

# Basic of Accounts

## 1) What is Accounting?

### Ans:

It is an art of recording, classifying and summarizing in a significant manner in terms of money transactions and events which are in part at least of a financial character and interpreting the result thereof

Thus accounting includes –

- Recording transactions
- Classifying transactions as per its nature
- Getting its summary (Trial Balance, Final A/c)
- Analyzing it properly (fixed assets v/s current assets).
- Making interpretations (Egg: GP Ratio, NP Ratio. Etc.)
- Communicating the interpretation to the management.

## 2) Difference between Accounting and Book keeping.

### Ans:

BOOK KEEPING	ACCOUNTING
<b>Its related with</b>	
Recording transaction	Summarizing transaction
<b>Its treated as</b>	
Base of Accounting	Language of business.
<b>Relation with Financial Statement</b>	
No relation	Direct connection of preparing and analyzing financial statement.
<b>Connection with management decision</b>	
No Connection	Directly Connected
<b>Sub Fields</b>	
No sub-fields	It has subfields like financial Accounting, management and Cost accounting.
<b>Knowing Financial Position</b>	
Not possible	Possible

<b>Book Keeping + Accounting = Accountancy</b>
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## 3) Objectives behind Accounting.

### Ans:

The accounting serves the following purposes

- For recording transactions systematically.
- To find out result of organization
- To find financial position of business (Balance Sheet)
- To get data for future decisions.
- To confirm that business is solvent.

## 4) What are functions of Accounting?

### Ans:

- Accounting helps the measurement of fact (Profit, Loss etc)
- It helps for forecasting / prediction.
- It helps for future decisions.
- It gives comparison with our own past performance and also with other performance
- It helps to calculate taxes properly

## 5) What are sub-fields of Accounting?

Ans:

Sr. No.	Sub-field	It include
1	Financial Accounting	Preparation of final A/c, cash flow statement etc.
2	Management Accounting	It includes ratio analysis and other tools for management decisions.
3	Cost Accounting	Calculation of cost, cost control, cost reduction etc.
4	Social responsibility Accounting	Accounting for social expenses
5	(HR) Human Resource Accounting	Analysis of wages, salary, training expenses etc.

## 6) Who are the users of accounting information?

Ans:

Sr. No.	User	Accounting information useful for
1	Investors	Decision about investing amount or not.
2	Employee	Prediction about future income and stability
3	Money Lenders	Decision to give the loan or not, interest rate etc.
4	Suppliers	Decision about supplying goods or not.
5	Customers	Decision about purchasing product or not.
6	Government	Knowing profit position and taxes
7	Public	Knowing role of organization in the society

## 7) Relationship between accounting and other disciplines.

Ans:

Sr. No.	Discipline	Connection with Accounting
1	Economics	Economics gets data from Accounting and helps accountant to take decision in scarcity.
2	Statistics	It gets data from accounting and helps for analysis of data.
3	Mathematics	Ratio analysis etc gets data from accounting and helps the accountant for decision making.
4	Law	Accountant has to follow all the laws and law helps for all transactions which are then recorded by accountant.
5	Management	Management accounting gets data from accounts and helps for decision making of accountant.

## 8) Limitations of Accounting.

Ans:

- Non-financial things are ignored.
- If data is wrong then accounting is useless.
- Only accounting is not enough it needs other disciplines also.
- Accounting standards are complex and changes in different countries.
- There may be some conflict between Accounting Standards and some laws.

## 9) Roles of Accountants in society.

Ans:

Sr. No.	Role	It includes
1	Accounting	Recording all transactions properly.
2	Internal Audit	Confirmation of proper accounting of organization internally.

3	External Audit	Confirmation of accounting on behalf of shareholders.
4	Taxation	Perfect tax planning and payment of taxes.
5	Consultancy	Giving opinion to client.
6	Financial Advice	Suggestions for new investments, expansion etc
7	Investigation	Finding out reasons for fraud etc.
8	Arbitration	Solving disputes
9	Costing	Cost control, reduction etc.
10	Other work	Company formation, shares related activity, liquidation of company, solving problem of PSU (Public sector undertakings) helping creation of budget to government etc.

**10) What are essential features of good financial statement?**

**Ans:**

Sr. No.	Feature	It means, it should be
1	Understand ability	Clear enough to understand result (simple)
2	Relevance	Connected with financial data.
3	Reliability	Reliable and authentic to take decisions.
4	Materiality	Containing all important facts.
5	Comparability	Able to make comparison with our past performance and with others performance.
6	Substance over form	Giving importance to important facts and not only to the format.
7	Neutrality	Prepared without any bias.
8	Prudence	Containing information based on rationality.
9	Complete	Containing 100% information
10	Full and fair disclosure	Disclosing all facts properly

**11) What is Accounting Standards, its objectives, benefits and limitations?**

**Ans:**

Accounting Standards are the guidelines given for proper accounting and uniformity. These are prepared by the accounting standard board of ICAI by behalf of government. These are based on the International Accounting Standards.

