

UNIT-1
CONCEPTUAL BASIS FOR ACCOUNTS

Business Organization



BUSINESS ORGANIZATION

Meaning

business organization, an entity formed for the purpose of carrying on commercial enterprise. Such an organization is predicated on systems of law governing contract and exchange, property rights, and incorporation.

Definition

“**Business represents the organised efforts of enterprises to supply consumer** with goods and services”. – Musselman & Hughes.

“Business may be defined as an activity in which different persons exchange something of value whether goods or services for mutual gain or profit”. – Peterson and Plowman.

CHARACTERISTICS OF BUSINESS ORGANISATION



Capital



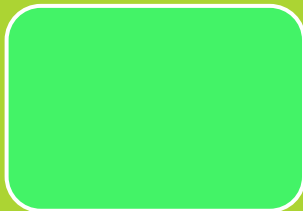
Limited
Liability



Flexibility of
Operations



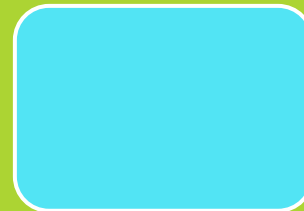
Ease in
formation



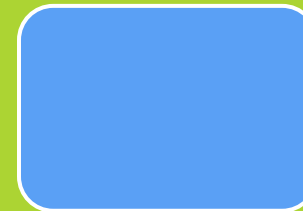
Business
Secrecy



Continuity &
Stability



Ownership
Management
and Control



Tax
Consideration

Importance of Business Organization

- Finance Management
- Minimum Wastage
- Product Growth
- Quick Decisions
- Reduce the cost
- Transportation
- Distribution
- Feedback

Forms of Business Organization



Sole
Proprietorsh
ip



Partnership



Joint Stock
Company



Sole Proprietorship

sole proprietorship also referred to as a sole trader or a proprietorship is an unincorporated business that has just one owner who pays personal income tax on profits earned from the business.

Features

- Single Ownership
- One man control
- No Separate Control
- No separate legal entity
- Unlimited liability
- No profit Sharing
- Small size
- No legal formalities

Benefits

- Low cost of production
- Promptness in decisions
- Personal Contact
- Easy to start and wind up
- Business Secrecy
- Flexibility in Business

Sole Proprietorship

Demerits

- Limited means of production
- Limited Skills
- No Large scale production
- Small Income
- Instability
- Unlimited Liability

Suitability

- In Local Market
- Personal Contact with customer is needed
- Like be his own boss
- Promptness in decision making
- Business is simple
- Risk is less and capital is low
- Manual skill is needed

Partnership

A partnership is a kind of business where a formal agreement between two or more people is made who agree to be the co-owners, distribute responsibilities for running an organization and share the income or losses that the business generates.

Features	Benefits
Two or more persons	Easy to form
Contract or Agreement	Prompt and correct decisions
Lawful Business	Use of diverse skills and talent
Sharing of profits	Business secrecy
Control is shared by all the partners	Personal contacts
Mutual Agency	Personal Interest and Initiative
Unlimited liability	Sharing of risks

Partnership Firms

Drawbacks	Suitability
Uncertain Existence	Capital factors
Disharmony among partners	Management factors
Not suitable for very large sale business	Risk factors
Weak management	Relationship factor
Non-Transferability of Partnership shares	Goodwill factor
Unlimited liability	Knowledge factor

Joint Stock Company

- A joint stock company is an organization which is owned jointly by all its shareholders. Here, all the stakeholders have a specific portion of stock owned, usually displayed as a share.
- Each joint stock company share is transferable, and if the company is public, then its shares are marketed on registered stock exchanges.
- Private joint stock company shares can be transferred from one party to another party. However, the transfer is limited by agreement and family members.

Features

Artificial person with separate legal entity

Voluntary Association

Legal Sanction

Shares are freely transferable

Common Seal

Limited liability

Ownership

Merits

Perpetual Existence

Large funds

Transferability of shares

Limited liability

Spreading out of risk

Efficient and economical management

Suitable for large business

JOINT STOCK COMPANY

Drawback

Suitability

Complication in formation

Large capital

Democratic only in theory

High degree of Managerial Sills

Lack of motivation

Global business operations

Delay in decisions

Risk factor

Lack of secrecy

Large scale production and distribution

Concentration of wealth and power in few hands



30	815,073,273	30	1,213,553,540
30	549,630,000	30	928,095,333
30	384,741,000	30	549,630,000
30	1,076,839,5	30	1,319,322,322
30	677,850,6	30	669,160,265
30	591,625,8		
30	395,67		
30	549		



INTRODUCTION TO ACCOUNTING





HISTORY AND ORIGIN OF ACCOUNTING



The earliest accounting records were found amongst the ruins of ancient Babylon, Assyria and Sumeria, which date back more than 7,000 years.

The people of that time relied on primitive accounting methods to record the growth of crops and herds.

Because there is a natural season to farming and herding, it is easy to count and determine if a surplus had been gained after the crops had been harvested or the young animals weaned.



EARLY ACCOUNTING IN INDIA

Early references to accounting concepts are found in the Vedas: Vikraya is found in the Atharvaveda and the Nirukta denoting 'sale'. Sulka in the Rig veda clearly means 'price'. In the Dharma Sutras it denotes a 'tax'.

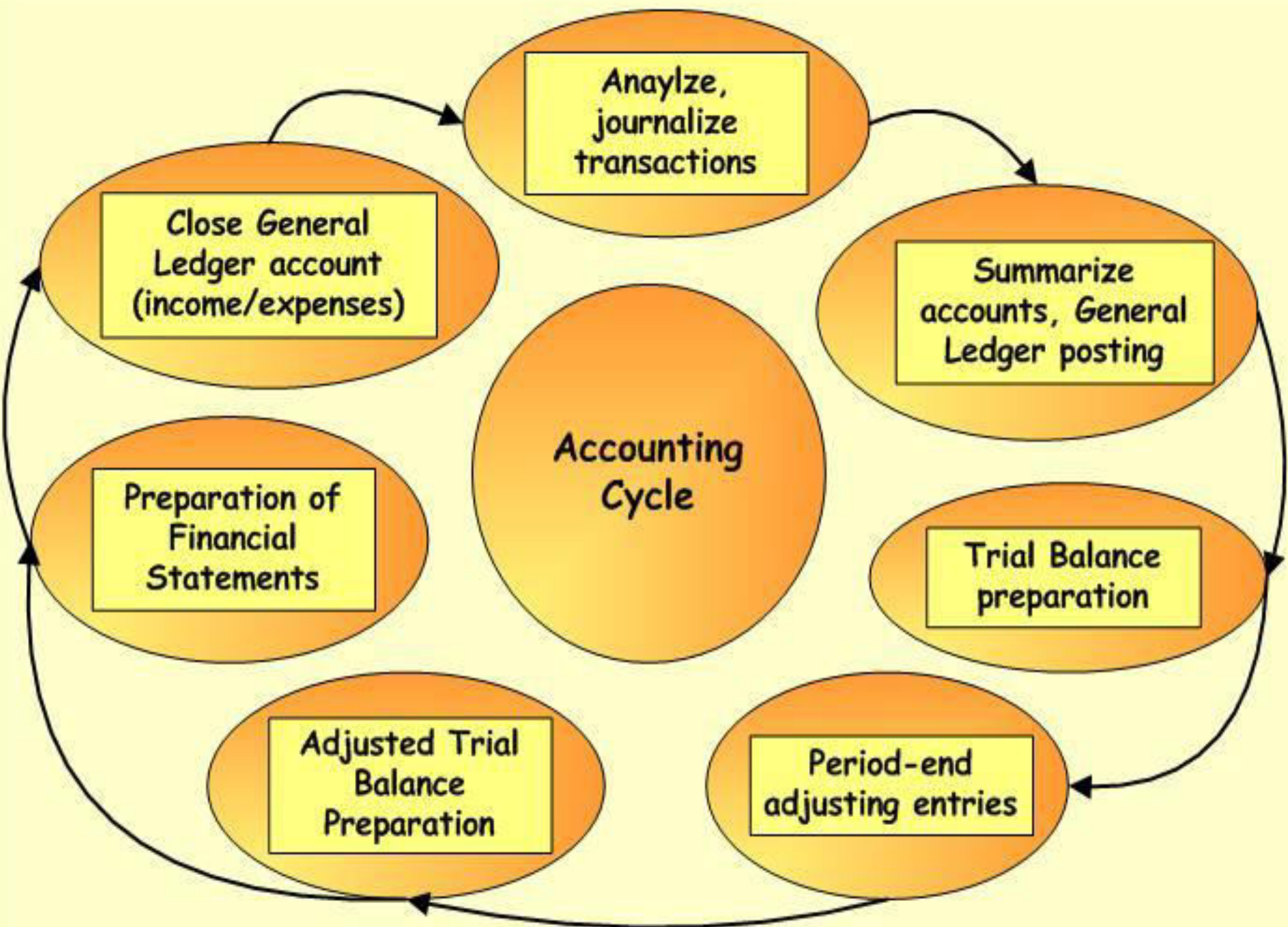
What is Financial Accountin g?

A method to communicate financial information to interested external parties. Users include capital providers, regulators, customers, suppliers, employees, etc

Capital suppliers include debt and equity providers

Financial accounting is used for both prediction and control





Accounting is a more **complex** concept that means reflection of the results of transactions according to the principles, standards, and statutory requirements in the financial statements and other business



Accounting

DEFINITION OF ACCOUNTING

Accounting refers to the process of

- Recording

- Classifying

- Summarizing

- And *analyzing* the information gathered or collected in monetary terms,

And thereof *interpreting the results to the users who are interested in such information.*

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Generally Accepted Accounting Principles (GAAP) refer to the standard framework of guidelines for

financial accounting used in any given jurisdiction;

generally known as **Accounting Standards**. **GAAP** includes the standards, conventions, and rules accountants follow in

recording and summarizing, and in the preparation of financial statements.

IS ACCOUNTING A SCIENCE OR AN ART ?

Definition of Science :

1. a branch of knowledge or study dealing with a body of facts or truths systematically arranged and showing the operation of general laws: the mathematical sciences.
2. systematic knowledge of the physical or material world gained through observation and experimentation.
3. any of the branches of natural or *physical science*.
4. systematized knowledge in general.
5. knowledge, as of facts or principles; knowledge gained by systematic study.

Definition of Art:

1. The expression or application of human creative skill and imagination, typically in a visual form such as painting or sculpture, producing works to be appreciated primarily for their beauty or emotional power.
2. Works produced by such **skill and imagination**
3. Skill, **dexterity**, or the power of performing certain actions, acquired by experience, study, or observation

Accounting is both an art and science.

An art because it can be learnt by practice and not by mere listening to it like scientific rules. Every accountant is not same. Many are good and other make mistakes, like every person is not a great artist.

It is science because it is based on many rules, concepts, conventions and assumptions. If everything goes accordingly, your balance sheets match, trial balances match and profits can be calculated correctly.

But even if a single accounting concept is mishandled and transaction is entered incorrectly, it brings propagation errors. We need to go back every step to trace it, which is very exhausting. So its a

BOOK KEEPING

Bookkeeping is the recording of financial transactions. Transactions include *sales, purchases, income, and payments by an individual or organization*. Bookkeeping is usually performed by a bookkeeper. **Bookkeeping should not be confused with accounting.**



How is bookkeeping different from **accounting?**



DIFFERENCE ACCOUNTING VIS-À-VIS BOOK KEEPING

BASIS	ACCOUNTING	BOOK KEEPING
Performed by	An accountant	A bookkeeper
Purpose	Interpret, prepare Financial statements, etc.	Record, classify and summarize transactions
Results used by	Internal (management, employees) and external users (owners, creditor, banks, etc.)	Accountants
Methods used / principals applied	GAAP, IFRS, etc.	Single-entry bookkeeping system, Double-entry bookkeeping system

OBJECTIVES OF ACCOUNTING



• **Profitability Ascertainment**: Shows true figures of profits earned by the business or losses incurred by the **business enterprise**, as the case may be.

• **Financial Position**: Shows true financial position of the business, position of assets and liabilities and helps the administrators to decide for future well being

• **Generates Information**: Accounting generates information about the **financialiability** of the business enterprise. It provide true benchmarks for the business to survive in the long run by providing with good sources of accurate data

• **Forecasting**: Accounting helps the business enterprises to predict the position of the business in the future and decide about the **future in the present**.

