**MODULE 2 ASSIGNMENTS**

**What are operating and non-operating profits?**

**Operating** activities are all the things a company does to bring its products and services to market on an ongoing basis. **Non**-**operating** activities are one-time events that may affect **revenues**, expenses or cash flow but fall outside of the company's routine, core business.

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

**Grouping**. In accounting, **Grouping** refers to presenting similar items with similar qualities together. They **are** shown under a common head inside financial statements.

**Marshaling Assets** and Securities. The process of organizing, ranking, and distributing funds in a manner set forth by law as being the most effective way to discharge debts that are owed to various creditors. When **assets** and Securities are **marshalled**, the two-fund doctrine is frequently applied.

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. ... **Outstanding expenses** are recorded in books of finance at the end of an accounting period to show the true numbers of a 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 an asset that lacks physical substance; in contrast to physical assets, such as machinery and buildings, and financial assets such as government securities. An intangible asset is usually very hard to evaluate. Examples are patents, copyright, franchises, goodwill, trademarks, and trade names

d) **Fictitious Assets**

**Fictitious assets** are the deffered revenue expenditure as well as intangible **assets** i.e advertisement expenses, discount on issue of shares and debentures. But point to be remembered that Goodwill, Patents, Trade Marks are not the part of **Fictitious assets**

e) **Cost of Conversion**

**Conversion costs** are the **costs** incurred for turning raw materials into finished products. If you add direct labor **costs** and manufacturing **costs**, the sum that you get will be the **conversion cost**. In other words, **conversion costs** equal the **cost** of production minus raw material **cost**.

f) **Cost of Goods Sold**

g) Direct vs. Indirect Expenses

Direct Expenses: Direct expenses are those expenses that are paid only for the business part of your home.

 Indirect Expenses: Indirect Expenses are those expenses that are paid for keeping up and running your entire home. Examples of indirect expenses generally include insurance, utilities, and general home repairs

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

information and state why they want it.

The main objectives of accounting are maintaining a complete and systematic record of all transactions and analyzing the financial position of a business. Every individual or a business concern is interested to know the results of financial transactions and their results are ascertained through the accounting process.

The parties interested in the accounting information are two type:

Internal Users

Supplies manager and the owners and the reason they want these information’s are

* Assessing how the management has charged its responsibility for protecting and managing resources
* Shaping decision about when to borrow or invest company resources
* Shaping decision about expansion or downsizing

The type who are in need for the accounting information are

* Stockholders have the right to know how a company is managing its investments
* Federal and State Governments require tax returns and other documents often prepared by accountants
* Banks or lending institutions may use accounting information to guide decisions such as whether to lend or how much to lend a business
* Investors will also use accounting information to guide investment decisions

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

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.

·        Going concern concept: In accounting, a business is anticipated to exist for a long time while fulfilling its commitments and obligations. This means that the business will liquidate its assets at “fire-sale” prices.

·        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.

·        Accounting year concept: Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.

·        Matching concept:  In a given accounting period, it is expected that for every entry of revenue recorded there should be an equal expense entry for calculating profit or loss.

·         Realization concept: Profit is recognized only when it is earned. For example: Any advance is not considered unless the product is delivered to the customer.

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

The dual aspect concept states that every business transaction requires recordation in two different accounts. This concept is the basis of double entry accounting, which is required by all accounting frameworks in order to produce reliable financial statements.

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

is to support competitive decision making by collecting, processing, and communicating information that helps **management** plan, control, and evaluate business processes and company strategy.

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

detail.

First the accounting reporting It is the reporting of accounting information of an entity (individual, firm, company, government enterprise) to a user or group of users.

the accounting reporting concept are:

#### 1 Management Accountability:

A second basic objective of financial reporting is to provide information on management accountability to judge management’s effectiveness in utilizing the resources and running the enterprise.

Management of an enterprise is periodically accountable to the owners not only for the custody and sale-keeping of enterprise resources, but also for their efficient and profitable use and for protecting them to the extent possible from unfavorable economic impacts of factors in the economy such as technological changes, inflation or deflations

#### 2 Investment Decision-Making:

The basic objective of financial reporting is to provide information useful to investors, creditors and other users in making sound investment decisions. These decisions concern the efficient allocation of investment funds and the selection among investment opportunities.

