

Module 1 –

MEANING AND SCOPE OF ACCOUNTING: History and Development of Accounting, Meaning, Objectives and functions of Accounting, Book keeping V/s Accounting, Users of accounting data, systems of book keeping and accounting, branches of accounting, advantages and limitations of accounting.

History & Development of Accounting:

The history and development of accounting is a fascinating journey that spans thousands of years, reflecting the evolution of trade, commerce, and civilization itself.

Ancient Civilizations

Mesopotamia (c. 3500 BCE): The earliest records of accounting come from the Sumerians, who used claytablets to record transactions, particularly for trade and agriculture.

Egypt (c. 3000 BCE): Ancient Egyptians maintained records of grain and livestock, crucial for managing resources and trade.

Classical Era

Greece and Rome: Philosophers and early economists like Aristotle discussed concepts of property and wealth. The Romans developed more complex accounting systems to manage their vast empire, including public finance and taxation.

Middle Ages

Double-Entry Bookkeeping (c. 1494): The development of double-entry bookkeeping is often credited to Luca Pacioli, a Franciscan monk. His work "Summa de Arithmetica" outlined the principles of this system, which records both credits and debits, providing a more accurate financial picture.

Renaissance to Industrial Revolution

Expansion of Trade: As trade routes expanded, so did the complexity of accounting. Merchants needed more sophisticated methods to track transactions across regions.

Formalization of Accounting: Accounting began to be recognized as a profession. The establishment of accounting associations in the 19th century marked a significant shift towards formal education and ethics in the field.

20th Century

Standardization: The establishment of Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS) helped standardize accounting practices across countries.

Technological Advances: The advent of computers transformed accounting. Software applications simplified bookkeeping, reporting, and data analysis.

21st Century

Globalization: As businesses became more global, the need for uniform accounting standards intensified, leading to further alignment between GAAP and IFRS.

Digital Transformation: Cloud computing and data analytics are now integral to accounting practices, enhancing accuracy and efficiency. Automation and artificial intelligence are shaping the future of the profession.

Current Trends

Sustainability Reporting: There's a growing focus on environmental, social, and governance (ESG) factors in accounting, reflecting broader societal concerns.

Cryptocurrency and Blockchain: These technologies are challenging traditional accounting practices and require new frameworks for recording transactions.

Meaning of Accounting:

Accounting is an art of Identifying, recordings, classifying, summarizing the truncations which are of financial nature then analysing, interpreting and communicating the results there of.

Definitions of Accounting:

Definition by the American Institute of Certified Public Accountants (Year 1961):

“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”.

Definition by the American Accounting Association (Year 1966): “The process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of accounting”.

Objectives of Accounting:

The objectives of accounting are fundamental to ensuring that financial information is useful and relevant for decision-making. Here are the primary objectives:

1. Record Keeping

To systematically record all financial transactions to maintain a complete and accurate history of financial activities.

2. Financial Reporting

To prepare financial statements (such as income statements, balance sheets, and cash flow statements) that provide insights into the financial position and performance of an entity.

3. Decision Making

To provide stakeholders (management, investors, creditors, and regulators) with the information necessary to make informed economic decisions.

4. Compliance and Control

To ensure adherence to laws, regulations, and accounting standards, facilitating accountability and transparency in financial reporting.

5. Budgeting and Forecasting

To aid in the planning process by providing historical data and trends that can be used for budgeting and forecasting future financial performance.

6. Performance Evaluation

To assess the efficiency and effectiveness of operations through financial analysis and performance metrics, helping management identify areas for improvement.

7. Resource Management

To assist in managing an organization's resources effectively by providing data on asset utilization and financial performance.

8. Facilitating Communication

To communicate financial information to various stakeholders, ensuring that all parties understand the financial status and implications of business activities.

9. Taxation

To provide accurate financial information necessary for tax reporting and compliance, ensuring that the organization meets its tax obligations.

10. Historical Record

To maintain a historical record of financial transactions that can be used for analysis, audits, and long-term planning.

These objectives highlight the role of accounting in supporting organizational goals, fostering transparency, and enhancing overall financial management.

Scope of Accounting:

The scope of accounting encompasses a wide range of activities and areas within financial management and reporting. Here are the key aspects:



1. Financial Accounting.

Financial accounting provides chronological information but is especially functional for future preparation and financial forecasting. It forms the basis for analysis and interpretation for furnishing meaningful data to the management. Designing an appropriate financial accounting structure is a necessity for obtaining full organize and coordination of operations of the business. The control aspect is based on financial data and performance evaluation, on recorded facts and figures.

