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Accounting and Finance

Unit-01
Introduction to Financial Accounting

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Semester -01

Master of Business Administration

UNIT

01

Introduction to Financial Accounting

Names of Sub-Units

Introduction to Financial Accounting, Concept of Conceptual Framework of Financial Accounting, Concept of Basic Terminology in Accounting, Users of Accounting Information.

Overview

This unit begins by meaning of financial accounting. It discusses the conceptual framework of financial accounting. The unit explains the users of financial accounting, which are internal users and external users. It also discusses the introduction to Indian GAAP, Ind AS and IFRS

Learning Objectives

In this unit, you will learn to:

⌘ Explain financial accounting

⌘ State the users of financial accounting

⌘ Identify the basic terminology in accounting

⌘ Classify the different accounting concepts

Learning Outcomes

At the end of this unit, you would:

⌘ Assess the importance of financial accounting

⌘ Examine the conceptual framework of financial accounting

⌘ Analyse the users of financial accounting

⌘ Evaluate the different accounting concepts

Pre-Unit Preparatory Material

⌘ http://www.ddegjust.ac.in/studymaterial/bba/bba-104.pdf

1.1 INTRODUCTION

Accounting is a business language which elucidates the various kinds of transactions during a given period of time. Accounting is broadly classified into three different functions:

1. Recording
2. Classifying
3. Summarising

The American Institute of Certified Public Accountants defines accounting as *"the process of documenting, classifying, summarising in a meaningful manner financial transaction and eventually interpreting the outcomes."*

A well-known author of accounting, [Prof. R.R. Gupta, Principal, Poddar College, Nawalgarh (Rajasthan)] wrote in First write/record before one deliver goods or renders the services and if there is any disagreement in future, use the writing or record as an evidence to resolve the misunderstanding or rectifying the error.

Business transactions must be recorded for the benefit of the owners and other interested parties. The second group of people includes those who provide resources, products, and services to businesses, governments, and society at large. The creditors (suppliers who are ready to wait for payment) want to know if the firm will be able to pay them later (solvency of the business), whereas the government wants to know if the business has paid all taxes, fees, and other obligations.

1.2 CONCEPTUAL FRAMEWORK OF FINANCIAL ACCOUNTING

Accounting looks to many of us to be a systematic and procedural process. The visible part of accounting — record keeping and financial statement production – all too frequently connotes the use of a low-level talent in a job devoted to prosaic goals and devoid of challenge and inspiration. However, there is a vast body of theory (conceptual framework) in accounting. Philosophical goals, normative theories, interconnected concepts, exact definitions, and underlying assumptions, principles, and restrictions are all part of it. Many individuals are unaware of this theoretical background, but it assists to justify accounting as a true professional discipline. Thus, accountants philosophize, theorize, judge, create, and deliberate as a significant part of their professional activity. The principles of accounting are unlike the principles of the natural sciences and mathematics because

- They can't be derived from or proved by the laws of nature
- They are not viewed as fundamental truths or axioms

An accounting theory is not something that is discovered rather, it is created, developed or decreed on the basis of environmental factors, intuition, authority, and acceptability because the theoretical framework accounting is difficult to substantiate objectively or by experimentation, arguments concerning it can degenerate into quasi - religious dogmatism. As a result, the credibility of accounting rests upon its general recognition and acceptance by preparers, auditors, and users of financial statements. Given this, the purpose of this chapter is to examine the nature and usefulness of a conceptual framework for financial accounting, and discuss its components.

1.2.1 Basic Terminology in Accounting

The terms, which are generally used in the day-to-day business, are called accounting terminology. So, it is very much necessary to know all the terms properly. Some of the terms that are frequently used are:

- Capital: It is the capital that the business owner has put into the company. It is also known as net worth or owners' equity. It's the sum of your assets minus your liabilities. In other terms, capital is the difference between assets and liabilities. Because a business is treated as a separate entity, the capital invested by the owner is treated as a liability for the company. This can be shown in an algebraic way as follows:

