DEFINITION, SCOPE & ACCOUNTING STANDARDS INCLUDING IND AS

ACCOUNTING

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

PROCESS OF ACCOUNTING

Recording of Transactions

↓

Classifying of Transactions

↓

Summarising

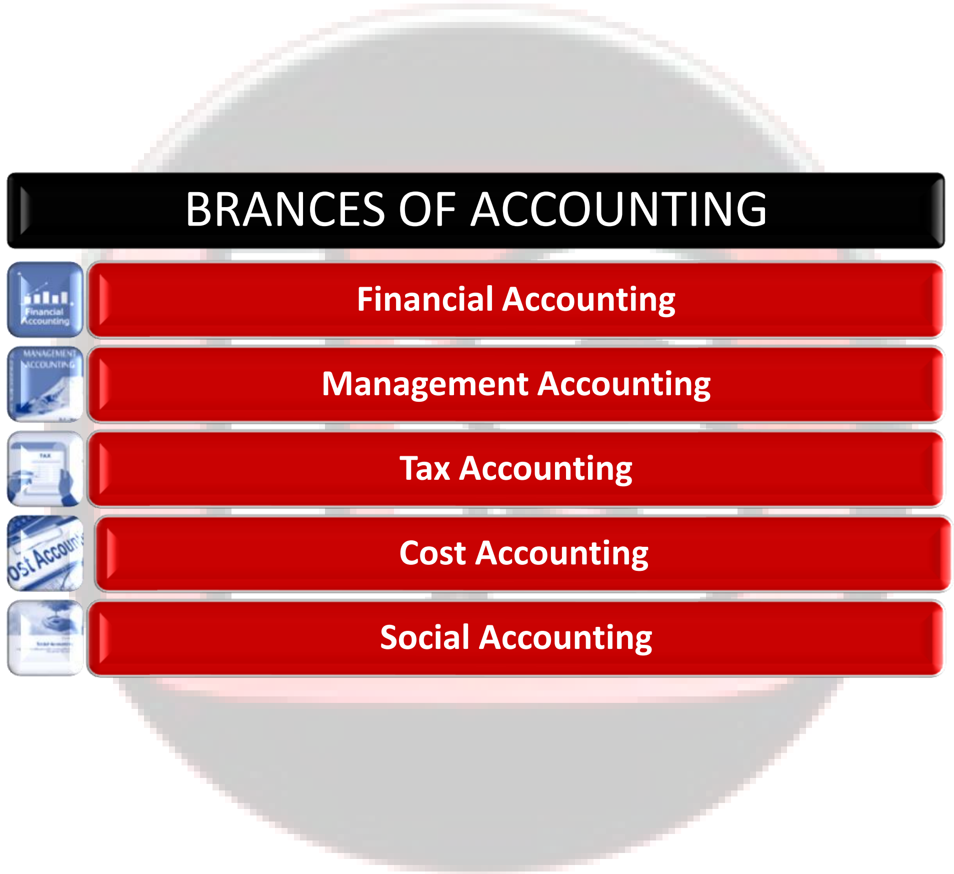
↓

Analysis and interpretation

↓

Communicating

BRANCHES OF ACCOUNTING



Financial Accounting

- It focuses on the **preparation and reporting of financial statements** for external users, such as **investors, creditors, and regulatory bodies.**

- It provides an overview of a company's financial performance and position.

Management Accounting

- It involves the preparation and presentation of **accounting information for internal use by management**.
- It helps in **decision-making, planning, budgeting, and performance evaluation** by providing detailed financial and non-financial data.

Tax Accounting

It involves the **application of tax laws and regulations to determine the taxable income**.

Cost Accounting

- It involves the identification, allocation, and analysis of **costs associated with producing goods or services**.

- It helps in determining **product costs, evaluating cost efficiency**, and supporting management decisions.

