

Shikshan Mandal Karad's,

Mahila Mahavidyalaya, Karad

INFORMATION TECHNOLOGY

B. COM. Part - I (NEP 2020)

Financial Accounting Paper - I

(Sem. - I)

By

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Financial Accounting Paper – I

Syllabus

Unit- 1 Financial Accounting:

Nature, Scope and Importance of Financial Accounting, Branches of accounting; Objectives of accounting, International Accounting Standards (only outlines); Accounting principles; Accounting Standards in India, Accounting transactions: ; Journal; Rules of debit and credit; Compound journal entry; Opening entry; Relationships between Journal and Ledger; Rules regarding posting; Trial balance.

Unit-2 Preparation of Financial Statements:

Classification of income; Classification of expenditure; Classification of receipts Accounting concepts of income; Accounting concepts and income measurement; Expired costs and income measurement Final Accounts; Manufacturing account; Trading account; Profit and loss account; Balance Sheet; Adjustment entries, Rectification of errors; Classification of errors; Location of errors; Suspense accounts; Effects on profit

Unit-3 Depreciation, Provisions and Reserves:

Concept of depreciation; Causes of depreciation; Methods for providing depreciation; Depreciation of different assets; Different Types of Reserves.

Unit- 4 Analysis of Financial Statements:

Financial Statements, types of financial statements. Nature and Limitations, Techniques of Analysis and Interpretation of Financial Statements, Ratio Analysis. Introduction to Cost Accounting. Preparation of Cost Sheet.

Books Recommended :

1. R.L. Gupta and V.K. Gupta – Financial Accounting (Pt-I, Pt-II) 5
2. 2. Bhattacharya and Dearden - Accounting For Management
3. 3. Shukla S M - Advanced Accounting
4. 4. Pandey I M - Essentials of Management Accounting
5. 5. Shukla M C and Grewal T S - Advanced Accounting

Unit- 1 Financial Accounting

Accounting – The Language of Business

Accounting is the information system that...

measures business activities,

processes data into reports, and

communicates results to decision makers.

Definitions of Accounting

- “The process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information.”

—American Accounting Association (AAA)

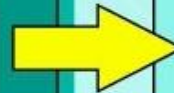
- “A service activity whose function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.”

—American Institute of Certified Public Accountants (AICPA)

Users of Accounting Information

Financial Accounting

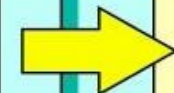
EXTERNAL USERS



- investors
- creditors
- regulators
- customers
- competitors

Financial Accounting

INTERNAL USERS



- owners
- managers
- employees

Assets

- What is an asset?
- It is something a company owns which has future economic value.
 - land
 - building
 - equipment
 - goodwill

Liability

- What is a liability?
- It is something a company owes.
 - money
 - service
 - product

Revenues

- What are revenues?
- They are amounts received or to be received from customers for sales of products or services.
 - sales
 - performance of services
 - rent
 - interest

Expenses

- What are Expenses?
- They are amounts that have been paid or will be paid later for costs that have been incurred to earn revenue.
 - salaries and wages
 - utilities
 - supplies used
 - advertising

The Basic Accounting Equation

- Accounting data is represented by the following relationship among the assets, liabilities and owners' equity of a business:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$$

- The equation must be in balance after *every* recorded transaction in the system.

Generally Accepted Accounting Principles

- What is the primary objective of financial Accounting and Reporting?

To provide information useful
for making investment and
lending decisions

Generally Accepted Accounting Principles and Basic Concepts

- Generally accepted accounting principles (GAAP) - a term that applies to the broad concepts or guidelines and detailed practices in accounting, including all the conventions, rules, and procedures that make up accepted accounting practice at a given time

REGULATION OF THE ACCOUNTING PROFESSION

- Securities And Exchange Commission (SEC)
- Financial Accounting Standards Board (FASB)
- American Institute Of Certified Public Accountants (AICPA)

MEANING OF FINANCIAL ACCOUNTING

- **Financial accounting** is a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income statement or a balance sheet.

Management Accounting

It measures and reports financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization.

Cost Accounting

It provides information for both management accounting and financial accounting.

It measures and reports financial and nonfinancial data.