  Capital = Total Assets – Total Liabilities

- Assets: Assets are valuable items or properties that a company uses in its operations. In other terms, an asset is everything that provides a benefit to the company. "Assets are future economic advantages, the rights that are owned or controlled by an organisation or individual," according to Finny & Miller, whereas Kohler defines an asset as "any owned physical property (tangible) or right (intangible) having economic value to the owner." Assets are defined as "physical goods or intangible rights controlled by an enterprise and having anticipated future advantages," according to the Institute of Chartered Accountants of India. Thus, it is clear from the above definitions that an asset must have future economic benefit which must be controlled by an enterprise. The assets may be broadly classified as fixed assets and current assets:

  (i) Fixed assets are the assets which are purchased for the purpose of operating the business and not for resale such as land and building, plant and machinery and furniture, etc.

  (ii) Current assets are the assets which are kept for short-term for converting into cash or for resale such as unsold goods, debtors, bills receivable, bank balance, etc.

- Liability: It can be described as current commitments that a commercial enterprise must meet at some point in the future. "Liabilities are debts, they are amounts owed to creditors," according to Finny and Miller. In other words, liabilities refer to obligations that are not capital-related (contributed by the owner of the business). Liabilities are "probable future sacrifices of economic gains stemming from present commitments of a particular entity to transfer assets or perform services to other entities in the future as a result of previous transactions or events," according to F.A.S.B. Stanford, 1980. According to Accounting Principles Board (APB), liabilities are defined as, "economic obligations of an enterprise that are recognized and measured in conformity with generally accepted accounting principles." Thus, it is clear from the above definitions that liability is a legal obligation to pay for the transaction that has already taken place. Liabilities may be classified into three types namely:

  1. Short-term liabilities are such obligations which are payable within one year. Examples are creditors, Bills payable, overdraft from a bank, etc.
  2. Long-term liabilities are such obligations which are payable after a period of one year such as debentures, bonds issued by the company, etc.
  3. Contingent liability is a liability which arises only on the happening of an uncertain event. If it happens, the contingent liability is there. If it does not happen, there is no liability. Such liabilities are not shown in the balance sheet, but are given as a foot note. Example of such liabilities are (i) Liability on account of bills discounted (ii) Claims against the fi rm not acknowledged as debts.

- Debtors: Debtors are those who owe money to a company after getting products or services on credit. In an enterprise's balance sheet, the entire balance outstanding at the end of a specific date is shown as an asset. Account's receivables are another term for debtors.
- Creditors: The creditors are the persons to whom the fi rm owes for providing goods or services.
- Revenue: Revenue is the amount of money earned by a company by selling a product or providing services to clients. Sales, commissions, interest, dividends, rent, and royalties are just a few examples. It is the amount that is added to the capital as a result of the operations of the firm.
- Equity: Equity is, normally, ownership or percentage of ownership in a company or items of value.
- Profit and Loss Statement: A written order from one person (the payor) to another, signed by the person giving it, instructing the person to whom it is addressed to pay a specified sum of money on demand or at a specified future date to either the payee or any person presenting the bill of exchange.
- Income: The financial gain (earned or unearned) accruing over a given period of time.
- Expenditure: A payment or incurrence of an obligation to make a future payment for an asset or service rendered.
- Profit and Loss A/c: The second section of Trading and Profit & Loss Account is Profit & Loss Account. The gross profit, which is the difference between sales and cost of sale, is shown in the trading account. As a result, gross profit cannot be treated as net profit when a businessperson wants to determine how much net profit, he made from operating operations during a certain time period. Profit and Loss Accounts are created for this reason, taking into account all of the business's operational and non-operating profits and losses. All expenses and losses are declared on the debit (left hand side), and all incomes are disclosed on the credit (right hand side). The excess of credit side over debit side is called net profit while the excess of debit side over credit side shows net loss.
- Goods: It is a general term used for the articles in which the business deals; that is, only those articles which are bought for resale for profit are known as Goods.
- Drawings: It is the amount of money or the value of goods which the proprietor takes for his domestic or personal use. It is usually subtracted from capital.