2. Cost Accounting

The cost accounting system provides essential tools such as standard costing, budgetary control, inventory control, marginal costing, etc., for carrying out such functions proficiently. It is the process and techniques of ascertaining cost. It uses financial data for finding out the cost of the various job, Product or processes. Planning, decision making, and control are the basic managerial functions. Business executives depend heavily on accounting information in general and on cost information in particular because any activity of an organization can be described by its cost. The tools include standard costing, inventory management, variable costing etc.

3. Budgeting and Forecasting

Budgeting means expressing the plans, policies, and goals of the firm for a definite period in the future. Forecasting, on the other hand, is a prediction of what will happen as a result of a given set of circumstances. Forecasting is a judgment whereas the budgeting is an organizational object. These are useful for management accounting in planning.

4. Taxation

It is an essential division of management accounting and includes preparation of income statement, the purpose of assessable income and filing up the return of income etc.

5. Inventory Control

Inventory control refers to exercising control over the utilization of raw materials, processing of work in progress and disposal of finished goods for a specific period. For controlling inventory, management should determine a different level of stock. The inventory control technique will be helpful for making managerial decisions.

6. Statistical Method

Statistical tools not only make the information more impressive, comprehensive and intelligible but also are highly useful for planning and forecasting. Other tools such as time series, regression analysis, sampling techniques etc., are highly useful for planning and forecasting.

7. Interpretation of Data

Analysis and interpretation of financial statements are an important part of management accounting. After analysing the financial statements, the interpretation is made and the reports drawn from this analysis are presented to the management. Interpreting the accounting data to the authorities in the management is the principal task of management accounting.

8. Office Services:

This includes the preservation of appropriate information processing and other organization management services, communication and best use of the latest mechanical devices. This function includes data processing, reporting on the best use of mechanical and electronic devices, communication, etc.

9. Reporting to Management

The interpreted information must be communicated to those who are interested in it. The report may cover Profit and Loss Account, Cash Flow and Funds Flow statements etc. The management accountant send interim reports may be monthly, quarterly, half-yearly, these reports are covering profits or order in hand, etc these reports are helpful in giving a constant review of the working of the business.

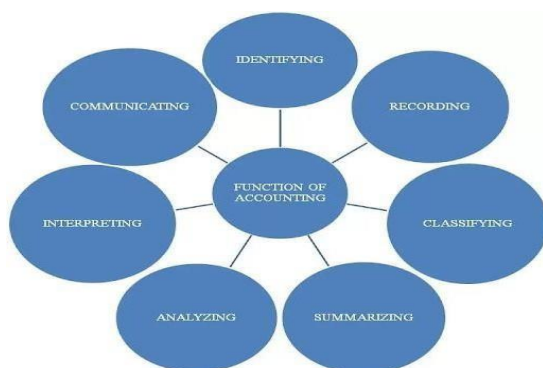
10. Internal Audit and Tax Accounting

This includes computation of income tax as per tax laws and regulations, the filing of returns and making tax payments. In recent times, it also includes tax planning.

Internal audit system is necessary to judge the performance of every department. Management is able to know deviations in performance through an internal audit. It also helps management in fixing responsibility of different individuals.

Functions of Accounting:

The functions of accounting are vital for effective financial management and decision-making within organizations. Here are the key functions:

**1. Identifying:**

This is the basic function in accounting. It is necessarily requiring all the business transactions are to be recorded but also in a systematic manner. Recording of transaction take place in journals and ledgers or subsidiary books of accounts. The numbers of subsidiary books maintained are based on the nature and size of the business.

2. Classifying:

It is mainly concern with the systematic analysis of recorded facts in order to group the transactions based on the nature into respective ledger. The ledger contains different pages of the

heads under which all financial transactions of similar nature are collected. The ledger account will help to know total expenditure under various heads for given period. This helps to present data for further process in systematic manner.

3. Summarizing:

The data here is presenting is classified in the manner which is understandable and useful to the internal as well as external end users of the financial statements. This process involves preparation of Trial Balance, Income Statement or Profit and Loss a/c and Balance sheet.

4. Analysing:

It establishes the relationship between the items of P&L A/c and Balance Sheet. The rationale for analysing is to identify the financial strength and weakness of the business as well as financial condition of the business. It provides basis for the interpretation of financial statements.

5. Interpreting:

It is the final function of accounting in the process of preparing financial statements. The recorded financial data is interpreted in the manner that the end user can make meaning judgment about the financial position, profitability at the business operation. The financial data is prepared is helpful in preparing the future plans and framing of policies for executing such plans.

