate?

1.IFRS are issued by the IASB.

2.IFRS 15 deals with business combinations. ⇒ Contract Revenue

3.IFRS ensures transparency across countries.

4.IFRS 16 covers leases.

A. 1, 2, 3

B. 1, 3, 4

C. 2, 3, 4

D. All of the above

TOPIC

A company buys machinery for ₹10,00,000, incurs ₹50,000 transport and ₹25,000 installation costs. It records the asset at ₹10,00,000 only. What accounting concept is violated?

A. Realisation Concept
B. Cost Concept
C. Matching Concept
D. Going Concern Concept

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An unlisted company with ₹300 crore net worth prepares its statements as per traditional Indian GAAP. It does not disclose deviation from Ind AS. Identify the non-compliance:

A. Section 129(5) of Companies Act
B. Section 134(5) of Companies Act
C. IFRS 10
D. Ind AS 109

TOPIC

Who is known as the “Father of Accounting”?

A. Amartya Sen

B. Luca Pacioli

C. Adam Smith

D. John Maynard Keynes

TOPIC

What does the term "Double Entry System" indicate?

A. Each transaction affects two accounts

B. Each entry has a reverse

C. Every credit must be paid

D. Each item must be valued twice

TOPIC

Which Ind AS is used for consolidated financial statement?

A. Ind AS 10

B. Ind AS 16

C. Ind AS 109

D. Ind AS 115

TOPIC

Convention of full disclosure prohibits:

A. Revealing profits

B. Maintaining secret reserves

C. Sharing annual reports

D. Disclosing accounting policies

TOPIC

Conservatism principle prefers:

A. Maximum profit estimation

B. Ignoring all liabilities

C. Anticipating losses only

D. Recording unrealized income

TOPIC

Which is NOT a type of transfer pricing method? .

A. Comparable Uncontrolled Price

B. Resale Price

C. Direct Market Method

D. Transactional Net Margin

TOPIC

Fair Value Accounting aims to: .

A. Record assets at cost

B. Show estimated replacement value

C. Reflect real-time market price

D. Ignore depreciation

TOPIC

Which accounting type focuses on future planning and decision making?

A. Cost Accounting

B. Financial Accounting

C. Stewardship Accounting

D. Management Accounting

TOPIC

The primary aim of IFRS is:

A. Domestic tax compliance

B. Transaction secrecy

C. Global comparability of financial reports

D. Maximize net profit

TOPIC

⇒ Normally = ⇒ Single coloum
⇒ Double coloum
⇒ Tripple coloum

⇒ Small value = Petty Cash Book

only Cash trans. are Recorded

⇒ Purchase Book = All Credit Purchase
⇒ Sale Book = All Credit Sales
⇒ Cash Book = All Cash trans.
⇒ Sales Return Book = All Sales Return
⇒ Purchase Return Book = All Purchase Return
⇒ Journal ⇒ All remaining trans.

"Record Specific trans. Seperatly"

Unit 3

Maintenance of Cash/ Subsidiary Books and Ledger

⇒ Classification of A/C

DR. CR.

Receipt	Payment

TOPIC

Cash Book ⇒ "Journal and ledger both"

⇒ Receive = DR.
⇒ Payment = CR.

The Book that keeps records of all cash transactions i.e. cash receipts and cash payments is called a cash book.

Cash book thus serves the purpose of a book of original entry as well as that of a ledger account.

+ Subsidiary Book

TOPIC Types of Cash Book

Simple (Single column) cash book: ⇒ "Just like Cash A/c"

Date	Particulars	L.F	~~Receipt No.~~	Amount (DR.) Cash	Date	Particulars	L.F	~~Receipt No.~~	Amount (CR.) Cash

⇒ Trade discount = Quantity discount = Not recorded in Book

⇒ Cash Discount = Immediate Pay = Recorded = ⇒ Received = DR. / ⇒ Payment = CR. = Cash Book

⇒ Discount Column of Cash Book is never balanced or totalled

Two Column Cash Books

Here instead of one column, we have an additional column for discounts.

Date	Particulars	L.F	Receipt No.	Amount (DR.)		Date	Particulars	L.F	Receipt No.	Amount (CR)	
				Cash	Discount					Cash	Discount

xxxx

TOPIC

Three Column Cash Books

This cash book has the cash, the discount and additionally the bank columns in it.

Date	Particulars	L.F	Receipt No.	Amount (DR.)			Date	Particulars	L.F	Receipt No.	Amount (CR.)		
				C	D	Bank					C	D	Bank
		C							C				

$\boxed{\text{Contra Entry}}$ ⇒ "When both Cash and bank A/c involved in Single Journal Entry"

→ Record in tripple coloum Cash Book

→ Denoted by $\boxed{C}$ in L.F. coloum

⇒ Deposited in Bank ⇒ Bank A/c Dr.
To Cash A/c

⇒ Withdrawing from Bank ⇒ Cash A/c Dr.
To Bank A/c

Contra Entry:

An entry in which a cash account and Bank account are involved and it is recorded on both sides of the cash book is called contra entry.

Examples :

Cash Deposited into the bank . ⇒ ₹80,000

Bank account ------------------------ Dr 80,000

Cash account ------------------------------ Cr 80,000

Cash withdrawn from the bank for business use. ₹80,000

Cash account ---------------------------- Dr 80,000

Bank account ------------------------------- Cr 80,000

TOPIC

Materiality concept

Petty Cash Book

- Prepared by Junior Clerk
- Based on Imprest System of A/C [Re-fill System]
- Only Small value trans. are recorded
- Bal. of Petty Cash Book → Asset → Current Asset

there are many cash transactions happening for very small amounts. Sometimes there are dozens of such transactions that occur in just one day. These are known as petty transactions. Examples are expenses for postage, stationery, traveling, food bills, etc.

Petty Cash Book

To ...	18000	By Cashier	20,000
To Bal.	2000		
		By Bal.	2000
		By Cashier	18000
To ...	19000		
To Bal.	1000		
		By Bal	1000
		By Cashier	19000

Types of subsidiary books

↳ "To keep Specific trans. Sep."

- Cash Book ⇒ All Cash trans.
- Sales Book ⇒ All Credit Sales
- Purchase Book ⇒ All Credit Purchase
- Sales Return Book ⇒ All Sales Ret.
- Purchase Return Book → All Purchase Return
- Bills Receivable Book — All Bills issued by you → Receive money in future ⇒ Asset
- Bills Payable Book — All Bills Accepted by You → Pay money in future ⇒ Liability
- Journal Proper ⇒ Common Book — "All the remaining trans."