FUNCTIONS OF ACCOUNTING



Identifying
Recording
Classifying



Summarizing
Analyzing
Interpreting



Communicating

Features of Accounting

- Monetary Transactions
- Historical in nature
- Legal Requirement
- External Use
- Disclosure of financial status
- Interim Reports
- Financial Accounting process

USERS OF ACCOUNTING INFORMATION

External Users

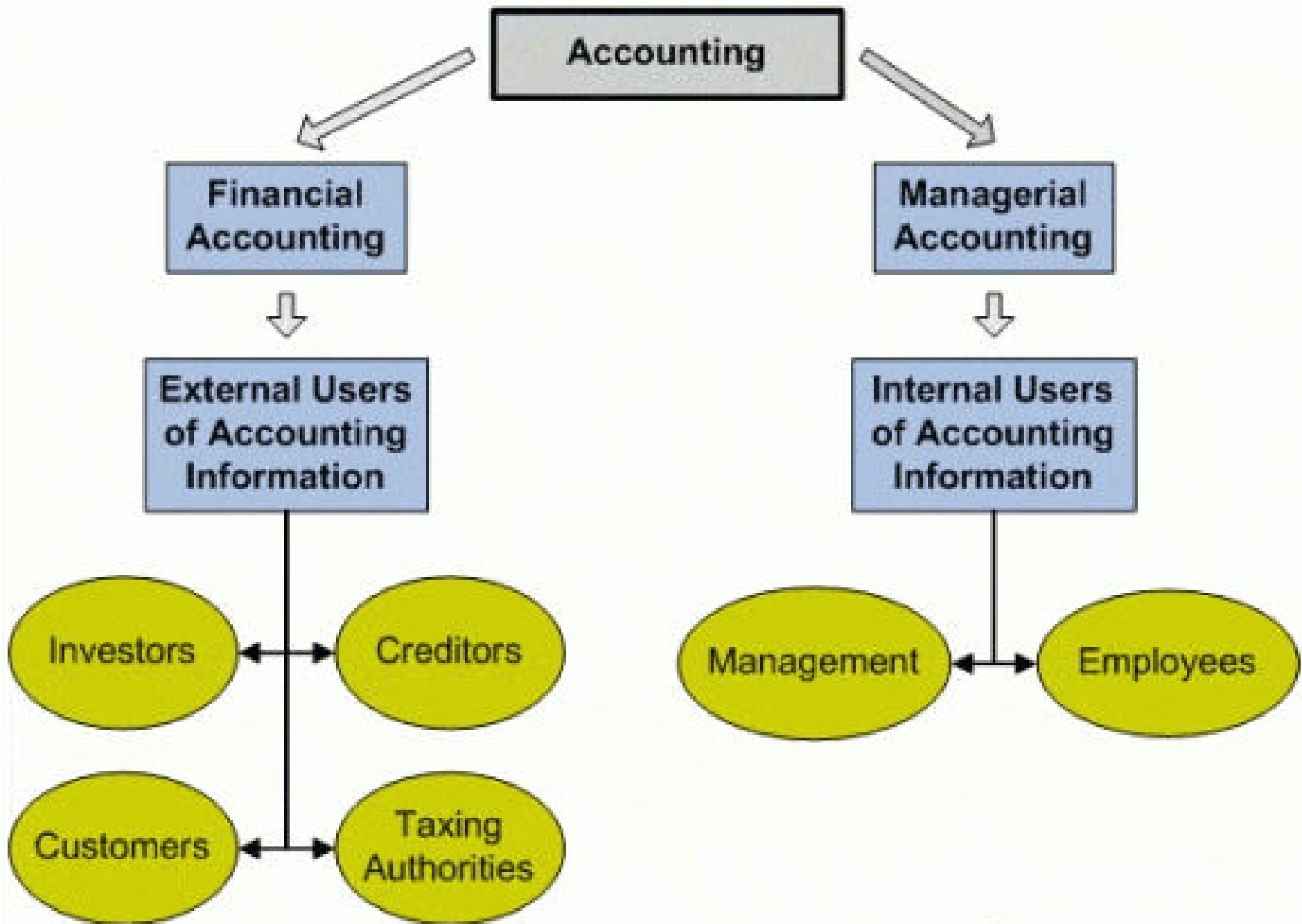


- Lenders
- Consumer Groups
- Shareholders
- External Auditors
- Governments
- Customers

Internal Users



- Managers
- Sales Staff
- Officers
- Budget Officers
- Internal Auditors
- Controllers



BRANCHES OF ACCOUNTING

FINANCIAL ACCOUNTING

COST ACCOUNTING

MANAGEMENT ACCOUNTING

Branches of Accounting



Financial Accounting

Journal

Subsidiary Books

Ledger

Trial Balance

Reports

Balance Sheet
Profit & Loss A/c

Display

Quit

Cost Accounting

Cost Sheet

Material Cost

Labour Cost

Other Expenses Cost

Reports

Standard Cost Report

Variance Report

Break Even Analysis

Marginal Cost Report

Price determination Report

Management Accounting

Trend Analysis

Ratio Analysis

Fund Flow Statement Analysis

Cash Flow Statement Analysis

Reports

Budgetary Reports

MIS Report

Interpretation

ADVANTAGES OF ACCOUNTING

- ACCOUNTING REPLACES HUMAN MEMORY
- ACCOUNTING HELPS IN KNOWING PROFIT
- ACCOUNTING HELPS IN KNOWING FINANCIAL POSITION OF ORGANISATION
- ACCOUNTING HELPS IN KNOWING LIST OF CREDITORS AND DEBTORS
- ACCOUNTING HELPS IN PAYING TAXES
- ACCOUNTING HELPS IN RAISING MORE FUNDS BY SUPPLYING INFORMATION TO INVESTORS AND CREDITORS
- ACCOUNTING HELPS IN PLANNING FOR EXPANSION
- ACCOUNTING HELPS IN GETTING BANK LOANS

LIMITATIONS OF ACCOUNTING

1. Records only monetary transactions.
2. Effects of price level changes not considered
3. Personal bias of accountant affects the accounting statements.
4. Permits alternative treatments.
5. Profit no real test of managerial position



BASIC ACCOUNTING TERMS

Capital

The amount invested by the owner to his business

Drawing

Any cash foods with drawing by the owner for personal use from his business.

Goods

It means product or things purchased in the business for resale.

Purchase

A firm has to either purchase finished goods for sale or purchase raw material for manufacture. Acquisition of these articles is purchase. Purchase of assets are not purchase in accounting terminology as these assets are not meant for sale.

BASIC ACCOUNTING TERMS

Purchase return

When goods are returned to the supplier due to defective quality or not as per the terms of purchase, it is called as purchase return.

Sales

The purpose of goods purchased are manufactured by a business is their sales. It includes both cash and credit sales.

Sales return/ Return inwards

When goods are returned from the customer's due to defective quality or not as per the terms of sale, it is called sales return.

Cash purchases

Acquisition of goods for immediate payment of cash.

Credit purchases

Acquisition of goods for later payment of money.

BASIC ACCOUNTING TERMS

Cash sales

Disposal of goods for immediate receipt of cash.

Credit sales

Disposal of goods for later receipt of consideration.

Debtor

A person who has to pay money to the business.

Creditors

A person money is payable by a business.

Debt

It is an amount due from a person to the business.

Good debts

It is debt which can be collected in fully.

Bad debts

It is a debt which is fully irrecoverable.

BASIC ACCOUNTING TERMS

Doubtful debts

The debt which is doubtful of recovery.

Solvent

A person who is in a position to repay his debt or loan is known as solvent.

Insolvent

A person who is not in a position to repay his debt or loan.

Assets

Assets are properties or resources which are owned by the business.

Liability

Amount payable by the business to outsiders or obligation of a business.

Stock or inventory

Stock of finished goods held for sale in the business.

Goodwill

It refers to the good name and reputation of a business enterprise expressed in monetary value. It is over and above of the actual value of Assets and liabilities of an enterprise.

BASIC ACCOUNTING TERMS

Depreciation

Decreasing the value of assets over a period of time.

Appreciation

Increasing the value of assets over a period of time.

Expenses

Amount spent for earning the revenue.

Ex: Rent, Salary etc...

Loss

It is unwanted expenses, the business has to bear without receiving any benefit.

Ex: Loss of goods by fire, Cash theft, Vehicle damage by accident.

Revenue income

It means amount received by the business from sale of goods and services.

Ex: Sale of goods, Commission earned, Interest earned.

Gain

It is revenue to the business from other sources.

Ex: Winning lottery.

BASIC ACCOUNTING TERMS

Profit

Excess amount of revenue over the expenses.

Account

It is an summarized record of all the transactions.

Carried down

It is the process of transfer the balance of account to the next period or next account.

Brought down

It is the process of bringing down the closing balance of the previous period to the next period.

Entry

A documentary proof in support of the transaction.

Polio

It means is number given to general on ledger.

Vouchers

A documentary proof in support of the transaction.

BASIC ACCOUNTING TERMS

Revenue receipt

It refers to the receipt of the business which are recurring in nature and its availability is for a shorter duration.

Capital receipts

It refers to the results of the business which are non-recurring in nature and its availability is for a longer period.

Types of assets

Fixed assets

This assets acquired for long-term use in the business they are not meant for sale.

Ex: Land and building, Plant and machinery, Vehicle, and Furniture.

Current assets

Current assets are those which are meant for short term use and quantity varies frequently.

Ex: Cash, Bank, Accounts receivable.

BASIC ACCOUNTING TERMS

Fictitious assets

Fictitious assets are those assets which do not have physical form they do not have any sale value.

Tangible assets

These assets are having physical existence, which can be seen and touched.

Ex: Land and building, plant and machinery, Furniture, Stock, Cash.

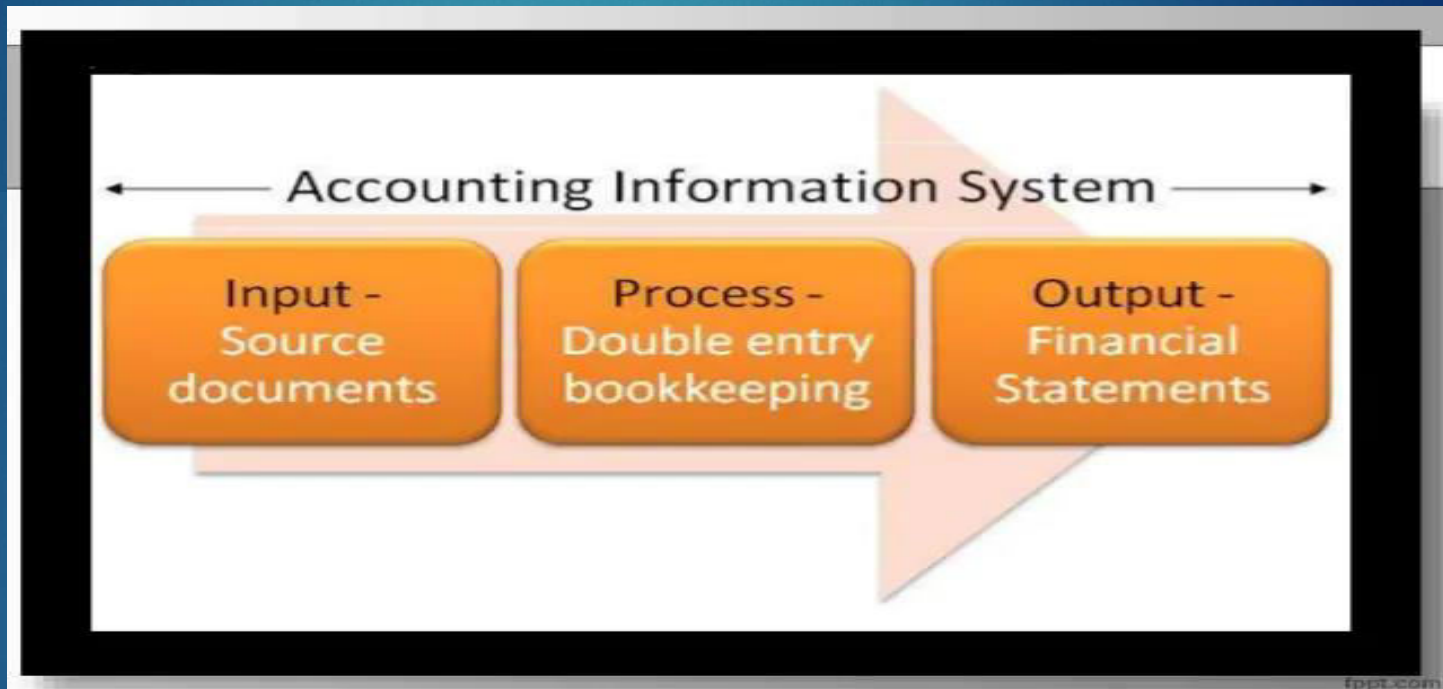
Intangible assets

These are assets which we cannot touch and we cannot see.

Ex: Goodwill, Copyrights, Patents, Trademarks, License.

ACCOUNTING INFORMATION SYSTEM [AIS]

It is a structure that a business uses to collect, store, manage, process, retrieve, and report its financial data so it can be used by accountants, consultants, business analysts, managers, chief financial officers (CFOs), auditors, regulators, and tax agencies.



OBJECTIVE/PURPOSE OF AIS

- To communicate the information
- To ascertain true picture of organization
- To ascertain Operational Profit or loss
- To facilitate decision making
- To Ascertain financial position
- To overcome with uncertainty and risk

FRAUD AND ETHICAL ISSUES IN ACCOUNTING

- Ethics or moral philosophy is a branch of philosophy that "involves systematizing, defending, and recommending concepts of right and wrong behavior".
- Accounting ethics is primarily a field of applied ethics and is part of business ethics and human ethics, the study of moral values and judgments as they apply to accountancy. It is an example of professional ethics.