6. Communicating:

It concerned with the transmission of summarized analysed and interpret information to the user and facilitate them in making informed judgment. It is preceded by the accounting cycle through which identification and measure the transaction and events passed. Accounting also functions as a language for communication by communicating the financial position, profitability by using financial statements so then the user can make informed decisions.

Advantages and Limitations of Accounting:

Advantages -

1. Informed Decision-Making

Provides accurate financial information that aids management and stakeholders in making informed decisions.

2. Financial Control

Helps organizations monitor their financial performance and implement controls to prevent fraud and mismanagement.

3. Regulatory Compliance

Ensures adherence to laws, regulations, and accounting standards, minimizing legal risks.

4. Performance Evaluation

Allows for the assessment of financial health and operational efficiency through financial statements and reports.

5. Budgeting and Planning

Facilitates effective budgeting and forecasting, helping organizations allocate resources efficiently.

6. Historical Record Keeping

Maintains a detailed history of financial transactions, useful for audits, trend analysis, and strategic planning.

7. Tax Compliance

Assists in accurate tax reporting and planning, helping to minimize tax liabilities.

8. Transparency

Promotes transparency in financial reporting, which builds trust with stakeholders, investors, and the public.

9. Resource Management

Aids in managing and allocating resources effectively, leading to better operational efficiency.

10. Facilitates Financing

Provides the necessary financial information for lenders and investors to assess creditworthiness and investment potential.

Limitations:**1. Historical Perspective**

Financial statements primarily reflect past performance and may not accurately predict future results.

2. Subjectivity and Estimates

Some accounting methods involve subjective judgments and estimates, which can lead to inconsistencies.

3. Complexity

The accounting process can be complex, requiring specialized knowledge and skills, which may be a barrier for smaller organizations.

4. Rigidity of Standards

Strict adherence to accounting standards can limit flexibility in how organizations present their financial information.

5. Focus on Financial Data

Accounting typically emphasizes quantitative financial data, potentially overlooking qualitative factors that impact business performance.

6. Costs

Maintaining an accounting system can be costly, particularly for small businesses, due to software, training, and personnel expenses.

7. Inherent Limitations of Financial Statements

Financial statements do not capture non-financial aspects of a business, such as employee satisfaction or brand reputation.

8. Fraud Risk

While accounting can help detect fraud, it is also susceptible to manipulation, especially if internal controls are weak.

9. Time-Consuming

The accounting process can be time-consuming, particularly during audits or when preparing financial reports.

10. Dependence on Technology

Increasing reliance on accounting software and technology can pose risks related to cybersecurity and system failures.

Book Keeping Vs Accounting:**Meaning of Book Keeping.**

Bookkeeping is the process of systematic recording and classification of financial transactions of an organisation.

The bookkeeper maintains bookkeeping records. Accurate bookkeeping is critical for business as it gives a piece of reliable information on the performance of a company.

The most important focus of bookkeeping is to maintain an accurate record of all the monetary transactions of a business. Companies use this information to take major investment decisions.

Bookkeeping process consists of the following steps:

1. Identifying a financial transaction
2. Recording a financial transaction
3. Preparing a ledger account
4. Preparing trial balance

Difference Between Book Keeping and Accounting:

Bookkeeping and accounting are closely related fields, but they serve different purposes and involve distinct processes. Here are the key differences between the two:

	Book Keeping	Accounting
Meaning	The systematic recording of financial transactions and maintaining accurate financial records.	The process of summarizing, analysing, and interpreting financial data to provide insights and inform decision-making.
Scope	Primarily focused on the daily financial transactions of a business, such as sales, purchases, receipts, and payments.	Broader in scope, encompassing bookkeeping but also including financial reporting, budgeting, auditing, and financial analysis.
Complexity	Generally involves straightforward tasks and requires basic knowledge of financial principles.	Involves more complex tasks, such as preparing financial statements and analyzing financial performance, requiring a deeper understanding of accounting principles.
Purposes	Aims to maintain accurate and up-to-date records of financial transactions for operational purposes.	Aims to provide a comprehensive view of the organization's financial health, supporting strategic decision-making.
Output	Produces day-to-day financial records, ledgers, and transaction lists.	Produces financial statements (income statements, balance sheets, cash flow statements), reports, and analyses for stakeholders.
Frequency of Work	Usually involves daily or monthly tasks to record transactions as they occur.	Often involves periodic tasks, such as monthly, quarterly, or annual financial reporting and analysis.
Skills Requirements	Requires attention to detail and basic math skills, often manageable without formal qualifications.	Typically requires advanced knowledge of accounting principles and standards, often necessitating formal education and certification.
Use Of Technology	Can be done manually or using simple software tailored for tracking transactions.	Often involves more sophisticated accounting software for financial

		reporting, analysis, and compliance.
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Users of Accounting:

Accounting serves a diverse range of users, each with distinct needs and interests in financial information. Here are the primary users of accounting.