Objectives of Accounting

- **(a) To ascertain the amount of profit or loss made by the business i.e. to compare the income earned versus the expenses incurred and the net result thereof.**
- **(b) To know the financial position of the business i.e. to assess what the business owns and what it owes.**
- **(c) To provide a record for compliance with statutes and laws applicable.**
- **(d) To enable the readers to assess progress made by the business over a period of time.**
- **(e) To disclose information needed by different stakeholders.**

Difference between Book-keeping and Accountancy

Points of difference	Book Keeping	Accountancy
Meaning	Book-keeping is considered as end.	Accountancy is considered as beginning.
Functions	The primary stage of accounting function is called Book-keeping.	The overall accounting functions are guided by accountancy.
Depends	Book-keeping can provide the base of Accounting.	Accountancy depends on Bookkeeping for its complete functions.
Data	The necessary data about financial performances and financial positions are taken from Book-keeping.	Accountancy can take its decisions, prepare reports and statements from the data taken from Book-keeping.
Recording of Transactions	Financial transactions are recorded on the basis of accounting principles, concepts and conventions.	Accountancy does not take any principles, concepts and conventions from Book-keeping.

Branches of Accounting

- Financial Accounting
- Cost Accounting
- Management Accounting
- Auditing
- Decision Accounting
- Not-for-profit accounting
- Tax accounting

ACCOUNTING CONCEPTS

- Business entity concept
- Money measurement concept
- Going concern concept
- Accounting period concept
- Accounting cost concept
- Dual aspect concept
- Matching concept
- Realization concept
- Accrual concept

ACCOUNTING CONVENTIONS

- ❖ Consistency
- ❖ Full Disclosure
- ❖ Materiality
- ❖ Conservatism

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 Changes in Accounting Policies**
- **AS 6 Depreciation Accounting**
- **AS 7 Construction Contracts**
- **AS 8 Accounting for Research and Development**
- **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 Amalgamations
- AS 15 Employee Benefits
- 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