REQUIREMENTS OF ETHICAL ACCOUNTING

- 1. Confidentiality**
- 2. Disclosure**
- 3. Integrity and Objectivity**
- 4. Professionalism**

ETHICAL ISSUES IN ACCOUNTING



ACCOUNTING STANDARDS

According to T P Ghosh, Accounting Standards are defined as “The policy documents issued by the recognized expert accountancy body relating to various aspects of measurements, treatment and disclosure of accounting transactions and events.

The accounting standards are set in the form of general principles the application of which is left to the professional judgment.

Need for Accounting Standards

- Uniform standard presentation
- Removal of ambiguity
- Prevention of accounting scandals
- Globalization of Business
- Internationalization of financial Institutions

ACCOUNTING STANDARDS

The Accounting Standards Board of India has formulated the following standards :

Accounting Standard	1.	Disclosure of Accounting Policies.
Accounting Standard	2.	Valuation of Inventories. (Revised)
Accounting Standard	3.	Cash Flow Statements. (Revised)
Accounting Standard	4.	Contingencies and Events Occurring after the Balance Sheet date. (Revised)
Accounting Standard	5.	Net profit or loss for the period, prior period items and changes in accounting policies.
Accounting Standard	6.	Depreciation Accounting. (Revised)
Accounting Standard	7.	Accounting for Construction Contracts. (Under revision)
Accounting Standard	8.	Accounting for Research and Development.
Accounting Standard	9.	Revenue Recognition.
Accounting Standard	10.	Accounting for Fixed Assets. (Under revision)
Accounting Standard	11.	Accounting for the Effects of Changes in foreign Exchange Rates.
Accounting Standard	12.	Accounting for Government Grants.
Accounting Standard	13.	Accounting for Investments.
Accounting Standard	14.	Accounting for Amalgamations.
Accounting Standard	15.	Accounting for Retirement Benefits in the Financial Statements of Employers.
Accounting Standard	16.	Borrowing Costs
Accounting Standard	17.	Segment Reporting
Accounting Standard	18.	Related Party Disclosures.
Accounting Standard	19.	Leases
Accounting Standard	20.	Earning Per Share
Accounting Standard	21.	Consolidated financial statements.
Accounting Standard	22.	Accounting for taxes on income.
Accounting Standard	23.	Accounting for investments in associates in consolidated financial statements.
Accounting Standard	24.	Discontinuing operations
Accounting Standard	25.	Interim Financial Reporting
Accounting Standard	26.	Intangible Assets
Accounting Standard	27.	Financial Reporting of Interests in Joint Ventures
Accounting Standard	28.	Impairment of Assets.
Accounting Standard	29.	Provisions, Contingent Liabilities and Contingent assets
Accounting Standard	30.	Financial Instruments : Recognition and Measurement
Accounting Standard	31.	Financial Instruments : Presentation
Accounting Standard	32.	Financial Instruments : Disclosure

Thank you

ORIENTATION TO FINANCIAL STATEMET

UNIT-2

GAAP

Generally accepted accounting principles (GAAP)

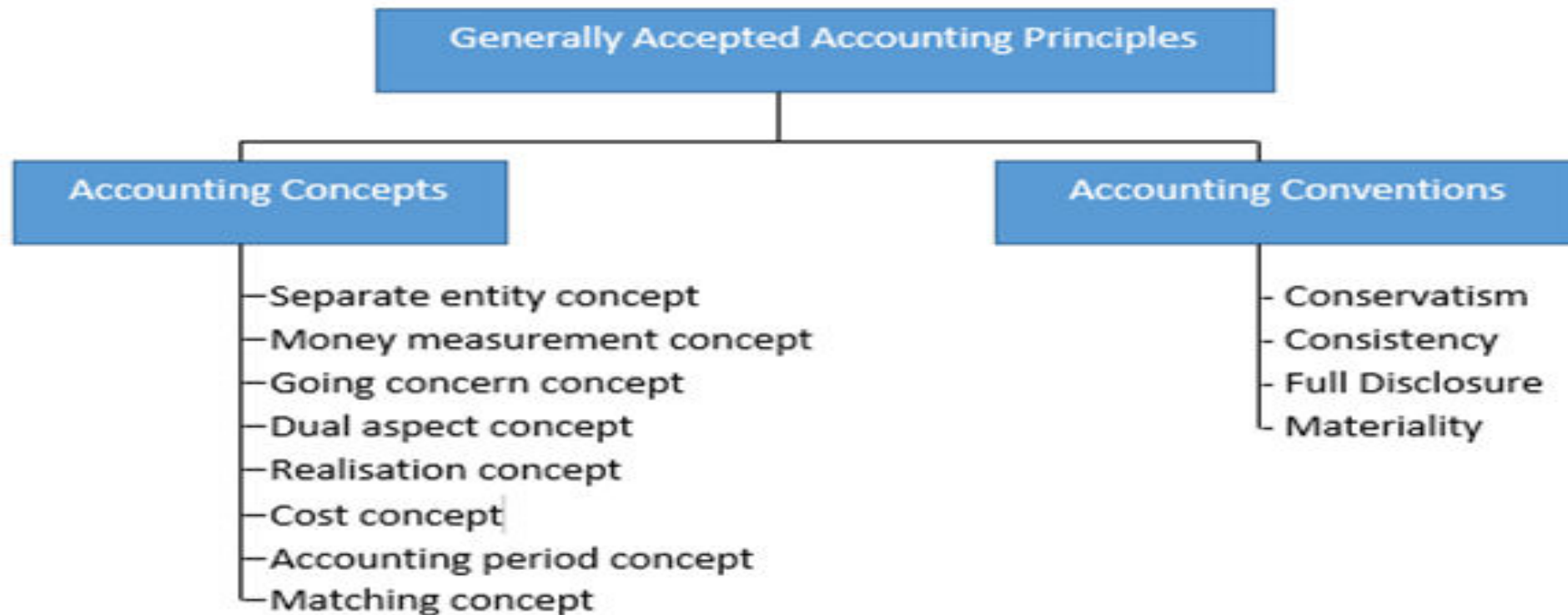
Generally accepted accounting principles, or GAAP, are a set of rules that encompass the details, complexities, and legalities of business and corporate accounting.

The Financial Accounting Standards Board (FASB) uses GAAP as the foundation for its Comprehensive set of approved accounting methods and practices.

Features of GAAP

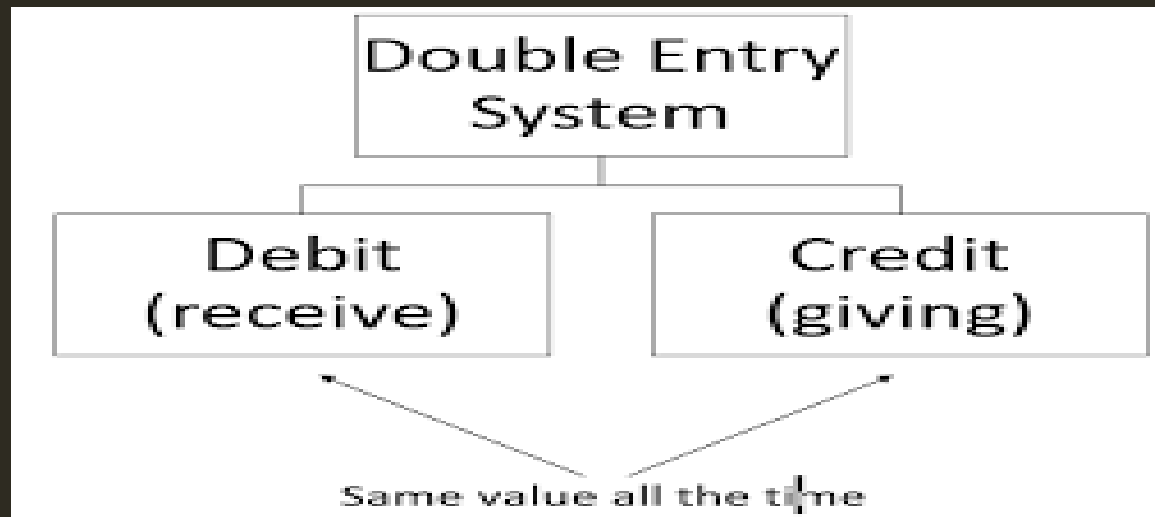
- ❖ Based on general rules
- ❖ On the basis logic and experience
- ❖ Accounting principles are widely accepted

CLASSIFICATION OF GAAP

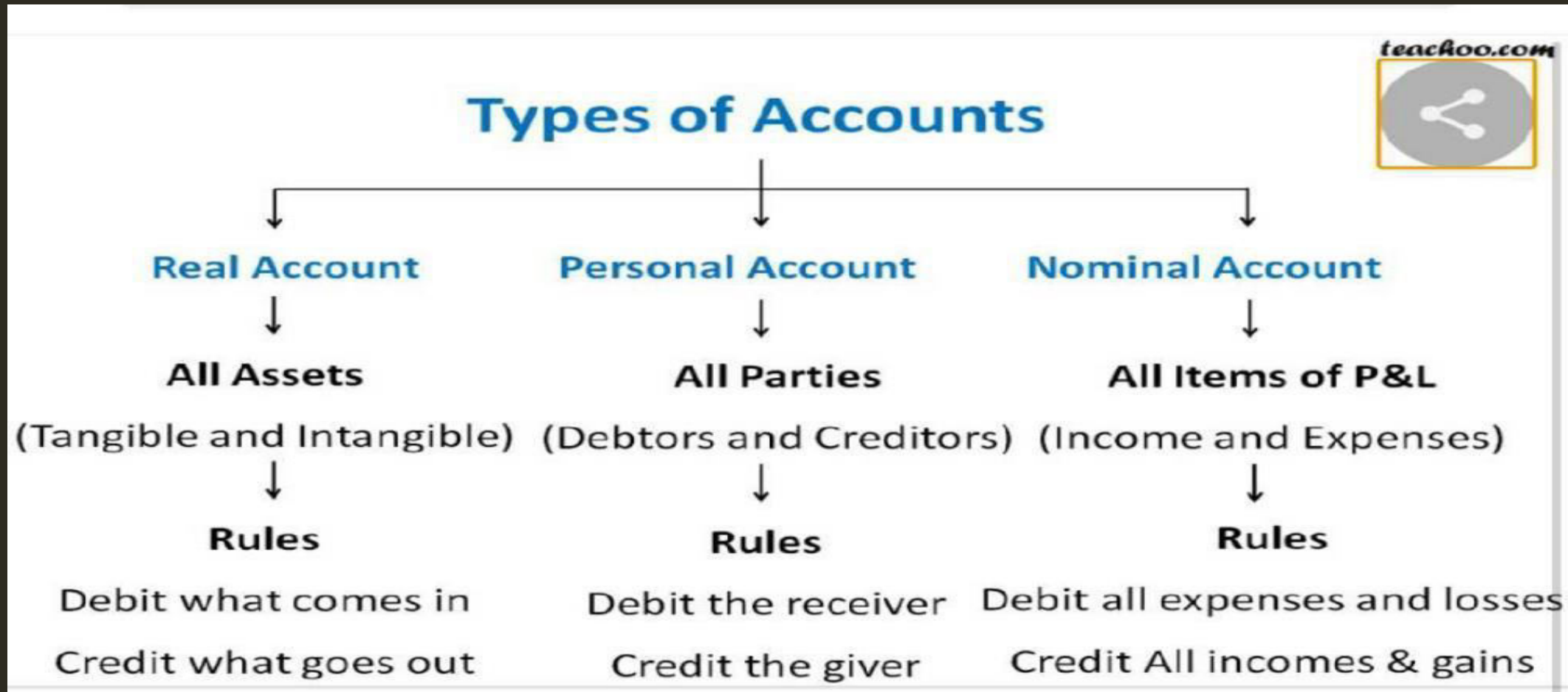


DOUBLE ENTRY SYSTEM

Double entry, a fundamental concept underlying present-day bookkeeping and accounting, states that every financial transaction has equal and opposite effects in at least two different accounts.



CLASSIFICATION OF ACCOUNTS OR GOLDEN RULES OF ACCOUNTS



JOURNAL ENTRY

A journal entry is used to record a business transaction in the accounting records of a business. A journal entry is usually recorded in the general ledger; alternatively, it may be recorded in a subsidiary ledger that is then summarized and rolled forward into the general ledger. The general ledger is then used to create financial statements for the business.

Proforma of Journal

DATE	PARTICULARS	L.F	Dr. [Amount]	Cr. [Amount]

LEDGER

Ledger Account is a journal in which a company maintains the data of all the transactions and financial statement. Company's general ledger account is organized under the general ledger with the balance sheet classified in multiple accounts like assets, Accounts receivable, account payable, stockholders, liabilities, equities, revenues, taxes, expenses, profit, loss, funds, loans, bonds, stocks, salaries, wages, etc

Name of Account						
Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	A

LEDGER POSTING

1. Opening of separate accounts
2. Posting Journal entry to Concerned side
3. Use of word "To" and "By"
4. Balance in account

TRIAL BALANCE

A trial balance is a statement of ledger account balances within the Ledger, at a particular instance.