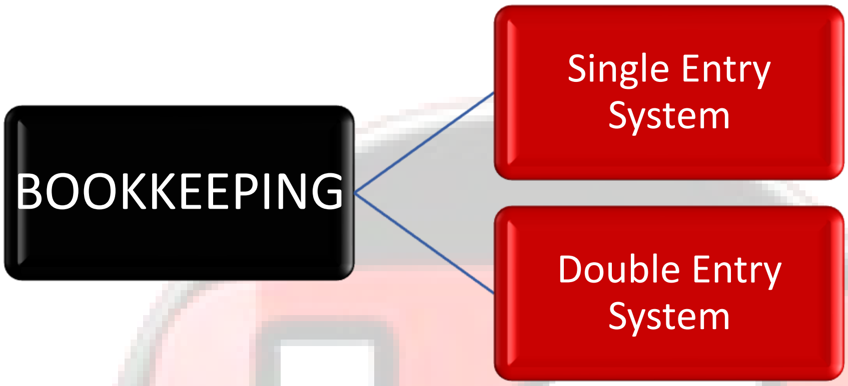
Social Accounting

It focuses on measuring and communicating the **organization's social, environmental, and ethical performance**.

OBJECTIVES OF ACCOUNTING

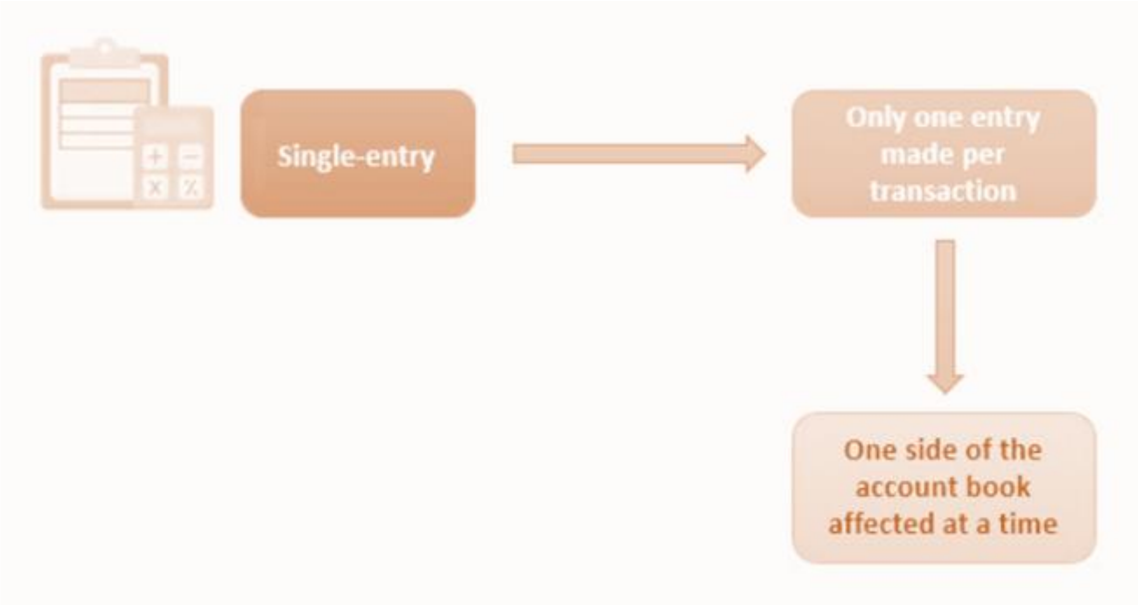
BOOKKEEPING

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



SINGLE-ENTRY SYSTEM

It is a bookkeeping method where each **financial transaction is recorded only once**, either as a revenue or an expense, **in a single account.**



DOUBLE-ENTRY SYSTEM

- The double-entry system is based on the concept **that every transaction has two aspects**: a debit entry and a credit entry.
- Each transaction is **recorded by making two entries—a debit entry and a credit entry.**

ACCOUNTING STANDARDS IN INDIA

- The accounting standards are issued under the authority of the **Institute of Chartered Accountants of India (ICAI).**
- The **Accounting Standards Board' (ASB)** was constituted by the ICAI on 21st April, 1977 for formulating accounting 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