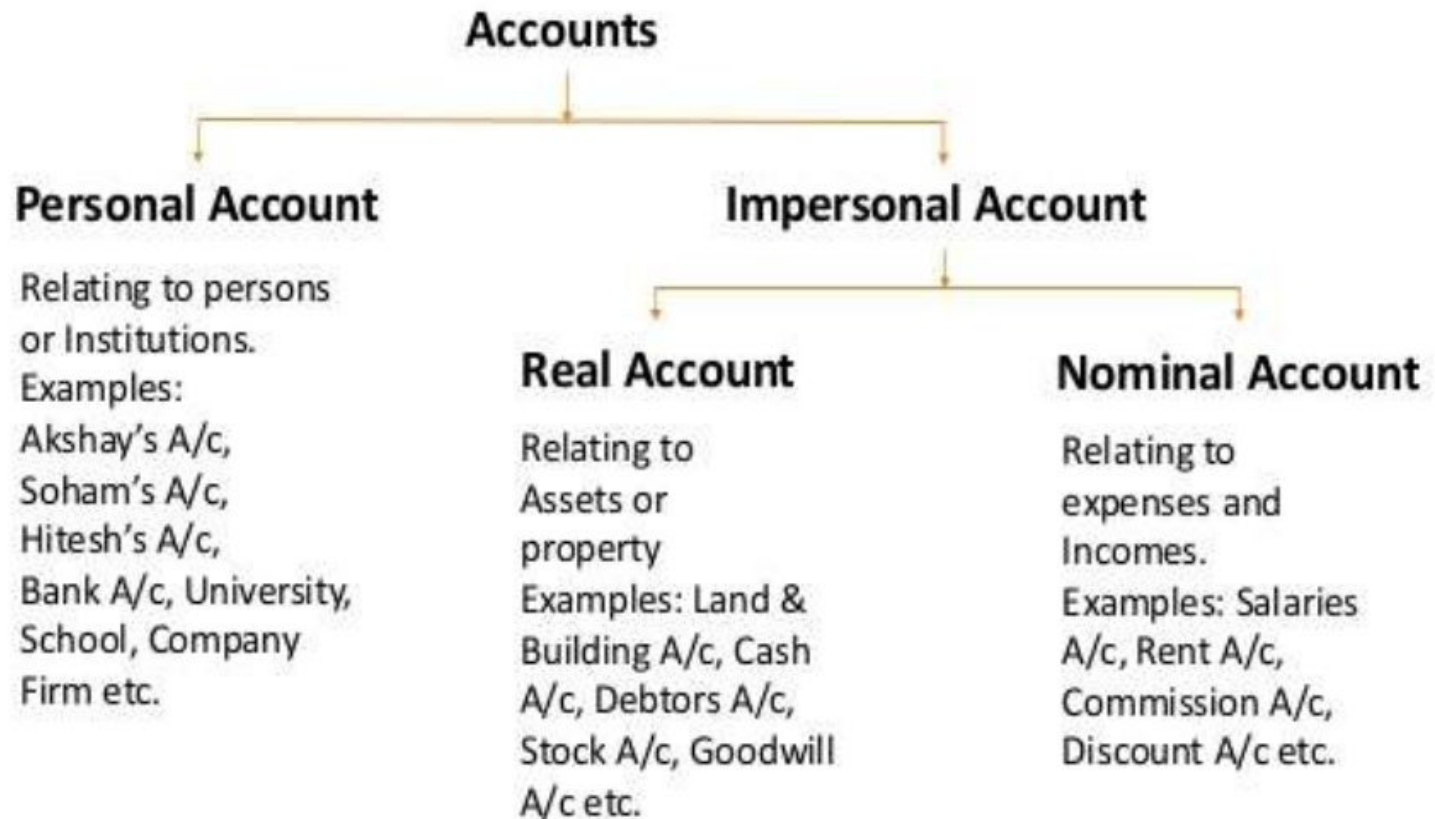
INTERNATIONAL FINANCIAL REPORTING STANDARDS

- The **International Financial Reporting Standards**, usually called the **IFRS Standards**, are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
- They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries.
- They are progressively replacing the many different national accounting standards.
- They are the rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external.