1.2.2 Users of Accounting Information

There are two types of persons interested in financial statements:

1. Internal users: These are:
   - Shareholders are interested to know the welfare of the business. They can know the operational results through such financial statements and the financial position of the business.
   - Management is interested to take important decisions relating to fixing up the selling prices and making future policies.
   - Trade unions and employees are interested to know the operational results because their bonus etc. is dependent on the profit earned by the business. Financial statements also help in their negotiations for wages/salaries.
2. External users: The following are most important external users of financial statements:
   - Investors: They want to know about a company's earning capacity, which may be determined through financial documents. Financial statements can also be used to determine the business's financial viability.

- **Creditors, Lenders of Money:** The creditors and lenders of money etc. can also know the financial soundness through financial statement. They have to see two things (i) Regularity of income and (ii) solvency of the business so that their investment is risk free.
- **Government:** The government is interested in drafting laws to regulate corporate activity, as well as taxation and other laws. Financial statements aid in the computation of national income figures, among other things.
- **Taxation authorities:** Financial statements contain information about a company's operating results as well as its financial situation. The amount of tax is determined by the tax authorities based on the financial statement. Other taxing authorities, such as sales tax, will find it quite useful.
- **Consumers:** These groups are interested in getting the goods at reduced price. Therefore, they wish to know the establishment of a proper accounting control, which in turn will reduce to cost of production, in turn less price to be paid by the consumers. Researchers are also interested in accounting for interpretation.
- **Research Scholars:** Accounting information, as a reflection of a company's financial success, is invaluable to a researcher looking to investigate a company's financial operations. To conduct research into a company's financial operations, a research scholar will need detailed accounting information on purchases, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long-term liabilities, and share-holders funds, all of which can be found in the company's accounting records.

1.3 DIFFERENT ACCOUNTING CONCEPTS

The following are the most important concepts of accounting:

1. Money measurement concept
2. Business entity concept
3. Going concern concept
4. Matching concept
5. Accounting period concept
6. Duality or double entry concept
7. Cost concept
8. Revenue recognition concept
9. Full disclosure concept
10. Objectivity Concept

Let us understand each them one by one.

Money Measurement Concept

This concept tunes the accounting system to be effective in capturing the transactions and occurrences of the business solely in terms of money. Money is employed as a denominator as well as a numerator in business events and transactions. Transactions that are not expressed in monetary terms are not allowed to be recorded in the books of accounts.

Business Entity Concept

The owner is treated as a separate entity from the business in this idea. In a nutshell, "Owners are different, and businesses are different." The capital brought into the firm by the owner at the start of the firm is referred to as capital. The amount of capital that was initially contributed should be returned to the owner as a debt owed to the owner, who was nothing more than a contributor to the capital.

Going Concern Concept

The concept is concerned with the quality of a company enterprise's long-term viability, regardless of whether the owner is alive or not. The fixed assets are purchased with the purpose of profiting during the business season. Even if assets that are inactive during a business's slow season are kept for future use, the fact that those assets are typically sold out by the firm shortly after their utility means that they are not fixed assets but traded assets..

Matching Concept

This idea merely serves to make the overall accounting system more useful in determining the volume of a company's earnings or losses at each level of transaction, which is the result of matching revenues and expenses. The transaction's value is determined by comparing revenues, which are mostly derived from sales volume, with the firm's expenses at every level.

Accounting Period Concept

The business's life span is long, and it is divided into operating periods of varying lengths. The accounting period might be either a calendar year (January to December) or a financial year (April to March). The trading firms' operational periods are not all the same. This indicates that one firm's operational time may be shorter than the others. The concept's ultimate goal is to eliminate the trading practice's variances in operating periods of diverse traders.

Duality or Double Entry Accounting Concept

It is the only idea that depicts both sides of a single transaction. The entire law of company is based solely on the players' mutual agreement sharing policy. What method is used to get a mutual agreement?

The entire business principle is based on mutual agreement between the parties from one occasion to the next. Wages are paid solely through the services of labourers by the company. Is there any form of mutual benefit sharing arrangement in place? The labourers services are obtained by the firm by paying wages to them. Similarly, the workers are paid on a monthly basis for their contributions to the company.

