UNIT-I

Introduction to Accounting

1. Explain the accounting concepts and conventions.

(or)

Define accounting and explain the principles of accounting.

A:- Accounting principles are the rules to be adopted by the accountant which are generally accepted in the preparation of accounts. (GAAP) [Generally Accepted Accounting Principles]. GAAP is framed on the basis of usage, coustom and necessity. It includes conventions, procedures and accounting practices.

Accounting Concepts	Accounting Conventions
1. Seperate Legal Entity Concept/Business entity Concept	1. Consistency
2. Going Concern Concept	2. Full disclosure

3. Money measurement Concept

3. Materiality

4. Cost Concept/ objectivity concept

4. Conservatism

5. Dual aspect concept

6. Accounting period concept

7. periodic matching of cost and revenue Concept

8. Realisation Concept.

Accounting Concept

There are the necessary assumptions, Conditions or postulates upon which the accounting is based. They are developed to facilitate communication of the accounting and financial information to all the readers of the financial statements, so that they can interpret with the same meaning and ~~concept~~ Content. (When making Comparative analysis of the Same or different firms).

1. Seperate Legal Entity Concept

Every business unit is a seperate and distinct legal entity from its Owners who Contribute Capital to start it. It can buy, sells on its own name and can use and can be used in the name of the Company. The owner is like any other person who owns from the company, and all transactions are entered from the business, point of view.

2. Going concern Concept

According to this concept, the Concern would continue forever and ever & based on this assumption the accounts are prepared. It is not going to be liquidated or closed down in the near future.

3. Money Measurement Concept

Only those transactions and events that are capable of being measured in monetary terms are recognized in the financial statements. All transactions and events recorded in the financial statements must be reduced to a unit of monetary currency.

Ex: Accidental death of experienced and dedicated executive cannot be measured and not recorded in the books of accounts.

4. Cost Concept/Objectivity Concept

According to this concept, the assets are recorded at the cost at which they are acquired. In other word, the market values are ignored. In accounting cost concept has the advantage of bringing objectivity in the preparation & presentation of financial statements.

5. Dual aspect Concept

This is the basic concept of accounting. According to this concept, every business transaction has a dual effect. i.e., according to double entry book keeping system assets = Equities and "for every debit, there is an equivalent credit".

6. Accounting period Concept

Accounts are prepared by all the firms for a period of 12 months or 1 year i.e., from January to December or April to March based. On the norms of the firms.

Enough time is permissible to get a clear understanding of how a business has been conducted during a particular specific period of time which is discussed by Accounting period concept.

7. Matching Concept

Matching Concept states that the expenses of a given period must be related to the revenues of that particular period only. The revenues earned for the period must be determined first and then the expenses are to be matched to the revenues earned during the period only.

8. Realisation/Accrual Concept

According to this concept revenue is recognized when a sale is made but not when sales proceeds are collected. Sale is Considered to be made at the point when the property in goods passes to the buyer and he becomes legally liable to pay.

It is the application of accruals Concept towards the recognition of the revenue.

Accounting Conventions

These are the customs or traditions guiding the preparation of accounts. They are adopted to make financial statements clear and meaningful.

1. Consistency [should not do any changes]

According to this convention, according practices should not be changed from one method to another for the sake of convenience or show an inconsistent accounting information. If changes are inevitable mention them an note.

2. Convention of Full disclosure [show exact record]

The accounting reports should disclose fully and fairly the information they purport to represent. They should be honestly prepared and sufficiently disclose information which is of material interest to proprietors & creditors & investors.

The convention becomes important because of the Companies Act, 1956 where many Companies are registered under it and follows the guidelines prescribed by it, so it has to be made public also.

3. Convention of Materiality [Only consider the info which is useful for org]

It states that if an accounting detail is not very important or materialistic in nature, it can be dropped or ignored. 'Materiality' is an exception to "Full disclosure" principle.

The essence of materiality principle is "to record only such items which have sufficient economic effect on the business of the enterprise". Materiality is a "subjective" term. So, the accountant has to use his discretion based upon the item which is going to have what kind of impact on the business for decision making.

4. Convention of Conservation [include all possible transactions of Accounts of particular year]

The accountant follows the rule "anticipate no profit but provide for all possible losses", while recording business transactions. Do not account for unrealised gains as there could be gap between the actuals & the realisation.

Ex:- Valuation of closing stock at market prize or cost price whenever is lower.

