Transactions & Events
Transaction: Performance of an Act.
Event: Result of no. of transactions.

Transaction	→	Event
1) Purchase	→	Closing Stock
2) Purchase & Sales	→	Gross Profit

Accounting
The **Committee on Terminology** set up by **American Institute of Certified Public Accountants** formulated the definition in **1961** as;
"Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character and interpreting the result thereof."
Generating Financial Information
1) Recording →Journal or Subsidiary Books (Primary Books) [Journalizing]
2) Classification →Ledger (Secondary Book/ Principal Book) [Posting]
3) Summarizing→ leads to the preparation of the following financial statements.[Trial Balance, P/L A/c & B/S]
4) Analyzing → Basis for Interpretation
5) Interpreting → to enable end user to understand financial position & profitability of business.
6) Communicating → Communication of interpreted information to external & internal users to make rational decisions

Users of Financial Statements

1. Internal Users-Board of Directors, Partners, Managers, Officers
2. External Users- Investors, Lenders, Suppliers, Government, Customers

Objectives of Accounting

1. Systematic recording of transactions (Book Keeping)
2. Ascertainment of results (Trading P/L)
3. Ascertainment of Financial Position (Balance Sheet)
4. Providing information to users (Financial reports)
5. To know Solvency Position

Functions of Accounting

Measurement, Forecasting, Decision Making, Comparison & Evaluation, Control, Government Regulation, Taxation

Limitation of Accounting:
1) Financial statement consider only those assets which can be expressed in monetary terms,
2) Balance sheet show financial Position of business only on the date of its preparation (present day) & not of to future date.
3) Some accounting Principles Conflicts with each others.
4) Accounting information may be biased: e.g. some items are recorded on personal judgments of Accountant, i.e. Provision for Doubtful Debts, method of depreciation, recording certain expense as capital or revenue.

	Book keeping	Accounting
1	It is mainly concerned with the Recording of transaction	It is mainly concerned with Summarizing of Recorded transaction.

2	Book-keeping Provides necessary data for Accounting	Accounting starts when book-keeping ends.
3	Managerial decisions cannot be taken on the basis Book- keeping	Management can takes decisions on the basis of Accounting records.
4	Financial Position cannot be ascertained	Financial position can be ascertained
5	The work of Book- keeping is mainly routine & clerical in nature	The work of Accounting required higher level of knowledge, conceptual understanding & Analytical skills.
6	Book- keeping includes: a] Journal b] Ledger c] Trial Balance	Accounting includes a) Trading & P & L b) Balance Sheet c) Analyzing d) Interpreting e) Communicating f) Decision making g) Forecasting

- Financial Statements are part of Accounting not Book Keeping.

Subfields of Accounting

Financial Accounting, Management Accounting, Cost Accounting, Social responsibility Accounting, Human Resource Accounting

Accounting Concepts- Accounting concepts define the assumptions on the basis of which financial statements of a business entity are prepared.

Accounting Principles- Accounting principles are the body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternative exists.

Accounting principles must satisfy the following conditions:
1. They should be based on real assumptions.
2. They must be sample, understandable and explanatory.
3. They must be followed consistently.
4. They should be able to reflect future predictions.
5. They should be informational for the users.

1. Entity Concept- Entity concept states that the business enterprise is a separate identity apart from its owner. E.g. Capital invested by the owner is treated by the liability of the business.

2. Money Measurement Concept- Only those transactions which can be measured in terms of money are recorded.

• **3. Periodicity Concept (Concept of definite accounting period)-** The Indefinite life of the entity is artificially divided into definite periodic intervals(generally a Year) which are known as Accounting period . This Accounting concept helps in:
1. Comparing of financial statements of different periods
2. Uniform and consistent accounting treatment for ascertaining the profit and assets of the company
3. Matching periodic revenue with expenses for getting correct results of the business operations.

4. Accrual Concepts- under accrual concept, the effects of transactions and other events recognized on mercantile basis. Accrual means recognition of revenue and costs as they are earned or incurred not as money is received or paid.