Cost Concept

It is a concept that is closely related to the concept of a running business. The transactions are exclusively recorded in terms of cost rather than market value under this idea. Fixed assets are solely recorded in terms of their purchase price, which represents the asset's original cost at the time of purchase. Depreciation is subtracted from the original value, which is the asset's initial purchase price, to arrive at the asset's book value at the end of the accounting period.

Revenue Reorganisation Concept

The principle is also known as the revenue realisation principle. According to this principle, revenue is recorded in accounting when sales are made. If a given transaction is expected to occur in the future, it is not documented in accounting. When title to goods goes from the seller to the buyer and the buyer becomes legally responsible to pay, revenue/sales is considered made.

Full Disclosure Concept

According to this principle, financial statements should present a true and fair picture so that users of financial statements can get accurate and sufficient information (the statements which includes the financial data for a particular time period). The disclosure concept states that the owner, creditors, and investors should be given all information relevant to the business's economic activity. As large commercial organisations are administered as limited firms, this principle is becoming increasingly important. The profit and loss account and the balance sheet of a company must offer a genuine and fair view of the company, according to the Companies Act of 1956.Therefore, companies are showing foot notes for some items as investments, contingent liabilities etc. along with the balance sheet.

Objectivity Concept

It is also known as the concept of objective evidence. The transactions that are recorded in accounting must be objective and factual, according to this principle. Each accounting entry should be accompanied by a voucher or documentary documentation. Personal prejudice must be avoided, and the entry must be based on a rational approach. If the entries are made without supporting documentation, the financial statements' veracity will be questioned by a number of users. Objective proof is also required for the auditing of financial statements.

1.4 ASSUMPTIONS AND CONVENTIONS OF ACCOUNTING

The owner and business are treated as two distinct entities and we record those viewpoint of business:

- Separate Business Entity: According to this concept, a company is regarded a different entity from its owner (s). This assumption aids in keeping commercial transactions free of the impact of the owner's personal affairs. For example, if a person begins a business with $200,000 in cash, this amount raises the cash balance at the point of business, while the owner is classified as a liability and is shown as owner's capital on the liability side of the balance sheet. For this transaction, this journal entry is passed:

Cash A/c	Dr.	2,00,000	
To Owner's capita A/c			2,00,000

  This concept is becoming more popular because in one sense capital itself may be regarded as a liability—the amount due from the business to the owner. This concept is applicable to the all forms of business organisations whether it is a limited company, partnership firm or a sole trader.

- Going Concern Concept: It is a fundamental accounting assumption underlying the creation of financial statements, according to International Accounting Standards. "The enterprise is typically seen as a going concern, that is, as continuing in operation for the foreseeable future," according to this assumption. To compute true profit, all assets are shown at cost price rather than market pricing, and depreciation is reported on cost price. The firm is assumed to have neither the intention nor the need to liquidate or drastically reduce the sale of its operations." Under this assumption the assets of the business are valued by the accountants on the basis of going concern concept, historical cost and expected life of the assets.

- Money Measurement Concept: Money is medium to value quantities. As per this assumption, only those transactions of the business are recorded in the accounting which can be measured in money. Those transactions/activities of the business which cannot be measured in Note's money are not recorded in accounting.
- Accounting Period Assumption: The income of a firm might be measured at the time of liquidation or when the business is sold, according to the going concern principle. However, it is really difficult to wait for such a long period of time that is also uncertain. As a result, accountants have agreed that the economic life of a business is separated into several segments for the purpose of generating financial statements and calculating earnings. This period of time is usually one year, either a calendar year or a financial year. It may be less than a year at times, such as quarterly, half-yearly, or annually. Reports made for less than twelve months are called interim reports and are less reliable than annual reports. At the end of each segment (period) profit and loss account and balance sheet are prepared.