**Objectives**

- i) To give guide lines in accounting
- ii) To bring uniformity in accounting
- iii) To make data comparable and authentic

**Limitations**

- i) Sometimes there is a conflict between Accounting Standards and Law.
- ii) The Accounting Standards of different countries are different eg. US follow US- GAAP (now IFRS- international financial reporting standards are to be introduced.)
- iii) Sometimes Accounting Standards becomes rigid (not flexible)

**12) Explain Accounting Standards in brief.**

**Ans:**

Accounting Standards No.	Accounting Standard	It gives guideline for
1	Disclosure of accounting policies	Choosing best Accounting policy along with basic accounting conventions.
2	Inventory Valuation	Valuation of stock by different methods.
3	Cash Flow Statement (CFS)	Preparation of CFS by direct and indirect methods
4	Contingencies and events occurring after balance sheet date	Contingent Assets and Liabilities and Post Balance Sheet events.

5	Net profit for period, prior period items and changes in accounting policy	Calculation of Net Profit after considering abnormal items, prior period items etc.
6	Depreciation Accounting	Depreciation methods and accounting
7	Construction contract	Accounting incase of long term constructions.
9	Revenue Recognition	Recording income in books of Accounts at appropriate time.
10	Fixed Assets	Identifying fixed assets and its recording
11	Effect of changes in foreign exchange rates	Recording of forex gain or loss.
12	Government grants	Recording of government grants in cash or kind.
13	Investment Accounting	Recording of investments and its income.
14	Amalgamation	Accounting when 2 or more companies comes together.
15	Employee Benefits	Recording of different benefits to employees Eg: wages, Bonus etc
16	Borrowing cost	Recording of interest in the books
17	Segment Reporting	Identifying the important segments to be reported to the management.
18	Related party disclosure	Identifying the related party and transactions with it.
19	Leases	Accounting of operating and financing lease.
20	Earning per share (EPS)	Calculation of EPS in different situations.
21	Consolidated financial statement	Consolidation of books of accounts of holding company and subsidiary company.
22	Taxes on income	Calculation of taxes as per book profit and taxable profit.
23	Investment in associate	Accounting where investment is more than 20% but less than 50% of equity capital.
24	Discontinuing operations	Recording of income / loss for the operations to be discontinued.
25	Interim financial reporting	Preparation of the quarterly Final Account.
26	Intangible Assets	Recording of the intangible assets like goodwill patents etc.
27	Joint Ventures	Accounting for Joint Venture in different situations.
28	Impairments of Assets	Accounting for sudden reduction in value of asset
29	Provisions, contingent Assets and Liabilities	Same as Accounting Standard – 4
30, 31 & 32	Accounting for financial instrument	Recording of all financial instruments like fixed assets, debtors, creditors etc.

**13) What is Accounting policy and what should be considered in choosing proper policy.**

**Ans:**

Accounting policy means every step taken in accounting. Eg: Method of depreciation, inventory valuation etc. While choosing accounting policy we should consider 3 factors.

- i) Prudence – rationality
- ii) Materiality – important facts must be disclosed
- iii) Substance over form – importance should be given to a particular item ignoring the format

Basically the accounting policy should be constant but if it's changed due to any act then it should be properly disclose.

**14) What is Accounting estimate?**

**Ans:**

These are the predictions about some item like tax provision, R.D.D. provision etc. if these estimate changes then these can be adjusted in books of accounts.

**15) What are different types of cost of an Asset?**

**Ans:**

Sr. No.	Types of cost	Meaning & Examples
1	Historical Cost	<b>Meaning:</b> The cost already paid in the past. <b>Example:</b> Purchase price of machine as on 1/1/95 for Rs. 10,00,000.
2	Current Replacement Cost	<b>Meaning:</b> Cost to be paid today to replace earlier asset.

		<b>Example:</b> Above machine can be replaced today by paying Rs. 12,00,000.
<b>3</b>	Realizable Value / Resale Price	<b>Meaning:</b> Its today's selling price in market. <b>Example:</b> Above machine can be sold today for Rs. 1,00,000.
<b>4</b>	Present Value	<b>Meaning:</b> Its value in use i.e. discounted value of future cash flow from asset.