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

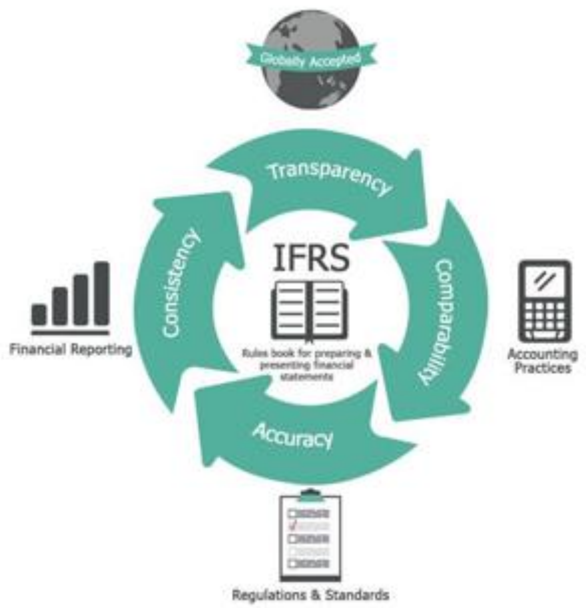
AS 20 Earnings Per Share
AS 21 Consolidated Financial Statements
AS 22 Accounting for taxes on income
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
AS 24 Discontinuing Operations
AS 25 Interim Financial Reporting
AS 26 Intangible Assets
AS 27 Financial Reporting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

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

- These are **basic accounting principles and guidelines** that c**ompanies use to prepare and present their financial statements.**
- GAAP is established by the Financial Accounting Standards Board (FASB)

IFRS - INTERNATIONAL FINANCIAL REPORTING STANDARDS

It is a **set of accounting standards** developed by the **International Accounting Standards Board (IASB)** to provide a global framework for financial reporting.



Basis	GAAP	IFRS
Adoption	GAAP is primarily used in the United States	IFRS is used in many countries around the world.
Rules-Based vs.	GAAP is considered more rules-based,	IFRS is principles-based, providing a

Principles-Based	with detailed guidance and specific rules for various accounting transactions	broad framework of principles and concepts that allow for interpretation and judgment in applying the standards
Financial Statement Presentation	GAAP, a multiple-step approach is typically used for presenting the income statement, with separate categories for operating, non-operating, and extraordinary items	IFRS allows for a single-step approach, where all items are presented in a single category, except for finance costs and income tax expense.
Revaluation of Assets	GAAP generally does not permit the revaluation of non-financial assets, such as property, plant,	IFRS allows for the revaluation of certain assets to fair value, which can result in periodic adjustments

	and equipment, to fair value	to reflect changes in fair value
Leases	GAAP follows a two-model approach for lease classification, distinguishing between operating leases and capital leases	IFRS has a single model where lessees recognize most leases on the balance sheet as right-of-use assets and lease liabilities

TRANSFER PRICING

It refers to the **pricing of goods, services, or intangible assets** transferred between related entities within a **multinational enterprise (MNE).**

Organization for Economic Cooperation and Development (OECD)

It provides **guidelines and recommendations** on transfer pricing practices. It gives guidance on applying the **arm's length principle and transfer pricing methodologies**.

Arm's Length Price

It refers to the **price** at which goods, services, or intangible assets are **bought or sold between unrelated parties in a transaction**.

METHODS OF TRANSFER PRICING

Comparable Uncontrolled Price (CUP) Method

This method compares the **price of a controlled transaction** with the price of a **similar transaction between unrelated parties**.

Cost Plus Method

In this method, the transfer price is **determined by adding a reasonable profit margin** to the costs incurred in producing the goods or services.

Resale Price Method

This method focuses on the price at which **the buyer resells the product to an unrelated customer**. The transfer price is determined by applying an **appropriate gross margin to the resale price**.

