**MODULE 2 ASSIGNMENTS**

What are operating and non-operating profits?

Operating profits refers to any financial activity resulting from a company’s core business, as well as other activities that are a logical extension of the core business. This would include things such as profit from sales, costs of goods needed to produce products for sale, and items that are a regular part of the business and usually have a recurring nature.

 Operating activities may be:

• Purchasing and selling of goods.

• Services and even securities by a Trading concern

• Exploration of natural resources by Extracting & Trading entity.

• Granting of loans and advances by a ‘Financial Institution’.

• Construction and development of colonies by construction enterprise.

Note that in accounting terms, both revenue and expenses are included in operating income.

Nonoperation profits include revenue and costs that are outside the normal course of a company’s core business. Say, for example, a manufacturing company made a one-time sale of property and realized a capital gain. This would produce non-operating income. Similarly, if a company made a payout in severance after a downsizing, it would be non-operating income, while an annual contribution to retiring employees would be a recurring operating income item, even if the amount varied year-to-year. As a practical example took place in my current financial role in our organization last month by selling old assets and equipment's we recognize it as exceptional profit/loss.

Non-operating income can affect the appearance of an income statement positively or negatively. For example, non-operating income revenue may artificially increase apparent profit margins, while expenses that qualify as non-operating may reduce profit margins. For this reason, the most common accounting approach excludes non-operating income from income statements and recurrent profits.

While this gives a more accurate picture of operating efficiencies, it may not give a true picture of the business's performance overall.

2) What do you understand by “Grouping” and “Marshalling” of assets and liabilities?

To process of preparation and presentation of balance sheet involves two steps: Grouping and Marshaling

Grouping:

In accounting, Grouping refers to presenting similar items with similar qualities together. They are shown under a common head inside financial statements. For example, let’s say a company has 200 different creditors that it deals with. All of them will not be shown separately in financial statements; only the net total of all the creditors will be presented.

Another example can of inventories which can be raw materials, work in process and finished goods and all three of them will be reported under inventories as one figure on the face of statement of financial position and income statement by grouping the three categories together.

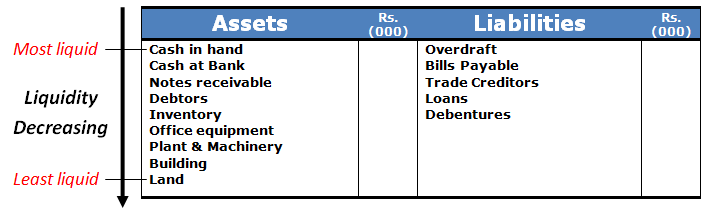
Marshalling:

Means presenting items in a logical order i.e. assets and liabilities in the statement of financial position are listed in particular order. While preparing statement of financial position assets and liabilities are presented by following a particular format or type of marshalling so that it is more understandable and thus adds more value to the financial information embedded in the financial statements.

There are two methods of marshalling:

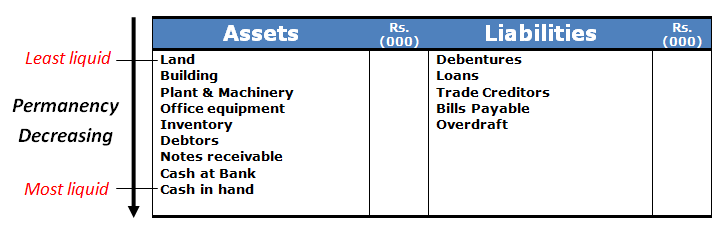
1. Marshalling by liquidity

According to this method the assets and liabilities are listed in descending order on the basis of liquidity, i.e the asset which is the most liquid will be listed first and the asset which is least liquid will be listed last. Similarly the liabilities which are falling due earliest will be listed first and the ones payable latest will be listed last.



1. Marshalling by permanence

This method is completely opposite to the liquidity method. According to this order of listing, assets and liabilities are listed in descending order on the basis of their permanence i.e. the asset with the longest useful life (least liquid) will be listed first and the asset with the least or shortest (most liquid) useful life will be listed last.



3) Write short notes on the following:

a) Outstanding of Expenses

Outstanding expenses are those expenses which have been incurred during the current accounting period and are due to be paid, however, the payment is not made. Such an item is to be treated as a payable for the business.

b) Accrued Incomes

Accrued income is income which has been earned but not yet received.

