Revision Notes

Class 11 Accountancy

Chapter –2 Theory Base of Accounting

Accounting Principles
Accounting statements disclose the profitability and solvency of business to various parties. It is necessary to prepare such a statement in a standard language following a standard set of rules and regulations. These rules are known as "Generally Accepted Accounting Principles" or GAAP.

Features of Accounting Principles:
1. Accounting principles are man made.
2. Accounting principles are generally accepted .
3. Accounting principles are flexible in nature.

Need of Accounting Principles
To make the accounting information meaningful to its external and internal users, it is necessary that financial statements are prepared according to these principles.

Types of Accounting Principles:

1. **Going Concern Concept**: As per this concept it is assumed that the business will continue to exist for a long period in future and the transactions are recorded in the books of business on the assumption that it is a continuing enterprise.

2. **Consistency Concept**: It states that accounting principles and methods should remain consistent from one year to another. It helps them to compare the profit and loss of different periods and draw meaningful conclusions.

3. **Accrual Concept**: As per this concept revenue is recorded when sales are made and it is immaterial whether cash received or not and same applies to expenses also.It provides more appropriate information about business enterprise as compared to cash basis.

4. **Business Entity Concept**: As per this concept,business organisations are treated as separate entities and owners and persons are separate entities.

5. **Dual Aspect Concept**: It is the basis for the double entry system of book keeping that means all business transactions recorded in accounts have two aspects- debit and credit.The value of benefit received is equal to benefit given.

6. **Money Measurement Concept**: As per the accounting conventions only those transactions are recorded which can be expressed in monetary terms. Example- the event of machinery breakdown is not recorded as it does not have a monetary value.

7. **Cost Concept**: As per this concept, an asset is ordinarily recorded at the price actually paid or incurred to acquire it.

8. **Accounting Period Concept**: An accounting period is the interval of time ,at the end of which the financial statements are prepared to ascertain the financial performance of business.The accounting period is normally considered to be a period of 12 months.

9. **Matching Concept**: Matching the revenues earned during an accounting period with the cost associated with the period to ascertain the accurate result of business concern during that period is called matching concept.

10. **Revenue Recognition or Realization Concept:** As per this concept,revenue should be accounted for only when it is actually realised or it has become certain that the revenue will be realized.

11. **Objectivity Concept**: This principle of accounting specifies that the transactions should be recorded in an objective manner and should be unbiased in nature.

Accounting Conventions

It may be defined as a custom or generally accepted practice which is adopted either by general agreement or common consent among accountants.

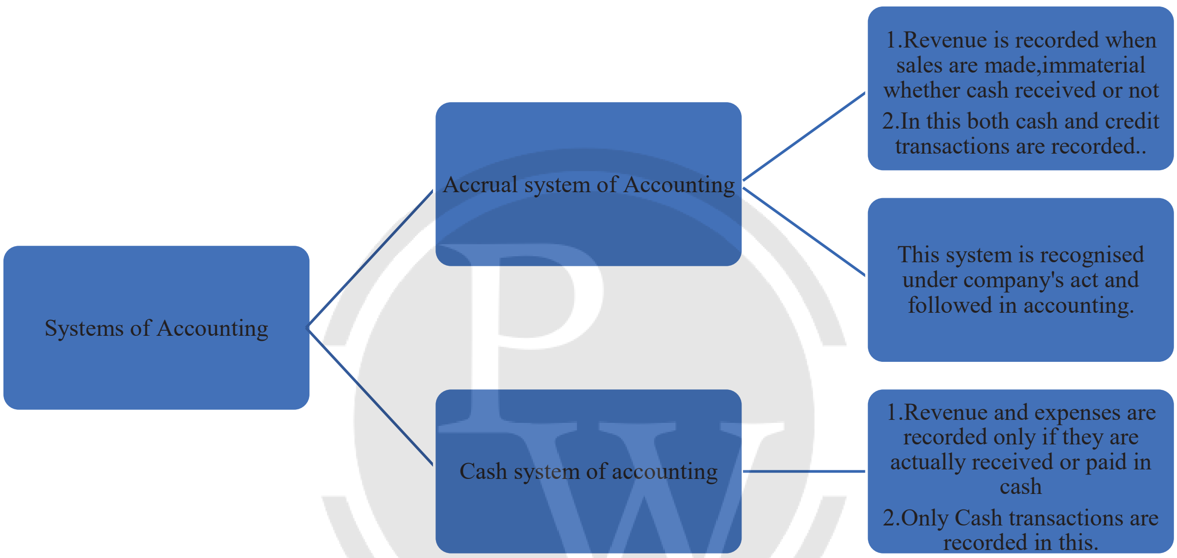
1. **Convention of Full Disclosure**: Accounting statements should disclose fully and completely all the significant information, based on which, decisions can be taken by various interested parties.

2. **Convention of Materiality**: It requires the disclosure of the significant information,exclusion of which would influence the decisions.

Unimportant information can be merged with other items.

3. **Convention of Conservatism**: The essence of this principle is 'anticipate no profit and provide for all possible losses'.This means that all prospective losses are taken into consideration.

Systems of Accounting



Accounting Standards
Accounting standards are those written statements, which are issued from time to time by the accounting professionals body, specifying uniform rules or practices for the preparation of the financial statements.

Need for Accounting Standards
Accounting standards are needed to improve reliability and bring uniformity in accounting practices and to ensure transparency, consistency and comparability in financial information.

Benefits of Accounting Standards
1. Accounting standards makes the financial statements more reliable.
2. Accounting standards help in resolving conflict of financial interest among various groups.
3. Accounting standards ensure the consistency and comparability of financial statements.

4. Accounting standards significantly reduce the chances of manipulations and frauds.

Note- Accounting standards are applicable everywhere except the purely charitable organization.

International Financial Reporting Standards (IFRS)

The term IFRS refers to financial reporting standards issued by the International Accounting Standards Board (IASB) .In order to make financial statements more consistent and transparent they should comply with all the requirements of IFRS.

Need for IFRS

The need for IFRS arises from the following reasons-

1. Easy access to global capital markets.
2. Easy to make Comparisons.
3. Uniformity in financial reporting.
4. True and fair valuation of assets.
5. Difficult to commit fraud and manipulate the accounts.

Goods and Service Tax (GST)

Goods and Services Tax is an indirect tax levied on supply of goods and services with consideration in the course of furtherance of business. GST is built on the principle of One Nation one Tax. It is a comprehensive, multistage, destination-based tax. GST extends to whole India including Jammu & Kashmir.

Features of GST

1. It is a consumption based tax.
2. Burden can be shifted in respect of GST.
3. Taxpayers do not receive a direct pinch while paying indirect taxes.
4. It is regressive in nature and it promotes social welfare
5. It is levied on commodities and services.

Advantages of GST

1. Ease of doing business.
2. Reduce Tax Evasion.
3. Tax system becomes more clear, systematic and foreseeable.
4. Decrease in the cost of goods, since tax on tax is eliminated in the GST regime.

Note: There are 3 taxes applicable under GST:

1. Central Goods and Services Tax (CGST)
2. State Goods and Services Tax (SGST)
3. Integrated Goods and Services Tax/ Union Territory Goods and Services Tax. (IGST/UTGST)