1 Introduction to Book-keeping and Accountancy

Contents

Competency Statements

Students understand the meaning, features and the importance of accounting.
Students understand basic accounting concepts and terminologies.
Students can analyse the role and benefits of Book-Keeping.
Students will be able to know the latest accounting standards.

Introduction :

Book-keeping is related with recording of business transactions. Business enterprise and other organizations deal in activities which involve exchange of money or money's worth. All these activities are recorded for the purpose of taking important decisions as to whether the activities are feasible, profitable and are to be continued or not. Information about the business and other organizations is required not only by the proprietors and managers of business and other organisations but also to various other stakeholders such as the government, investors, customers, employees and researchers.

Evolution of Accounting :

In India, during Chandragupta Maurya's regime, Minister Kautilya wrote a book named 'Arthashastra', where in some references can be traced regarding the way of maintaining accounting records. Afterwards it was called as "Deshi Nama".

In the earlier time of civilisation, accounting was done by agents who managed the properties of wealthy people. They prepared accounts periodically for the owners of property. The records of debit and credit were found in the 12th century itself.

In the year 1494, Luca De Bargo Pacioli, an Italian merchant introduced Double-Entry Book-keeping system. Due to the industrial revolution in the 18^{th} and 19^{th} centuries, large scale operations were carried on and Joint Stock Companies emerged as an important form of organisation which involved separation of ownership from management. Hence, to safeguard the interest of owners and investors, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.

In the 20th century, the need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of Accounting.

Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21st century. This is due to the vast growth in business activities as a result of development in various fields. Thus, accounting has become inevitable in the modern world for business.

1.1 Meaning and Definition:

In simple words, the 'Book-keeping' means recording of the business transactions in the books of accounts in a systematic way. All the monetary transactions are recorded datewise for accurate business results from such records at the end of accounting year.

Book-keeping is an art or science of systematic recording, classifying and summarising the financial transactions of business for a particular period, generally one year.

Definition of Book-Keeping

Richard E. Strahelm : "The art of analyzing and recording business transactions, reporting results of business operations through periodic statements and interpreting such results for purposes of effective control of future operations."

J. R. Batliboi : "Book-keeping is an art of recording business dealings in a set of books."

Nocth Cott: "Book-keeping is an art of recording in the books of accounts the monetary aspects of commercial or financial transactions."

R.N. Carter : "Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that results in transfer or money or money's worth."

Features of Book-keeping:

1) It is the method of recording day to day business transactions.
2) Only financial transactions are recorded.
3) All records are prepared for a specific period which are useful for future references.
4) Records of transactions are based on rules and regulations.
5) It is an art of recording business transactions scientifically.

Objectives of Book-keeping:

1) The main objective of book-keeping is to keep a complete and accurate record of all the financial transactions in a systematic, orderly and logical manner.
2) All the business transactions are to be recorded date wise and account wise.

3) Book-keeping serves as a permanent record of the monetary transacitons of an enterprise business and it can be produced as an evidence, whenever and wherever required.

4) To know the profit or loss of the business during the financial year.

5) To know the total assets and liabilities of the enterprise.

6) To know what the businessman owes to others and what others owe to him.

7) Businessman comes to know the current year's progress over previous year and compares its financial results with other business enterprise in similar line.

1.2 Importance of Book-keeping:

The importance of Book-keeping is as follows:

1) **Record :** It is not possible for anyone to remember all transactions. But Book-keeping maintains records of all the transactions permanently and systematically in the books of accounts.

2) **Financial Information:** Book-keeping is useful to get information related to Profit, Loss, Assets, Liabilities, Investments and Stock, etc, at any given time.

3) **Decision Making:** Book-keeping provides financial information to the businessman for decision making.

4) **Controlling:** Book-keeping enables the executives of the business to control the activities of the business.

5) **Evidence:** Businessman needs financial evidence to be produced in the Court of law in case of any disputes.

6) **Tax Liability:** Book-keeping is useful to find out the tax liabilities e.g. : Income Tax, Property Tax, GST, etc.

Utility of Book-keeping:

1) **Owner:** The businessman can find out Profit, Losses, Assets and Liabilities of an enterprise at any time.

2) **Management:** Management of an enterprise can plan, take decisions and control overall business activities.

3) **Investors:** Investors can take proper decisions whether to invest or not.

4) **Customer:** Customer can easily understand financial position of the business. He can be assured about supply of goods.

5) **Government:** Government can easily find out different types of taxes due from various sources.

6) **Lenders:** Money Lenders can find financial standing of the enterprise for decision to lend money or not.

7) **Development:** Business enterprise can achieve the business growth with the help of accounting.