The various rules for preparing financial statements are based on basic accounting assumptions and principles. If these financial statements are accurate and relevant, they will provide a wealth of information to the various users of financial statements. Accounting assumptions and principles must be changed in order to prepare honest and fair financial statements. These modified accounting principles are as follows:

- Conservation (Prudence): According to the law of conservatism, while creating financial statements, all potential losses must be considered but all anticipated profits/gains must be excluded. In other words, the accounts must adhere to the "play it safe" guideline. Similarly, stock-in-trade is valued at the lower of "market price or cost," and provisions for bad and doubtful debt, depreciation on fixed assets, and other items are kept. This notion is currently being attacked since it contradicts the principle of disclosure. The provision of bad and dubious debts, depreciation, and stock valuation are all used by accountants to construct a secret reserve. The genuine and unbiased view of the financial statements is lost. The profit and loss statement reflects lesser earnings, but the balance sheet understates the company's assets and obligations.

  Prudence has supplanted conservatism as the law of the day. It suggests that conservatism is only used when there are unavoidable doubts and uncertainties. Accountants should also provide justifications for using specific accounting procedures, methods, and rules without being overly conservative.
- Consistency: In order to enable the management to do the comparison of the results of the several years of the business, whatever accounting policy is adopted in a year, must be adopted in the coming years. There should be uniformity in accounting process, rules & methods. As a result, biasness of accountant is removed.

  According to Kohlar, there are three forms of consistency:

  (a) Vertical consistency is used in the different financial statements of the business on the same date. For instance, depreciation on fixed assets is used in the income statement and the balance sheet on the same date.

  (b) Horizontal consistency enables the comparison of the profit or performance of a business in a year with the performance of another year for example the depreciation methods.

  (c) Third Dimensional consistency refers to the same principles or practices of accounting adopted by the different firms in an industry.

- Timeliness: Accounting information given in the financial statements must be reliable and relevant. In order to be relevant, this information must be supplied in time. If late and obsolete information is provided, it will hamper the management and the users of the financial statements to take appropriate, timely and rational decision.
- Materiality: The term "materiality" refers to the fact that only that information should be reported and attached to financial statements that has an impact on the decisions of shareholders, investors, and creditors, and that all other details should be ignored. Furthermore, an item of knowledge may be relevant for one purpose but irrelevant for another. This is a matter of opinion. The cost of a component, for example, may be very important to a small businessman but trivial to a large businessman. In one more example, the Companies Act permits to ignore the paise at the time of preparation of financial statements while for the income tax purpose the income is rounded off to the nearest ten.
- Cost-Benefit Principle: As per this principle, the cost of using an accounting principle should not exceed its benefits. It does not mean that to curtail the costs, no information or a little information should be given to the users of the financial statements.
- Industry Practice: In different industries, different accounting principles/practices are used. The current accounting procedures in a given industry should be kept in mind while generating financial reports and presenting accounting information. Disclosing investments and stock at cost or market price, whichever is lower, is an example. As a result, we can observe that the accounting techniques that are currently in use in a certain industry have a significant impact on the accounting methods that are adopted.

1.5 ACCOUNTING EQUATIONS

The accounting equation is regarded as the bedrock of the double-entry accounting system. The total assets of a corporation are equal to the sum of the company's liabilities and shareholders' equity, as shown on its balance sheet.

The accounting equation assures that the balance sheet remains "balanced" based on this double-entry approach, and that each entry made on the debit side has a corresponding entry (or coverage) on the credit side.

The accounting equation aids in determining if a company's business operations are accurately reflected in its books and accounts. The following are some examples of items found on a balance sheet:

Assets

Cash and cash equivalents, as well as liquid assets such as Treasury bills and certificates of deposit, are examples of assets. The amount of money owing to the company by its consumers for the sale of its product and service is known as account receivables. Inventory is likewise seen as a valuable asset.

Liabilities

Liabilities are the amounts that a firm owes or must pay in order to stay in business. Rent, taxes, utilities, salaries, wages, and dividends payable are all liabilities, including long-term debt.

Shareholders' Equity

A company's entire assets minus its total liabilities equals its shareholders' equity. The amount of money that would be returned to shareholders if all of the company's assets were liquidated and all of the debt was paid off is known as shareholders' equity.

The sum of total earnings that were not paid to shareholders as dividends is known as retained earnings, and it is a component of shareholders' equity. Consider retained earnings to be savings because they represent a total of profits that have been preserved, set aside, or kept for future use.