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

* [*Accruals concept*](https://www.accountingtools.com/articles/2017/5/15/accruals-concept). [Revenue](https://www.accountingtools.com/articles/2017/5/11/revenue) is [recognized](https://www.accountingtools.com/articles/2017/5/11/recognition) when earned, and [expenses](https://www.accountingtools.com/articles/2017/5/6/expense) are recognized when [assets](https://www.accountingtools.com/articles/what-is-an-asset.html) are consumed. This concept means that a business may recognize revenue, [profits](https://www.accountingtools.com/articles/2017/5/14/profit) and [losses](https://www.accountingtools.com/articles/2017/5/9/losses) in amounts that vary from what would be recognized based on the cash received from [customers](https://www.accountingtools.com/articles/2017/5/4/customer) or when cash is paid to [suppliers](https://www.accountingtools.com/articles/2017/5/16/supplier) and [employees](https://www.accountingtools.com/articles/2017/5/4/definition-of-an-employee). [Auditors](https://www.accountingtools.com/articles/2017/5/5/auditor) will only certify the [financial statements](https://www.accountingtools.com/articles/2017/5/10/financial-statements) of a business that have been prepared under the accruals concept.
* [*Conservatism concept*](https://www.accountingtools.com/articles/2017/5/14/the-conservatism-principle). Revenue is only recognized when there is a reasonable certainty that it will be [realized](https://www.accountingtools.com/articles/2017/5/13/realization), 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.
* *Consistency concept*. Once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, financial statements prepared in multiple periods can be reliably compared.
* [*Economic entity concept*](https://www.accountingtools.com/articles/2017/5/14/the-economic-entity-principle). The [transactions](https://www.accountingtools.com/articles/2017/5/15/transaction) of a business are to be kept separate from those of its owners. By doing so, there is no intermingling of personal and business transactions in a company's financial statements.
* [*Going concern concept*](https://www.accountingtools.com/articles/2017/5/14/the-going-concern-principle). Financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.
* [*Matching concept*](https://www.accountingtools.com/articles/2017/5/14/the-matching-principle). The expenses related to revenue should be recognized in the same period in which the revenue was recognized. By doing this, there is no deferral of expense recognition into later [reporting periods](https://www.accountingtools.com/articles/2017/5/11/reporting-period), so that someone viewing a company's financial statements can be assured that all aspects of a transaction have been recorded at the same time.
* [*Materiality concept*](https://www.accountingtools.com/articles/2017/5/14/the-materiality-principle). Transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, [financial position](https://www.accountingtools.com/articles/2017/5/10/financial-position), and [cash flows](https://www.accountingtools.com/articles/what-is-cash-flow.html) of a business.

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

regarding standardization of accounting?

to ensure transparency, reliability, consistency, and comparability of the financial statements. They do so by standardizing accounting policies and principles of a

Regarding the the standardization of accounting progress in India. The Institute of the Chartered Accountants of India (ICAI) is the body that sets up the Accounting Standards in India. In 2006, ICAI initiated the process of shifting towards the International Financial Reporting Standards (IFRS). International Accounting Standards Board (IASB) issues the IFRS.

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

information? Explain.

Yes, it is possible

**True** suggests that the financial statements are factually correct and have been prepared according to applicable reporting framework such as the IFRS and they do not contain any material misstatements that may mislead the users. Misstatements may result from material errors or omissions of transactions & balances in the financial statements.

**Fair** implies that the financial statements present the information faithfully without any element of bias and they reflect the economic substance of transactions rather than just their legal form.

11) Explain the following:

i) Accounting equation

It helps ensure that debits and credits are recorded accurately. Beyond this, however, it helps to measure how profitable your business is. The **accounting equation** is the foundation of your company's balance sheet, which expresses your business's assets, liabilities, and owner's or shareholder's equity in detail

ii) Convention of materiality

The **materiality** principle states that an **accounting** standard can be ignored if the net impact of doing so has such a small impact on the financial statements that a reader of the financial statements would not be misled.

iii) Accounting standards

Accountingstandards are authoritative standards for financial reporting and are the primary source of generally accepted accounting principles (GAAP). Accounting standards specify how transactions and other events are to be recognized, measured, presented and disclosed in financial statements.

v) Accounting process

identifying and analyzing business transactions and events. ... **accounting** involves recording, classifying, summarizing, and interpreting financial information.

v) Branches of accounting

There are three main branches of accounting which include financial accounting, cost accounting and management accounting

1. Accounting a source of financial information.

Accounting is regarded as the language of a business. It is used as a means of communication between a business organization and its shareholders. The accounting process is a source of information, it uses business data and processes it to generate relevant information.