If we balance all the ledger accounts at a particular instance and then prepare a statement of balances we get the Trial Balance.

Trial Balance – Purpose

A trial balance is prepared to check the mathematical/arithmetic accuracy of accounting.

This is the only (main) purpose of the Trial Balance.

FORMAT OF TRIAL BALANCE

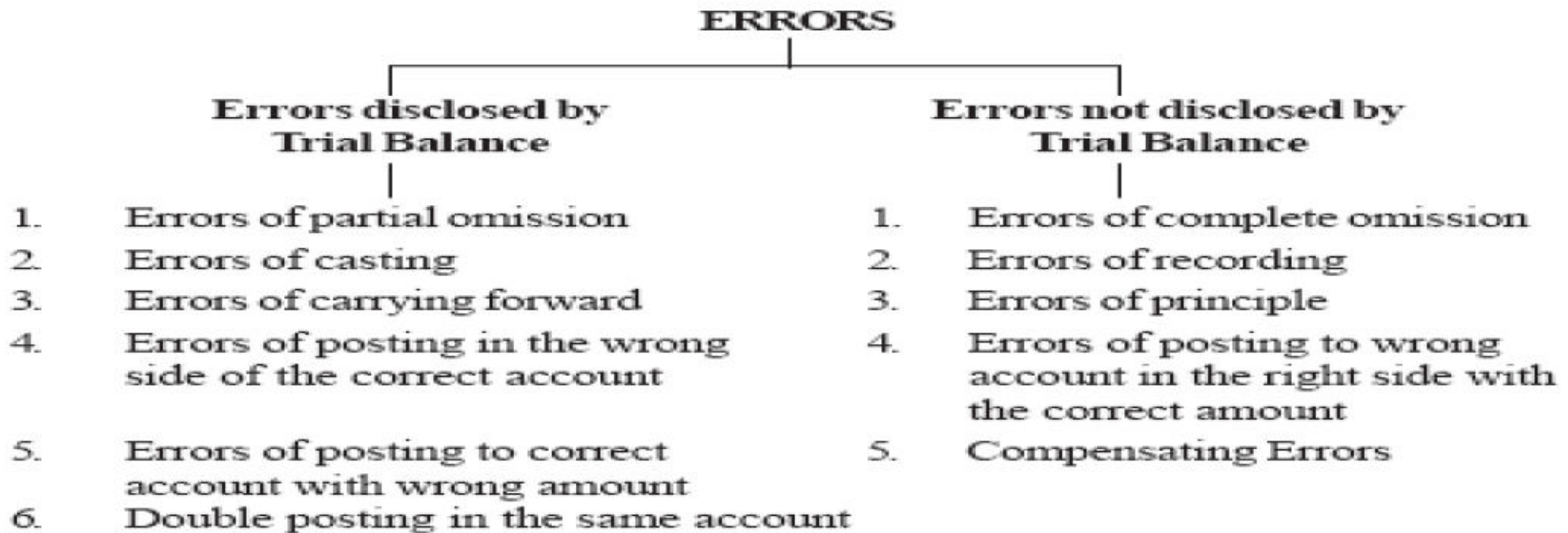
AR Khan Co (Pvt.) Ltd.
Incorrect and Unadjusted Trial Balance
As on 31st December, 20015

S. No	Heads of Accounts	Ref	Amount (Rs.)	
			Debit	Credit
1	Return outward		16,000	
2	Furniture		34,200	
3	Salaries		12,000	
4	Account Payables		28,000	
5	Bank		45,000	
6	Carriage Inward		6,000	
7	Rent Received		3,000	
8	Discount Allowed		2,000	
9	Purchases		100,000	
10	Bill Payable		20,000	
11	Account Receivables			15,000
12	Carriage Outward			5,000
13	Owner Equity			55,200
14	Machinery			18,000
15	Return Inward			3,000
16	Discount Received			4,000
17	Insurance Expenses			6,000
18	Sales			140,000
19	Building			20,000
Total			Rs. 266,200	Rs. 266,200

METHODS OF PREPARING TRAIL BALANCE

1. Balance Method
2. Total method

ERRORS IN TRIAL BALANCE



FINANCIAL STATEMENTS

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. Financial statements include:

Balance sheet

Income statement

Cash flow statement.

CHARACTERISTICS OF FINANCIAL STATEMENT

1. *Understandability*
2. *Relevance*
3. *Reliability*
4. *Comparability*

LIMITATIONS OF FINANCIAL STATEMENT

- 1. Dependence on historical costs**
- 2. Biased**
- 3. Significant data missing**
- 4. Aggregate Information**
- 5. Assets may not realize**
- 6. They are only interim reports**

TRADING ACCOUNT

Format of Trading Account

Dr.		(For the period ended)		Cr.	
Particulars	Amount	Particulars	Amount		
To Opening stock		By Sales			
To Purchases		Less: Sales returns			
Less: Purchases returns		By Closing stock			
To Wages					
To Customs and import duty					
To Carriage expenses					
To Royalty					
To Manufacturing expenses					
To Packing expenses					
Total		Total			
To gross profit transferred to profit and loss account		By gross loss transferred to profit and loss account			

PROFIT AND LOSS ACCOUNT

Profit and Loss Account: Meaning, Format & Examples

Profit and loss account or Income statement is prepared to find out the Net Profit/loss of the business for the particular accounting period. It is calculated by comparing the Gross Profit/Loss with indirect income and expenses.

Name of Business
Profit and Loss Account for the year ended

Particulars	Amounts	Particulars	Amounts
To Trading A/c - (G.L.)	XXXX	By Trading A/c - (G.P.)	XXXX
To Office and Administration Expenses:	XX	By Indirect Income a/ c	XXX
To Selling and Distribution Expenses:	XX		
To Financial and Other Expenses:	XX		
By Capital A/c (Balancing Figure represent Net Profit)	XXX	By Capital A/c (Balancing Figure represent Net Loss)	XXX
	XXXX	Tutor'sTips.com	XXXX

BALANCE SHEET

The Balance Sheet is a statement that shows the financial position of the business. It records the assets and liabilities of the business at the end of the accounting period after the preparation of trading and profit and loss accounts

9.1.1. Horizontal Form of Balance Sheet

Schedule VI Part I
(Section 211 of Companies Act, 1956)

Balance Sheet of (Here enter the name of the Company)

as on (Here enter the date as at which the balance sheet is made out)

Figures of the Previous Year (₹)	Liabilities	Figures for the Current Year (₹)	Figures for the Previous Year (₹)	Assets	Figures for the Current Year (₹)
	<p>1) Share Capital Authorized Capital: shares of ₹each Issued Capital: Equity shares of ₹each Preference Shares of ₹each Subscribed and Paid up Capital: Equity shares of ₹each ₹called up Preference shares of ₹each ₹called up Less: Calls unpaid: i) By Directors ii) By Others Add: Forfeited shares i) Of the above shares shares are allotted as fully paid pursuant to a contract without payment being received in cash ii) Of the above shares shares are allotted as fully paid up by way of bonus shares</p> <p>2) Reserves and Surplus: i) Capital Reserve ii) Capital Redemption Reserve</p>			<p>1) Fixed Assets Distinguishing as far as possible between expenditure upon: i) Goodwill ii) Land iii) Buildings iv) Leaseholds v) Railways sidings vi) Plant and Machinery vii) Furniture and Fittings viii) Development of property ix) Patents, trade marks & designs x) Live stock xi) Vehicles</p> <p>2) Investments: (Showing nature of investment and mode of valuation, e.g., cost or market value and distinguishing between: i) Investment in Government or Trust securities ii) Investment in shares, debentures and bonds iii) Investment in immovable properties</p>	

Notes to Balance Sheet

1) Statement of Profit and Loss A/c (if any)

2) Statement of Balance Sheet as at the end of the year after deducting proposed dividend, bonus or other amounts to reserves

3) Secured Loans

4) Unsecured Loans:

5) Current Liabilities and Provisions:

6) Contingent Liabilities:

Notes to Balance Sheet

7) Current Assets, Loans and Advances:

8) Miscellaneous Expenditure:

9) Profit and Loss A/c: (Show here the debit balance of profit and loss A/c carried forward after deduction of the uncommitted

2.9.1.2. Vertical Form of Balance Sheet

Name of the Company.....
Balance Sheet as at.....

Particulars	Schedule No.	Figures as at the End of the Current Financial Year	Figures as at the End of Previous Financial Year
1) Sources of Funds			
i) Shareholders' Funds:			
a) Capital
b) Reserve and Surplus
ii) Loan Funds:			
a) Secured Loans
b) Unsecured Loans
Total
2) Application of Funds			
i) Fixed Assets:			
a) Gross Block
b) Less: Depreciation
c) Net Block
d) Capital works in progress
ii) Investments
iii) Working Capital:			
Current Assets, Loans and Advances:			
a) Inventories
b) Sundry Debtors
c) Cash and Bank Balances
d) Other Current Assets
e) Loans and Advances
Less: Current Liabilities and Advances:			
a) Liabilities	(.....)	(.....)
b) Provisions	(.....)	(.....)
Net Current Assets
iv) a) Miscellaneous expenditure to the extent not written off or adjusted
b) Profit and Loss A/c
Total

MODULE 3

MEASURING AND REPORTING ASSES, LIABILITIES & EQUITY

HIGHLIGHTS

- CURRENT ASSETS
- INVENTORY VALUATION
- INVENTORY VALUATION
- COST FORMULAS (AS-2)
- FIXED ASSETS COST OF ACQUISITION (AS-10)
- DEPRECIATION METHODS (AS-6)
- -LIABILITIES AND ITS CLASSIFICATION

CURRENT ASSETS

Current assets are those assets which are convertible into cash through the normal course of business within short span of time, say one year , or fiscal year, or financial year or with in operating cycle.

Example for current Assets: Cash in hand, Cash at bank, marketable securities, Sundry debtors/ Accounts Receivables, Bills Receivables, Prepaid expenses, loans and advances, Merchandise inventory, manufacturing inventory etc.

Inventory Valuation: Accounting Standard (AS-2)

A primary issue in a accounting for inventories is the determining of the value at which inventories are carried in the financial statements until the related revenues are recognized. This standard deals with the determination of such value, including the ascertainment of cost of inventories and any write – down thereof to net value.

Definitions

The following terms are used in this standard with the meanings specified:

Inventories are assets:

- a) Held for sale in the ordinary course of business;
- b) In the process of production for such sale; or
- c) In the form of materials or supplies to be consumed in the production process or in the rendering services.

Net realized value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories encompass goods purchased and held for resale, for example merchandise purchased by a retailer and held for resale, computer software held for resale, or land and other property held for resale. Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with accounting standard (AS) 10, Accounting for Fixed Assets.

Scope of Inventory Valuation

- a) Work in progress arising under construction contracts, including directly related service contracts
- b) Work in progress arising in the ordinary course of business services providers.
- c) Shares, Debentures and other financial instruments held as stock-in – trade.
- d) Producers inventories of livestock, agricultural and forest products and mineral oils, ores and gases to the extent that they are measured at net value in accordance with well established practices in those industries.

Measurement of inventories

Inventories should be valued at the lower of cost and net realizable value.

1. Cost of inventories

The cost of inventories should comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

2. Cost of purchase

The cost of purchase consists of the purchase price including duties and taxes (other than those subsequently by the enterprise from the taxing authorities), freight inwards and other expenditures directly attributable to the acquisition.

3. Cost of conversion

The cost of conversion of inventories includes cost of directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in conversion materials into finished goods.

Cost formulas (AS)-2

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of the individual costs.

Specific identification of cost means that specific costs are attributed to identify items of inventory. This is an appropriate treatment for items that are segregated for specific projects, regardless of whether they have been purchased or produced.

A variety of cost formulas is used to determine the cost of inventories other than those for which specific identification of individual costs is appropriate. The formula used in determining the cost of an item of inventory needs to be selected with a view to providing the fairest possible approximation to the cost incurred in bringing the item to its preset location and condition. The FIFO formula assumes that the item of inventories which were purchased or produced first are consumed or sold first, and consequently the remaining inventory at the end of the period are those most recently purchased or produced. \

Methods of Inventory Valuation/ Inventory Costing Method/ Cost Formulas

1. First in First out (FIFO)
2. Last in First out (LIFO)
3. AVERAGE COST
 - a. Simple average method
 - b. Weighted average method
 - c. Average cost
 1. Simple average method
 2. Weighted average method

First in First out (FIFO)

This method assumes that material are used in the order in which they are received in stores. The issues are priced in the chronological order of receipts. As a result closing stock will be valued at latest purchase price.

Last in First out (LIFO)

This method is based on the assumption that the last items purchased are first to be used. Here, issues are valued at current prices, while stock remains at historical cost. The method has advantages under inflationary condition of the market. LIFO methods are useful where materials are used less frequently and under inflationary condition.