Income must be recorded in the accounting period in which it is earned. Therefore, accrued income must be recognized in the accounting period in which it arises rather than in the subsequent period in which it will be received.

c) Intangible Assets

An intangible asset is a non-physical asset having a useful life greater than one year. These assets are generally recognized as part of an acquisition. Include copyrights, patents, mailing lists, trademarks, brand names, domain names.

d) Fictitious Assets

Assets created by an according entry (and include under assets in the balance sheet) that has no tangible existence or realizable value but represents actual cash expenditure. The purpose of creating a fictitious asset is to account for expenses (such as those incurred in starting a business) that cannot be placed under any normal account heading. Fictitious assets are written off as soon as possible against the firm’s earnings.

e) Cost of Conversion

Conversion costs are a term used in cost accounting that represents the combination of direct labor costs and manufacturing overhead costs. In other words, conversion costs are a manufacturer's product or production costs other than the cost of a product's direct materials.

f) Cost of Goods Sold

The cost of goods sold is the cost of the products that a retailer, distributor, or manufacturer has sold.

The cost of goods sold is reported on the income statement and should be viewed as an expense of the accounting period. In essence, the cost of goods sold is being matched with the revenues from the goods sold, thereby achieving the matching principle of accounting.

g) Direct vs. Indirect Expenses

Direct Expenses:

Expenses connected with purchases of goods are known as direct expenses. For example, freight, insurance, of goods in transit, carriage, wages, custom duty, import duty, octroi duty etc. Without incurring these expenses, it is not possible to bring the goods from the purchase point to the go down of the business. Such expenses are collectively known as direct expenses.

Indirect Expenses:

All expenses other than direct expenses are assumed as indirect expenses. Such expenses have no relationship with purchase of goods. Examples of indirect expenses include rent of building, salaries to employees, legal charges, insurance of building, depreciation, printing charges etc. So

What are the objectives of Accounting? Name the different parties interested in accounting

Information and state why they want it.

The main object of Accounting is to ascertain the results of the financial transactions of a business concern.

Objectives of Accounting

1. Identification and recording of transactions

The primary object of accounting is to [identify the financial transactions](https://iedunote.com/accounting-transactions-types) and to record these systematically in the books of accounts. As a result, the true nature of each and every transaction is known without much exercise of memory.

2. Ascertainment of results

Every business concern is interested to know its operating results at the end of a particular period.

The amount of profit or loss for a particular period of a business concern can be ascertained by preparing income statement with the help of ledger account balances of revenue nature.

Surplus or deficit of revenue for a particular period of a non-trading concern can also be ascertained by preparing income and expenditure account or statement.

3. Ascertainment of financial affairs

Ascertainment of debts-liabilities, property, and assets i.e. total financial affairs of an organization at a particular date is another important object of Accounting.

Financial affairs of a concern at a particular date can be ascertained by [preparing a balance sheet](https://iedunote.com/accounting-balance-sheet-types).

4. Keeping accounts of cash

[Cash book](https://iedunote.com/cash-book) is a prominent book of the books of accounts. Cash receipts and cash payments are accounted for in this book. A number of daily cash receipts, payments, cash in hand and cash at the bank can be known from this book.

5. Control over assets and liabilities

The actual position of these debts-liabilities, property, and assets can be ascertained through the proper keeping of accounts.

6. Controlling money defalcation and cost

Prevention of money defalcation through fraud and forgery and controlling of the cost of a concern are also the main objects of Accounting. Prevention of money defalcation and cost control become easier if accounts are kept scientifically.

7. Providing economic data

Another noble object of Accounting is to provide the concerned parties with all economic information preparing [financial statements](https://iedunote.com/financial-statements-definition-component-importance) and reports etc. in time.

8. Helping tax fixation

Accounts prepared on the basis of accepted accounting principles in considered reliable to the income tax and VAT authorities for easy determination and settlement of tax and VAT.

9. Determination and evaluation of policy

The object of Accounting is to help the management in determining and evaluating the management policies in running the business successfully by supplying necessary, information, interpreting and analyzing the financial statements.

10. Testing the arithmetical accuracy of accounts

One of the main objects of scientific methods of accounting is to make sure that accounts have been kept in a proper way. The arithmetical accuracy of accounts kept in the ledger can be assured by [preparing a trial balance](https://iedunote.com/trial-balance).

11. Acceptability to others

Banks or financial institutions are interested to know the accurate financial position of a business concern for sanctioning loans. On the other hand, government or other authorities may also ask about the financial position of a business concern for various reasons.

12. Creation of values and accountability

The object of accounts maintained in an acceptable way is to create higher values among individuals and organizations and thereby creating awareness in preventing money defalcation, misappropriation of fund and cost control by ensuring transparency and accountability.

13. Following legal bindings and prohibition

As all kinds of business organizations have to abide by some legal bindings and prohibitions, they are to maintain their accounts accurately.

