

FINANCIAL ACCOUNTING AND ANALYSIS

Unit 2

MBA/BBA/B.com /B.Tech /UGC Net

By

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Mechanics of Accounting: Accounting Standards

- **Accounting Standards** are written policy documents issued by expert **accounting** body or by the government or other regulatory body .
- An accounting standard is a **set of practices and policies used to systematize bookkeeping and other accounting functions across firms and over time**. Accounting standards apply to the full breadth of an entity's financial picture, including assets, liabilities, revenue, expenses, and shareholders' equity.

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AS-1	Disclosure of Accounting Policies
AS-2 (Revised)	Valuation of Inventories
AS-3 (Revised)	Cash Flow Statements
AS-4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date
AS-5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS-6 (Revised)	Depreciation Accounting
AS-7 (Revised)	Accounting for Construction Contracts
AS-8 (Withdrawn)	Accounting for Research and Development
AS-9	Revenue Recognition
AS-10	Accounting for Fixed Assets
AS-11 (Revised)	Accounting for the Effects of Changes in Foreign Exchange Rates
AS-12	Accounting for Governments Grants
AS-13	Accounting for Investments
AS-14	Accounting for Amalgamations
AS-15 (Revised)	Employee Benefits

IFRS: International Accounting Standards;

- International Financial Reporting Standards (IFRS) are a set of accounting rules for the financial statements of public companies that are intended to make them consistent, transparent, and easily comparable around the world. IFRS currently has complete profiles for 166 jurisdictions.

IFRS: International Accounting Principles

- IFRS requires that financial statements be prepared using four basic principles: **clarity, relevance, reliability, and comparability.**

Matching of Indian Accounting Standards with International Accounting Standards,

IFRS	IND AS
Definition	
IFRS stands for International Financial Reporting Standards, it is an internationally recognised accounting standard	IND AS stands for Indian Accounting Standards, it is also known as India specific version of IFRS
Developed by	
IASB (International Accounting Standards Board)	MCA (Ministry of Corporate Affairs)
Followed by	
144 countries across the world	Followed only in India
Disclosure	
Companies complying with IFRS have to disclose as a note that the financial statements comply with IFRS	Such a disclosure is not mandatory for companies complying with Indian Accounting Standards or IND AS
Financial Statement Components	
It includes the following <ol style="list-style-type: none"> 1. Statement of financial position 2. Statement of profit and loss 3. Statement of changes in equity for the period 4. Statement of cash flows for the period 	It includes the following: <ol style="list-style-type: none"> 1. Balance Sheet 2. Profit and loss account 3. Cash flow statement 4. Statement of changes in equity 5. Notes to financial statements 6. Disclosure of accounting policies

Double entry system of Accounting,

- **Double-entry bookkeeping is a method of recording transactions where for every business transaction, an entry is recorded in at least two accounts as a debit or credit. In a double-entry system, the amounts recorded as debits must be equal to the amounts recorded as credits.**

journalizing of transactions

To journalize transactions you have to follow three simple steps:

Figure out the accounts affected.

Translate the changes into debits and credits.

Enter the date, reference number, and description.

Ledger posting

- Ledger posting is entering information in the ledger, in respective accounts from the journal for individual records. The account debited is posted on the debit side and the account credited is posted on the credit side of the same account.

Trial Balance

- A trial balance is a **bookkeeping worksheet in which the balance of all ledgers are compiled into debit and credit account column totals that are equal**. A company prepares a trial balance periodically, usually at the end of every reporting period

Journal

Journal Entry Format

JOURNAL				
Date	Particulars of Business Transactions	Folio	Debit (USD)	Credit (USD)
15-Oct-19	Furniture A/c Dr.		\$1,000.00	
	To Bank A/c Cr.			\$1,000.00
	(Furniture Purchased for Business)			

JOURNAL				
Date	Particulars of Business Transactions	Folio	Debit (USD)	Credit (USD)
7-Feb-19	Rent A/c Dr.		\$250.00	
	Insurance A/c Dr.		\$400.00	
	To Bank A/c Cr.			\$650.00
	(Rent and Insurance Paid)			

Ledger

General Ledger

Cash A/C (\$)

Jan 01	400,000	Jan 02	1000
Jan 29	20,000	Jan 03	15,000
		Jan 07	800
		Jan 30	1,000
Jan 30	402,200		

Salary A/C (\$)

Jan 30	10,000		
Jan 30	10,000		

Trade Receivables A/C (\$)

Jan 01	24,000	Jan 29	20,000
Jan 30	4,000		

Service Revenue A/C (\$)

	Jan	50,000
	Jan 30	50,000

Trial balance

Trial Balance

<u>Account Titles</u>	<u>Debit</u>	<u>Credit</u>
Assets	XXX	
Liabilities		XXX
Equity		XXX
Drawings	XXX	
Revenues		XXX
Expenses	XXX	
	<u>XXX</u>	<u>XXX</u>
	=	

**Trial Balance
as on March 31, 2018**

S.No.	List of Items	Debit Balances	Credit Balances
1	Cash	2,000	
2	Capital		80,000
3	Purchases	85,000	
4	Sales		1,08,400
5	Purchases Return		6,000
6	Sales Return	4,000	
7	Transportation	1,800	
8	Discount Allowed	500	
9	Printing	5,000	
10	Sundry Debtors	70,000	
11	Input CGST A/c	2,500	
12	Input SGST A/c	2,500	
13	Input IGST A/c	4,000	
14	Sundry Creditors		40,000
15	Investments	8,000	
16	Plant and Machinery	15,000	
17	Building	20,000	
18	Furniture	6,000	
19	Electricity	700	
20	Postage	400	
21	Drawings	8,000	
22	Salaries	6,000	
23	Travelling Expenses	2,000	
24	Output CGST A/c		1,500
25	Output SGST A/c		1,500
26	Output IGST A/c		6,000
	Total	2,43,400	2,43,400

3. Purchased goods for Rs. 2,00,000
4. Paid life insurance premium Rs. 1000
5. Salary due to clerk Rs. 100
6. Paid salaries by cheque Rs. 100
7. Provide depreciation on Machinery @ 10% for one month.
8. Received commission Rs. 3000
9. Ramesh & Co. became insolvent, nothing could be recovered from him
10. Paid municipal taxes Rs. 100