Simple average method

Simple average price is the prices without any regards to quantities. The calculation of simple average price involves adding of different prices and dividing by the no. of different prices.

Under this method issues are valued at simple price of the number of prices available at the time of issue irrespective of the quantities purchased. The lot which is exhausted based on first out principle is excluded I computing the average.

Weighted average price method

The method gives due importance on quantities received. Issue prices are calculated the average cost price of materials in mind. Weighted average price is calculated by dividing the total cost of materials in stock by the total quantity of materials in stock.

- **FIXED ASSETS COST OF ACQUISITION (AS-10)**

ACCOUNTING STANDARD (AS)10

Accounting For Fixed Assets

These assets are grouped into various categories such as land, buildings plant and machinery vehicles furniture & fittings ,goodwill, patents, trademarks and designs. This standard deals with accounting for such fixed assets except as described in paragraphs 2 t 5 below.

This standard does not deal with the specialized aspects of accounting for fixed assets that arise under a comprehensive system reflecting the effects of changing prices but applies to financial statements prepared on historical cost basis.

This standard does not deal with the accounting for the following items to which special consideration apply.

1. Forest, plantations and similar regenerations natural resources:

2. Wasting assets, including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non generative resources:
3. Expenditure on real estate development and
4. Livestock.

This standard does not cover the allocation of the depreciable amount of fixed assets to future periods since this subject deals with in accounting standard 6 on Depreciation Accounting.

This standard does not deal with government grants and subsidies, and assets under leasing rights. It makes only a brief reference to the capitalization of borrowing costs and to assets acquired in an amalgamation or merger. These subjects require more extensive consideration than can be given within this standard.

Definitions

Fixed assets is an assets held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

Components of cost

The cost of an item of fixed asset comprises its purchase price, including import duties and other non refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use: any trade discount and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

1. Site preparation
2. Initial delivery and handling costs
3. Installation cost such as special foundation for plant.
4. Professional fees, for example fees of architects and engineers.

The cost of fixed assets may undergo changes subsequent to its acquisition or construction on account of exchange fluctuations, price adjustments, changes in duties or similar factors.

Depreciation Methods (AS-6)

According to Institute of Chartered Accountants of India (ICAI) "Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes."

Definition

“Depreciation is the gradual decrease in the value of assets from any cause”.-**Carter**

“The permanent and continuing diminution in the quality or value of an asset”

In simple terms, Depreciation means the decrease in the value of fixed assets caused by usage and is charged on almost all fixed assets except land.

Cause of Depreciation

1. Wear and tear
2. Depletion
3. Accidents
4. Obsolescence
5. Efflux of time

Methods of Depreciation

a) Methods based on the concept of allocation of expired deferred cost:

1. Fixed instalment or equal instalment or Straight line method
2. Diminishing Balance Method or reducing or Written down value method
3. Sum of the year's digit method
4. Machine hour rate method

b) Methods based on the concept of recovery and maintenance of capital:

1. Sinking fund method
2. Annuity method
3. Insurance policy method

c) Special methods

1. Revaluation method
2. Depletion method

SLM OR FIXED INSTALMENT OR EQUAL INSTALMENT METHOD

Straight line depreciation is the default method used to gradually reduce the carrying amount of a fixed asset over its useful life. The simplest and most commonly used method, straight line depreciation is calculated by taking the purchase or acquisition price of an asset, subtracting the salvage value (value at which it can be sold once the company no longer need it) and

dividing by the total productive years for which the asset can reasonably be expected to benefit the company (or its useful life)

Depreciation = Original Cost – Estimated Scrap Value / Estimated Life in years.

DIMINISHING BALANCE METHOD OR REDUCING OR WRITTEN DOWN VALUE METHOD

Under reducing balance method, the depreciation is charged at a fixed rate like straight line method (also known as fixed installment method). But the rate of percent is not calculated on cost of asset as is done under fixed installment method-it is calculated on the book value of asset. The book value of an asset is obtained by deducting depreciation from its cost. The book value of asset gradually reduces on account of charging depreciation. Since the depreciation rate per cent is applied on reducing balance of asset, this method is called reducing balance method.

LIABILITIES AND ITS CLASSIFICATION

Liabilities are sources of funds and obligation to outside parties arising from events that have already happened. Liabilities, i.e. sources of funds are shown in balance sheet in the following manner.

Shareholder's Fund/Net Worth /Owners Equity

Share holders fund are the funds are the funds contributed by the owners, i.e. the shareholders and include accumulated retained earnings and other reserves of the company. These are represented by share capital and Reserves and Surplus.

a.) Share capital

Share capital is the aggregate amount of money paid by the subscribed on the shares of the company. In simple share capital of a company means the amount raised by accompany by the issue of shares. When total capital of a company is divided into shares, then it is called share capital.

1. Authorized, Registered, Maximum Or Nominal Capital

The maximum amount of capital, which a company is authorized to raise from the public by the issue of shares, is known as authorized capital. It is a capital with which a company is registered; therefore it is also known as registered capital.

2. Issued Capital

Generally a company does not issue its authorized capital to the public for subscription but issues a part of it. So issued capital is a part of authorized capital which is offered to the public for subscription, including shares offered to the vendor for consideration other than cash. the part of authorized capital not offered for subscription to the public is known as un- authorized capital such capital can be offered t the public at a later date.

3. Subscribed Capital

It cannot be said that the entire issued capital will be taken up or subscribed by the public. It is not necessary for the company to call for the entire amount on shares subscribed by the public is known as subscribed capital.

4. Called Up Capital

It is that part of subscribed capital which is called by the company to pay on shares allotted. It is not necessary for the company to call for the entire amount on shares subscribed for by shareholders. The amount which is not called on subscribed shares is called uncalled capital.

5. Paid Up Capital

It is part of called up capital, which actually paid by the shareholders. Therefore it is known as real capital of the company. Whenever a particular amount is called and shareholder fails to pay the amount fully or partially, it is known unpaid calls or calls in arrears.

6. Reserve Capital

It is that part of uncalled capital which has been reserved by the company by passing a special resolution to be called only in the event of its liquidation. This capital cannot be called up during the existence of the company. It would be available only in the event of liquidation as an additional security to the creditors of the company.

Share capital of a company includes equity share capital and also preference share capital, the most preferred mode of raising capital is equity share capital.

7. Reserves & Surplus/ Earned Capital/ Retained Earnings

Reserves represent that portion of earnings and receipts, both capital and revenue of a company which are set apart by the management for a general or a specific purpose. The reserves are primarily of two types: 1. Capital Reserves 2. Revenue Reserves. There are different accounts of reserves they are; Capital reserves, General reserves, Capital redemption reserves, Debentures reserves, Sinking fund reserves.

Surplus represents credit balance in the profit and loss or income statement retained in the business after providing for proposed appropriation towards dividend and reserves.

Therefore Reserves and Surplus belongs to the equity shareholders and hence are a part of owner's equity.

8. Lone Funds (Long-term Liabilities)

Secured Lone: There are the loans available by a company against the security of one or more assets of the company. *For example:* term loans from financial institutions and banks, debentures or bonds, working capital from banks etc. , are the examples of secured loans.

Unsecured Loans: Unsecured loans are not backed by any security in the form of assets of the company. *For example:* fixed deposits, loans and advances from holding/ subsidiary companies, unsecured debentures, security deposits from supplies, dealers and stockiest etc. are the examples of unsecured loans.

9. Current Liabilities and Provisions

Current Liabilities: It is the amounts owned by the business to people who have lent money or provided goods or services on credit. If these liabilities are due within an accounting period, they are classified as current liabilities.

1. Accounts payable, Acceptance and Promissory Note payable:

Accounts payable in the normal course of business, as a result of acquisition of goods or services on credit. The term accounts payable refers to liabilities contracted for the purchase of raw material, components or services necessary for the production or provision of the goods or services, since these credits are received usually from several parties, they are also referred to as sundry creditors or trade creditors. Accounts payable

are unsecured liabilities and not evidenced by any formal written acceptance or promise to pay.

2. **Accrued Liabilities/ Expenses Payable:** Accrued liabilities represent expenses or obligation incurred in the previous accounting period, but the payment for which will be made in the next period. For example salaries, rent which are due but not yet paid . In simple these represent expense which have been incurred up do the date of the balance sheet but paid for thereafter.
3. **Advances from Customers:** Depending upon the position it commends, a company may get part or full advance also from its customers or advances from customers of doubtful quality against the goods to be supplied.
4. **Unclaimed Dividend:** These represents the dividends warrants dispatched but return undelivered or not encashed by the concern share holders.
5. **Bank Overdraft:** An overdraft occurs when money is withdrawn from bank account and the available balance goes below zero. In this situation the account is said to be overdrawn. \if there is a prior agreement with the account provider for an overdraft, and the amount overdrawn is within the authorized overdraft limit, then interest is normally charged at the agreed rate.

Estimated Liability / Provisions:

A current liability also includes provisions, provisions are amounts set aside for any known liability as per a statute's requirements or whose amount requires measurement by using a substantial degree of estimation.

Contingent Liabilities:

Contingent liabilities are no liabilities as of now as neither the amount not the liability is certain, they become liabilities only on the happening of a certain event.

Other Classification of Liabilities:

1. Long Term Liabilities:

Long term liabilities are those obligations which are going to meet after one year. For example ; term loans from financial institutions and banks, debentures, mortgage etc.

2. Short Term Liabilities:

Short term liabilities are going to meet in a short span of time, i.e., within one year. For example; BOD, bills payable, outstanding expenses, etc.

MODULE-4

ANALYZING AND INTERPRETING FINANCIAL STATEMENTS

HIGHLIGHTS

- Objectives of financial statements analysis
- Sources of information
- Standards of comparison
- Quality of earnings
- Window dressing, beating window dressing
- Techniques of financial statements using analysis
- Analyzing financial statements using Ratio Analysis
- Du-point Model
- Cash flow statement
- Understanding annual reports and earning releases

Meaning of Financial statements

Financial statements are the essential documents of business. They are the output of financial accounting. They are the final products of the accounting process. They are statements containing financial information of a business enterprise. the basic purpose of preparing financial statement is to convey information about financial position of the enterprise to owners, creditors and the investors.

Financial statement are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties to :a) the balance sheet as at the end of accounting period , also taken as an integral component of the financial statement of a company.

Objectives of financial statements

- 1. To provide information about economic resources and obligation of a business:** they are prepared to provide adequate, reliable and periodical information about economic resources and obligation of a business firm to investors and other external parties who have limited authority, ability or resources to obtain information.
- 2. To provide information about the earning capacity of the business:** they are to provide, useful financial information which can gainfully be utilized to predict, compare, and evaluate the business firms earning capacity.
- 3. To provide information about cash flows:** they are provide information to on investors and creditors for predicting, comparing and evaluating, potential cash flows in terms of amount , timing and related uncertainties.

4. **To judge effectiveness of management:** they supply information useful for judging management's ability to utilize the resources of a business effectively.
5. **Information about activities of business affecting the society:** they have report the activities of the business organization affecting the society, which can be determined and described or measured and which are important in its social environment.
6. **Disclosing accounting policies:** these reports have to provide the significant policies, concept followed in the process of accounting and changes taken up in them during the year to understand these statements in better way.

Sources of information

Individual investors, creditors, suppliers must often depend on published sources of Information about a company. The most common sources of information about listed companies are company annual reports, stock exchanges, business periodical. Business television channels and information services.

1. Company annual reports:

An annual report typically contains an overview of performance and prospects by the chief executive, financial data, results of a company operations, information on market conditions, new product plans and research and development activities etc. an annual report is an important elements of a financial communication strategy to attract and retain investors regular communication updating investors on financial performance and company development helps engage investors in the business and build more beneficial relationships.

2. Stock Exchanges:

Listed companies must file copies of their annual reports as well as additional documents such as a statement of distribution of share ownership and quarterly results with the stock exchanges on which they are listed. Bombay stock exchange (BSE) is an Indian stock exchange located at Mumbai, Maharashtra, India. Established in 1875 and is considered to be one of Asia's fastest stock exchanges, and the oldest stock exchange in Asia, oldest stock exchanges in south Asia region.

3. Business Periodicals:

A convenient manner by which individuals will access necessary and relevant business data is through regular business magazine publications. Business news papers and magazines are important and often, timely sources of financial and business news. The major business consumer reports, Boston Globe, Boston Business Journal (BBJ), Economist, Newyork Times (NYT), Financial Times (FT), Fast Company, Forbes, Fortune, and Harvard Business Review (HBR).

4. Business Television Channels:

Business channels are TV channels that concentrate on business news. Television channel provide round-clock coverage of political and economic events. Channels such as CNBC-TV 18, NDTV Profit, Bloomberg UTV and ET now focus on business and economic news.