1. Management

Internal Users: Managers and executives use accounting information for decision-making, planning, and performance evaluation within the organization.

2. Investors

Current and Potential Investors: Individuals or entities interested in the financial health of a company rely on accounting information to assess the viability and profitability of their investments.

3. Creditors

Lenders and Financial Institutions: Banks and other creditors use accounting data to evaluate the creditworthiness of borrowers and assess the risk of lending.

4. Regulatory Authorities

Government Agencies: Organizations like the IRS [Indian Revenue service] or financial regulatory bodies require accurate financial reporting to ensure compliance with laws and regulations.

5. Employees

Workers and Unions: Employees may use financial information to understand the organization's profitability and stability, influencing job security and wage negotiations.

6. Customers

Clients and Consumers: Customers might review a company's financial health to gauge its reliability and stability, especially in long-term contracts.

7. Suppliers

Vendors and Business Partners: Suppliers may assess a company's financial status to determine payment risks and establish credit terms.

8. Auditors

Internal and External Auditors: Auditors use accounting information to verify the accuracy and compliance of financial statements during audits.

9. Researchers and Analysts

Financial Analysts and Market Researchers: They analyze financial data to provide insights and forecasts regarding market trends and investment opportunities.

10. Nonprofit Organizations

Charitable Organizations and Foundations: They rely on accounting to ensure transparency and proper allocation of resources, often to satisfy donors and regulatory requirements.

Systems of Booking Keeping and Accounting:

The systems of bookkeeping and accounting can vary based on the complexity of the organization and its specific needs. Here are the primary systems used:

1. Single-Entry System

- **Description:** A simple bookkeeping method that records each financial transaction only once, usually in a cash book.
- **Features:**
 - Primarily used by small businesses.
 - Focuses on cash inflows and outflows.
 - Less formal; easier to maintain but offers limited financial insights.

2. Double-Entry System

- **Description:** A comprehensive accounting method that records each transaction in two accounts (debit and credit).
- **Features:**
 - Provides a complete view of financial health by tracking assets, liabilities, income, and expenses.
 - Ensures accuracy through a system of checks (the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$).
 - Commonly used by medium to large businesses and required for formal financial reporting.

3. Manual Bookkeeping

- **Description:** A traditional method where transactions are recorded by hand in journals and ledgers.
- **Features:**
 - Can be used for either single-entry or double-entry systems.
 - Often time-consuming and prone to human error.
 - Suitable for small businesses with limited transactions.

4. Computerized Bookkeeping and Accounting

- **Description:** Utilizing accounting software to record and process financial transactions electronically.
- **Features:**
 - Increases efficiency and accuracy compared to manual methods.
 - Provides automated reports and financial statements.
 - Popular software includes QuickBooks, Xero, and Sage.

5. Cash Basis Accounting

- **Description:** A method where revenues and expenses are recognized only when cash is received or paid.
- **Features:**
 - Simple and straightforward; often used by small businesses and freelancers.
 - May not provide a complete picture of financial health, especially for businesses with significant receivables or payables.

6. Accrual Basis Accounting

- **Description:** A method that recognizes revenues and expenses when they are incurred, regardless of when cash is exchanged.
- **Features:**
 - Provides a more accurate representation of financial performance.
 - Required for larger businesses and those following GAAP or IFRS.
 - Useful for businesses with credit sales and purchases.

7. Hybrid Accounting

- **Description:** A combination of cash and accrual methods, allowing businesses to recognize some transactions on a cash basis and others on an accrual basis.
- **Features:**
 - Offers flexibility and can be tailored to the specific needs of a business.
 - Often used by small businesses that may not need full accrual accounting.

Branches of Accounting:

Accounting is a diverse field with several branches, each focusing on different aspects of financial management and reporting. Here are the main branches of accounting:

1. Financial Accounting

- **Purpose:** To prepare financial statements for external users, such as investors, creditors, and regulators.
- **Key Features:** Emphasizes the historical performance of an organization, adhering to Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS).

2. Management Accounting

- **Purpose:** To provide internal management with information for decision-making, planning, and control.

- **Key Features:** Involves budgeting, forecasting, performance analysis, and cost management; focuses on future projections rather than historical data.

3. Cost Accounting

- **Purpose:** To analyse and control costs associated with production and operations.
- **Key Features:** Involves calculating the costs of products, projects, or departments; aids in pricing decisions and efficiency improvements.

