DEFINITION, SCOPE & ACCOUNTING STANDARDS INCLUDING IND AS

PROCESS OF ACCOUNTING

- Recording of Transactions
- Classifying of Transactions
- Summarising
- Analysis and interpretation
- Communicating

Identification of financial transaction and events

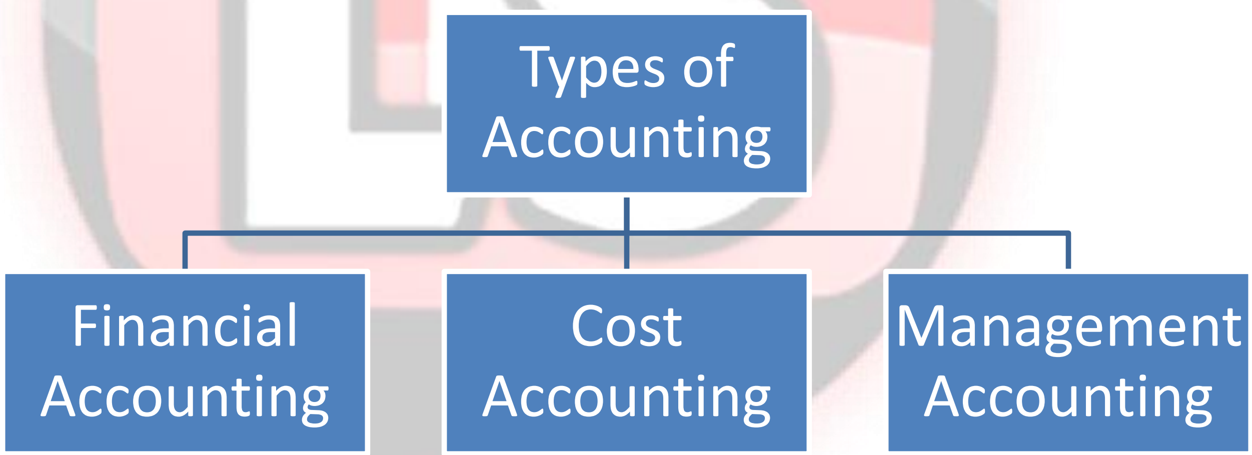
- Raw material worth 10000
- Wages paid to workers 5000
- Selling goods to a customer 15000
- Car purchased for personal use 7000
- 50 % employees are hardworking and loyal

Measuring the identified transactions

ACCOUNTING

Accounting is a process of recording, classifying, summarizing business and financial transactions and analyzing and interpretation, and reporting the results to the users.

TYPES OF ACCOUNTING



USERS OF ACCOUNTING INFORMATION

INTERNAL USERS

Owner

Owners are the people who provide **capital** for the business. They need information about the financial performance and position of the business

Management

Management needs accounting information to make several decisions, like determination of selling price, cost and investment

Employees

They are looking for facts that will help them judge whether the company can afford to pay salaries, offer retirement benefits, and create job prospects.

EXTERNAL USERS

Creditors, Bankers, and other Lending Institutions

Trade creditors, bankers, and other lending institutions would like to be ensured that they will be paid on time. Moreover, the financial reports help them in judging such position.

Tax Authorities

To determine an enterprise's tax liabilities, tax authorities need information.

Potential Investors

To evaluate an enterprise's strengths and decide whether to purchase shares, prospective investors also require accounting information.

Researchers

Accounting information is also used by the research scholars in their research in accounting theory as well as business affairs and practices.

OBJECTIVES OF ACCOUNTING

Maintaining Systematic Records

The main objective of accounting is to maintain a systematic record of financial transactions which helps the users to understand the day-to-day transactions of the business so as to gain knowledge about overall business.

Determining profit and loss

Another objective of accounting is that it helps in determining the net profit earned or loss suffered on account of carrying the business.

Ascertain the Financial Position

The accounting also helps the businessman to know about his financial position. This objective is served by the Balance Sheet.

Facilitate Decision Making

Accounting also helps in the collection, analysis, and reporting of information at the required points of time to the required levels of authority in order to facilitate rational decision-making.

Protect Business Properties

Accounting provides protection to business properties from unjustified and unwarranted use. Information about the above matters helps the proprietor in assuring that the funds of the business are not necessarily kept idle or underutilized.

QUALITATIVE CHARACTERISTICS OF ACCOUNTING

Reliability

Accounting information should be reliable. Reliability relates that the information recorded must be true and correct and represents true position of the business.

Relevance

The information should be relevant in order to influence the economic decisions taken by users

Comparability

Accounting information of an enterprise is useful when it is comparable with similar information for the same enterprise in different periods of time and similar information regarding other enterprises at the same time.