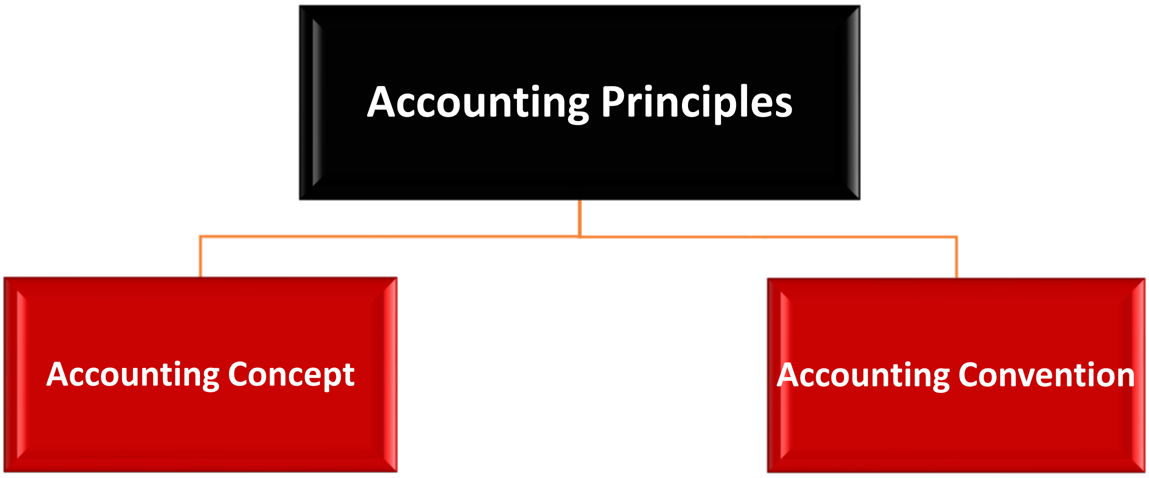
Profit Split Method

This method allocates the **combined profit of the related entities** based on the **relative contribution each entity makes** to the overall value creation.

BASIC ACCOUNTANCY PROCEDURES

ACCOUNTING PRINCIPLES

Accounting principles are the set of **rules and guidelines adopted by organizations** for preparing comparable financial statements.

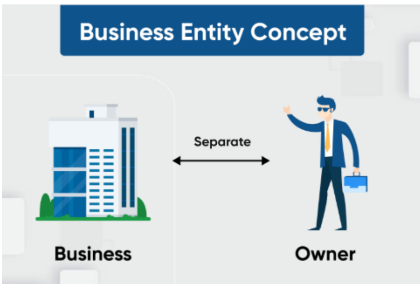


ACCOUNTING CONCEPTS

Accounting concepts are **basic assumptions and conditions** based on which a **business entity records its financial transactions and prepares financial statements**.

BUSINESS ENTITY CONCEPT

This concept states that the **organization and business owners are two independent entities**. Hence, the **business transactions and personal transaction** of its owner are different.



MONEY MEASUREMENT CONCEPT

This concept assumes that only those **transaction which can be expressed in monetary terms** are recorded in the books of accounts.

COST CONCEPT

Cost concept states all **the business assets should be written down** in the book of accounts **at their actual Cost, including the cost of acquisition, and installation**.

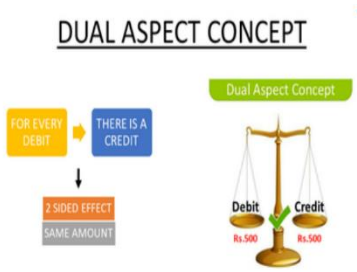
GOING CONCERN CONCEPTS

According to this concept a **business activity will be carried by any firm for an unlimited duration**. This means that the **financial statements** will **not reflect the liquidation or discontinuation** of the company.

ACCOUNTING PERIOD CONCEPT

- This concept assumes that **business transaction is recorded for a specified period** and **profits** on these transactions are to be **ascertained for a specified period**.
- This concept requires that a **balance sheet and profit and loss account should be prepared at regular intervals**.

DUAL ASPECT CONCEPT

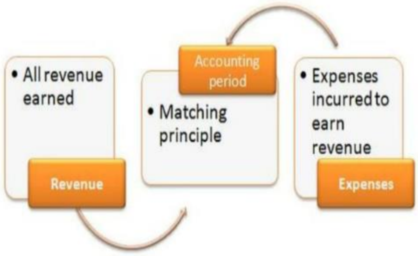


- It is a fundamental concept in accounting that states that every **financial transaction has two aspects: a debit and a credit.**

- This concept, states that every transaction affects **at least two accounts**, with **one account being debited** and **another being credited.**

MATCHING CONCEPT

The matching concept states that the **revenue and the expenses** incurred to earn the revenues **must belong to the same accounting period.**



In matching concept **revenues are compared with expenses** If the revenue is **more than the expenses, it is called profit**. If the expenses are more than revenue it is called loss.

