

Shikshan Mandal Karad's,

Mahila Mahavidyalaya, Karad

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Financial Accounting Paper - I
(Sem. - I)

By

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Financial Accounting Paper – I

Unit- 1 Introduction to Accounting

- ❖ Meaning and Scope of Accounting
- ❖ Need of Accounting
- ❖ Objectives and Advantages of accounting
- ❖ Branches of accounting
- ❖ Accounting Concepts, principles and Standards in India
- ❖ Accounting Conventions
- ❖ Need of Accounting Standards
- ❖ Introduction to IFRS
- ❖ Difference between GAAP and IFRS
- ❖ Accounting Standards in India



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



INTRODUCTION:

- Accounting is a system meant for measuring business activities, processing of information into reports and making the findings available to decision-makers.
- The documents, which communicate these findings about the performance of an organization in monetary terms, are called financial statements. Usually, accounting is understood as the Language of Business.
- However, a business may have a lot of aspects which may not be of financial nature. As such, a better way to understand accounting could be to call it The Language of Financial Decisions.
- The better the understanding of the language, the better is the management of financial aspects of living.
- Many aspects of our lives are based on accounting, personal financial planning, investments, income-tax, loans, etc. We have different roles to perform in life-the role of a student, of a family head, of a manager, of an investor, etc.



Accounting – The Language of Business

Accounting is the information system that...

measures business activities,

processes data into reports, and

communicates results to decision makers.

Definition 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”.