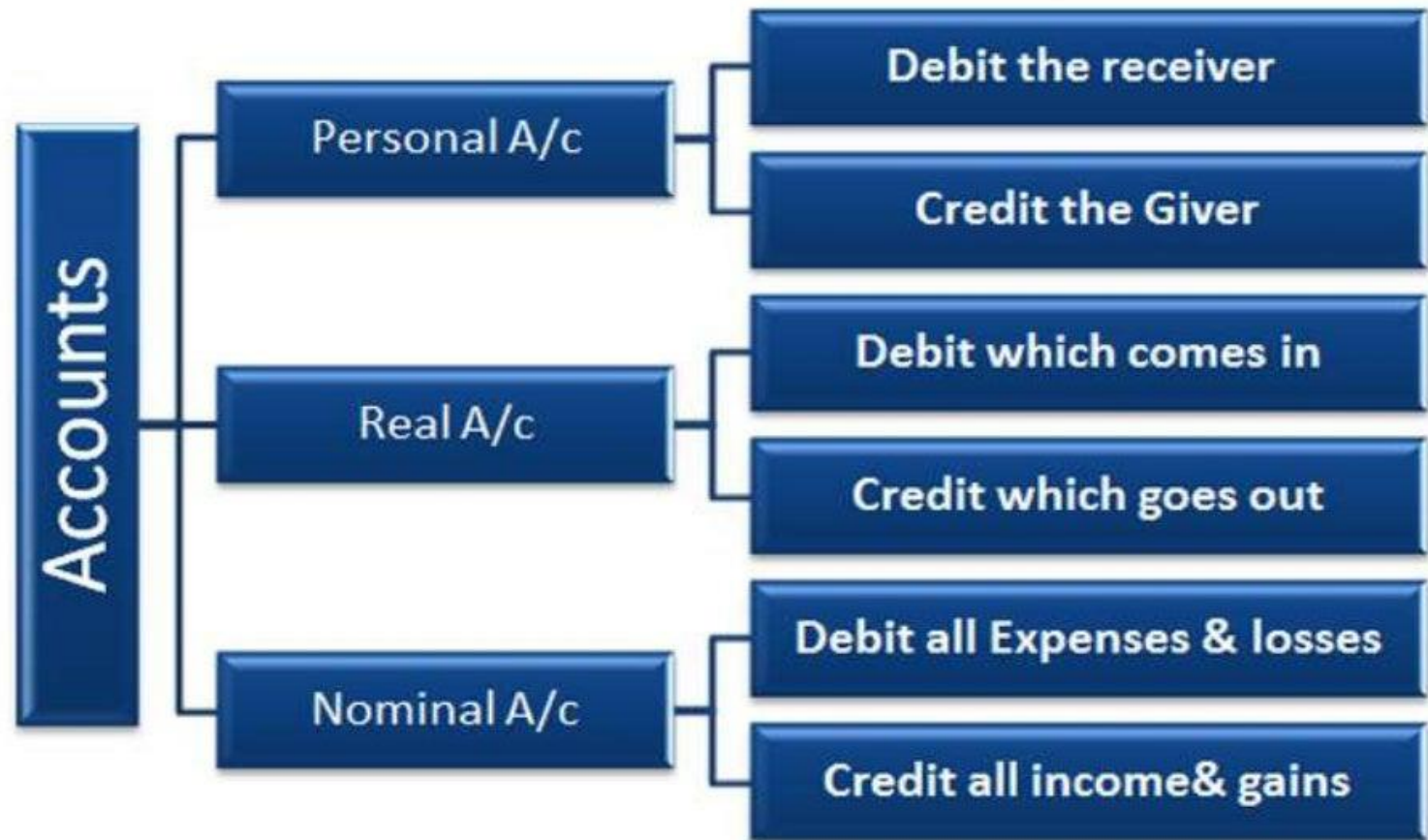
ACCOUNTING CYCLE



Types of Account



Golden Rules of Accounting



RELATIONSHIP BETWEEN JOURNAL & LEDGER

- **Business transactions are recorded first in Journal and other books of original entry and then from these books they are transferred to Ledger. Journal records transactions in a chronological order while the ledger records the transactions in a classified form. Journal, being the book of original entry, is more reliable as compared to ledger.**

JOURNAL



Ex: Furniture purchased on Cash Rs. 1000

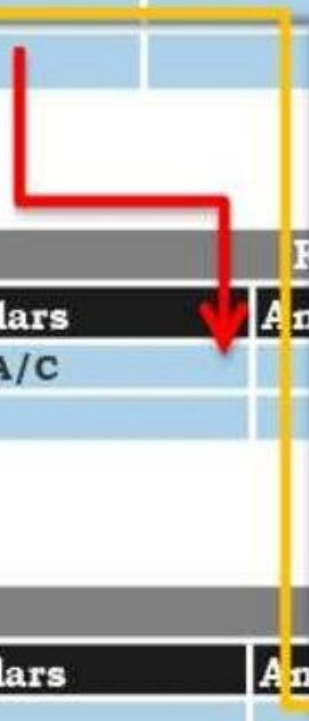
Account	Amount
Furniture A/C	1000
To Cash A/C	1000

LEDGER



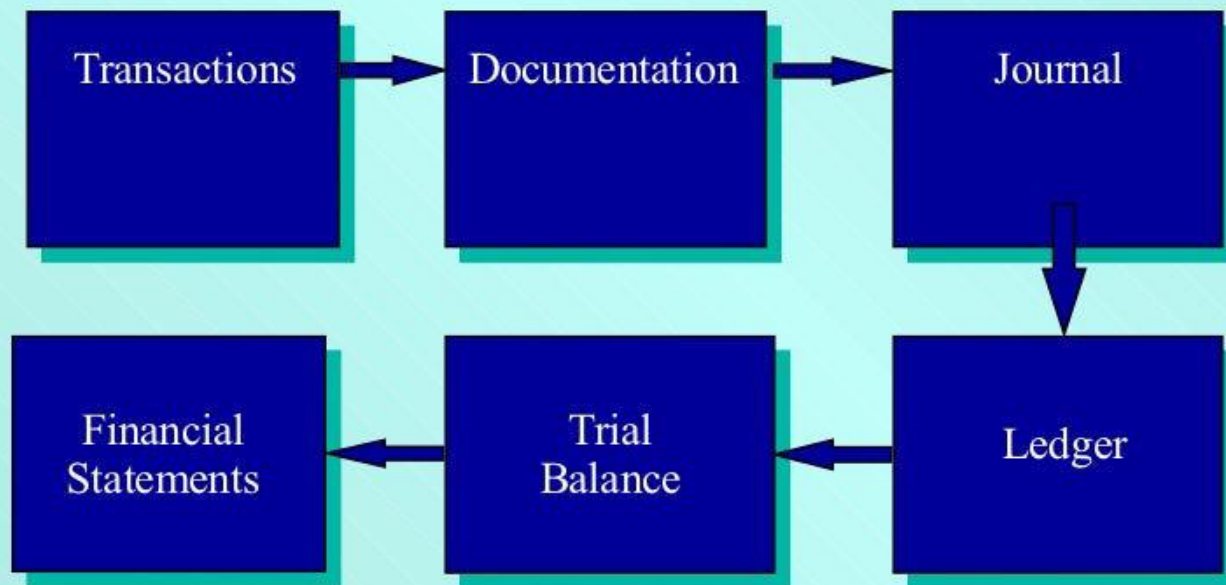
Furniture Account						
Date	Particulars	Amount	Date	Particulars	Amount	
Date	To Cash A/C	1000				