Accounting Equation Formula and Calculation

Assets = (Liabilities + Owner's Equity)

The balance sheet holds the basis of the accounting equation:

- Locate the company's total assets on the balance sheet for the period.
- Total all liabilities, which should be a separate listing on the balance sheet.
- Locate total shareholder's equity and add the number to total liabilities.
- Total assets will equal the sum of liabilities and total equity.

1.6 INTRODUCTION TO INDIAN GAAP, IND AS AND IFRS

GAAP

Over time, businesses would like to know how they are performing in contrast to their peers. In the same way, there would be common owners of numerous businesses. Accounting principles are the rules of action that are used to record, classify, and summarise the transactions of a corporation. If financial statements are not made using these standards, they will have a poor acceptability and will be difficult to comprehend, making comparison impossible and untrustworthy. As a result, accountants urge that common accounting ideas and standards be established so that the aforementioned challenges and problems do not arise; they are referred to as Generally Accepted Accounting Principles (GAAP).

Ind AS

Financial statements are used by a variety of people, including investors, creditors, the government, consumers, and business owners. They base a lot of their economic judgments on financial statements. If financial statements are not adequately regulated, there is a risk that they will mislead and present a skewed view of the firm instead of a genuine and fair picture of the business. It is critical to regulate the accounting process so that these statements are transparent, properly disclosed, consistent, and reliable. In addition, adequate accounting disclosure is necessary. Accounting standards are developed on a national and worldwide level for this purpose. Accounting standards, in fact, codify the commonly accepted accounting concepts. Accounting standards provide the rules and procedures that must be followed while preparing financial statements and annual reports. The International Accounting Standard Committee (IASC) has issued the International Standards on a global scale. Leading professional bodies from the United Kingdom, the United States, Australia, France, and Canada are represented on this committee. India is also a member of this committee. India has also prepared its own accounting standards, which are prepared by the Institute of Chartered Accountant of India (ICAI).

IFRS

The International Financial Reporting Standards (IFRS) are a set of principles that ensure financial statements are consistent, transparent, and comparable all throughout the world. The International Accounting Standards Board (IASB) publishes the International Financial Reporting Standards (IFRS) (IASB). They define how businesses must keep and report their accounts, as well as the sorts of transactions and other financial events that must be reported. The International Financial Reporting Standards (IFRS) were created to develop a common accounting language so that businesses and their financial statements could be consistent and dependable from one company to the next and from one country to the next.

1.7 CONCLUSION

- Accounting is a business language which elucidates the various kinds of transactions during the given period of time.
- For many of us, accounting appears to be methodical and procedural in nature. The visible portion of accounting – record keeping and preparation of financial statements
- The terms, which are generally used in the day-to-day business, are called accounting terminology.
- The accounting equation is considered to be the foundation of the double-entry accounting system.
- Based on this double-entry system, the accounting equation ensures that the balance sheet remains "balanced," and each entry made on the debit side should have a corresponding entry (or coverage) on the credit side.
- Retained earnings are part of shareholders' equity and are equal to the sum of total earnings that were not paid to shareholders as dividends.
- In course of time business enterprises would like to know how they are performing in comparison to each other. Similarly, there would be common owners of several enterprises.
- There are many users of financial statements as investors, creditors, government, consumers, owners, etc. They take many economic decisions on the basis of financial statements.
- International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent, and comparable around the world.

1.8 GLOSSARY

- Accounting Conventions: Customs and traditions that guide the accountants to record the financial transactions.
- Accounting Process: It includes the recording of financial transactions, ledger posting, preparation of financial statements and analysing and interpretation of them
- Cost Accounting: Accounting relating to the ascertainment of cost of the product
- Management Accounting: Presenting of accounting information in such a way as to assist the management in taking the important decisions and making the policies

1.9 CASE STUDY: ICAI TOLD TO HASTEN PROCESS FOR DOUBLE-ENTRY ACCOUNTING SYSTEM

Case Objective

This case study highlights the importance of double-entry accounting system.