Standards of comparison

A financial analyst and other stakeholder looks for significant standards of comparisons to find out whether the results for their financial statement analysis are favorable or unfavorable. For this purpose, comparisons are made with the following:

1. **Intra company standards:** Companies follow internal standards for monitoring and rewarding performance. There are broad corporate goals for profit, return on assets sales growth, market share, new product launches etc. They are regularly revised in light of changes in light of changes in the enterprise's economic and business environment.
2. **Competitors:** when people compete, they're trying to achieve the same goal and are therefore considered competitors. Competitor's performance in the same industry sectors can be compared, to understand the performance of the firm.
3. **Industry standards:** a comparison with industry standards help to overcome the limitations of historical comparisons.
4. **Guidelines:** financial analysts and bankers use rule of thumb or benchmark . financial ratios for comparisons.
5. **Past performance of the company:** financial analysts compare a company's current performance with its past performance. Five or ten year summaries of selected financial data appear in some annual reports.

QUALITY OF EARNINGS

Quality of earnings provides more information about the features of a firm's financial performance that is relevant to a specific decision made by a specific decision maker. High quality information is accurate, relevant and unbiased timely. High quality information is important in making good judgments and decisions. Its important for many participants in the financial reporting process: investors , regulators , lenders, etc. its used in many investment decisions and valuation models.

The main objectives of financial statement is to provide information about the financial position performance and cash flow of an

enterprise to enable a stakeholder to fairly predict the future profitability and cash flows of the enterprise, so as to make decisions regarding the enterprise or its shares.

Earnings are said to be of high quality when they possess the following features:

1. Derived from core business operations
2. Recognized, measured and presented in accordance with GAAP
3. Principal qualitative characteristics of financial statements preparation adhered to
4. Accounting policies chosen, where GAAP allow choice, consistently followed.
5. Close to reality , i.e. neither overstated nor understated.

WINDOW DRESSING

Financial statements are said to be window dressed when the management tries to depict a rosier performance and financial of the company than is true to suit its motives.

Window dressing is a set of actions or manipulations with financial or other information in financial documents to make this information look more attractive to its users, even though window dress can occur at any time , it is commonly used at the end of period.

Window dressing may take many forms like.

1. Non operational / non recurring income being the major sources of income, like sale of investment or fixed assets
2. Non provision of diminution in the value of long term investments due to discretion available to the management.
3. Capitalization or deferment of revenue expenses to inflate the bottom line.

4. Revaluation of fixed assets to show a better financial position.
5. Extension of the accounting year to cover up a major loss to include a major likely gain of immediately following 2 to 3 months.
6. Advancing the billing on the customers towards the year end to inflate the top line as well as the bottom line.
7. Increasing the estimates of useful life of fixed assets to charge a lower depreciation.

BEATING WINDOW DRESSING

It just makes some efforts and resort to the following measures to beat window dressing to be successful, to the extent possible in analyzing financial statement.

1. Careful study of “Notes to Accounts and Accounting Policies” annexed to the financial statement and an assessment of the variation in policies, accounting estimates, extraordinary items and contingent liabilities.
2. Assessment of the financial impact of qualification in auditors report on the corporate profitability and financial position.
3. Comparison of basic and diluted EPS to predict the EPS sustainable in future
4. Analysis of related party transactions to find out whether any undue benefit its being provided to them at the cost of the company.
5. Analysis of segment results to analysis whether any line of business is making a dent on the overall bottom line.

➤ Techniques of financial statements using analysis

1. Comparative Statements.
2. Common Size Statements

3. Trend Analysis
4. Ratio Analysis
5. Cash Flow Analysis

1. **Comparative Analysis:** these are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. It usually applies to the two important financial statement namely , Balance Sheet, and Statement of Profit and Loss prepared in a comparative form.
2. **Common Size Statements :** These are the statements which indicates the relationship of different items of a financial statement with some common item by expressing each item as a percentage of that common item. The percentage thus calculate can be easily compared with the results of corresponding percentages of the previous year or of some other firms , as the numbers are brought to common base.
3. **Trend Analysis:** it is a technique of studying the operational results and financial position over a series of years. Using the previous year's date of a business enterprise trend analysis can be done to observe the percentage changes over a time in the selected data.
4. **Ratio Analysis:** it describe the significant relationship which exists between various items of a balance sheet and profit and loss account of a firm. As a technique of financial analysis , accounting ratios measure the comparative significance of the individual items of the income and position statements.
5. **Cash Flow Analysis:** It refers to the analysis of actual movements of cash into and out of an organization . The flow of cash into the business is called as cash inflow or positive cash flow and the flow of cash out of the firm is called as cash outflow or a negative cash flow.
6. **Analyzing Financial Statement using Ratio Analysis**

Introduction

A financial statement depicts the financial position of the concern on a given date. To understand the financial position one should have accounting knowledge. And also mini accounting statements on the apparent look do not reveal the actual solvency or profitability position of the concern.

7. Meaning

Ratio analysis is the technique of the computation of number of accounting ratios from the data derived from the financial statements, and comparing those which the ideal standard ratios or the previous year's ratios or the ratios of other similar concerns.

8. Significance

A. Ratio analysis is an important and useful technique to check open the efficiency with which working capital is being used in the enterprise. It helps the financial management in evaluating the financial position and performance of the firm.

B. Ratio helps in post control. Through established ideal standards Ratios are very useful for measuring the performance and contributes for cost control and efficiency improvement.

C. It is a medium of communication of financial position of a concern. Financial issues communicate the strength and financial standing o.... to the internal and external parties.

9. Use of ratio

i. Utility of management

A. Formulating the policy

B. Forecasting and planning

C. Decision making

D. Knowing the trains of business

E. Measuring efficiency

F. Communicating

G. Controlling

ii. **Utility of shareholders and investors**

An investor would normally assess the financial position of a business before he invest his money in it.

iii. **Utility to creditors**

The creditors or suppliers are those who supply goods to the form on credit basis. They are interested in the liquidity position of the form.

iv. **Utility to employees**

The employees are interested in the profitability of the company. Their wages, fringe benefits, working conditions etc are related to the profits earned by the company.

v. **Utility of government**

The government uses ratio analysis for study the cost structure of the industries. On the basis of this study the government can formulate various policies it can implement the price control measures to protect the interest of customers.

DU POINT ANALYSIS

The ratios discussed so far measure a firm's liquidity, solvency, profitability, etc. Independent of one another. However there exists interrelationship among these ratios. this aspect is brought out by du point analysis.

A method of performance measurement that was started by the du point corporation in the year 1920s. With this method assets are measured at their gross book value rather than at net book value in order to produce higher return on equity (ROE). It is also known as “DuPont identity”. A combination of margin ratio, efficiency ratio and long term solvency ratio is known as Du point analysis. It helps in identifying and pinpointing the reasons behind high or low profitability of the firm.

ROE(Return on Equity)=NP Margin *Asset Utilization Ratio(Sales/Total Asset)*Equity Multiplier Ratio (Total Assets/ES Funds).

It measures the ability of the owner’s equity to command resources. Equity multiplier will show the extent of enhancement in the returns to an equity holders due to leverage or borrowings.

Equity multiplier = Total assets / ES funds

ROE=ROTA*FLM

ROTA(Return on Total Assets) =NP Ratio*Total Assets Turnover Ratio

= NP/Sales*Sales/Total Assets

FLM (Financial Leverage Multiplier)= Total Assets / Equity Shareholders Funds

Cash flow statement

The concept of funds we have learned the term “fund” has been interpreted by various experts differently. Study of flow of funds

interpreting funds as equivalent to cash is termed “Cash Flow Analysis”. Cash Flow Analysis involves the preparation of cash flow statement.

A Cash Flow Statement is a statement which shows the change in cash position from one period to other. This Statement helps short term financial planning.

Cash Flow Analysis Gives importance to the inflow and outflow of cash rather than dealing with the working capital.

Definition

Cash

Cash comprises cash on hand and demand deposits with banks.

Cash equivalents

These are short term highly liquid investments which can readily converted into cash without a decline in the value. Examples of cash equivalent on treasury bill, commercial paper, short term deposits, marketable securities etc.

Cash Flows

Cash flows are inflows and outflows of cash and cash equivalents. When there is a change in any transaction there will be flow of cash. If the effect of transaction results in the increase of cash and cash equivalents it is called an inflow if it results in the .decrease of cash it is called outflow.

Meaning Of Cash Flow Statement

In Cash Flow Statement data fund is used to mean cash only and does not include even the most liquid current assets. A cash flow statement shows the impact of transactions on cash position of the firm and includes all transactions having a direct impact upon cash. It explained the changes in cash position between two periods

Note- According to AS3 revised all manufacturing and finance companies which are listed in a Stock Exchange or all commercial or industrial and business enterprises who sales or more than 50 crores per year must prepare and publish CFS by indirect method. This is made compulsively from April 1st 2001 onwards

Advantages of cash flow statement

1.planning and coordination of financial operation.

Cash flow statement is useful in evaluating financial policies and current cash position. Since cash is the basis of carrying operation the cash flow statement will enable the management to plan and coordinate the financial operation properly.

2 .A control device.

cash flow statement is also a control device for the management. A comparison of statement of previous year with the budget for the year would indicate to what extent the resource of the enterprise was raised and according to the plan.

3. Useful to internal financial management.

it's give a clear picture of cash inflows from operations it is therefore very useful to internal financial management in considering the possibility of

retrying long term debts in planning replacement of plant facilities or in formulating dividend policies.

4 . Profit And Cash Position

The management to account for situation when business has earned huge profit yet run without money or when it has suffered a loss and still has plenty of money at the bank.

5 . Short Term Financial Decision

Cash flow statement helps the management in taking short-term financial decision suppose wants to know it's state of solvency after one month from today it is possible only from the cash flow analysis and not to from fund flow statement shorter the period, greater is the importance of cash flow statement.

Classification of cash flow

- 1.Cash flow from operating activities
2. cash flow from investing activities
3. cash flow from financing activities

1.Cash Flow From Operating Activities

Operating activities are the main revenue producing activities of the enterprise .These involve producing goods and services and selling them. Cash flows from operating activities generally result from the transactions and events that enter into the determination of net profit or loss.In short operating activities on activities relating to operation.

Example of cash flow from operating activities

cash Inflows

cash sales.

cash receipts from debtors for sale of goods or rendering services.

cash receipt from royalties, fees, Commission and other revenue

cash outflows

cash purchases.

cash payments to supplier of goods and services.

payments for operating expenses (wages salaries rent insurance)

cash payments to government for tax and duties.

There are some transaction such as sale of an item of plant etc. that may result in profit or loss these are usually taken in the determination of net profit or loss however they these are cash flows from investing activities.

2 . Cash Flow From Investing Activities.

Investing activities include purchase and sale of fixed assets, securities shares debentures etc. Cash flow from investing activities disclosed the expenditure incurred for resources intended to generate future income and cash flows.

Example of cash flow from investing activities

Cash Inflows

Cash receipts from sale of fixed asset and intangible assets.

Cash receipts from sale of securities such as shares debentures etc.

Receipts of interest and dividend on investment.

Cash Out Flows

Cash payment for purchase of fixed assets and intangible asset(investment in asset).

Cash payment for purchase of securities (investment in securities).

Loans given to borrowers.

it may be noted that the cash receipt on sale of fixed and intangible assets are taken as cash flow from investing activities. Those profit or loss on sale of automatically adjusted here. That's why profit or loss on sale of fixed assets intangible asset is not taken as cash flow from operating activities.

1. Cash Flow From Financing Activities.

Financing activities are those activities Results in changes in size and composition of owners capital and borrowing of the enterprise. This includes pricing points from owners borrowing from creditors and repayment or redemption.

Cash Inflows

Cash proceeds from issue of shares.

Cash proceeds from issue of debentures, bond etc.

short term and long term loans or borrowings.

Cash Outflows

Redemption of preference shares.

Redemption of debentures, bonds etc.

Repayment of loans.

Payment of dividend.

Payment of interest on debentures and loans.

Understanding Annual Reports And Earnings Releases

The earning report is it key for a publicly traded company to tell current and potential investors how it sits financially. Because it is such an important document and because it is released by the company itself investors should realize

that it is in the companies best interest to present as rosy a picture as possible without violating any regulations. Unfortunately many investors are unable to effectively decipher an earnings report. While the report prepared by companies without the intent to deceive investors about company health outright investors should still take information found in them with a grain of salt. Investors care about earnings and annual report because they ultimately drive stock price. Strong earnings generally result in the stock price moving up. Sometimes accompany with a rocketing stock price might not be making much money but the rising price means that investors are hoping that the company will be profitable in the future- of course, there are no guarantees that the company will fulfill investors current expectations.

MODULE-5

ORIENTATION TO COST ACCOUNTING

HIGHLIGHTS

- Meaning of Cost
- Classification Of Costs
- Cost Management
- Techniques For Controlling And Reducing Cost
- Marginal Costing
- Cost- Volume -Profit Analysis
- Budgetary Control

Introduction

In the earlier times the concept of costing was defined as the technique and process of ascertaining cost of a given thing. Today the wide usage of cost accounting techniques has led to new concept of information technology, operation control and performance measurement .The concept of costing activity- based on budgeting, strategic, flexible production system etc. are the recent teddy in cost management, target costing, life cycle costing.