There are a number of parties who are interested in the accounting information relating to business. Accounting is the language employed to communicate financial information of a concern to such parties. The following are the groups who like to make use of the accounting information.

Owners:

The owner provides funds or capital for the organization. They want to know whether their funds are being properly used or not. They need accounting information to know the profitability and the financial position of the concern in which they have invested their funds. The financial statement prepared from time to time from accounting records tells them the profitability and the financial position.

Management:

Management is the art of getting things done through others. The management should ensure that the subordinates are doing work properly. Accounting information is an aid in this respect because it helps a manager in appraising the performance of the subordinates. Accounting information provides “the eyes and ears to management”.

Creditors:

Creditors are the persons who supply goods on credit or bankers or lenders of money. They want to know the financial position of a concern before giving loans or granting credit. They want to be sure that the concern will not experience difficulty in making their payment in time i.e., liquid position of the concern in satisfactory. To know the liquid position, they need accounting information.

Employees:

Employees are interested in the financial position of a concern they serve particularly when payment of bonus depends upon the size of the profits earned. The demand for wage rise, bonus, better working conditions etc. depends upon the profitability of the concern and in turn depends upon financial position. For these reasons, this group is interested in accounting information.

Government:

The government is interested in accounting information because it wants to know earnings or sales for a particular period for the purpose of taxation. Government also needs accounting information for compiling statistics concerning which in turn helps in compiling national accounts.

Consumers:

Consumers need accounting information for establishing good accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy. Sometimes, prices for some goods are fixed by the government, so it needs accounting information to fix reasonable prices so that consumers are not exploited.

4) Briefly explain the accounting concepts which guide the accountant at the recording stage.

Accounting concept refers to the basic assumptions and rules and principles which work as the basis of recording of business transactions and preparing accounts.

Concepts which guide the accountant at the recording stage:

Business

Entity concept:  Financial

Transactions of a business and its owner are treated separately.

Money

Measurement concept: In accounting, the recorded transactions are the business transactions that are expressed in terms of money.

Dual aspect

Concept: For every credit,

A corresponding debit is made. The recording of a transaction is complete only with this dual aspect.

Cost concept:

In the first year of accounting, based on the original cost, the fixed assets of a business are recorded. Subsequently, depreciation is excluded while recording. On fixed assets, the rise or fall of market price is excluded.

Objective Evidence Concept:

The term objectivity refers to being free from bias or free from subjectivity. Accounting measurements are to be unbiased and verifiable independently. For this purpose all accounting transactions should be evidenced and supported by documents.

Historical Record Concept:

Recording the transactions in the books of account will be done only after identifying the transactions and measuring them in terms of money. According to the historic record concept we record only those transactions which have actually taken place in the business during a particular period of time and not those transactions which may take place in future.

5) What do you understand by Dual Aspect Concept? Explain the accounting implications.

The dual aspect concept states that every [business transaction](https://www.accountingtools.com/articles/2017/11/30/business-transaction) requires recordation in two different [accounts](https://www.accountingtools.com/articles/2017/5/7/accounts). This concept is the basis of [double entry accounting](https://www.accountingtools.com/articles/2017/5/17/double-entry-accounting), which is required by all [accounting frameworks](https://www.accountingtools.com/articles/2017/5/7/accounting-framework) in order to produce reliable [financial statements](https://www.accountingtools.com/articles/2017/5/10/financial-statements). The concept is derived from the [accounting equation](https://www.accountingtools.com/articles/2017/5/17/the-accounting-equation), which states that:

**Assets = Liabilities + Equity**

The accounting equation is made visible in the [balance sheet](https://www.accountingtools.com/articles/2017/5/17/the-balance-sheet), where the total amount of assets listed must equal the total of all liabilities and equity. One part of most business transactions will have an impact in some way on the balance sheet, so at least one part of every transaction will involve assets, liabilities, or equity

If an organization were not to observe the dual aspect concept, it would use [single-entry](https://www.accountingtools.com/articles/what-is-a-single-entry-system.html) accounting, which is essentially a checkbook. A checkbook cannot be used to derive a balance sheet, so an entity would be limited to the construction of a cash-basis income statement.

If management wants to have its financials [audited](https://www.accountingtools.com/articles/2017/5/5/audit), it must accept the dual aspect concept and maintain its [accounting records](https://www.accountingtools.com/articles/2017/5/7/accounting-records) using double-entry accounting. This is the only format that [auditors](https://www.accountingtools.com/articles/2017/5/5/auditor) will accept if they are to issue opinions on financial statements.

