ACCOUNTING FOR MANAGERS

ANSWER KEY

PART A

1. A. Concept of Accounting

Accounting is a means of communicating the results of business operations to various parties interested in or connected with the business viz., the owners, creditors, investors, banks and financial institutions, Government and other agencies. Hence, it is rightly called as the language of business.Accounting is not only associated with business, but also with everybody, who is interested in keeping an account of the monetary transactions. Generally the term 'accounting' refers to financial accounting.The American Institute of Certified Public Accountants has defined accounting as "the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are, in part at least of financial character, and interpreting the results thereof". This definition is in keeping with the enlarged scope of accounting.

1. B. Accounting equation:

Assets = liabilities + equity

40000+45000+35000= 40000+80000

120000=120000.

2. **Accounting concept:**

There are the necessary assumptions or conditions upon which accounting is based. Accounting concepts are postulates, assumptions or conditions upon which accounting records and statement are based. The various accounting concepts are as follows:

1. Entity Concept:

For accounting purpose the "business" is treated as a separate entity from the proprietor(s). One can sell goods to himself,, but all the transactions are recorded in the book of the business. This concepts helps in keeping private affairs of the proprietor away from the business affairs. E.g. If a proprietor invests Rs. 1,00,000/- in the business, it is deemed that the proprietor has given Rs. 1,00,000/- to the "business" and it is shown as a "liability" in the books of the business. Similarly, if the proprietor withdraws Rs. 10,000/- from the business, it is charged to them.

2. Dual Aspect Concept:

As per this concept, every business transaction has a dual affect. For example, if Ram starts business with cash Rs. 1,00,000/- there are two aspects of the transaction: "Asset Account"

and “Capital Account”. The business gets asset (cash) of Rs. 1,00,000/- and on the other hand the business owes Rs. 1,00,000/- to Ram.

3. Going Business Concept (Continuity of Activity):

It is assumed that the business concern will continue for a fairly long time, unless and until has entered into a state of liquidation. It is as per this assumption, that the accountant does not take into account the forced sale values of assets while valuing them.

4. Money measurement concept:

As per this concept, in accounting everything is recorded in terms of money. Events or transactions which cannot be expressed in terms of money are not recorded in the books of accounts, even if they are very important or useful for the business. Purchase and sale of goods, payment of expenses and receipt of income are monetary transactions which are recorded in the accounting books however events like death of an executive, resignation of a manager are such events which cannot be expressed in money.

5. Cost Concept (Objectivity Concept):

This concept does not recognize the realizable value, the replacement value or the real worth of an asset. Thus, as per the cost concept

a) as asset is ordinarily recorded at the price paid to acquire it i.e. at its cost, and

b) this cost is the basis for all subsequent accounting for the asset.For example, if a machine is purchased for Rs. 10,000/- it is recorded in the books at Rs. 10,000/- and even if its market value at the time of the preparation of the final account is Rs. 20,000/- or Rs. 60,000/- the same will not considered.

6. Cost-Attach Concept:

This concept is also known as “cost-merge” concept. When a finished good is produced from the raw material there are certain process and costs which are involved like labor cost, power and other overhead expenses. These costs have a capacity to “merge” or “attach”

7. Accounting Period Concept: An accounting period is the interval of time at the end of which the income statement and financial position statement (balance sheet) are prepared to know the results and resources of the business.

8. Accrual Concept:

The accrual system is a method whereby revenue and expenses are identified with specific periods of time like a month, half year or a year. It implies recording of revenues and expenses of a particular accounting period, whether they are received/paid in cash or not.

9. Period Matching of Cost and Revenue Concept:

This concept is based on the period concept. Making profit is the most important objective that keeps the proprietor engaged in business activities. That is why most of the accountant’s time is spent in evolving techniques for measuring the profit/profitability of the concern. To ascertain the profit made during a period, it is necessary to match “revenues” of the period with the “expenses” of that period. Income (profit) earned by the business during a period is compared with the expenditure incurred to earn the revenue.

10. Realization Concept:

According to this concept profit, should be accounted for only when it is actually realized. Revenue is recognized only when sale is affected or the services are rendered. However, in order to recognize revenue, receipt of cash us not essential. Even credit sale results in realization as it creates a definite asset called “Account Receivable”. However there are certain exception to the concept like in case of contract accounts, hire purchase etc. Similarly incomes like commission interest rent etc. are shown in Profit and Loss A/c on accrual basis though they may not be realized in cash on the date of preparing accounts.

3. A. Different types of accounts:

   Personal a/c, real a/c , nominal a/c

   b. Machinary a/c:

   balance 12522

4. Three column cash book:

   Balance amount: 10800

5. In accounting and bookkeeping, a journal is a record of financial transactions in order by date. A journal is often defined as the *book of original entry*. The definition was more appropriate when transactions were written in a journal prior to manually posting them to the accounts in the general ledger or subsidiary ledger. Manual systems usually had a variety of journals such as a sales journal, purchases journal, cash receipts journal, cash disbursements journal, and a general journal.

   With today's computerized bookkeeping and accounting, it is likely to find only a general journal in which adjusting entries and unique financial transactions are entered. The recording and posting of most transactions will occur automatically when sales and vendor invoice information is entered, checks are written, etc. In other words, accounting software has eliminated the need to first record routine transactions into a journal.