Meaning of Cost

The simple word 'cost' has a variety of meanings according to the context. For a common man, the word cost means the price. But in management terminology, the term cost refers to the amount of expenditure incurred or attributed to manufacture a product and service.

Meaning of Costing

According to CIMA terminology, the term costing means, the techniques and process of ascertaining costs. As a technique costing follows certain principles in ascertaining the cost such as classifying, identifying, of cost into cost unit and cost centre. As a process, it follows a definite procedure in ascertaining the costs. Apply job costing, process costing etc. ascertaining the cost.

Meaning of Cost Accounting

According to CIMA terminology, cost accounting means the process of accounting for cost. It starts recording of income and expenditure and ends with periodical cost reports to management for the purpose of cost control.

Definition of Cost Accounting

According to **Kohler**, “Cost accounting deals with the classification, recording, allocation, summarization and reporting of current and prospective costs.”

Meaning of Cost Accounting

Cost accountancy is defined by CIMA off UK as the application call costing and cost accounting principles, methods and techniques to the science, art and the practice of cost control and the ascertainment of profitability.

Classification of Costs

1. Classification of Cost on the basis of Nature

a) **Material:** Material includes both the direct and indirect materials. Direct materials are those materials which enter into and form part of the product. *For example*, wood used in making furniture.

Indirect materials are those which cannot be traced as a part of the product such as nails for success used in making furniture.

b) **Labour:** Labour cost me we classified into direct and indirect labour. Direct labour refers to the time spent in altering the construction. Composition confirmations of the products manufacturer. *For example*, time spent by a worker at the factory at the time of production.

c) **Expenses:** Expenses can be broadly classified into direct expenses and indirect expenses.

Direct experiences are those experiences which can be identified with production. *For example*, direct experiences involved in production.

Indirect experiences are those which cannot be identified with production. All indirect materials, indirect labour, and indirect experiences are known as overhead. *For example*, administration overhead, factory overhead and selling and distribution overhead.

2. Classification of Cost on the basis of Function

a) **Production Cost:** It starts with the process of supplying material, labour and services and ends with the primary packing of the finished product.

- b) **Administration Cost:** Administration cost is the cost incurred for formulating the policy, directing the organization and controlling the operation of an organization. *For example*, all office expenses like salary paid to staff, office maintenance charges etc.
- c) **Selling Cost:** It refers to the expenditure incurred in promoting sales and retaining customers. *For example*, salesman commission.
- d) **Distribution Cost:** distribution cost starts with the process of making and packed goods available for dispatch. *For example*, parking charges.
- e) **Research and Development:** It relates to the cost of research or new or improved products, new application of materials, or new or improved methods. *For example*, research charges for launching a new product.

3. Classification of Cost on the basis of Variability

- a) **Fixed Costs:** Fixed cost remains unaffected by the variation or change in the volume of output. *For example*, Rent, Taxes etc.
- b) **Variable Costs:** It varies directly with volume of output. *For example*, direct experiences, direct labour.
- c) **Semi Fixed/Semi-Variable Costs:** Costs which are partly fixed and partly variable are called semi variable costs. *For example*, telephone expenses, electricity charges etc.

4. Classification of Cost on the basis of Controllability

- a) **Controllable Cost:** Controllable cost can be influenced by the action of a specified member of an undertaking. *For example*, purchase of materials.
- b) **Uncontrollable Cost:** Uncontrollable cost cannot be influenced by the action of a specified member of an undertaking. *For example*, loss incurred due to fire.

5. Classification of Cost on the basis of Normality

- a) **Normal Cost:** Normal cost refers to the costs which are normally attained at the given level by conditions. *For example*, cost of effective labour hours.
- b) **Abnormal Cost:** Abnormal cost refers to the costs which are not normally increased at a given level of output in the conditions in which that level of output is normally attended.

6. Classification of Cost on the basis of Time

- a) **Historical Cost/Actual Cost:** Historical cost relates to the usual method of determined actual cost of operations based on actual expenses incurred during the period. Historical cost is the cost which has already been incurred. *For example,* Rent paid.
- b) **Pre-determined Cost/Future Cost:** Pre-determined cost is the cost which is determined in advance before the actual operation starts. It may be either estimated or standard.
- c) **Estimated Cost:** Estimated cost is prepared before accepting an order for submitting price quotation. It is also used for comparing actual performance.
- d) **Standard Cost:** Standard cost is a pre-determined cost of a product or a service applicable during a specific period of immediate future under current or anticipated operating conditions.

7. Classification of Cost on the basis of in Relation to the Product

- a) **Direct Cost:** Direct costs are those which are incurred for a particular cost unit and can be conveniently linked with that cost unit. Direct costs are termed as product cost.
- b) **Indirect Cost:** Indirect costs are those which are incurred for a number of cost units. Since such costs are incurred over a period and the benefit is mostly derived within the same period they are called period costs.

8. Classification of Cost on the basis of Cost Analysis for Decision-making

- a) **Relevant Cost:** Costs that are affected by decisions are relevant costs. These are expected future costs that will differ between alternatives. *For example,* Marginal cost, Incremental cost, Opportunity costs.
- b) **Marginal Costing:** Marginal cost refers to a principle whereby variable costs are charged to cost units and the fixed costs attributable to the relevant period is written off in full against the contribution for that period. *For example,* Product pricing.
- c) **Incremental Costing:** An incremental costing technique considers incremental costs and incremental revenue arising out of a decision to change the level or nature of activity.

d) Opportunity Cost: Opportunity cost is the value of a benefit sacrificed in favour of an alternative course of action. It is the measurable advantage forgone as a result of the rejection of best alternative uses of resources whether of materials, labour or facilities.

Elements of Cost

1. Prime Cost = Direct material + Direct labour + Direct expenses.
2. Factory Cost = Prime cost + Factory overheads(work cost)
3. Cost of production = Factory cost + Administrative overheads.
4. Total Cost = Cost of production + Selling and distribution overheads.
5. Sales = Total Cost + Profit.

Direct Material

It is that material which can be conveniently identified with a particular cost unit. Direct material becomes a part of the finished product. *For example*, Timber used in manufacturing furniture, steel used in manufacturing machines, leather used in manufacturing shoes, cotton, used in textile mills etc.

Direct Labour

It is that labour which can be conveniently identified or attributed wholly to a particular job, product or process. It is the labour directly employed on production work. Thus, direct labour includes all labour, example in converting raw-materials into finished goods. It varies directly in relation to the volume of output.

Direct Expenses

All experiences other than the direct material or direct labor that are specially incurred for a particular product or process are treated as direct expenses. These are directly charged to products and form a part of prime cost.

Factory Overheads

Are those expenses which are incurred in the factory and concerned with the running of the factory. It includes indirect material, indirect labor, rent of factory, factory lighting, power, water, gas, repairs, factory equipment, depreciation, wages of factory workers, factory managers salary, store keeping expenses etc.

Administrative Expenses

Are those expenses which are involved in formulating policies, planning and controlling the functions, directing and motivating the personnel of an organization in the attainment of its objectives. In simple words, includes all the expenses incurred by the administrative office. *For example*, office rent, office lighting, office stock salary, manager's salary, director's fees, printing and stationary, postage and telephone, general charges, depreciation on office furniture etc.

Selling and Distribution Overheads

Are those expenses which are incurred in promoting sales and distribution of goods. *For example*, advertisement, salaries of salesman, traveling, Commission on sales, market research, carries outwards, warehouse charges, showing expenses, cost of packing, delivery and maintenance.

Cost Unit

A cost unit is a unit of product, service all time in relation to which cost may be ascertained or expressed.

According to CIMA as "a quantitative unit or product or service in relation to which costs are ascertained". *For example*,

- a) The cost of cement is associated in terms of per ton.
- b) Cost of carrying a passenger in terms of per kms, the cost of sugar is ascertained in terms of per quintal etc.

Cost Management

Cost management is the process by which companies control and plans the cost of doing business. Individual projects should have customized cost management plans, and companies as a whole also integrate the cost management into their overall business model. There is no single accepted destination for this term, because it has such broad applications and possible strategies. When properly implemented, post management will translate into reduced costs of production for products and services, as well as increased value being deliver to the customer.

Cost Management Tools/Techniques

1. Activity Based Costing.
2. Activity Based Management.
3. Benchmarking.
4. Capacity Cost Management.
5. Cost of Quality.
6. Theory of Constraints.
7. Just-In-Time (JIT) Costing.
8. Back Flush Costing.
9. Target Costume.
10. Economic Value Added.
11. Life Cycle Costing.
12. Balanced Score Card.
13. Environmental Costing.
14. Strategic Cost Management.
15. Value Creation Model.

1. Activity Based Costing (ABC)

An activity based costing system recognizes the relationship between costs, activities and products and through this relationship assigns indirect cost to products less arbitrarily than traditional methods.

2. Activity Based Management (ABM)

Developed by Kaplan and Cooper in 1998, is a method of identifying and evaluating activities that a business performs using activity based costing to carry out a value chain analysis or a re-engineering initiative to improve strategy and operational decisions in an organization.

a) **Operational Activity Based Management** – is about “doing things right”.

b) **Strategic Activity Based Management** – is about “doing the right things”.

3. Benchmarking

It is the process of comparing once business process and performance merits to industry best or best practices from other industries.

4. Capacity Cost Management

The principles underlying Capacity Cost Management emphasize the design of the system and the underlying flow of the productive process, minimizing the variability and disruption within the value creating flow and optimizing the utilization of resources.

Techniques for Controlling and Reducing Cost

1) Standard costing

CIMA has to define standard costing as, “the preparation of standard costs and applying them to measure and variations from actual costs and analyzing the causes of variations with a view to maintain maximum efficiency in production”.

2) Budgetary control

The word 'control' refers to is systematic and an organized effect to keep the costs under control and the revenue at the high level.

It aims at mobilization and utilization of available resources more effectively, productivity and efficiently to achieve the targets set for the period.

3) **Marginal costing variable costing**

Marginal costing is based on the distinction between fixed cost and variable cost. Only variable costs are applied to products. All fixed costs are written off to the profit and loss account. Even the semi-variable costs are for this purpose segregated into fixed and variable components. It makes a basic assumption that excess of selling price over variable cost provides a fund to meet firstly the fixed costs and then to provide company's profit.

4) **Total absorption costing**

Absorption costing means that all of the manufacturing costs are absorbed by the units produced. In other words, the cost of a finished unit in inventory will include direct materials, direct labour and both variable and fixed manufacturing overhead. As a result, absorption costing is also referred to as full costing or the full absorption method.

5) **Uniform costume**

Uniform costing can be defined as the 'use by several undertakings of the same costing principle and practices'.

Meaning of Fixed Cost, Variable Cost and Semi-variable Cost

Fixed Costs: A fixed cost is one which remains unchanged in total amount over a wide range of production level e.g., building rent, permanent staffs salaries etc. Fixed cost per unit will vary with a change in the volume of output. According to ICMA, London "a cost which tends to be unaffected by variations in volume of output".

Variable Cost: Variable cost per unit remains constant while total amount of variable cost changes in direct proportions to changes, in the level of production e.g. Raw materials consumed. According to ICMA, London, "variable cost is a cost which tends to vary directly with volume of output".

Semi Variable Cost: Costs are not necessarily either fixed or variable. Some costs increase with the volume of production but not in the same proportion, e.g. supervisory salaries. According to ICMA, London, “a cost which is partly fixed and partly variable”.

Marginal Cost Equation

The following equation is known as basic marginal cost equation –

$$\text{If Profit} \rightarrow \text{Sales} - \text{Variable Cost} = \text{Fixed Cost} + \text{Profit}$$

$$\text{If Loss} \rightarrow \text{Sales} - \text{Variable Cost} = \text{Fixed Cost} - \text{Loss}$$

As excess of selling price over variable costs, represents contribution, the above equation may also be shown as –

$$\text{Contribution} = \text{Fixed Cost} + \text{Profit}$$

$$\text{Contribution} = \text{Fixed Cost} - \text{Loss}$$

Hence, $\text{Sales} - \text{Contribution} = \text{Variable Cost}$

Cost Volume Profit Relationship

Profit of an organization depends on some numerous factors such as (i) selling price of the product (ii) cost of producing those products and (iii) volume of sales. There is a close relationship between these three factors and in fact they are interdependent, e.g., selling price to a greater extent will depend upon the costs; total sales depend on total output and cost and output are again interdependent. Hence, there is a close relationship between cost, volume and profit.

Budgetary Control

Meaning and Definition of Budget

The word “Budget” is derived from the French word “Bougette” representing a leather pouch into which funds are appropriated to meet the anticipated expenses.

Objectives of Budgetary Control

- Involving different levels of management in a cooperative endeavour to accomplish the firm's objective.
- Facilitate centralized control with delegated authority and responsibility.
- Reduction in losses and wastes to a minimum.
- Clarification of the issues where actual work is required.
- Ensuring adequate working capital in other resources for efficient
- Achieving maximum profitability by planning income and expenditure through ideal use of the resources available operation of the business.
- Ensure the firm is not deflected from its long-term objectives without being overwhelmed by emergencies.
- Using a budgetary control system, organizations coordinate their activities such as sales, production, purchase of materials, etc.