4. Tax Accounting

- **Purpose:** To prepare tax returns and ensure compliance with tax laws and regulations.
- **Key Features:** Focuses on tax planning, minimizing tax liabilities, and understanding the implications of tax regulations on business operations.

5. Auditing

- **Purpose:** To examine financial statements and accounting records to ensure accuracy and compliance.
- **Key Features:** Can be internal (conducted by company employees) or external (conducted by independent auditors); helps enhance the reliability of financial information.

6. Forensic Accounting

- **Purpose:** To investigate financial discrepancies and fraud.
- **Key Features:** Combines accounting, auditing, and investigative skills; often used in legal contexts to provide expert testimony.

7. Governmental Accounting

- **Purpose:** To manage and report financial information for government entities.
- **Key Features:** Focuses on budgeting, fund accounting, and compliance with governmental regulations; aims to ensure transparency and accountability in public spending.

8. Nonprofit Accounting

- **Purpose:** To manage financial information for nonprofit organizations.
- **Key Features:** Involves fund accounting, donation tracking, and compliance with regulations specific to nonprofits; emphasizes accountability to donors and stakeholders.

9. International Accounting

- **Purpose:** To address accounting issues related to international transactions and operations.

- **Key Features:** Involves understanding and applying International Financial Reporting Standards (IFRS); focuses on cross-border transactions, currency exchange, and global financial reporting.

10. Environmental Accounting

- **Purpose:** To incorporate environmental costs into financial decision-making.
- **Key Features:** Focuses on sustainability and the financial impact of environmental policies; helps organizations understand their ecological footprint.

Conclusion:

Accounting is a systematic process of recording, classifying, summarizing, and interpreting financial transactions and events. Its primary purpose is to provide relevant financial information that supports decision-making, ensures compliance with regulations, and facilitates effective resource management.

The scope of accounting is extensive and multifaceted, encompassing various functions such as financial accounting, management accounting, cost accounting, and tax accounting, among others. Each of these branches serves specific user needs, from internal management to external stakeholders like investors, creditors, and regulatory agencies.

Ultimately, accounting plays a critical role in the functioning of businesses and organizations, fostering transparency, accountability, and informed decision-making. As economic environments evolve, the scope and methodologies of accounting continue to adapt, integrating technological advancements and addressing contemporary challenges in financial reporting and analysis.

MODULE 2

ACCOUNTING PRINCIPLES: Meaning of accounting principles, accounting concepts, account conventions, accounting principles and the institute of chartered accounts of India, Statements of accounting standards.

Accounting Principles:

Accounting principles are the rules and guidelines that companies use to record, document, and report financial information. They are also known as Generally Accepted Accounting Principles (GAAP).

Accounting principles are the rules and guidelines that companies and other bodies must follow when reporting financial data.

Characteristics of Accounting Principles.

1. **Relevance** – A Principle is relevant, if it results in information that is useful to the user of the accounting information.
2. **Objectivity** – A Principle is objective if it is free from personal bias or judgements of those, who furnish the information. Objectivity also implies verifiability, which means that there is some way of finding out the truthfulness or correctness of the information reported.
3. **Feasibility** – A principle is feasible, if it can be applied without under complexity or cost.

Importance of Accounting Principles.

There are a few reasons why accounting principles are considered important for a business. They are discussed as follows -

- The principles are important to prepare financial statements that are complete, consistent and fruitful.
- This concept determines the expenses, income, liabilities, profit, assets and losses for financial reporting.
- Accounting rules help to compare financial information and statements easily.
- Transparency in the financial system is maintained, and efficient detection of financial fraud is possible.
- The accounting principles allow investors to analyze and tally significant information to make financial decisions.

