

TULSIAN'S
FINANCIAL
ACCOUNTING
for B.Com. (Hons.)

A SELF-STUDY TEXTBOOK



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CA BHARAT TULSIAN

S. CHAND

Tulsian's

FINANCIAL ACCOUNTING

for

B.Com. (Hons.)

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Preface

A good textbook should be **student-friendly** and written in **easy-to-understand language**. Therefore, attempts have been made to present the concepts and theories of accountancy in **Teach-yourself style**. As a result, the students will find **a teacher in the book**.

The textual matter of the book is well-supported by appropriate illustrations, exactly based on the **pattern and standard** for B.Com. The key features categorised as **Pedagogical features** and **Distinctive features** are as follows:

PEDAGOGICAL FEATURES	
Simple Language	The Text is presented in the simplest language "meant to serve beginners".
Heading for each Paragraph	Each paragraph has been arranged under a suitable heading for easy retention of concepts.
Tabular Form	Wherever possible the text matter relating to a particular topic/sub-topic has been presented in a Tabular Form.
Eye-catching Screens	All important equations, formulae, figures and practical steps have been highlighted with coloured screen to catch the eye.
Uniform Format of Chapter	Each chapter has been uniformly organised under suitable headings, viz., Text Supported by Suitable Illustrations, Solved Problems, Theoretical Questions, Practical Questions.

DISTINCTIVE FEATURES	
Important Distinctions	Over 20 Distinctions have been provided for a better comparative study
Exhibits	Over 60 Exhibits to acquaint students with various Accounting Treatments, Accounting Formats and Practical Steps
Illustrations	Over 350 Illustrations have been provided for a better understanding of the text.
Comprehensive Revisional Problems	Over 30 Comprehensive Revisional Problems along with necessary working notes have been provided so as to revise the Chapter.
Theoretical Questions	Over 350 Theoretical Questions for testing purposes.
Practical Questions	Over 350 Practical Questions have been provided along with Answers of Key Items

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A

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Any criticisms or suggestions for further improvement of the book will be gratefully acknowledged and appreciated.

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Syllabus

B. COM. (HONS.) FINANCIAL ACCOUNTING

Marks: 100

(Duration : 3 hrs.)

Lectures: 75

Level of knowledge : Working knowledge

Objective: The objective of this paper is to help students to acquire conceptual knowledge of the financial accounting and to impart skills for recording various kinds of business transactions.

Unit	Conents	Relevant Chapters
	PART A	
UNIT I	Theoretical Framework (Lectures 4) (i) Accounting as an information system, the users of financial accounting information and their needs. Qualitative characteristics of accounting, information. Functions, advantages and limitations of accounting, Branches of accounting, Bases of accounting; cash basis and accrual basis. (ii) The nature of financial accounting principles—Basic concepts and conventions : entity, money measurement, going concern, cost, realization, accruals, periodicity, consistency, prudence (conservatism), materiality and full disclosures. (iii) Financial accounting standards : Concept, benefits, procedure for issuing accounting standards in India. Salient features of Accounting Standard (AS) : I (ICAI). International Financial Reporting Standards (IFRS) : - Need and procedures.	1-6
UNIT II	Accounting Process (Lectures 2) From recording of business transactions to preparation of trial balance, an overview only.	8-12
UNIT III	Business Income (Lectures 14) (i) Measurement of business income-Net income : the accounting period, the continuity doctrine and matching concept. Objectives of measurement. (ii) Revenue recognition : Salient features of Accounting Standard (AS) : 9 (ICAI) Recognition of expenses.	7,13,14

Unit	Conents	Relevant Chapters
	(iii) The nature of depreciation. The accounting concept of depreciation. Factors in the measurement of depreciation. Methods of computing depreciation : straight line method and diminishing balance method; Disposal of depreciable assets-change of method. Salient features of Accounting Standard (AS) : 6(ICAI) (iv) Inventories : meaning. Significance of inventory valuation. Inventory Record Systems : periodic and perpetual. Methods: FIFO, LIFO and Weighted Average. Salient features of Accounting Standard (AS) : 2 (ICAI)	
UNIT IV	Final Accounts (Lectures 16) (i) Capital and revenue expenditures and receipts: general introduction only. (ii) Preparation of financial statements : (a) of non-corporate business entities fromm a trial balance (b) of not-for-profit organizations (c) from incomplete records : statement of affairs method and conversion method.	15-19
UNIT V	Accounting for Hire Purchase and Instalment Systems (Lectures 12) Concepts of operating and financial lease (theory only)	20
UNIT VI	Accounting for Inland Branches (Lectures 15) Concept of dependent branches; accounting aspects; debtors system, stock and debtors system, branch final accounts system and whole sale basis system-Independent branches: concept-accounting treatment: important adjustment entries and preparation of consolidated profit and loss account and balance sheet.	21
UNIT VII	PART B Accounting for Dissolution of the Partnership Firm (Lectures 12) Insolvency of partners, sale to a limited company and piecemeal distribution.	22-23
	Or PART C Computerized Accounts (By using any popular accounting software) Creatio of vouchers and recording transactions, preparing reports-cash book and bank book, ledger accounts, trial balance, Profit and Loss Account (Income Statement) and Balance Sheets. (College needs to take permissio from the Department before starting part-'C'.	

