Accounting by the american institute of certified public accountants (aicpa) flas...

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Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as “ 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 financial character, and interpreting the results thereof. ” “ Accounting a business Language” Accountancy is the process of communicating financial information about a business entity to users such as shareholders and managers.

1] The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management; the art lies in selecting the information that is relevant to the user and is reliable What is Debit and Credit? Debit and Credit are noun. In Accounting the left hand side of an account is called Debit and the right hand side is called Credit. What are the pillars/head of Account? There are 5 heads of Accounts. 1) Assets 2) Expence Separate Entity Concept: Accounts are kept for entities, as distinguished from the persons who associated with these In recording events in accounting, the important question is: “ How do these events affect the ‘-How they affect the persons who own, operate, or otherwise are associated with the entity is For example, when a person invests Rs. 200, 000 into business it will be deemed that the owner given that money to the business which will be shown as a ‘ liability’ hi the books of the* business.

In tie owner withdraws Rs. 30, 000 from’the business, it will change the position and the net amount by the business to the owner will be shown only as Rs. 70, 000. The concept of separate entity is applicable to all forms of business organizations. For example, in of a sole proprietorship or

partnership business, though the, sole proprietor or partners are not as separate entities in the eyes of law, but for accounting purposes they will be considered as entities.

Going Concern Concept: According to this concept it is assumed that an entity is a going concern — that it will continue to for an indefinite time period it here is no intention to liquidate the particular business venture in the lie future. On account of this concept, the accountant while valuing the asset does not take into the sale value of assets. Moreover, he charges depreciation on fixed assets on the basis of their life rather than on their market values. For example, suppose that a company has just purchased a three-year insurance policy for If we assume that the business will continue in operation for three years or more. We will .

the Rs. 45000 cost of insurance as an asset which provides services to the business over a three-period. On (he other hand, if we assume that the business is likely to terminate in the near future, the policy should be reported at its cancellation value i, e. the amount refundable upon cancellation.

Moreover, the concept applies to the business as a whole. When an enterprise liquidates a branch segment of its operations, the ability of the enterprise to continue as a going-concern is not impaired ly. The enterprise wilt not be considered as a going-concern when it has gone into liquidation. Money Measurement Concept: In financial accounting, a record is made only of those information that can be expressed in terms. In . other words, no

accounting is possible for an event or transaction which is not tble in terms of money, e.

g. passing an examination, delivering lecture in a meeting, winning a prize These are events no doubt, but since these are not measurable in terms of money, there is no question of accounting. Measurement of business events in money helps in understanding the state of affairs of business in better way. For example. If a business owns, 1500 kg of stock, one car, 1500 square feet of building etc.

these amounts cannot be added to produce a meaningful total of what the business owns. ver, if a these items are expressed in monetary terms such as stock Rs. 24000, car Rs. 300. 000 and ig Rs.

500, 000, all such items can be added in better way and precise estimate about the assets of the will be available. 14 4. Cost Concept: The concept is closely related to going concern concept According to this concept “ An ordinarily entered on the accounting fecord at die (nice paid to acquire it, and this cost is the basis subsequent accounting for the asset”. If business buys a bujjdfng for Rs. 5, 00, 000, the assets would^ recorded in the books at Rs. 500, 000, even if its market value at that time may be Rs.

50, 000. In case a later the market value of this asset comes down to Rs. 450, 000 it will ordinarily continue to be shown; Rs. 500, 000 and not at Rs. 450, 000. The cost concept does not mean that the asset will always be shown at cost It has also been stafc above that cost becomes the basis for all future accounting for die asset It means that asset is recorded’ i cost at-the

time of purchase but it may systematically be reduced in its value by charging depreciation.

5. Dual Aspect Concept: The economic resources of an entity are called ‘ assets’, the claims of various parties against th« assets are called ‘ equities’. There are two types of equities: 1.. Liabilities, which are the claims of creditors (that is, everyone other than the owners ; lt; business) and , 2.

Owner’s Equity, which -is the claim of the owners of the business. Since all of the assets of a business are claimed by someone (either by its owners or by it creditor) so we can say that Assets • Equities This is the fundamental accounting equation, which is the formal expression of the dual-aspei concept As we shall see all accounting procedures are derived from this equation. To reflect the two type of equities, the equation is mote commonly expressed as Assets ss Liabilities + Owner’s EquityEvery transaction has a dual impact on the accounting records. Accounting systems are set up a as to record both of these aspects of a transaction; this is why accounting is called a double-entry system.

To illustrate the dual-aspect concept, suppose that Mr. A starts a business with a capital c Rs. 30, 000. There are two changes, first the business has cash (asset) of Rs.

30, 000 and second, the busina has to pay to the proprietor a sum of Rs. 10, 000 which is taken as proprietor’s capital. This expression ca be shown in the form of following equation: Cash (Assets) = Capital (Equities) . Rs. 30, 000 = Rs. 30, 000.

Subsequently if the business borrows Rs. 15000 from a bank, the new position would be fl follows: Assets as Equities Cash Rs. 30, 000 + Bank Rs. 15000 = Bank loan Rs. 15000 + Capital Rs. 30, 000.

The term ‘ accounting equation* is also used to denote the relationship of equities to assets. Tt equation can be technically, stated as “ for every debit, there is an equivalent credit”. This has bee explained in detail later in the next chapter. 6. Accounting Period Concept: The users of financial statements need information that is reasonably current.

Therefore, fi financial reporting purposes , the life of a business is divided into a series of relatively short accounting periods of equal length. It is, therefore, absolutely necessary mat after each accounting period the business must ‘ stop* and ‘ see back’, how things are going. In accounting such accounting period is usually of a year _^ ; 15 At the end of each accounting period an income statement and a balance sheet is prepared the statement discloses the profit or loss made by business during the year while balance sheet shows ‘, financial position! f business as on the last day of the accounting period. The Matching Concept: A significant relationship exists between revenue and expenses. Expenses are incurred for the of producing revenue. In measuring net income for a period, revenue should be offset by air the incurred in producing that revenue.

This concept of offsetting expenses against revenue on the of “ cause and effect” is called the Matching Concept The term ‘ matching’ means appropriate association of related revenues and expenses. In matching against revenue the question when the payment was made or received is ‘

irrelevant*. For example FMtJesman is paid commission in January, 2005, for sales made by turn in December, 2004. According to concept commission expense should 6e offset against sales of December 2004 because this expense is for producing revenue in December 2004. On account of this concept, adjustments are made for all ling expenses, accrued revenues, prepaid expenses and unearned revenues, etc.

, white preparing the accounts at the end of accounting period. * other Concept According to this concept revenue should be recognized at the time when goods are sold or are rendered. Sale is considered to be made at the point when the property in goods passes to the and he becomes legally liable to pay. The following example will help to understand this point Mr. A on order to Mr. B for supply of certain goods.

Mr. B sends goods to Mr. A 15 days after he has lived me order and Mr. A makes payment 10 days after receipt of goods. In this case the sate, will be to have been made not at the time of receipt of the order for the goods or receipt of payment but : the time when goods are delivered to Mr, A.