Advantages of Budgetary Control

Improved Planning and Forecasting: Budgetary control enables organizations to plan their financial activities and forecast future results. This helps to identify potential problems and make adjustments to the budget accordingly.

Increased Efficiency: It helps organizations allocate resources more effectively, reducing waste and increasing efficiency.

Better Decision-Making: By providing detailed financial information, budgetary control facilitates better decision-making at all levels of the organization.

Improved Financial Performance: By implementing a budget and monitoring performance against it, organizations can identify areas for improvement and take steps to improve their financial performance.

Increased Accountability: It assists in increasing accountability within an organization by providing clear performance targets and measures of success.

Better Cash Flow Management: Budgetary control gives organisations a clear understanding of their cash flow, helping them make informed decisions about managing their cash resources.

Enhanced Control and Monitoring: It provides organizations with a systematic approach to monitoring and controlling their financial activities, reducing the risk of financial errors and mismanagement.

Disadvantages of Budgetary Control

1. Dissuade Effective People

Every employee in the firm is given the goals under the budgetary control system. People frequently have the temptation to focus simply on achieving their goals. Though some productive individuals may surpass the objectives, they will still feel satisfied if the targets are met. Consequently, management initiatives may be constrained by budgets.

2. Depends On Top Management's Support

The Senior Management must support the budgetary control system. The Management should be ecstatic about the system's achievement and offer unwavering support. This method will fail if there is ever a lack of support from upper Management.

3. It May be Overly Rigid

The largest drawback of financial control is that it may be overly strict, which leaves department heads with little room for maneuver, because of this, for instance, if the firm has allocated \$10 k for the marketing department, but the department needs \$20k due to fierce competition, it will not be able to perform marketing effectively due to budget control, which will result in a loss for the company.

4. Budget Revision Is Necessary

Budgets are created with the presumption that particular circumstances will hold. Assumed circumstances might not materialize due to future uncertainty, prompting a change of budgetary goals. Budgets will lose value if goals are often revised, and modifications also incur significant costs.

5. Coordinating Issue

The cooperation between many departments is essential for the achievement of financial control. One department's performance impacts results from other departments. The coordination issue must be solved, and a budgetary officer is required. Not every organization can afford to hire a budgetary officer. Poor performance is the outcome of ineffective departmental cooperation.

6. Not Effective in Creating Business

Budgetary control demands a significant investment of time, money, and effort on the organization's side. Unlike other business activities that help to increase sales, budgetary control

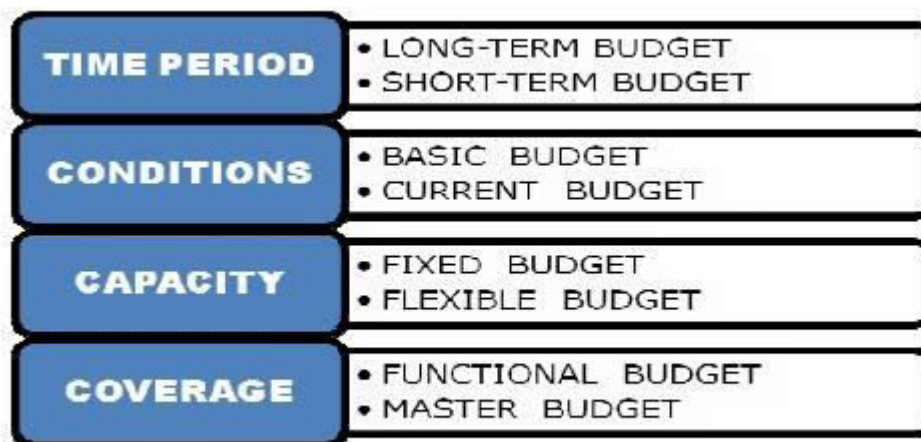
solely serves as a management tool. Therefore, to put it simply, budgetary Management merely aids in controlling spending; it plays no part in generating money.

7. Future Uncertainty

For the upcoming period, budgets are created. The forecasts may not always come true, despite the best efforts to anticipate the future. The future is never guaranteed, and the scenario that is anticipated to exist in the future may alter. The change in future situations disrupts the budgets that must be constructed based on specific assumptions. The unknowns of the future decrease the usefulness of a budgetary management system.

CLASSIFICATION OF BUDGETS

Budgets may be classified on the following bases –



BASED ON TIME PERIOD:

Long Term Budget

Budgets which are prepared for periods longer than a year are called LongTerm Budgets. Such Budgets are helpful in business forecasting and forward planning. Eg: Capital Expenditure Budget and R&D Budget.

Short Term Budget

Budgets which are prepared for periods less than a year are known as ShortTerm Budgets. Such Budgets are prepared in cases where a specific action has to be immediately taken to bring any variation under control.

Eg: Cash Budget.

BASED ON CONDITION:

Basic Budget

A Budget, which remains unaltered over a long period of time, is called Basic Budget.

Current Budget

A Budget, which is established for use over a short period of time and is related to the current conditions, is called Current Budget.

BASED ON CAPACITY:

Fixed Budget

It is a Budget designed to remain unchanged irrespective of the level of activity actually attained. It operates on one level of activity and less than one set of conditions. It assumes that there will be no change in the prevailing conditions, which is unrealistic.

Flexible Budget

It is a Budget, which by recognizing the difference between fixed, semi variable and variable costs is designed to change in relation to level of activity attained. It consists of various budgets for different levels of activity

Module – 6

CONTEMPORARY ISSUES IN ACCOUNTING

- IFRS
- Human Resource Accounting
- Forensic Accounting
- Environmental Reporting
- Corporate Social Reporting
- Target Costing
- Life Cycle Costing

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

International Financial Reporting Standards (IFRS) are you set of international accounting standards starting how particular types of transactions and other events should be reported in financial statement. IFRS are issued by the International Accounting Standards Board. The goal of IFRS is to make international comparisons as easy as possible.

Why IFRS?

Investors are acting on global market. National Standards do not work on global market. Cross-border business is hindered by national standards.

Small and medium sized entities (SMEs) that do not have public accountability may use a specified version of IFRS known as IFRS for SMEs.

Objectives of IFRS

1. To develop in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles.
2. To ensure high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital market and other uses of financial information make economic decisions. Skype
3. To promote the use and rigorous application of those standards.
4. To make a common platform for better understanding of accounting, internationally.

5. To create comparable, reliable, and transparent financial statements.
6. To facilitate greater cross-border capital raising and trade.

Features of IFRS

1. Fair presentation and compliance with IFRS

Fair presentation requires the faithful representation of the effects of the transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework of IFRS.

2. Going concern

Financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

3. Accrual basis of accounting

An entity shall recognize items as assets, liabilities, equity, and income and expenses when they satisfy the definition and recognition criteria for those elements in the framework of IFRS.

4. Materiality and aggregation

Every material class of similar items has to be presented separately. Items that are of a dissimilar nature or function shall be presented separately unless they are immaterial.

5. Offsetting

Offsetting is generally forbidden in IFRS. However certain standards require offsetting when specific conditions are specified (such as in case of the accounting for defined benefit liabilities in IAS 19 and the net presentation of deferred tax liabilities and deferred tax assets in IAS 12).

Significance of IFRS in India

1. It will eliminate blockades to cross-border listings and would be beneficial for the investors who generally attributed to risk and if the underlying financial information is not prepared in accordance with international standards.

2. Indian firms require funds for their expansion plans which are not limited to the economic and political boundaries of India. Indian firms are acquiring firms outside India also. They are also getting listed in European and American Capital Markets through raising funds from these markets.
3. One of the major pre-requisites of getting listed on European Markets is preparation of Accounts as per IFRS requirements. A few Indian Companies which have raised funds through the European Capital Markets have started preparing their Financial Statements as per IFRS.
4. It enhances comparability among different sectors, countries and companies, which will lead to more transparent financial reporting benefiting investors, customers and other stakeholder in India and overseas.
5. Across the globe, firms are using IFRS to report their financial results. With the adoption of IFRS by Indian firms, the comparison of two becomes easier. Investors, Bankers and Lenders also find it easy to compare the two financial statements following same reporting procedure.

Advantages of adopting IFRS

1. By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier.
2. Companies also may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS or if they have a foreign investor that must use IFRS.
3. IFRS significantly improves the comparability of entities.
4. IFRS gives better access to global capital markets and reduces the cost of capital.
5. IFRS provides impetus to cross-border acquisition.
6. IFRS balance sheet is closer to economic value.

HUMAN RESOURCE ACCOUNTING

Human resource accounting is the process of identifying and measuring data about human resources and communicating this information of interested parties. It is the process of developing financial assessments for people within organization and society and the monitoring of these assessments through time. It deals with investments in people and with economic results of those investments.

FORENSIC ACCOUNTING

The integration of accounting, auditing and investigative skills creates the specialty known as forensic accounting.

Uses of Forensic Accounting

- 1. Fraud detection where employees commit Fraud:** Where the employee indulges in fraudulent activities and are caught to have committed fraud, the forensic accountant tries to locate any assets created by them out of the funds defalcated, then try interrogating them and trying to find out the hidden truth.
- 2. Criminal Investigation:** Matters relating to financial implications the services of the forensic accountants are availed of. The report of the accountants is considered in preparing and presentation as evidence.
- 3. Cases relating to professional negligence:** Professional negligence cases are taken up by the forensic accountants. Non confirmation to Generally Accepted Accounting Standards (GAAS) or non compliance to auditing practices or ethical codes of any profession they are needed to measure the loss due to such professional negligence or shortage in services.
- 4. Arbitration service:** Forensic accountants render arbitration and mediation services for the business community, since they undergo special training in the area of alternative dispute resolution.
- 5. Dispute settlement:** Business firms engage forensic accountants to handle contract disputes, construction claims, product liability claims, infringement of patent and trade marks cases, liability arising from breach of contracts etc.

ENVIRONMENTAL REPORTING

Environmental Reporting is the public disclosure by a firm about its environmental performance in the form of publication of the financial reports, similar to the publication of its financial performance information. Therefore Environmental reporting is the process by which a companies' communicates information regarding the range of its environmental activities to a variety of stakeholder including employees, local communities, shareholders, customers, government and environmental groups.

CORPORATE SOCIAL REPORTING (CSR)

Corporate Social Reporting is referred as the process of communicating the social and environmental effects of economic organization. Corporate social reporting has largely been analyzed in the context of legitimacy theories that aim to legitimize the corporation's behavior by influencing stakeholders' and society's perception about it.

According to **Gray, Owen, & Maunders**, defined CSR as “the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large”.

Objectives of Corporate Social Reporting

1. To identify and measure the periodic net social contribution of an individual firm.
2. To help in determining whether a firm's activities are consistent with the widely shared social priorities.
3. To make available relevant information on a firm's goals, policies, programs, performance and contribution to social goals.
4. To develop social goals and provide relevant information to outsiders with regard to the discharge of their social responsibilities.

TARGET COSTING

The cost management tool for reducing the overall cost of a product over its entire life cycle with the help of production, engineering, research and design is called target costing. When a new product is launched into the market it starts to compete based on its new technology, concept and service. The basis of competition is emerged two areas such as cycle time, quality or reliability.

Key Characteristics of Successful Target Costing

1. It is viewed as an integral part of the design and introduction of new products.
2. It is part of an overall profit management process.
3. Our target selling price is determined using various sales forecasting techniques.
4. The specifications are based on customer requirements and expectations.
5. To determine cost reduction targets.
6. A product-level target cost is set.

Product-Label Target Cost = Current Cost – Target Cost – Reduction Objective.

Principles of Target Costing

- 1. Price-Led Costing:** Under this principle the market prices are used to determine the target costs. Target costs are calculated using a formula:
$$\text{Target Cost} = \text{Market Price} - \text{Required Profit Margin}.$$
- 2. Focus on Customers:** The main features are customer requirements for quality, cost and time are included in product and process decisions and guide cost analysis. The value must be greater than the cost of providing those features and functionality.
- 3. Focus on Design:** the cost control at this phase is emphasized at the product and process design stage. The results in lower cost and reduced “time-to-market” for new products.
- 4. Cross Functional Involvement:** The main involvement is done by the cross functional product and process teams who are responsible for the entire product from initial concept through final production.

Significance of Target Costing

1. Improves the understanding of the costs of products and services.
2. Brings a focus on the final uses of the service or product.
3. Is multidisciplinary and involves staff from all departments.
4. Provides A framework which encourages a focus on the wider supply chain.

Advantages of Target Costing

1. It reinforces top-to-bottom commitment to process and product innovation.
2. It enhances productivity.
3. It provides competitive advantage.
4. It enhances the efficiency of the organization.
5. It helps to create products that meet the price required for market success.
6. It helps in identifying market opportunities.

Disadvantages of Target Costing

1. The development process can be lengthened to a considerable extent.
2. It may lead to dissatisfaction among employees.
3. Too many opinions from the people of various departments.