Users of Accounting Information

Financial Accounting

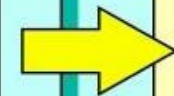
EXTERNAL USERS



- investors
- creditors
- regulators
- customers
- competitors

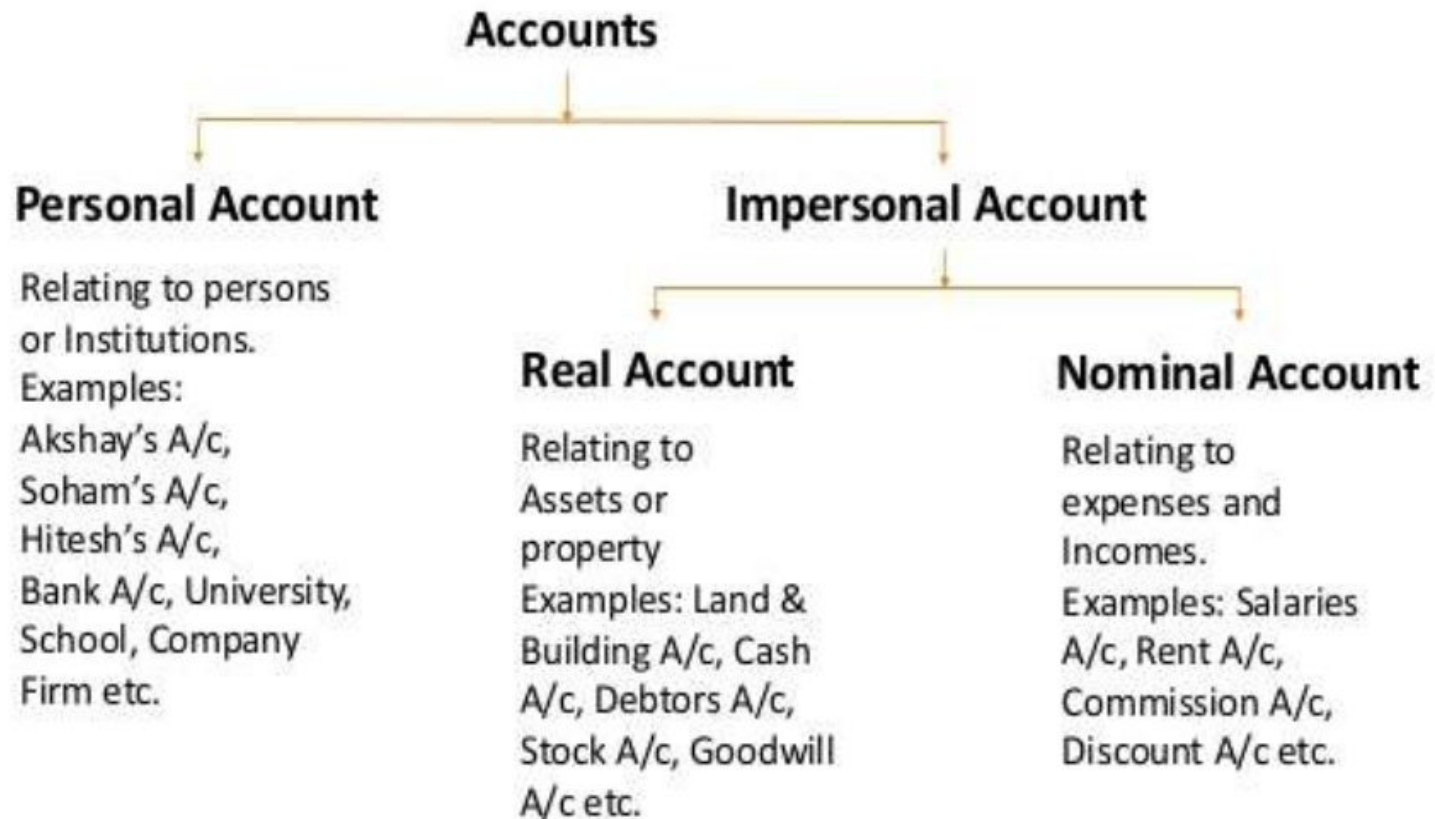
Financial Accounting

INTERNAL USERS

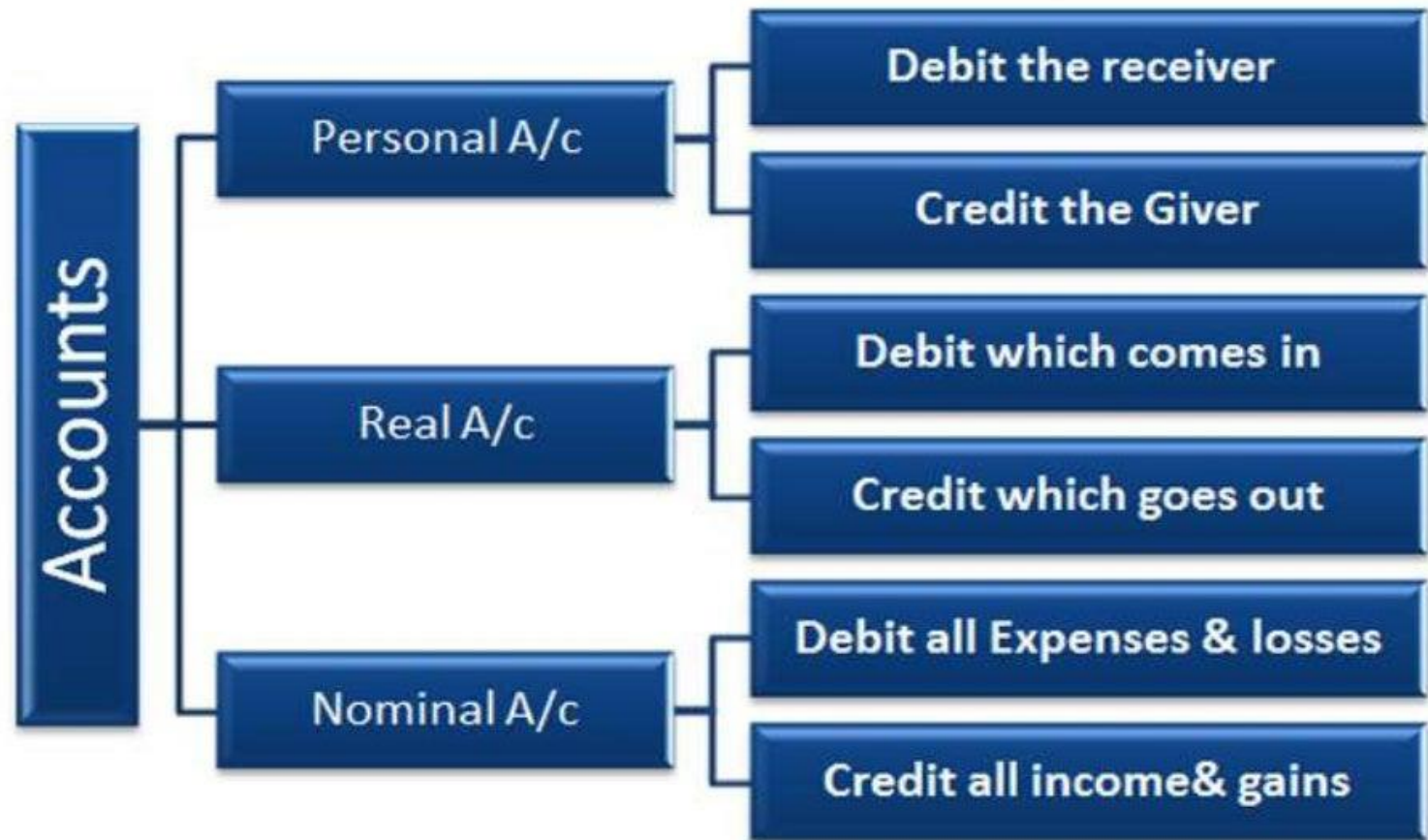


- owners
- managers
- employees

Types of Account



Golden Rules of Accounting



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



Objectives of Accounting

- (i) Providing Information to the Users for Rational Decision-making
- (ii) Systematic Recording of Transactions
- (iii) Ascertainment of Results of above Transactions
- (iv) Ascertain the Financial Position of Business
- (v) To Know the Solvency Position



Advantages of Accounting

1. Complete and Systematic Record
2. Determination of Selling Price
3. Valuation of the Business
4. Helps in Raising Loan
5. Evidence in Court of Law
6. In Compliance of Law
7. Inter-Firm or Intra-Firm Comparison
8. Facilitates Audit
9. Effective Management



Branches of Accounting

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

Meaning of Accounting Principles:

According to Terminology Committee of AICPA.

“The word principles are used to mean a general law or rule adopted or preferred as a guide to action; a settled ground or basis of conduct or practice.”

A.W. Johnson describes accounting principles as

“Broadly speaking, these principles are the assumptions and rules of accounting, the methods and procedures of accounting and the application of these rules, methods and procedures to the actual practice of accounting.”

Essential Features of Accounting Principles:

- 1. Relevance or Usefulness**
- 2. Objectivity**
- 3. Feasibility**



Sr. No.	Accounting Concepts	Accounting Conventions
1	Separate Business Entity	Convention of Conservatism
2	Going Concern Concept	Convention of Full Disclosure
3	Cost Concept	Convention of Consistency
4	The Matching Concept	Convention of Materiality Concept
5	Realization Concept	
6	Accounting Period Concept	
7	Money Measurement Concept	
8	Dual Aspect Concept	



Accounting Standards (AS) :

In the words of Kohler : **“Accounting standards are codes of conduct imposed by customs, laws or professional bodies for the benefit of public accountants and accountants generally”**.

Need for accounting standards:

- i) To promote better understanding of financial statements.