5. Matching Concept- All expenses matched with the revenue of that period should only be taken into consideration. In the financial year, if any revenue is recognized then expenses related to that revenue should also be recognized.

- Accrual, Matching & Periodicity Concept works together for income measurement & recognition of assets & liabilities

6. Going Concern Concept- The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operations for the foreseeable future. The valuation of assets of the business is dependent on this assumption. Traditionally historical cost is followed.

7. Cost Concept- Value of an asset is to be determined on the basis of historical cost, i.e. acquisition cost.

8. Realization Concept- Any change in value of an asset is to be recorded only when the business realizes it.

- Going Concern, Cost Concept & Realization Concept gives the valuation criteria.

9. Dual Aspect Concept: Every transaction or events has two effects i.e. one entry consists of Debit & another entry consist of credit. This concept is core of double - entry book keeping system where at any point of time Total Assets are always equal to Total Liabilities. Accounting equation is based on this concept based on which balance sheet is prepared. i.e. ASSETS = LIABILITIES + CAPITAL
Therefore,
Increase in One Asset → Decrease in Other Asset or Increase in Liability
Decrease in One Asset → Increase in Other Asset or Decrease in Liability
Increase in One Liability → Decrease in Other Liability or Increase in Assets
Decrease in One Liability → Increase in Other Liability or Decrease in Assets

- Liabilities to outsiders are known as Liability but Liability to owners are known as Capital.

10. Conservatism: According to this convention the Accountant should not anticipate income and should provide for all possible losses. For e.g. Making Provision for Bad Debts and Doubtful Debts, Valuation of stock at cost price or market price whichever is less etc. For this concept these qualities are required :
1. Neutrality 2. Prudence 3. Faithful representation of alternative values.

11. Consistency- In order to achieve comparability of financial statements of an enterprise through time, accounting policies are followed consistently from one period to another; a change in accounting policies are made only in exceptional cases –
1) To comply with AS
2) To ensure more appropriate presentation of financial statement of the enterprise
3) To comply with law

12. Materiality- All items having significant economic effect on business should be disclosed & Irrelevant items should not be disclosed in the financial statements.

- This principle is an exception of full disclosure principle

Fundamental Accounting Assumptions
1. Going concern 2. Consistency 3. Accrual

Four Principal Qualitative Characteristics of Financial Statements :
1. Understandability 2. Relevance 3. Reliability 4.Comparability

Other Characteristics of Financial Statements:

1. Materiality 2. Faithful Representation 3. Substance Over Form 4. Neutrality

5. Prudence 6. Full, fair and adequate disclosure 7. Completeness

- Accounting Standards in India are formulated by the ASB (Accounting Standard Board) of **ICAI.**
- 32 AS are issued by the ICAI and 31 AS are in force, AS 8 was replaced by AS 26.
- It is essential to standardize the accounting principle and policies in order **to ensure Transparency, Consistency, and Comparability.**

- Accounting Standards –
  i) Harmonise accounting policies.
  ii) Eliminates the non-comparability of financial statements
  iii) Improve the reliability of financial statements
- Limitations of Accounting Standards
  i) The choice between different alternative accounting treatments is difficult.
  ii) There may be trend towards rigidity.
  iii) AS cannot override the statute

AS 1 Disclosure of Accounting Policies
AS 2 Valuation of Inventories
AS 3 Cash Flow Statements
AS 4 Contingencies and Events Occuring after the Balance Sheet Date
AS 5 Net Profit or Loss for the period,Prior Period Items and Changes in Accounting Policies
AS 6 Depreciation Accounting
AS 7 Construction Contracts (revised 2002)
AS 8 (Withdrawn)
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
AS 30 Financial Instruments: Recognition & Measurement
AS 31 Financial Instruments: Presentation
AS 32 Financial Instruments: Disclosures

- Accounting policies refer to specific Accounting principles & methods of applying these principles in the preparation & presentation of financial statements.
- Selection of Accounting policies should be based on:-

a) Prudence
b) Substance over form
c) Materiality