Cash Account						
Date	Particulars	Amount	Date	Particulars	Amount	
			Date	By Furniture A/C	1000	



The Recording Process

- The sequence of steps in recording transactions:



Journal

- What is a journal?
- It is a list in chronological order of all the transactions for a business.
 - 1 Identify transaction from source documents.
 - 2 Specify accounts affected.
 - 3 Apply debit/credit rules.
 - 4 Record transaction with description.

Journal entry

- Journal entry - an analysis of the effects of a transaction on the accounts, usually accompanied by an explanation of the transaction
 - This analysis identifies the accounts to be debited and credited.

Journalizing

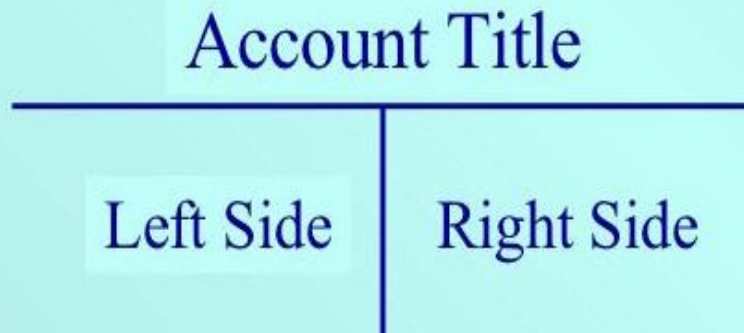
- Journalizing –

It is the process of entering transactions into the journal

**Post from the
journal
to the ledger.**

Ledger Accounts

- A simplified version of a ledger account is called the T-account.
 - They allow us to capture the essence of the accounting process without having to worry about too many details.
 - The account is divided into two sides for recording increases and decreases in the accounts.



CAPITAL & REVENUE

Capital v Revenue Expenditure

Capital

Cash spent on investment in the business: e.g.

Plant & machinery
Factory buildings
IT systems
Distribution equipment
Fixtures and fittings

Revenue

Cash spent on day-to-day operations: e.g.

Raw materials
Energy costs
Wages and salaries
Marketing costs
Office administration

Receipts and Payment account

- **Non-profit organizations (also called non-trading concerns) prepare a receipt and payment account at the end of year. With the help of this account and some additional information, an income and expenditure account is prepared to disclose the true results of non-profit organizations. Receipt and payment account cannot disclose the true result of non-trading concern.**

Income and expenditure account

- **The income and expenditure account is an account prepared by non-trading concerns to ascertain surplus or deficit of income over expenditures for a particular period. It is prepared as a part of final accounts of non-trading concerns and is equivalent to profit and loss account prepared by for-profit business enterprises. The accrual concept of accounting is strictly followed while preparing income and expenditure account of non-trading entities.**

TRIAL BALANCE

- **A trial balance is a list of all the general ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of each nominal ledger account and the value of that nominal ledger balance. Each nominal ledger account will hold either a debit balance or a credit balance. The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column.**

FORMAT OF TRIAL BALANCE

M/S Ideal stores			
Trail Balance as at April 30 2016			
Account	Folio	Debit	Credit
Capital	2		994600
Cash in Hand	3	28400	
Stock April 1st 2016	5	246000	
Standard Chartered Bank	8	50000	
Furniture & Fittings	4	200000	
M/s Sweet world	16	214200	
City Traders	20		118300
Krishna Store	10	30000	
Amandam Traders	18	400000	
Thomas Trading	24		42000
Key foods international	30		297600
Sales	22		124800
Sales Return	21	12800	
Purchase	17	342800	
Purchase Return	19		24500
Discount Received	23		8000
Discount Allowed	35	2000	
Wages	31	42500	
Printing & Stationery	33	1600	
Rent A/c	30	10000	
Advertisement	25	5000	
Computer A/c	26	24500	
Total		1609800	1609800