C

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20. Accounting for Hire Purchase and Instalment Purchase	20.1 – 20.89
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Introduction to Accounting

LEARNING OBJECTIVES

After studying this chapter, you should be able to understand:

- Meaning of Accounting
- Meaning of Accountancy
- Meaning of Book-keeping
- Relationship between Accountancy, Accounting and Book-keeping
- Distinction between Book-keeping and Accounting
- Meaning of an Accounting Cycle
- Users of Accounting Information and their needs
- Primary Objectives of Accounting
- Advantages of Accounting
- Limitations of Accounting

INTRODUCTION

In all activities (whether business activities or non-business activities) and in all organisations (whether business organisations like a manufacturing entity or trading entity or non-business organisations like schools, colleges, hospitals, libraries, clubs, temples, political parties) which require money and other economic resources, accounting is required to account for these resources. In other words, wherever money is involved, accounting is required to account for it. Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function.

1.0 MEANING OF ACCOUNTING

Traditional Definition

“Accounting is an art of recording, classifying and summarising in a signified manner and in terms of money, transactions and events which are, in part at least of financial character, and interpreting the results thereof.”

[American Institute of Certified Public Accountants (AICPA) (1941)]

Modern Definition

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

[American Accounting Association (AAA) (1966)]

Activities covered under Accounting

Accounting covers the following activities:

1. Identifying	2. Measuring
3. Recording	4. Classifying
5. Summarising	6. Analysing
7. Interpreting	8. Communicating

Let us discuss these activities one by one:

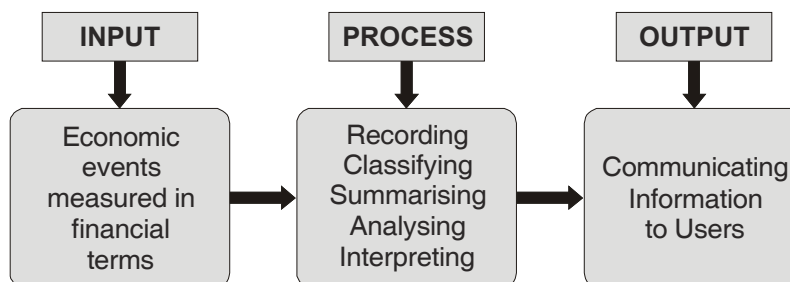
- 1. Identifying the Transactions and Events** — Accounting identifies transactions and events of a specific entity. A transaction is an exchange in which each participant receives or sacrifices value (e.g., purchase of raw material). An event (whether internal or external) is a happening of consequence to an entity (e.g., use of raw material for production). An entity means an economic unit that performs economic activities (e.g., TATA Steels, Birla Industries Ltd., Reliance Industries Ltd., Infosys, Bharti Airtel).
- 2. Measuring the Identified Transactions** — Accounting measures the transactions in terms of a common measurement unit, (that is the ruling currency of a country.)
- 3. Recording** — It is concerned with the recording of identified and measured financial transactions in an orderly manner, soon after their occurrence in the proper books of account.
- 4. Classifying** — It is concerned with the classification of the recorded transactions so as to group the transactions of similar type at one place. This function is performed by maintaining the ledger in which different accounts are opened to which related transactions are brought to one place by posting. *For example*, all purchases of goods made for cash or on credit on different dates are brought to purchases account.
- 5. Summarising** — It is concerned with the summarization of the classified transactions in a manner useful to the users. This function involves the preparation of Financial Statements such as Income Statement, Balance Sheet, Cash Flow Statement.
- 6. Analysing** — It is concerned with the establishment of relationship between the various items or group of items taken from Income Statement or Balance Sheet

or both. Its purpose is to identify the financial strengths and weaknesses of the enterprise. It provides the basis for interpretation.

7. Interpreting — It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Nowadays, the first six functions are performed by electronic data processing devices and the accountant has to concentrate mainly on the interpretation aspects of accounting. The accountants should interpret the statements in a manner useful to the users, so as to enable the users to make reasoned decisions out of alternative courses of action. The accountant should explain not only what has happened but also (a) why it happened, and (b) what is likely to happen under specified conditions.