- ii) To help accountants to follow uniform procedures and practices.
- iii) To facilitate meaningful comparison of financial statements of two or more entities.
- iv) To enhance reliability of financial statements.
- v) To meet the legal requirements effectively.



OVERVIEW

Accounting Standards



Issued by **“ICAI”**



Issued standards-**32**



formulated by **“ASB”** set up on 21st
April, 1977



In force standards-**31**



Notified Standards : **29 (by MCA)**

LIST OF ACCOUNTING STANDARDS

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

AS-5 : Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

AS-6 : **Depreciation Accounting**

AS-7 : Accounting for 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 Amalgamations

AS-15 : Employee Benefits

AS-16 : Borrowing Costs

LIST OF ACCOUNTING STANDARDS

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 & Contingent Assets

AS-30 : Financial Instruments: Recognition & Measurement

AS-31 : Financial Instruments: Presentation

AS-32 : Financial Instruments: Disclosures

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)

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.

IFRS	GAAP
Stands for	
International Financial Reporting Standard	Generally Accepted Accounting Principles
Developed by	
International Accounting Standard Board (IASB)	Financial Accounting Standard Board (FASB)
Adopted by	
Globally adopted in around 144 countries	Only adopted in the US
Based on	
Principles	Rules
Inventory Methods allowed	
IFRS allows only FIFO (First In First Out) inventory method for valuation of inventories	GAAP uses both FIFO (First In First Out) and LIFO (Last In First Out) method of inventory valuation



Inventory Reversal

IFRS allows inventory write down reversal

GAAP does not allow inventory write down reversal

Income Statements

In IFRS, extraordinary items are not segregated and are included in the income statement

In GAAP, the extraordinary items are segregated and are shown below net income in the income statement

Valuation of Fixed Assets

IFRS uses a revaluation model for valuation of fixed assets

GAAP uses a cost model for fixed asset valuation

Cost of Development

Development costs under IFRS can be capitalised, provided certain conditions are met

Development costs cannot be capitalised in GAAP, it is always treated as an expense



THANK YOU...