1.3 Difference between Book-Keeping and Accountancy

Point	Book-keeping	Accountancy
Meaning	It is concerned with recording and classifying the business transactions.	It is related with recording, classifying, summarising, analyzing and interpreting the financial data.
Stage	Book-keeping is the primary stage in accounting. It is the base for accounting	Apart from the primary stage, it includes secondary stage of analysis and interpretation.
Objectives	The objective of Book Keeping is to keep the records of all financial transactions in proper and systematic manner.	The objective of accounting is to prepare the financial statement and further communicate the information to the relevant authorities.
Responsibility	Junior staff is responsible for keeping records.	Senior staff is responsible for keeping accounts.
Outcomes	Book-keeping basically results in Journal and Ledger.	The results of Accountancy is Profit and Loss A/c and Balance sheet.
Period	Book-keeping gives day to day details.	Accountancy gives details of entire year.
Analysis	The process of Book Keeping does not require any analysis	Accountant uses Book Keeping information to analyse and interpret the data and then compiles it into reports.
Decision Making	Management cannot take a decision based on the data provided by book-keeping.	Depending on the data provided by the accountants, the management can take critical business decisions.
Skill required	Analytical skill is not required for book-keeping.	It requires analytical skill.

1.4 Meaning and Definition of Accountancy:

Book-keeping is a part of Accounting. It is the primary stage in accounting. It is the process of recording transactions in the books of accounts. Accounting is part of Accountancy. Accountancy is the practice of recording, classifying, and reporting of business transactions for a business. Accounting principles are the basic norms and assumptions developed and established as the basis for accounting system. These principles are adopted by the accountants universally.

Definitions:

1) "Accountancy refers to the entire body of the theory and process of accounting." By **Kohler.**
2) **Prof. Robert N. Anthony** has defined accounting as "Nearly every business enterprise has an accounting system. It is a means of collecting,summarizing, analyzing and reporting in monetary terms information about the business transactions."

1.5 Basis (Methods) of Accounting System

Basis of Accounting:

There are mainly three basis or methods of accounting in common usage, namely

(i) Cash basis

(ii) Accrual or Mercantile basis

(iii) Mixed or Hybrid basis.

(i) Cash basis :

Under the cash basis of accounting, actual cash receipts and actual cash payments are recorded. In this basis, revenue is recognised when cash is received and expenses are recognised when cash is paid. e.g. (i) Any income received, (ii) Any expense paid. Such a method of accounting is usually followed by professionals such as Doctors, Lawyers, Chartered Accountant (CA) and Not for Profit Organisations.

(ii) Accrual or Mercantile basis

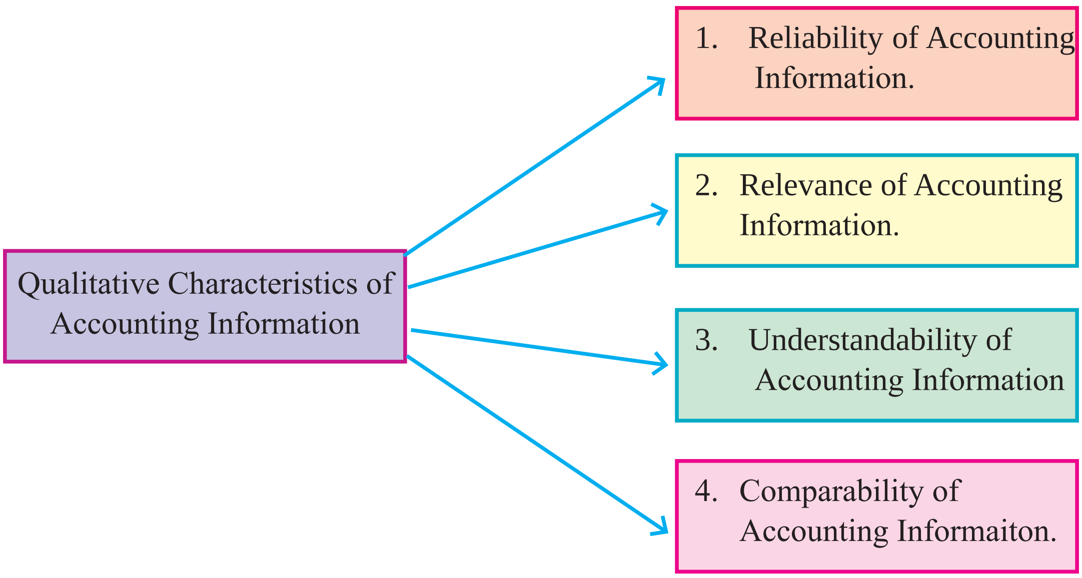
Under accrual basis of accounting, the revenue whether received or not, but has been earned or accrued during the accounting period and expenses incurred whether paid or not are recorded. In other words, revenue is recognised when it is earned or accrued and expenses are recognised when these are incurred. e.g. (i) Any income earned whether received or not, (ii) Any expense incurred whether paid or not.