FINAL ACCOUNTS

- **Final Account gives an idea about the profitability and financial position of a business to its management, owners, and other interested parties. It is a combination of the following–**
 - **Trading Account**
 - **Profit and loss account**
 - **Balance Sheet**

Name of Business
Trading Account for the year ended

Particulars	Amounts	Particulars	Amounts
To Opening Stock	XXX	By Sale	XXX
To Purchase	XXX	Less:- Return	XX
Less:- Return	XX		XXX
To Direct Expenses	XX	By Profit/Loss a/c <i>(Balancing Figure represent Gross Loss)</i>	XXX
To Profit/Loss a/c <i>(Balancing Figure represent Gross Profit)</i>	XXX		
	XXXX		XXXX

Name of Business
Profit/Loss Account for the year ended

Particulars	Amounts	Particulars	Amounts
To Trading a/c <i>(Gross Loss)</i>	XXX	To Trading a/c <i>(Gross Profit)</i>	XXX
To Office and Administration Expenses:	XXX	By Indirect Income	XXX
To Selling and Distribution Expenses:	XXX	By Other Gains	XXX
To Financial and Other Expenses:			
To Capital A/c <i>(Balancing Figure represent Net Profit)</i>	XXX	By Capital A/c <i>(Balancing Figure represent Net Loss)</i>	XXX
	XXXX		XXXX

Balance Sheet of _____

as on 31st March _____

Liabilities		Amounts	Assets		Amounts
Capital	XXX		Fixed Assets		XXX
Add: Net Profit	XX		Current Assets		XXX
Less: Net Loss	XX		Ficticius Assets		XXX
Less: Drawing	XX	XXX			
Fixed Liabilities		XXX			
Current Liabilities		XXX			
		XXXX			XXXX

Nature And Scope of Financial Accounting

- ❖ **Dealing with financial transactions**
- ❖ **Recording of information**
- ❖ **Classification of Data**
- ❖ **Making Summaries**
- ❖ **Analyzing**
- ❖ **Interpreting the financial information**
- ❖ **Communicating the results**

Double-Entry Accounting

“ Double-entry accounting is based on a simple concept: each party in a business transaction will receive something and give something in return. In bookkeeping terms, what is received is a debit and what is given is a credit. The T account is a representation of a scale or balance.”

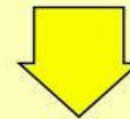
Luca Pacioli
Developer of
Double-Entry
Accounting

Scale or Balance



T account

Left Side
Receive
DEBIT



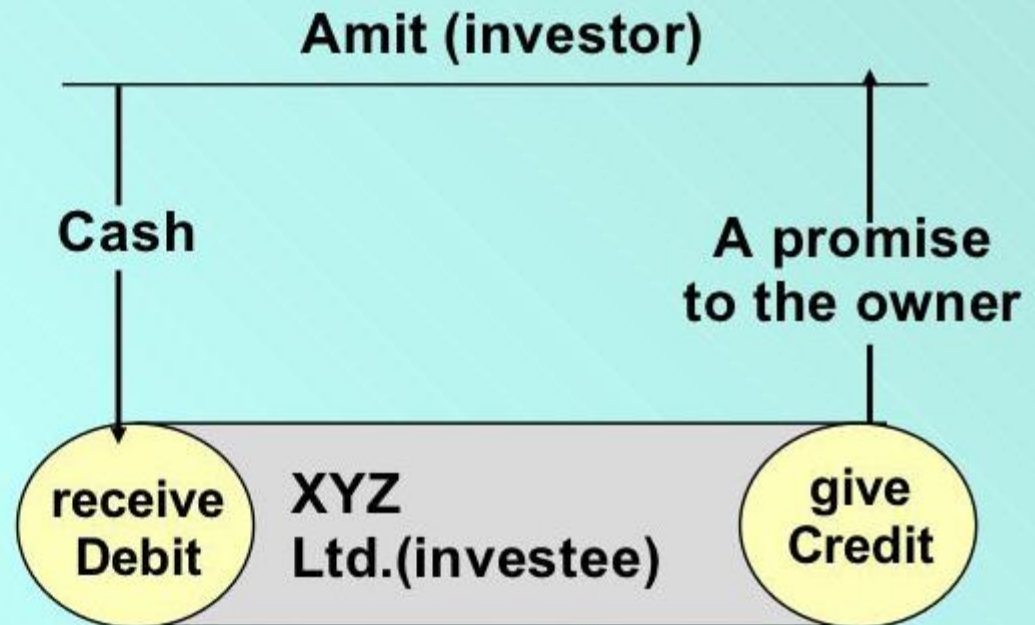
Right Side
Give
CREDIT



Business Transactions

Entry A.