6) Explain the role of Management Accountant in a modern business organization.

Management Accounting

Management accounting plays a major role in helping managers carries out their responsibilities. The reporting is flexible as the information is used by the internal management for decision making. The reports are essentially tailored to the needs of individual managers. The management accountant thus supplies relevant, accurate, timely information in a format that will aid managers in making decisions.

The accountant usually has a variety of administrative roles within a company's operations. In a smaller business, an accountant's role may consist of primarily financial data collection, entry and report generation. Middle to larger sized companies may utilize an accountant as an adviser and financial interpreter, who may present the company's financial data to people within and outside of the business. Generally, the accountant can also deal with third parties, such as vendors, customers and financial institutions.

The role of the Accountant in ensuring the quality of financial reporting cannot be over emphasized. Although Management is responsible for the financial information produced by the company, Accountants are in the frontline of safeguarding the integrity of financial reporting. Therefore, the accountant is an important asset to the company because he has the key skills required to speak the language of business

On average, the management accountant must possess the following skills at a minimum:

* Financial management and Accounting Skill.
* Budgeting and Financial forecasting skill.
* A self-starter, who is organized, disciplined and goal orientated.
* Good working knowledge of Information Technology
* Good organization and Management skill.
* Cash Disbursement and Record Keeping skill.
* Good analytical and reasoning skill.
* Good leadership and supervisory skill.
* Capacity to interact with people at all levels.
* Honesty and integrity.
* Dynamic and creative in his or her approach to problems
* Broad minded and focuses on the big picture

7) What are the accounting concepts to be observed at the reporting stage? Explain any two in

detail.

Accounting Concepts are the fundamental ideas or basic assumptions underlying the theory and practice of financial accounting and are broad working rules for all accounting activities developed and accepted by the accounting profession. It brings about uniformity in the practice of accounting.

The following concepts are to be observed at the time of preparation of final accounts.

Conservatism Concept:

Revenue is only recognized when there is a reasonable certainty that it will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred. This concept tends to result in more conservative financial statements..

Matching Concept:

According to this concept, the expenses incurred during a specific accounting period must be matched against the revenues that are realized for that period. Hence adjustments are made for all outstanding and prepaid expenses, unearned or accrued incomes etc.

8) Discuss in brief the basic accounting concepts and fundamental accounting assumptions.

Accounting assumptions are the three very[basic accounting concepts](https://www.toppr.com/guides/accountancy/theory-base-of-accounting/basic-accounting-concepts/) or principles that are assumed to have been followed in the accounting transactions of an entity. So there is a need for a specific notation saying such concepts have been adhered to, it is understood.

However, this does not mean that such fundamental accounting principles have to be compulsorily followed by all organizations. It is absolutely acceptable if the entity does not follow such assumptions while recording their financial transactions. If these fundamental assumptions have not been followed then the entity should specifically disclose this information, along with their financial statements.

1. Going Concern

This assumption is based on the principle that while making the financial statements of an entity we will assume that the company has no plans of winding up in the near future. So the assumption is that the company will continue to exist indefinitely (far into the future), i.e. it will keep on going.

This assumption is important as it allows for the appropriate accounting of fixed assets and depreciation. Since traditionally we follow the historical cost method for valuation of assets, we have to assume that the business is in no danger of being shut down in the future. If this is the case then such assets will have to be valued at market value. But in the case of a going concern, we do not take into account the increase/decrease in prices of assets.

1. Consistency

This assumption states that unless and until things are mentioned in the accounting policies, procedures, standards, etc, Things that have been followed in accounting remains the same.

This allows for uniformity in the financial statements of a company over the years. It also becomes easier to compare financial statements from the previous years, something that is important to potential investors and other external stakeholders.

When the accounting treatments and methodologies remain the same over a period of several years the management can properly draw conclusions about the performance of a company. It is an important aspect of planning and decision-making functions of management.

So when the entity changes their policies or methods for the above reason, the users of the financial statements must be informed. Whether there is a material effect in the current year or upcoming years a disclosure must be made. This disclosure is usually made in the notes at the end of the balance sheet.

1. Accrual

Under this assumption, accounting transactions are recorded in the books of accounts when they occur. This is known as the Mercantile System. So as opposed to the cash system, in accrual concept, the revenue or expenditure is recognized in the year they are realized.

9) Why do accounting practices be standardized? What progress has been made in India

regarding standardization of accounting?

The Institute of Chartered Accountants of India (ICAI) formed the Accounting Standards Board (ASB) in April 1977 which includes representatives from industry and government In line with procedure followed in other countries, the preliminary drafts prepared by the study groups and approved by ASB are circulated amongst various external agencies, including the representative bodies of trade commerce and industry. So far, twenty-eight standards have been issued by ASB, a brief description of which is provided a Appendix I to end of document.