(iii) Mixed or Hybrid basis

It is a combination of cash basis and accrual basis of accounting. Under mixed basis of accounting, both cash basis and accrual basis are followed. Revenues and assets are generally recorded on cash basis whereas expenses are generally taken on accrual basis. The laws in India prohibits the use of this method.

1.6 Qualitative characteristics of accounting information

Accounting means the numerical qualitative presentation of business transactions of financial nature. While recording accounting information in the books of accounts, we must observe the following qualitative characteristics of accounting.



1. Reliability of the Accounting Information: Reliability is described as one of the two primary qualities (relevance and reliability) that make accounting information useful for decision-making : Reliable information is required to form judgements about the earning potential and financial position of a business firm. Reliability differs from item to item.

Some items of information presented in an annual report may be more reliable than others. For example, information regarding plant and machinery may be less reliable than certain information about current assets because of differences in uncertainty of realization.

2. Relevance of the Accounting Information : Relevant accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present and future events or to confirm or correct expectations. The accounting information related by the books of accounts and financial reports must be relevant. Accounting information should not include unnecessary and irrelevant information. All the information is said to be relevant which would have changed the outcomes of the business if disclosed i.e. All useful and related information must find a place in the books of accounts and the information must have timelessness, dedicative and feedback value.

3. Understandability of the Accounting Information: Understandability is the quality of information that enables users to perceive its significance. The benefits of information may be increased by making it more understandable and hence useful to a wider circle of users. Thus, understandable financial accounting information presents data that can be understood by users of the information and is expressed in a form and with terminology adapted to the user's range of understanding.

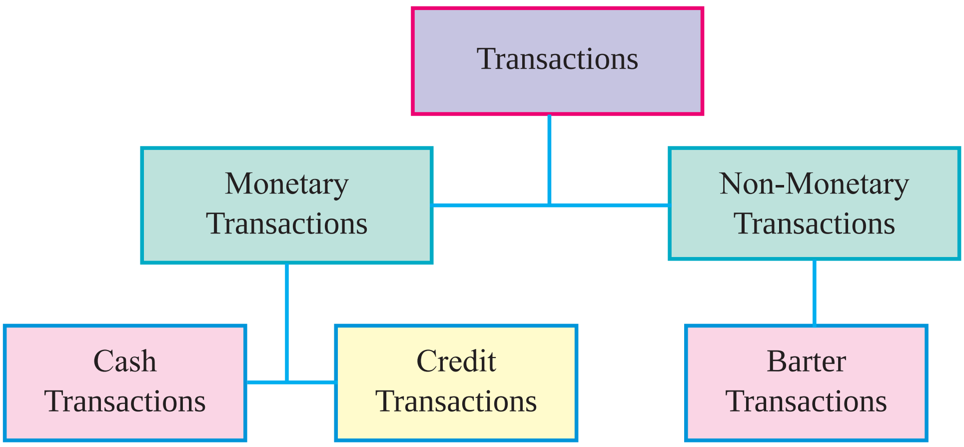
4. Comparability of the Accounting Information: In making decision, the decision-maker will make comparisons among alternatives, which is facilitated by financial information. Comparability implies to have like things reported in a similar fashion and unlike things reported differently.

Information, if comparable, will assist the decision-maker to determine relative financial strengths and weaknesses and prospects for the future, between two or more firms or between periods in a single firm.

1.7 Basic Accounting Terminologies

In order to have better understanding of accounting, it is necessary to know the meanings of certain basic terms used in accounting. Accounting is a versatile system which serves a large number of purposes in the modern business world. Hence, the following terminologies need to be understood.

Types of Transactions



1.7.1 Transactions

Exchange of goods and services between two persons or parties for money or money's worth is known as Transactions.

(a) Monetary Transactions:

The transaction which involves an exchange of money or money's worth directly or indirectly is called monetary transactions. Only monetary transactions are recorded in the books of accounts.

1) Cash Transactions : A business transaction in which cash is paid or received immediately is known as cash transaction.

   e.g i) Purchase of goods for cash at ₹ 15,000/-

   ii) Payment of salary at ₹ 5,000/-

2) Credit Transactions: A credit transaction is one in which cash is not paid or received immediately at the time of a transaction but it is paid or received at a later date.

   e.g i) Goods sold on credit to Mr. Aman at ₹ 8,000/-

   ii) Sold machinery to Mr. Amarsingh on credit at ₹ 20,000/-

(b) Non-Monetary Transactions:

The transaction which does not involve an exchange of money or money's worth directly or indirectly are called Non-monetary transactions. An exchange of one thing against another thing is called as Barter transactions.