Amit deposits Rs 25,000 in a bank account for XYZ Ltd..



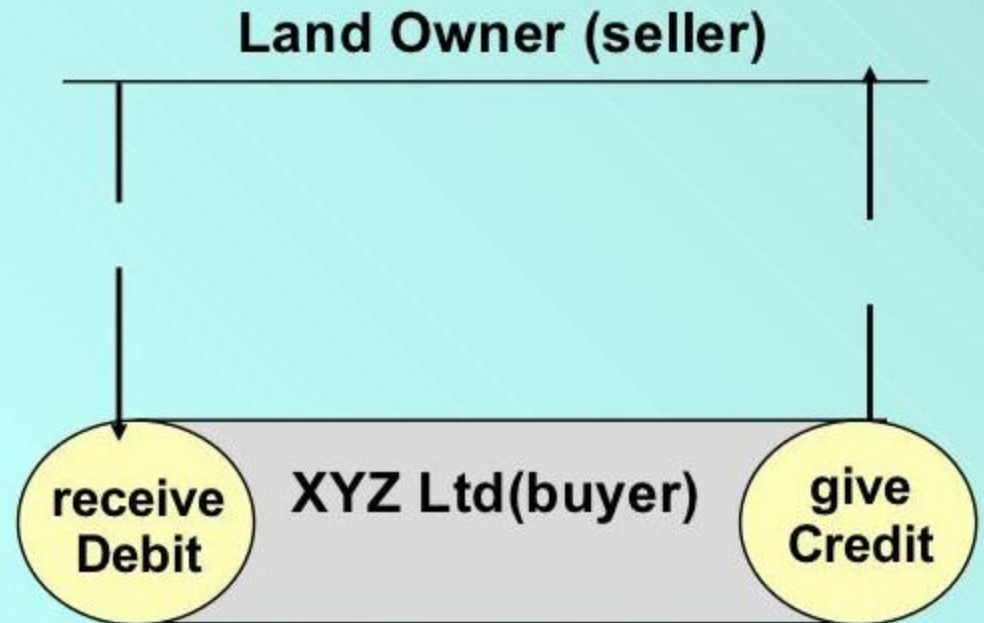
Journal

Date	Description	Debit	Credit
11/1	Cash Amit, Capital	25,000	25,000

Business Transactions

Entry B.

XYZ Ltd. buys land for Rs20,000.



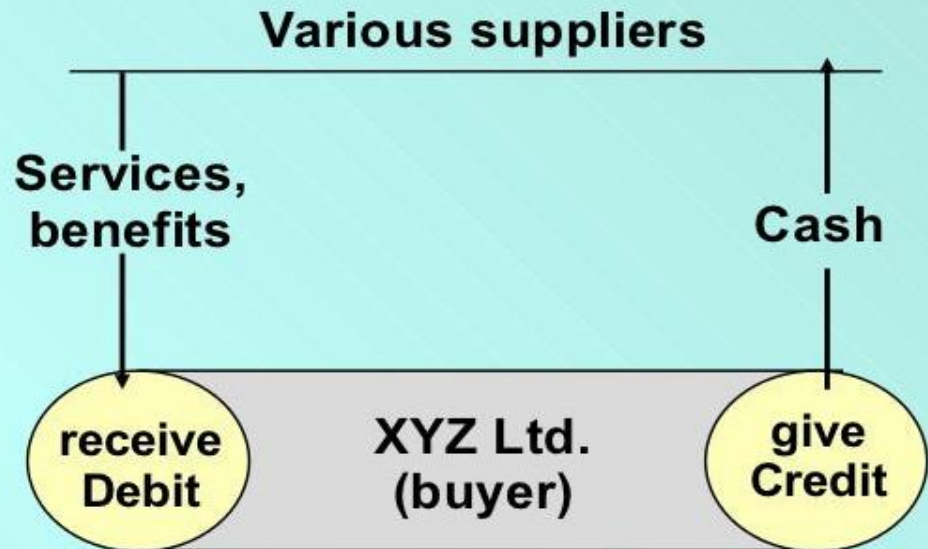
Journal

Date	Description	Debit	Credit
11/5			

Business Transactions

Entry E.