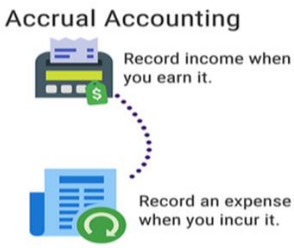
REALISATION CONCEPT

- It states that **revenue from any business** transaction should be **included in the accounting records** only when it is realised.

- The **term realisation means creation of legal right** to receive money. Selling goods is realisation, receiving order is not.

ACCRUAL CONCEPT

This concept states that we need to record revenues and expenses when a **transaction occurs regardless of when payment for the same is received or made**.



ACCOUNTING CONVENTIONS

These are customs or practices that are **widely accepted by the accounting bodies** and are adopted by the firm in **the preparation of final accounts.**

CONVENTION OF FULL DISCLOSURE

This convention states that the financial statement should be prepared in such a way that it **fairly discloses all the material information to the users,** so as to help them in taking a rational decision.

CONVENTION OF MATERIALITY

This convention states that, to make financial statements meaningful, only

material facts should be disclosed and supplied to the users of accounting information.

Material fact means **important and relevant information** who will influence the decision of its user.

CONVENTION OF CONSISTENCY

- The consistency principle states that business should maintain the **same accounting methods or principles throughout the accounting periods.**
- It helps users of the financial statements or information **are able to make meaningful conclusions from the data**.

CONVENTION OF CONSERVATISM

- This convention simply states to **anticipate all the future losses and ignore gains**. It provides guidance for **recording transactions in the books of accounts**.

- The main objective of this convention is to **show minimum profit. Profit should not be overstated**.

CASE STUDY ON PROCESS OF ACCOUNTING

Q:1 Accounting process begins by recording the financial transactions that occur within a business. These transactions may include sales, purchases, expenses, receipts, payments, and investments. Recording business transactions in the accounting records is known as_________.

a) Ledger Posting

b) Journalizing

c) Journal Balancing

d) Both B and C

Q:2 In accounting, we record transactions that are related to the business and expressed in monetary terms. Which of these transactions is not recorded in accounting?

a) Raw material purchased worth 10000

b) Wages paid to workers of company 5000.

c) Selling goods to a customer 15000

d) 50 % employees are hardworking and loyal.

Q:3 Once transactions have been recorded, they need to be classified into appropriate accounts. 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

Q:4 The summarizing step in accounting involves compiling and condensing all financial data into meaningful financial statements.________ is prepared for summarizing business transactions.

a) Trial balance

b) Balance sheet

c) Profit and loss account

d) All of the above

Q:5 Which of the following steps in the accounting process involves using financial ratios, trend analysis, and other tools to gain useful information about the organization's financial performance and position?

a) Recording transactions

b) Summarizing financial data

c) Analyzing and interpreting

d) Closing the accounts

Q: 1 Which of these statements is correct regarding financial accounting?

I. It involves the recording, summarizing, and reporting of financial transactions of a business entity.
II. It focuses on the preparation and reporting of financial statements for external users.
III. It provides an overview of a company's financial performance and position.
IV. It focuses on measuring and communicating the organization's social, environmental, and ethical performance.

a) I, II, IV

b) I, II, III

c) II, III, IV

d) I, II, IV

Q: 2 _______________is a branch of accounting that focuses on evaluating and reporting the social and environmental impact of an organization's activities. It seeks to assess how well an organization contributes to social welfare and addresses environmental concerns.

a) Auditing

b) Tax Accounting

c) Cost Accounting

d) Social Accounting

Q: 3 _____________involves identification of financial transactions, measurement of such transactions in

monetary terms, recording of such transactions in the books of account and classifying the transactions and events by way of posting them into individual Ledger Accounts.

a) Bookkeeping

b) Accounting

c) Accountancy

d) All of the above

Q: 4 Which system is based on the idea that every financial transaction affects at least two accounts with equal and opposite effects?

a) Single-entry system

b) Dual-entry system

c) Credit-entry system

d) Expense-entry system