1) Entry: Recording of a business transaction in the proper form or method in the books of accounts is called an entry.

2) Narration: A brief explanation of the business transaction for which an entry is passed is called as a narration. It is always given in a bracket below the journal entry and it usually starts with the word "Being" or "For".

3) Goods: The term 'goods' refers to merchandise, commodities, articles or things in which a trader trades. These are purchased or manufactured for the purpose of sale and to earn profit.

e.g i) Medicines are goods for the chemist.

ii) Vegetables are goods for the vegetable vendor.

iii) Parts like tyres, engine gearbox, cables are produced by a vehicle manufacturer like Bajaj Auto, Hero Motors.

1.7.2 Capital and Drawings:

a) Capital : The total amount invested into the business by the owner is called capital. Excess of assets over the liabilities is also called as capital. The equation for this is :

Capital = Assets – Liabilities

Capital is a liability of the business as this amount is payable by the business enterprise to the owner at the time of closure of the business.

b) Drawings : The amount of cash or value of goods, assets, etc., withdrawn from the business by the owner for personal use called as drawings.

E.g. : A proprietor pays colleges fees of his son, or pays for his medical expenses, mobile bills etc, from the business.

1.7.3 Debtors and Creditors:

a) **Debtor :** A person who has to pay to the business for getting goods and services on credit is known as debtor. A debtor is a person who owes money to the business.

b) **Creditor:** A person to whom business has to pay for getting goods or services on credit is known as creditor. A creditor is a person to whom business owes money.

c) **Bad Debts :** An irrecoverable amount from a debtor is known as "Bad Debts". It is a revenue loss to the business.

1.7.4 Expenditure and Types of Expenditure

Expenditure: An amount spent by the business for any consideration received by business is called expenditure.

i) **Capital Expenditure :** This expenditure is incurred to acquire fixed asset or to increase the value of fixed asset. It gives the benefit for a long period of time and it is non-recurring in nature.

E.g. : Purchase of Machinery, extension of building, purchase of computer etc.

ii) **Revenue Expenditure :** Revenue expenditure is an expenditure from which no future benefit is expected but having immediate or short term benefit may be less than one year. It does not increase profit earning capacity of an organization. These are normal day to day operating expenses of a business organization and appear on the debit side of Trading A/c or Profit and Loss A/c.

E.g. : Rent paid, Salary paid, Wages paid etc.

iii) **Deferred Revenue Expenditure:** An expenditure which is basically revenue in nature but benefit of which is not exhausted within one year is called as Deferred Revenue Expenditure. Such expenditure is written off over number of years. Such written off amount is shown on debit side of profit and loss a/c and unwritten amount is shown on asset side of the Balance Sheet.

E.g. : Heavy expenditure on advertising , heavy legal expenses.

1.7.5 Cash Discount and Trade Discount :

Discount is a concession or allowance given by the seller to purchaser.

There are two types of discounts.

i) **Trade Discount :** It is an allowance given on catalogue price or list price of goods. This discount is allowed at the time of purchase/sale of goods. Value of goods purchased/sold recorded is net value payable i.e after deduction of amount of trade discount allowed. If goods of ₹ 1000/- are sold at 5% trade discount, the value of goods that will be recorded will be ₹ 950/- both by the purchaser and the seller and not ₹ 1000/-. Hence, trade discount does not appear in the books of accounts separately.

ii) **Cash Discount:** It is the amount deducted from the final amount due at the time of receipt. It is the concession given for encouraging prompt payment. It is given either for the spot payment or for payment within a specific period. Cash discount is calculated after deducting trade discount, since it is loss to the seller and gain to the buyer, cash discount appears in the books of accounts.

1.7.6 Solvent and Insolvent:

i) **Solvent:** If a person's assets are more than his liabilities, or equal to his liabilities, he is called as a solvent person. Solvent person is financially sound and is in a position to pay off all his debts.

E.g. : A person's total assets have been calculated to ₹ 50,00,000/- and his total debts were ₹ 30,00,000/- since his position is sound he is able to pay off his debts therefore he is called Solvent.

ii) **Insolvent:** A person whose liabilities are more than his assets is an insolvent person. Such person's liabilities are more than his assets.