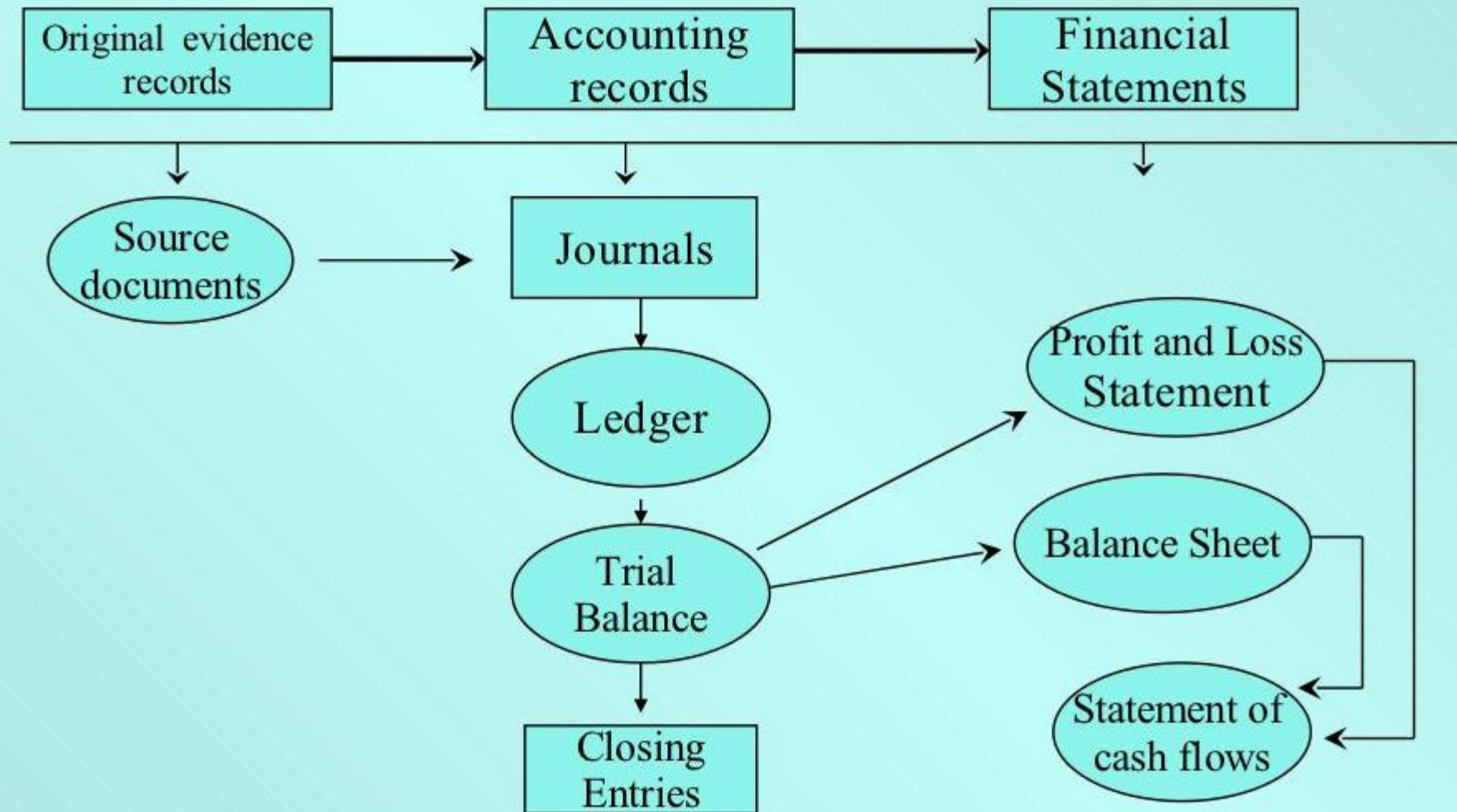
XYZ Ltd. paid:
wages, Rs 2,125;
rent, Rs 800;
commissions, Rs
450; and misc Rs
275.



Journal

Date	Description	Debit	Credit
11/18	Wages Expense	2,125	
	Rent Expense	800	
	Commission	450	
	Misc. Expense	275	
	Cash		3,650

Summary





Thank you...