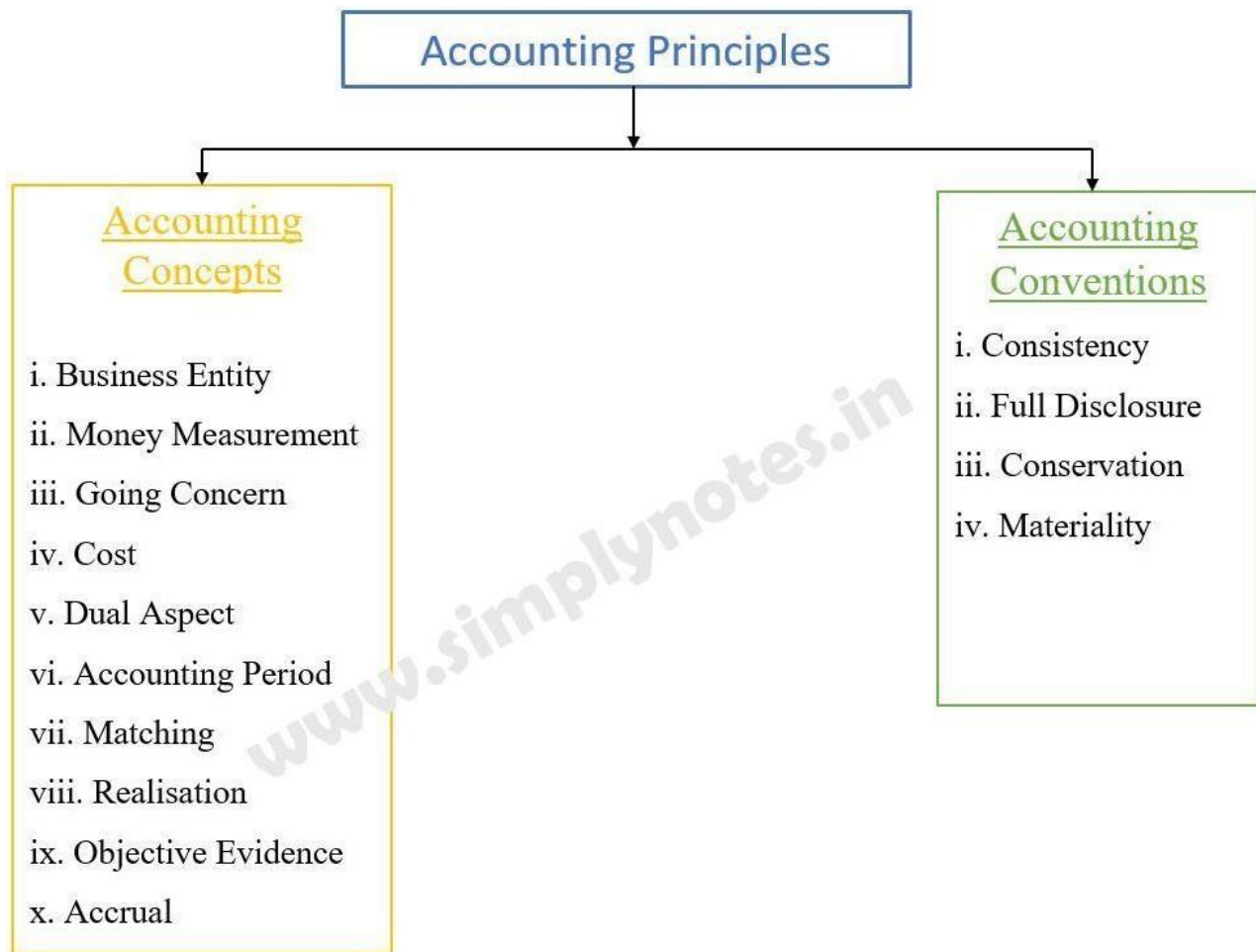
Types of Accounting Principles.

There are two types of Accounting Principles, these are explained in below diagram, they are

1. Accounting Concepts
2. Accounting Conventions.

Accounting Concepts – Accounting Concepts is used to connote the accounting Postulates, i.e., necessary assumptions and ideas which are fundamental to accounting practices.

Accounting Conventions – Accounting Conventions is used to signify customs or traditions as a guide to the preparation of accounting statements.



1. Accounting Concepts –

The following are the important accounting concepts.

a. Business Entity Concepts –

- For the purpose of accounting, it is assumed that the business has a separate and distinct entity from its owner(s) and all other entities having transactions with it.
- Transactions between owner and business are recorded in the accounting books – Capital A/c and Drawings A/c.
- If this assumption is not followed, the results (profits or losses) of the business will not be true and fair and the financial status of the business may not be correctly measured.

Effect of adopting Business Entity Concept

- Only the business transactions are recorded and reported and not the personal transactions of the owners.
- Income or profit is the property of the business unless distributed among the owners.
- The personal assets of the owners or shareholders are not considered while recording and reporting the assets of the business entity.

b. Money Measurements Concepts.