8. Communicating — It is concerned with the transmission of summarised, analysed and interpreted information to the users to enable them to make reasoned decisions.

Communication is preceded by an accounting cycle through which the identified and measured transactions and events pass. Accounting performs a basic function of a language, that is, to serve as a means of communication. **It is an information system which communicates the accounting information to the users (whether internal or external) to enable them to make reasoned decisions. As an information system, accounting may be viewed as under:**



Note: *Economic Event refers to the occurrence of economic consequence of an activity related to an accounting entity.*

2.0 MEANING OF ACCOUNTANCY

Accountancy refers to a systematic knowledge of accounting. It explains ‘**why to do**’ and ‘**how to do**’ of various aspects of accounting. It tells us why and how to prepare the books of accounts and how to summarize the accounting information and communicate it to the interested parties.

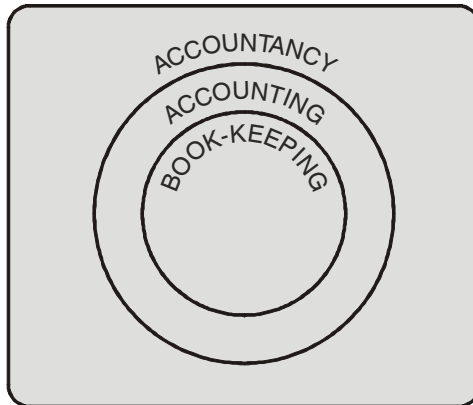
3.0 MEANING OF BOOK-KEEPING

Book-keeping is a part of accounting and is concerned with record keeping *or* maintenance of books of accounting which is often routine and clerical in nature. It only covers the following four activities:

1. Identifying the transactions and events
2. Measuring the identified transactions and events in a common measuring unit
3. Recording the identified and measured transactions and events in Proper Books of Accounts
4. Classifying the recorded transactions and events in the ledger

4.0 RELATIONSHIP BETWEEN ACCOUNTANCY, ACCOUNTING AND BOOK-KEEPING

Book-keeping is a part of Accounting. Accounting is a part of Accountancy. Diagrammatically, the relationship can be viewed as follows:

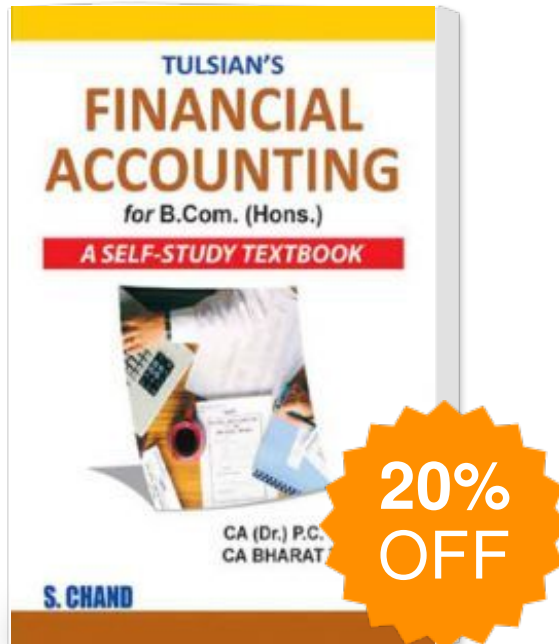


5.0 DISTINCTION BETWEEN BOOK-KEEPING AND ACCOUNTING

Book-keeping differs from accounting in the following respects:

Basis of Distinction	Book-keeping	Accounting
1. Scope	Book-keeping involves — (a) identifying the transactions, (b) measuring the identified transactions, (c) recording the measured transactions and (d) classifying the recorded transactions.	Accounting in addition to Book-keeping involves — summarizing the classified transactions, analysing the summarized results, interpreting the analysed results and communicating the interpreted information to the interested parties.
2. Stage	Book-keeping is primary stage.	Accounting is the secondary stage. It starts where book-keeping ends.
3. Basic Objective	The basic objective of book-keeping is to maintain systematic records of financial transactions.	The basic objective of accounting is to ascertain Financial Performance and Financial Position and to communicate information to the interested parties.
4. Who Performs	Book-keeping work is performed by junior staff .	Accounting work is performed by senior staff .
5. Knowledge Level	The book-keeper is not required to have higher level of knowledge than that of an accountant.	The accountant is required to have higher level of knowledge than that of book-keeper.

Tulsian'S Financial Accounting For B.Com Honrs.



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