Understandability

Information should be easily understandable by users

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DIFFERENCE BETWEEN BOOKEEPING AND ACCOUNTING

BOOK KEEPING

Bookkeeping is a process through which financial transactions are identified, measured, recorded and classified in a systematic manner.

ACCOUNTING IS SCIENCE OR ART?

ACCOUNTING IS A SCIENCE

Accounting has its own principles and techniques. On the basis of these principles of injections recorded systematically in order to know the results of a business.

ACCOUNTING IS AN ART

Every businessman records a business transaction in the books of accounts as per rules, according to the nature of the business and determine the results after analyzing, so it's an art.

ACCOUNTANCY

Accountancy includes principles and methods for gathering and using financial data. Accountancy gives accounting a framework and practices, which accountants can use to identify, collect, record and report financial information.

Accounting Standards In India And Its Definition And Scope

- The accounting standards are issued under the authority of the Institute of Chartered Accountants of India (ICAI).
- Accounting Standards Board' (ASB) was constituted by the ICAI on 21st April, 1977.
- The main function of the ASB is to formulate accounting standards so that the council of ICAI may mandate such standards.

Accounting Standard
AS 1 Disclosure of Accounting Principles
AS 2 Valuation of Inventories
AS 3 Cash Flow Statements
AS 4 Contingencies and Events Occurring After the Balance Sheet Date

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7 Construction Contracts (Revised 2002)
AS 9 Revenue Recognition
AS 10 Accounting for Fixed Assets
AS 11 The Effects of Changes In Foreign Exchange Rates (Revised 2003)
AS 12 Accounting for Government Grants
AS 13 Accounting for Investments

Accounting Standard
AS 14 Accounting for Amalgamations
AS 15 Employee Benefits (Revised 2005)
AS 16 Borrowing Costs
AS 17 Segment Reporting
AS 18 Related Party Disclosures
AS 19 Leases

AS 20 Earnings Per Share
AS 21 Consolidated Financial Statements
AS 22 Accounting for taxes on income
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
AS 24 Discontinuing Operations
AS 25 Interim Financial Reporting
AS 26 Intangible Assets
AS 27 Financial Reporting of Interests in Joint Ventures
AS 28 Impairment of Assets
AS 29 Provisions, Contingent Liabilities and Contingent Assets

GAAP - Generally Accepted Accounting Principles

Generally Accepted Accounting Principles (GAAP) are basic accounting principles and guidelines which provide the framework for more detailed and comprehensive accounting rules, standards and other industry-specific accounting practices.

SETTING GAAP

These organisations influence the development of GAAP in the United States.

United States Securities and Exchange Commission (SEC)

- The SEC encouraged the establishment of private standard-setting bodies through the AICPA and later the FASB (Financial Accounting Standard Board), believing that the private sector had the proper knowledge, resources, and talents.
- The SEC works closely with various private organisations setting GAAP, but does not set GAAP itself.

American Institute of Certified Public Accountants (AICPA)

In 1959, the AICPA created the Accounting Principles Board (APB), whose mission was to develop an overall conceptual framework, it issued 31 opinions and was dissolved in 1973 for a lack of productivity and their failure to act promptly.

Financial Accounting Standards Board (FASB)

This group determined that the APB must be dissolved and a new standard- setting structure be created.

This structure is composed of three organizations

- Financial Accounting Foundation (FAF)
- The Financial Accounting Standards Advisory Council (FASAC),
- The Financial Accounting Standards Board (FASB).

Governmental Accounting Standards Board (GASB)

- Created in 1984, the GASB addresses the state and local government reporting issues.
- Its structure is like that of the FASB's.

IFRS - International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are formed as a common global language for accounting/ recording business affairs so that company accounts are understandable and comparable across international boundaries.

- IFRS had the original name of International Accounting Standards (IAS).
- IAS's were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC).
- On 1 April 2001, the new International Accounting Standards Board (IASB) took over from the IASC the responsibility for setting International Accounting Standards and adopted existing IAS and those standards are still called International Accounting Standards (IAS).
- The IASB has continued to develop standards calling the new standards International Financial Reporting Standards.

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MULTIPLE CHOICE QUESTIONS

Q1. Recording business transaction in the accounting records is known as________.

a) Ledger Posting

b) **Journalizing**

c) Journal Balancing

d) Both B and C

Q2. The process of transferring the entries from journal to respective ledger accounts is known as_________.

a) Journalizing posting

b) **Ledger posting**

c) Both A and B

d) None of the above

Q3. Which of these is not an objective of accounting?

a) Maintaining Systematic Records

b) Determining profit and loss

c) Ascertain the Financial Position

d) **Supervision of workers**

Q4. Which of these is a type of Bookkeeping?

a) Single entry system

b) Double entry system

c) Multiple entry system

d) All of the above

e) **Both A and B**

Q5. Accounting has its own principles and techniques. this statement true or false

a) This statement is True

b) This statement is false