E.g. : A person's total assets or property have been calculated to ₹ 20,00,000/- and his total debts were ₹ 50,00,000/- and if he is not in a position to get any amount from any sources and if the court is so satisfied then he will be declared as an insolvent person.

Accounting Year:

It is the period of 12 months for which accounts are maintained and closed by the proprietor. Earlier the proprietors were following any accounting year i.e. calendar year , or financial year or any other year as per tradition. But now for income tax purpose an accounting year starts on 1st April and end on 31st March. At the end of accounting year a proprietor has to prepare Trading account, Profit and Loss account and Balance Sheet to find out the financial position of the business.

Student Activity:

Collect some Advertisement relating to discount and stick it in the note books.

Trading Concern and Not for Profit Concerns.

i) **Trading Concern:** A business concern established with an object of earning profit by selling goods is known as Trading concern. It is also called as commercial organization or profit making organization.

ii) **Not for Profit Concern:** It is an organization not established for making profit but for rendering services to the society. An organization may be formed for promoting a useful object like art, science, sports, culture, charity, profession etc.

e.g Schools, Hospitals, Sports Club etc.

1.7.8 Goodwill:

Goodwill may be described as the aggregate of those intangible attributes of a business which contributes to its superior earning capacity over a normal return on investment. It may arise from such attributes as favourable locations, the ability and skill of its employees and management, quality of its products and services, customer satisfaction etc.

- Goodwill is the reputation of business expressed in terms of money.
- Goodwill is an intangible asset

1.7.9 Profit or Loss

a) **Profit :** When the selling price of goods is more than the cost price it is a profit. Profit increases the capital of the business.

e.g. If goods are sold for ₹ 50,000/- and all expenses during the period amounted to ₹ 30,000/- then the profit is ₹ 20,000/-

b) **Loss :** When cost price of goods is more than its selling price it is a loss. Loss decreases the capital of business

e.g If goods are sold for ₹ 50,000/- and all expenses during the period amounted to ₹ 60,000/, then the loss will be ₹ 10,000/-

c) **Income:** It is revenue arising as a result of business transactions. It is the amount receivable or realised from services provided and earnings from interest, dividend, commission, etc.

d) **Revenue:** It is income that a business has from its normal business activities usually from the sale of goods and services to customer.

1.7.10 Assets, Liabilities, Net Worth:

i) **Assets :** Any physical thing or right owned that has a monetary value is called as an asset. The ownership of the Asset must be with business unit. E.g Land, Goodwill, Patents, Computers etc.

ii) **Types of Assets:**

a) **Fixed Assets/Non current Assets :** The assets which give long term benefit to the business are known as fixed assets e.g Land and Building, Plant & Machinery, Goodwill etc. These assets may be tangible or intangible.

b) **Current Assets :** Assets which are held in the business for the operating year and can be converted into cash very easily are called as current assets. e.g Debtors, Bills Receivable Cash in Hand, Cash at Bank, Stock etc.

c) **Fictitious Assets :** These assets are not represented by tangible possession or property. They are imaginary assets but do not have any realisable value. e.g Deferred revenue expense like advertisement paid for 4 years.

iii) **Liabilities: A**mount payable by the business to others is known as liability. It is a debt or amount due from the business to others for the benefit received by the business unit. e.g Loan taken, Creditors, Bank Overdraft, Outstanding Expenses etc.

iv) **Types of Liabilities:**

a) **Fixed Liabilities :** One of the major source of funds in the business is fixed liabilities. It may be in the form of capital, secured loans, long term loans from banks and from financial institutions etc.

b) **Current Liabilities:** Short term liabilities payable within a year are called current liabilities. Current liabilities arise in the regular current operations of the business. These liabilities are not normally secured. E.g. Creditors, Bills Payable etc.

v) **Net worth or Owners Equity or Capital:**

The amount or funds provided by the proprietor in the business is called as "Capital" as well as the excess of assets over liabilities of the business is also known as "Capital" or "Net Worth". Net worth includes Capital and Reserves. Capital can be in the form of cash or in kind.