A special committee should be formed to transition the single-entry accounting system to the double-entry accounting system. The procedure takes a long time. It should be expedited," says the author.

Mr. K. Rahman Khan, member of the Institute of Chartered Accountants of India (ICAI) and Honorary Deputy Chairman of the Rajya Sabha, stated.

Mr. Khan stated that the accounting system in local bodies has already been converted to double entry, and that the institute should play an important role in monitoring government expenditure.

“The responsibilities of a chartered accountant should not be limited to his clients alone. It is something he owes to society. The institute, as well as the Comptroller and Auditor General of India, the custodian of government expenditure, have already decided to carry out the conversion. Various Notes The double entry accounting system is now used by governments all around the world. He went on to say, “We need to transition to double entry as soon as possible.”

He corrected his statement by noting, “I am not implying that the government’s accounts are flawed.” We must ensure that there is more transparency. The double entry accounting system would allow us to track cost increases, look into the specifics of total government spending, and so on.”

Mr. G. Ramasamy, the ICAI’s Vice-President, stated that the government’s outlay for the Mahatma Gandhi National Rural Employment Guarantee Act Scheme totalled over 42,000 crores, and that over 6 lakh panchayats across the country were completing their spending statements. He stated, “The institute is assisting the panchayats in preparing the statement.”

He stated that all permissions for the implementation of the International Financial Reporting Standards (IFRS) would be in place by July 31. The institute has begun programmes to educate professionals and restart the process in India, as well as launching an IFRS certification course. “We started with Nifty firms with a turnover of over 1,000 crores in the first phase.

According to him, the institute has signed memorandums of understanding with a number of overseas peers in order to strengthen bilateral ties. “We recently met with professional groups in West Asia to discuss the importance of strengthening networking relationships between members and professionals from both nations. He said, “Among others, we are looking to get into mutual recognition agreements with professional associations in Canada, Singapore, and New Zealand.”

Questions

1. What is a double-entry accounting system?

   (Hint: Accounting concept whereby assets = liabilities + owners’ equity)

2. What is the need to set up a separate committee for converting the single-entry accounting system to double entry?

   (Hint: This process is rather slow)

3. What is the need of double entry accounting system?

   (Hint: The double entry accounting system would help measure cost escalation, go into the details of total public expenditure and so on.”)

4. Do you think double-entry accounting system work?

   (Hint: Yes, it works)

5. What is the aim of double-entry accounting system?

   (Hint: Reduce the time of accounting)

Self-Assessment Questions

A. Multiple Choice Questions

1. Which of the following is the art of recording, classifying and summarising in a significant manner, and in terms of money transactions and events which are in part at least, of a financial character and interpreting the results thereof.
   a. Journal Entry
   b. Ledger
   c. Accounting
   d. None of these
2. ___________accounting is a form of accounting which enables a business to be conducted more efficiently.
   a. Financial
   b. Management
   c. Cost
   d. None of these
3. Inflation accounting is also called ___________
   a. Revaluation
   b. Replacement
   c. None
   d. All of these
4. ___________basis is a process of accounting that recognizes the impact of transactions on the financial statements in the time periods when revenues and expenses occur instead of when cash is received.
   a. Accrual
   b. Cash
   c. None
   d. a & b
5. A process of accounting where revenue and expense recognition would occur when cash is received and disbursed is called ___________
   a. Cash
   b. Accrual
   c. None
   d. a & b
6. ___________ they are the present obligations arising from past events. It also arises when an asset is created or acquired.
   a. Asset
   b. Liabilities
   c. Equity
   d. All of these
7. ___________ is an increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or a decrease in liabilities, thereby increases equity and net worth.
   a. Income
   b. Equity
   c. Expenses
   d. None of these
8. Which of the following is a residual interest in the assets after deducting liabilities?
   a. Income
   b. Equity
   c. Expenses
   d. None of these