- According to this assumption all business transactions should be recorded in terms of money, i.e., currency of the country.
- Only such transactions and events which can be interpreted in terms of money are recorded.
- Events which cannot be expressed in money terms do not find place in the books of account though they may be very important for the business.
- The system of accounting treats all units of money as the same irrespective of their time dimension.

c. Cost Concept or Historical Cost Concept

- According to this concept, the various assets acquired by a firm should be recorded on the basis of the actual amounts involved or spent.
- If nothing has been paid for acquiring an asset, it would not be shown in the accounting books as an asset.
- The cost concept does not mean that the assets will always be shown at cost. The fixed asset will be recorded at cost at the time of its purchase but it may systematically be reduced in its value by charging depreciation.

d. Going Concern Concept

- According to this concept, it is assumed that the business enterprise is a continuing one, not on the verge of closure. Business transactions are recorded from this point of view.
- On the basis of this concept, a clear distinction is made between assets and expenses.
- Because of this concept that fixed assets are valued on the basis of cost less proper depreciation.
- If it is certain that a business will continue for a specified period, then the accounting records will be kept on the basis of expected life of the business.

e. Dual Aspect Concept

- According to this principle, every transaction has two aspects and both the aspects are recorded in the accounting books. This concept is the basis of double entry system or modern accounting.
- The following accounting equation is drawn on the basis of this principle:
- **Assets = Capital (or Owner's Equity) + Liabilities (Claims of outsider)**

f. Realization or Revenue Recognition Concept:

- According to this concept revenue is recognized only when a sale is made.
- No sale can be said to have taken place, unless money has been realized i.e., cash has been received or a legal obligation to pay has been assumed by the customer.
- It prevents business firms from inflating their profits by recording incomes that are likely to accrue i.e. expected incomes or gains are not recorded.

g. Exceptions or Realization Concept:

- Long-term contracts. In long-term contracts where, the payments are received in installments on the basis of work completed and certified. In such cases, revenue is considered realized normally in a proportion of work completed or cash realized or any other reasonable basis.
- Ready market. Some goods have a ready market. For example, gold, silver, etc. In such cases revenue is considered recognized as soon as these are manufactured as these can be sold in the market easily.
- Uncertainty. When realization of revenue is uncertain, revenue is not considered realized even when goods are delivered to customers. For example, sale of goods on instalments basis or on hire purchase basis. In such cases, revenue is recognized in the proportion of instalments realized to total instalment.

h. Accrual Concept

- Business transactions are recorded as and when they occur and not when the related payments are received or made. This concept is called accrual basis of accounting.
- Accrued revenues and costs are recognized as they are earned and incurred and recorded in the financial statements of the period.
- On the basis of this concept, adjustment entries relating to outstanding and prepaid expenses and income received in advance etc. are made.
- They have their impact on the Income Statement and the Balance Sheet.

i. Accounting Period Concept

- The users of financial information need periodical reporting relating to the performance of the business.
- It is an interval of time at the end of which financial statements are prepared and communicated.
- Normally, the accounting period consists of twelve months.
- However, there is no restriction on the business entities on providing information at more frequently intervals to investors, if they wish.

j. Matching Concept

- According to matching principle, the revenue of a given period should be matched with the expenses of the same period.
- According to this concept, adjustments should be made for all outstanding expenses, accrued incomes, prepaid expenses and unearned incomes etc. while preparing the final accounts at the end of the accounting period.

2. Accounting Conventions.

The following are the important Accounting Conventions,

a. Consistency Convention

- ☐ According to this convention, financial statements should be prepared on the same basis as that of the preceding period.
- ☐ Whatever may be the accounting policies or methods, once decided, these are to be followed consistently.
- ☐ This provides comparability to accounting data of the same enterprise over the periods or data of different enterprises of the same period or both.
- ☐ Whenever there is any change in policy the results of the enterprise and financial position may be affected.
- ☐ Nature and effect of such change and the justification of the change must be informed to the users of accounting information by way of foot notes.
- ☐ Following are the examples of such changes: Change in the method of valuation of stock. Change in the method of providing depreciation. Change in the basis of making provision for bad and doubtful debts.
- ☐ It is assumed that accounting policies are consistent from one period to another. This provides comparability to accounting data. If comparability is lost the relevance of accounting data for users' judgment and decision making is gone.

b. Conservatism or Prudence Convention

- ☐ It is a policy of playing safe or with caution. According to Conservatism or Prudence convention,
 - ☐ The accountant should not anticipate income and should provide for all possible losses, and
 - ☐ Faced with the choice between two methods of valuing an asset the accountant should choose a method which leads to the lesser value.
 - ☐ The main objective this convention is that the financial statements should disclose the actual results.
 - ☐ It should be noted that no deliberate attempt be made to understate the profits and values of assets.
- Some Examples are –
- ☐ Closing stock is valued at cost or market price whichever is less.
 - ☐ A provision for bad and doubtful debts on debtors is made in anticipation of actual bad debts in future.
 - ☐ In the accounting books of a partnership firm, joint life policy is shown either nil or at surrender value as against the sum assured or premium paid.