Net worth = Owner's Equity = Capital

OR

Owner's Equity (Capital)= Total Equity(Assets) – Creditors Equity(Liabilities)

e.g a) If the Capital of the business is ₹ 4,00,000 and Creditors ₹ 2,00,000 then

Total Equity(Assets) = Liabilities + Capital

₹ 6,00,000 = 2,00,000 + 4,00,000

b) If total assets are ₹ 1,50,000 and Capital is ₹ 1,00,000 then Creditors Equity (liabilities) will be

Creditors Equity (liabilities) = Assets – Capital

₹ 50,000 = ₹ 1,50,000 - ₹ 1,00,000

c) If total assets of the business are ₹ 5,00,000 and Outside liabilities are ₹ 2,00,000 then Owner's Equity(Capital) will be

Owner's Equity (Capital) = Assets - Liabilities

₹ 3,00,000 = ₹ 5,00,000 – ₹ 2,00,000

Contingent Liabilities:

A liability which may arise in future depends on happening or non-happening of certain event is called as contingent liability. As it is not confirmed or perfect liability, it does not affect the financial position of the business and therefore, it is not shown on the liability side of the Balance Sheet. But it is shown by way of foot note to Balance Sheet simply as information.

e.g. A worker makes a claim for compensation of ₹ 5,000/- against the business and the decision is pending in the court. It may be a future liability for business on happening of an event i.e "Court Verdict"

1.8 Accounting Concepts, Conventions and Principles

Meaning and Importance of Accounting Concepts

Accounting is means of communicating the results of business operations to various parties interested in or connected with the business viz., the owners, creditors, investors, banks and financial institutions, Government and other agencies. Hence, it is rightly called as the language of business.

Accounting is not only associated with business, but also with everybody, who is interested in keeping an account of the monetary transactions. Generally the term 'accounting' refers to financial accounting. Book-keeping and Accountancy is an art of recording, classifying and summarizing transactions of business cocern in a systematic manner.

Importance of Accounting Concepts:

1) Reliable financial statements.
2) Uniformity in presentation.
3) Generally acceptable basis of measurement.
4) Proper information to all.
5) Valid and appropriate assumptions.

Some of the important concepts are as follows :

1) **Business Entity:** This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it. Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view. Hence, the business is liable to the owner for the capital contributed by him/her.

   According to this concept, only business transactions are recorded in the books of accounts. Personal transactions of the owners are not recorded. But, their transactions with the business such as capital contributed to the business or cash withdrawn from the business for the personal use will be recorded in the books of accounts. It implies that the business itself owns assets and owes liabilities.

   e.g. Half of the building is used for business office and other half of the building is used for the residence of the proprietor. It the total rent of the building is ₹ 50,000/- then only ₹ 25,000/- will deducted as drawings from proprietor's capital.

2) **Money Measurement:** This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the books of accounts. Since money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.

   Transactions which do not involve money will not be recorded in the books of accounts. For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money. It helps in understanding of the state of affairs of the business as money serves as a common measure by means of which heterogeneous facts about the business are recorded.

   For example, if a business has 5 computers, 2 tables and 3 chairs, the assets cannot be added to give useful information, unless, they are expressed in monetary terms ₹ 1,50,000/- for computers, ₹15,000/- for tables and ₹ 2,500/- for chairs.

3) **Cost Concept :** An asset is recorded in the books on the basis of the historical cost, that is, the acquisition cost. Cost of acquisition will be the base for all further accounting. It does not mean that the asset will always be shown at cost. It is recorded at cost at the time of its purchase, but is systematically reduced in its book value by charging depreciation.

   e.g. : Furniture is purchased for ₹ 3,00,000/- and same cost has been recorded in the books. In case the market value goes to ₹ 1,00,000/- or ₹ 1,50,000/- It will not be considered.

4) **Consistency Concept:** Any policy adopted for accounting should be continuous or consistent throughout the business and it need not be changed generally unless and until circumstances demand. However, it does not stop any improvement of new techniques. But that should be disclosed with a note.

   e.g. : A company adopts fixed installment method for charging depreciation on fixed asset from the beginning till the end of estimated life of asset.

5) **Conservatism:** While recording the business transactions we have to anticipate no profit but provide for all possible losses. It encourages the certain secret reserves by making excess provision to prevent losses. The income statement may show lower income and the Balance Sheet overstates the liabilities and understates the assets. This policy of recording is asking the accountant 'to play safe' while writing the accounts.

e.g. : The closing stock in the factory is valued at ₹ 25,000/- at cost price and ₹ 35,000/- at its market price. But while recording in the books the value of ₹ 25,000/- will be considered being the lowest of all.

6) **Going Concern:** It is the basic assumption that business is a going concern and will continue its operations for future. Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

7) **Realization:** Income is recorded only when it is realized i.e. either it is received or earned. Revenues are recorded only when sale are affected or the services are rendered. Sales revenues are considered as recognized when sales are affected during the accounting period irrespective of the fact whether cash is received or not.

e.g. : A company gets an order for sale of goods ₹ 1,00,000/- in May 2017. Goods of only ₹ 60,000/- are sold and delivered in June 2017. Cash is received for ₹ 60,000/- in Sept, 2017. As per the principle of realization, sale is to be recorded in June 2017.