The standards are recommendatory in nature in the initial years. They are recommended for use by companies listed on a recognized Stock Exchange and other large commercial, industrial land business enterprises in the public and private sectors.

Regarding the position India, it has been stated that the standards have been developed without first establishing the essential theoretical framework. Without such a framework, it has been contended; any accounting standards and principles developed are likely to lack direction and coherence.

10) Is it possible to give a true and fair view of a company’s position using accounting information ? Explain.

no it is not possible.

For example: According to the assumption of Money and Management Concept no it is not possible; the value of money changes over a period of time. This is due to a fall in money value. Thus this concept ignores the qualitative aspect of things and the impact of inflationary changes is not adjustable in this principle.

Now-a-days it is considered desirable to provide additional data showing the effect of changes in the price level on the reported income and the assets and liabilities of the business.

11) Explain the following:

i) Accounting equation

The accounting equation is considered to be the foundation of the double-entry accounting system. The accounting equation shows on a company's [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp) where by the total of all the company's assets equals the sum of the company's [liabilities](https://www.investopedia.com/terms/l/liability.asp) and shareholders' equity.

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.

The Formula for the Accounting Equation Is

**Assets = Liabilities + Equity**

ii) Convention of materiality

Means financial statements must give sufficient analysis of the figures, without unnecessary details to enable the users to understand its financial implications

iii) Accounting standards i

Recording the transactions

The recording of transactions in the books of accounts is based on accounting equation. Accounting equation is a formula expressing equivalence of the two expressions of assets and liabilities. The relationship will remain the same on account of dual aspect of the transaction.

v) Accounting process

Accounting may be defined as the process of recording, classifying, summarizing, analyzing, and interpreting the financial transactions and communicating the results thereof to the persons interested in such information.

Thus the accounting process consists of the following five stages:

1) Recording the Transactions,

2) Classifying the Transactions,

3) Summarizing the Transactions, and

4) Interpreting the Results.

v) Branches of accounting v

Different fields of accounting as a subject can be divided into a number of areas that are closely intertwined to each other. In this article, we are going to explore each of these areas as well as what they entail and how useful they are in our day to day accounting activities.

Financial accounting

Financial accounting is a branch of accounting that involves classifying and recording business transactions as well as presenting and preparing financial statements to be used by both external and internal users. It focuses mainly on the preparation of the five basic financial statements including the statement of changes in equity, statement of financial position, statement of cash flows, statement of comprehensive income and notes to financial statements which are used by banks, creditors, tax authorities and financial institutions to assess the company’s financial status and calculate the amount of taxes owed.

Cost accounting

Cost accounting refers to the process of collecting, summarizing, determining, evaluating and analyzing costs to enable various alternative courses of action. It deals with evaluating the cost of products and services offered and calculate the cost by taking into account all the factors that contribute to the production of the output.

Management accounting

Management accounting is the branch of accounting that is normally involved with providing -and financial information that enables managers to better plan for activities.

Tax accounting

Tax accounting largely deals with matters taxation. It helps clients follow rules that have been put in place by tax authorities. Its main functions include dealing with legal implications and filing and preparing various tax returns

Fiduciary accounting

Fiduciary accounting basically refers to the evaluation and management of financial records by a guardian entrusted with prudently taking care and managing property for someone else's benefit. Some of the most common examples of fiduciary accounting include estate accounting, trust accounting, and receivership.

Forensic accounting

Forensic accounting, otherwise known as legal accounting is the use of accounting in legal matters such as dispute resolution, investigation and litigation support

Auditing

Auditing is the process of verifying and examining a company’s financial books in order to establish whether they reflect a true and fair view of the company’s financial status. There are

Government accounting

This branch of accounting is mainly concerned with the utilization and allocation of public funds. It ensures all funds released for various purposes are utilized accordingly and that each and every penny is accounted for

As you can see, accounting has a number of interesting activities that an accounting student can choose to specialize in depending on their preference. Whichever your choice, if you are stuck with homework, you can [hire us to do your accounting homework for you](https://homeworkdoer.org/accounting/). Am sure you will be amazed by the kind of quality that we deliver

i) Accounting a source of financial information

Accounting is the management information system of any organization and is concerned with providing necessary information to the management, i.e it is a source of information. In the account, every step involves either generation or processing accounting information. It serves as a means as well as an end of providing information to all stakeholders who need information to make a proper decision.

Accounting as a Source of Information