c. Convention of Full Disclosure

- ☐ According to this Convention, all facts which are significant and necessary to make financial statements complete and understandable, must be disclosed.
 - ☐ Significance of information is viewed from the point of the users of financial information.
 - ☐ The disclosure can be done either in financial statements or in foot notes given at the end of financial statements.
 - ☐ Disclosure of many facts is required not only under legal provisions but also to make the accounting system fair and transparent.
 - ☐ The information to be disclosed may relate to current accounting period, previous period or to post-Balance Sheet date.
- Some Examples –
- ☐ Following are the important facts usually disclosed in the financial statements:
 - ☐ Change in method of providing depreciation.
 - ☐ Change in method of valuation of closing stock.
 - ☐ Basis of making provision for bad and doubtful debts.
 - ☐ A big loan taken by the company, after the date of preparing balance sheet.
 - ☐ Contingent liabilities are always shown as foot notes.

d. Convention of Materiality

- ☐ The full disclosure principle requires that all facts which are significant and necessary to make financial statements complete and understandable, must be disclosed.
- ☐ The materiality principle is an exception to the full disclosure. According to the materiality principle, items or events, having insignificant economic effect, or not being relevant to the user, need not be disclosed.
- ☐ Materiality is a relative term and depends on its nature and the amount involved.
- ☐ An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investors.
- ☐ Thus, what is material is a matter of exercising discretion. It is to be noted that an item may be material for one company and the same item may be immaterial for the other company.
Some Examples –
- ☐ A small tool costing Rs. 400 is material for a small workshop, but may not be material for a big company like Carrier Aircon Ltd.
- ☐ If a pocket calculator is purchased for Rs. 600 strictly it should be capitalised under the head of office equipments since it will serve for several years. But it will be better to write off it as revenue expenditure as the amount is small.

Generally Accepted Accounting Principles (GAAP).

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. For example, the Financial Accounting Standards Board (FASB) uses these principles as a base to frame their own accounting standards. Thus, GAAP encompasses:

- ☐ Basic accounting principles/guidelines
- ☐ Accounting Standards usually issued by the premier accounting body of the country
- ☐ Industry-specific accounting practices to cover unusual scenarios

In India, financial statements are prepared on the basis of accounting standards issued by the Institute of Chartered Accountants of India (ICAI) and the law laid down in the respective applicable acts (for example, Schedule III to Companies Act, 2013 should be compulsorily followed by all companies). The ICAI also releases guidance notes from time to time on various topics to help in the accounting process and provide clarity. While the basic accounting principles may not directly form part of the accounting standards and the related laws, they are assumed and expected to be universally followed.

International Financial Reporting Standards [IFRS].

These are Issued by International Accounting Standard Board [IASB]. IASB replaced as International Accounting Standard Committee [IASC] in 2001.

IASC was formed in 1973 to develop International Accounting Standards [IAS] which had global acceptance and made different accounting statements of different countries similar and comparable.

List of International Accounting Standards.

International Accounting Standards – IAS	
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Statement Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Lease
IAS 18	Revenue
IAS 19	Employee Benefit
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rate
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosure
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separated Financial Statements
IAS 28	Investments in Associations
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instrument: Presentation
IAS 33	Earning Per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture

Accounting Standards.

AS are the existing Accounting Standards which are issued under companies Rules are as follows.

Accounting Standards checklist

AS.No.	Accounting Standard
AS 1	Disclosure of accounting policies
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 Change in accounting Policies
AS 6	Depreciation
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Accounting For Fixed Assets
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamation
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earning per share
AS 21	Consolidated Financial statement
AS 22	Accounting for Taxes on income
AS 23	Accounting for Investments in Associated in consolidated financial statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of interest of joint ventures
AS 28	Impairment of Assets
AS 29	Provisions, contingent liabilities and contingent assets
AS 30	Financial Instrument : Recongnition and Measurement
AS 31	Financial instruments : Presentation
AS 32	Financial instruments : Disclosures

International Financial Reporting Standards.

The List of IFRS is given Below.

IFRS #	IFRS Standard
1	First-time Adoption of International Financial Reporting Standards
2	Share-based Payment
3	Business Combinations
4	Insurance Contracts
5	Non-current Assets Held for Sale and Discontinued Operations
6	Exploration for and Evaluation of Mineral Resources
7	Financial Instruments: Disclosures
8	Operating Segments
9	Financial Instruments
10	Consolidated Financial Statements
11	Joint Arrangements
12	Disclosure of Interests in Other Entities
13	Fair Value Measurement
14	Regulatory Deferral Accounts
15	Revenue from Contracts with Customers
16	Leases
17	Insurance Contracts