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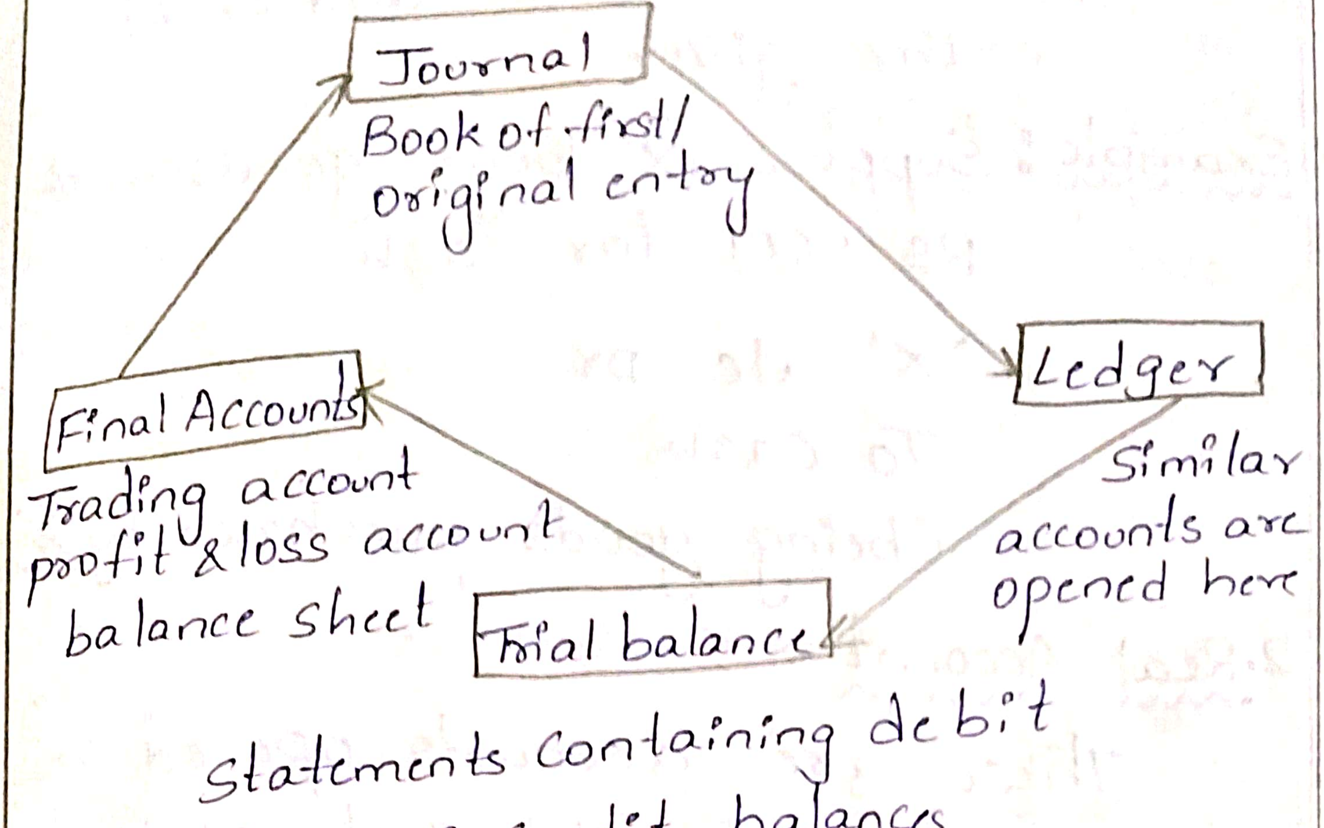
2. Explain the procedure for accounting?

A:- The Basic Procedure for Accounting

1. Analysing transactions.
2. Journal - first book, in which transactions are recorded in order.
3. Ledger - journal entries are posted into ledger accounts, which contains several accounts.
4. Trial balance - On the basis of balance shown by ledger accounts a statement debit and credit balances prepared.
5. Final accounts - From the information available in trial balance, final accounts are prepared, it contains trading a/c, profit and loss a/c, balance sheet.
6. Closing temporary accounts.



Figure

Rules which Govern Accounting

There are three types of accounts. They are,

1. personal Account.
2. Real Account
3. Nominal Account.

1. personal Account

These are accounts opened in the name persons, firms and companies with whom the firm deals.

Rules for Personal Account

'Debit the receiver and credit the giver'

Example: Suppose 'x' buys goods worth Rs. 5000 for cash

'x' a/c Dr
To cash
(being goods purchased by 'x')

2. Real Account

These are accounts opened in the name of assets such as land and buildings, plant and machinery, furniture and fixtures etc.

Rule for Real Account

Debit what comes in
Credit what goes out

Example: You sell your refrigerator for Rs. 6000 cash - Real account → Debit (coming in)
Refrigerator (Asset) - Real account → Credit (going out)

Cash a/c Dr
To sales
(Being sold refrigerator)

3. Nominal Account

Nominal accounts are only for namesake, cannot bee seen physically but they can be felt Nominal accounts are those which are opened in the name of expenses, losses, profits, incomes and gains.

Rule for Nominal Account

Debit - All expenses and losses

Credit - All incomes and gains

Example: Suppose you pay RS.500 towards salary of clerk, salary to clerk is an expense.

Salary paid (expense) - Nominal account - Debit

Cash paid → Real account - Credit

Salary a/c Dr.

To cash

(Being salary paid to clerk)

Personal account rule

Debit the receiver and credit the giver.

Real account rule

Debit what comes in and credit what goes out.

Nominal account rule

Debit all expenses and credit all incomes and gains.