9. Which of the following is a concept that implies each transaction and event must be expressible in monetary terms ?
   a. Money measurement
   b. Business Entity
   c. Going Concerned
   d. None of these
10. Which of the following implies that a business unit is separate and distinct from the person who owns or controls it?
   a. Money measurement
   b. Business Entity
   c. Going Concerned
   d. None of these
11. Which of the following concept tells that to recognize revenue it has to be realized?
   a. Accrual concept
   b. Matching concept
   c. Realisation concept
   d. None of these
12. The conventions, concepts, rules and procedures that together make up accepted accounting practice at any given time are called ______________
   a. AICPA
   b. GAAP
   c. GAPA
   d. None of these
13. Which of the following is the after-tax cash flow generated by a business minus the cost of the capital it has deployed to generate that cash flow?
   a. EVA
   b. GAAP
   c. AICPA
   d. None of these
14. Prepaid Insurance A/c is ____________ A/c
   a. Real
   b. Personal
   c. Nominal
   d. None of these
15. Outstanding wages A/c is ____________ A/c
   a. Personal
   b. Real
   c. Nominal
   d. None of these
16. Bad Debts A/c is ____________ A/c
   a. Real
   b. Personal
   c. Nominal
   d. None of these
17. Which of the following accounting system provides a system of checks and balances?
   a. Single Entry
   b. Financial Entry
   c. Double Entry
   d. Triple Entry
18. It means that cash is received by the business from the proprietor. It results in the immediate receipt of cash.
   a. Antony commenced business with ` 10,000
   b. Bought goods for cash ` 2,000
   c. Charged commission to Chander ` 100
   d. Sold goods for cash `1,000

19. Debt may be of____________types
    a. 3
    b. 2
    c. 5
    d. None of these
20. Creditor may be____________types
    a. 3
    b. 2
    c. 4
    d. 5

. Essay Type Questions

1. What do you understand by the term capital?
2. What are assets?
3. Write a short note on fixed assets.
4. Explain GAAP.
5. Explain Ind AS.

Answers for Self- Assessment questions

Multiple Choice Question Answers:

Q. No	MCQ Answers
1	c. Accounting
2	b. Management
3	b. Repalcement
4	a. Accural
5	a. Cash
6	b. Liabilities
7	a. Income
8	b. Equity
9	a. Money Management
10	b. Business Entity
11	c.Realisation concept
12	b. GAAP
13	a. EVA

14	b.Personal
15	a.Personal
16	c.Nominal
17	c.Double Entry
18	A Antony commenced business with ` 10,000
19	a 3
20	c 4

B. Hints for Essay Type Questions

1. Capital is the amount that the business owner has put into the company. It is also known as net worth or owners' equity. It is the sum of your assets minus your liabilities. Refer to Section Conceptual Framework of Financial Accounting
2. Assets are valuable items or properties that a company uses in its operations. In other terms, an asset is everything that provides a benefit to the company. Refer to Section Conceptual Framework of Financial Accounting
3. Fixed assets are the assets which are purchased for the purpose of operating the business and not for resale such as land and building, plant and machinery and furniture, etc. Refer to Section Conceptual Framework of Financial Accounting
4. Various rules for preparing financial statements are based on basic accounting assumptions and principles. If these financial statements are accurate and relevant, they will provide a wealth of information to the various users of financial statements. Accounting assumptions and principles must be changed in order to prepare honest and fair financial statements. Refer to Section Assumptions and Conventions of Accounting
5. The International Accounting Standard Committee (IASC) has issued the International Standards on a global scale. Leading professional bodies from the United Kingdom, the United States, Australia, France, and Canada are represented on this committee. India is also a member of this committee. India has also prepared its own accounting standards, which are prepared by the Institute of Chartered Accountant of India (ICAI). Refer to Section Introduction to Indian GAAP, IND AS and IFRS

Post Unit Reading Material

- http://vcmdrp. tums.ac.ir/files/financial/istgahe_mali/moton_english/financial_management_%5Bwww.accfile.com%5D.pdf
- https://jyotinivas.org/pdf/e_content/bcom/bba_financial_management.pdf
- https://mdu.ac.in/UpFiles/UpPdfFiles/2020/Jan/FinancialManagement.pdf

Discussion Forum

- Discuss with your friends how financial accounting is useful for nowadays.

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