8) **Accrual:** Income is recorded when it accrues(earned) and expenses are recorded when they accrue(become payable). All expenses and revenues related to the accounting period are to be considered irrespective of the fact the revenues are received in cash or not or expenses are paid in cash or not.

e.g. : A company invested ₹ 100,000/- with a bank for one year on 1stOct 2015, Bank has to pay interest at 10% p.a on its maturity i.e 30th Sept, 2016.

9) **Dual Aspect :** According to this concept, every transaction or event has two aspects, i.e., dual effect. For example, when Akshay starts a business with cash ₹ 5,00,000/- , on one hand, the business gets cash of ₹ 5,00,000/- and on the other hand, a liability arises, that is, the business has to pay Akshay a sum of ₹ 5,00,000/-. This is the concept which recognizes the fact that for every debit, there is a corresponding and equal credit. This is the basis of the entire system of double entry book-keeping. From this concept the basic accounting equation, arises that is, Capital + Liabilities = Assets.

10) **Disclosure:** The accounts must disclose all material information. The accounting reports should disclose full and fair information to the related parties. The financial position and performance should be disclosed very honestly to all the users. The financial position means the Balance Sheet of the business and financial performance means business results in terms of profits or losses and income and expenses in profit and loss account.

All the information disclosed should be relevant, reliable, comparable and understood by all the concerned authorities.

11) **Materiality:** According to this convention, financial statements should disclose all material items which might influence the decisions of the users of financial statements. Hence, any item which is not significant and is not relevant to the users need not be disclosed in the financial statements.

This principle is basically an exception to the full disclosure principle. The term materiality is subjective in nature. Materiality depends on the amount involved in the transaction, size of the business, nature of information, requirements of the person making decision, etc. An item material to one person may be immaterial to another person.

12) **Matching Concept:** According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period. This concept is based on accrual concept and periodicity concept. Periodicity concept fixes the time frame for measuring performance and determining financial status.

All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered. On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues. Also due provisions are made for depreciation of the fixed assets, bad debt, etc., relating to the accounting period.

Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

Student Activity:

1) Give examples of economic and non-economic activities

2) Prepare a list of Assets and Liabilities that you find in your house.

1.9 Accounting Standards (AS) and IFRS

Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable. It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

In the words of Kohler : "Accounting standards are codes of conduct imposed by customs, laws or professional bodies for the benefit of public accountants and accountants generally".

Thus, Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.

Need for accounting standards :

The need for accounting standards is as follows:

i) To promote better understanding of financial statements.

ii) To help accountants to follow uniform procedures and practices.

iii) To facilitate meaningful comparison of financial statements of two or more entities.

iv) To enhance reliability of financial statements.

v) To meet the legal requirements effectively.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standard Board (IASB). IFRS is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued to develop Accounting Standards that would be acceptable worldwide and to improve financial reporting internationally.

Accounting Standards in India

In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI). The Council of the Institute of Chartered Accountants of India constituted Accounting Standards Board (ASB) on 21st April, 1977 recognising the need for Accounting Standards in India. ASB. Formulates Accounting Standards so that such standards may be established by the Council of the Institute in India. The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards while framing Accounting Standards (AS) in India.

Due to globalisation, the accounts prepared in India must be compatible with accounts prepared in other countries. This has resulted in the existing AS being converged with the IFRS. This convergence has resulted in what is known as Ind AS. Ind AS are basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions. Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS. In future, it is expected that all business entities in India will migrate to Ind AS.

Some Accounting Standards (AS): The Council of the Institute of Chartered Accountants of India has so far issued thirty one accounting standards. Some of these Accounting Standards are explained below

1) **AS-1 Disclosure of Accounting Policies (1-4-1991 for Companies and 1-4-1993 for others)**
According to this standard the accounting policies followed in the preparation and presentation of financial statements should form a part of the financial statements and normally be disclosed in one place.

2) **AS-2 Valuation of Inventories (1-4-1999)**
According to this standard inventories in general should be valued at lower of historical cost and net realizable cost.

3) **AS-3 Cash Flow Statements (1-4-2001)**
According to this standard a cash flow statement is prepared and presented for the period for which the profit and loss account is prepared.

4) **AS-6 Depreciation Accounting (1-4-1995)**
According to this standard the depreciation amount of an asset should be allocated on a systematic basis for each accounting period during the useful life of an asset.

5) **AS-8 Accounting for Research and Development (1-4-1991 for Companies and 1-4-1993 for others)**
According to this standard, the amount of research and development costs should be charged as an expense of the period in which they are actually incurred.

6) **AS-9 Revenue Recognition(1-4-1991 for Companies and 1-4-1993 for others)**
This standard deals with the basis required for recognition of revenue items in the Profit and Loss Account of an enterprise. It lays down conditions to recognize revenues that arise from the various transactions of an enterprise.

7) **AS-10 Accounting for Fixed Assets(1-4-1991 for Companies and 1-4-1993 for others)**
According to this standard, the cost of fixed assets should comprise of the original cost and any attributable cost of bringing the asset to its working conditions for its intended use. The fixed assets should be eliminated from the financial statement on disposal or when no further benefit is expected from their use.

8) **As-12 Accounting for Government Grants(1-4-1994)**
According to this, standard, government grants should be recognized when there is an assurance that the enterprise will comply with the conditions attached to them.

9) **As-13 Accounting for Investments (1-4-1995)**
According to this standard, an enterprise should disclose the current and long term investments distinction in its financial statements. Current investments should be carried in the financial statements at the lower cost or fair value. However long term investments should always be carried in the financial statements at the cost price.

10) **AS-22 Accounting for Taxes on Income (1-4-2001)**
According to this standard, tax expenses for the period comprising current tax and deferred tax should be included in the determination of the net profit or loss for the period.

Student Activity:
Visit icai.org website Refer under Resources, Accounting Standards and Ind AS.

EXERCISE

Q.1 Answer in One Sentence:

1) What is Book-keeping ?
2) What is meant by Goods?
3) What is Capital?
4) What is Drawings?
5) What is Goodwill?

Q.2 Give the word term or phrase which can substitute each of the following statements:

1) Recording of business transactions.
2) Amount invested in business by the proprietor.
3) A person to whom amount is payable.
4) Exchange between two persons.
5) Excess of expenses over income
6) A person whose assets are sufficient enough to meet business obligations.
7) Art and science of recording business transactions.
8) Property of any description owned by Proprietor.
9) Assets which remain in the business for only for short time and can be converted into cash very easily.
10) Allowance is given on catalogue price of goods

Q.3 Select the most appropriate alternatives from those given below and rewrite the statements.

1) Surplus of income over expenses is _______________.
   a) Profit   b) Deficit   c) Loss   d) Financial Statements
2) In _____________ basis of accounting, actual cash receipts and actual cash payments are recorded.
   a) Accrual   b) Hybrid   c) Cash   d) Mercantile
3) Amount which is not recoverable from customer is known as _______________.
   a) Bad Debts   b) Debts   c) Debtors   d) Doubtful debts
4) Accounts must be honestly prepared and they must disclose all material information is known as __________.
   a) Entity Concepts   b) Dual Aspect Concept   c) Disclosure Concept   d) Cost Concept
5) A commodity in which a trader deals is known as ________________.
   a) Goods   b) Income   c) Property   d) Expenditure
6) __________ means a reputation of a business valued in terms of money.
   a) Trademark   b) Assets   c) Patents   d) Goodwill
7) According to __________ cash flow statement is prepared and presented for the period for which the profit and loss account is prepared.
   a) AS-3   b) AS-10   c) AS-6   d) AS-2
8) The immediate recognition of loss is supported by principle of ___________.
   a) Conservatism   b) Objective   c) Matching   d) Consistency
9) Brief explanation of an entry is called as __________.
   a) Folio   b) Narration   c) Posting   d) Journalising
10) An act of exchange of things or services between the two parties is termed as_______.
   a) Ledger   b) Transfer   c) Transaction   d) Business

Q.4 State whether the following statements are true or false with reasons :

1) Book-keeping and accounting are one and the same thing.
2) Conservatism means to follow safe side.
3) The double entry system is based on “Dual Aspect” concept.
4) Bank overdraft is an asset of the business.
5) Solvent person is a person whose assets are more than his liabilities.
6) Cash discount does not appear in the books of accounts.
7) A transaction is concerned with money or money’s worth
8) Accounting is the language of business.
9) In earlier times of civilization, accounting was done by owners.
10) Book-keeping is useful to find out all tax liabilities.

Q.5 Do you agree or disagree with the following statements :

1) Accounting is useful only to the owner.
2) Book-keeping is an art, science.
3) Bills Payable is an asset of the business.
4) In Book-keeping and Accountancy only non monetary transactions are recorded.
5) The Assets which give long term benefit to the business are Fixed Assets.

Q.6 Complete the following sentences :

1) Revenue arising as a result of business transactions is known as ....
2) Excess of gross profit over operating expenses is ....
3) An expenditure which is basically revenue in nature but benefit of which is not exhausted within one year is called as ....
4) The amount deducted by the seller from the list price of goods at the time of sale is ....
5) A person to whom business owes money for the goods or services is known as ....