ACCOUNTING FOR EVERYONE

Open Elective Course, First Semester.

For Undergraduate Students.

As per New National Education policy (N.E.P)

RAMACHANDRA D
Assistant Professor,
Dept. of Commerce and Business Management,
Govt First Grade College Sullia,
Dakshin Kannada District, Karnataka -574239.

Edwise
Learn Wise

First Edition : December , 2021

Price : Rs.120/- [redacted]

ISBN : "978-93-93169-12-9"

Publishers : **EDWISE PUBLISHERS**
Airport Road,
Kunjathbail
Mangalore - 575 015
Mob.: 7483113097

Printer : **Sri Prema Sai Printers**
Industrial Area
Yeyyadi, Mangalore.

Type Set : **EDWISE DIGITALS**
Mangalore - 575003

PREFACE

This textbook is specially designed in compliance with the syllabus of the open elective course "**Accounting for Everyone**", for undergraduate students of Mangalore & other Universities in Karnataka State. The prime motive is to help readers comprehend how the American approach to documenting accounting data makes accounting simple. Despite the fact that the American system has been adopted at the pre-university level, it has not yet been fully implemented at the degree level. In fact, this approach makes learning the debit and credit aspects of business transactions easier and more convenient in the teaching-learning process.

I do not claim any originality in the subject matter of this book. I have taken immense of material from many standard books on the subject. Some of the basic accounting ideas I have presented here come from my experience of teaching. Specifically, the teaching experience of Cambridge University's O-level program in the Republic of Maldives.

I express my sincere gratitude to colleagues, friends and some of my students, and well-wishers for their constant support and encouragement to bring out this book. I would like to thank Edwise Publishers, Mangalore for publishing this book and making it available to students. If the book lives up to the readers' expectations, I will be well rewarded. Any suggestions to improve the book's utility are welcome and greatly appreciated.

December, 2021 **Ramachandra D.**

SYLLABUS

Module No. 1: Introduction to Accounting 8 hrs.

Meaning, Importance and Need, Its objectives and relevance to business establishments and other organizations, and individuals. Accounting information: meaning, users and utilities, sources of accounting information. Some Basic Terms –Transaction, Account, Asset, Liability, Capital, Expenditure & Expense, Income, Revenue, Gain, Profit, Surplus, Loss, Deficit. Debit, Credit, Accounting Year, Financial Year.

Module No. 2: Transactions and Recording of Transactions 8 hrs.

Features of recordable transactions and events, Basis of recording – vouchers and another basis. Recording of transactions: Personal account, Real Account and Nominal Account;

Rules for Debit and Credit; Double Entry System, journalizing transactions; Preparation of Ledger, Cash Book including bank transactions. (Simple Problems)

Module No. 3: Preparation of Financial Statements 10 hrs.

Fundamental Accounting Equation; Concept of revenue and Capital; Preparation of financial statements. (Simple problems)

Module No. 4: Company Accounts 8 hrs.

Explanation of certain terms – Public Limited Company, Private Limited Company, Share, Share Capital, Shareholder, Board of Directors, Stock Exchange, Listed Company, Share Price, Sensex - BSE, NSE; Annual report, etc. Contents and disclosures in Annual Report, Company Balance Sheet and Statement of Profit and Loss. Content Analysis based on annual report including textual analysis.

Module 5: Management Reports 8 hrs.

Reports on Management Review and Governance; Report of Board of Directors - Management discussion analysis- Annual Report on CSR – Business responsibility report – Corporate governance report – Secretarial audit report.

Contents

CHAPTER - I

INTRODUCTION TO BUSINESS AND BUSINESS ACCOUNTING

Meaning of Business

Business includes the production, purchase and sale of goods and the provision of services, including professional services provided by architects, engineers, doctors, lawyers, teachers, etc., with primary purpose is to make a profit.

Therefore, business includes the following activities.

- Production
- Purchase and sale of goods
- Providing services

Production: Production means the creation of utilities. Transforming raw materials into finished goods to satisfy the needs and wants of the people. Examples: Production of sugar, automobiles, chemical products, clothes, computers, home appliances, furniture, machinery, refined petroleum products, steel, tools etc.

Purchase and sale of goods: Mere buying and selling of goods is known as trading or merchandising. It is usually called a "buying and selling transaction" because it makes a profit by selling goods at a price higher than the cost price. Examples of merchandising companies include grocery stores, supermarkets and other retail and wholesale dealings.

Providing Services: This business deals with the sale of intangible goods to consumers. Unlike material goods, services cannot be stored or separated from the provider. From a business standpoint, service businesses are those that provide an activity or the performance of a task with a commercial purpose. This task is directed to help a business or an individual such as consulting, accounting, transportation, banking, warehousing, hospitality, traveling, maintenance, insurance, expertise, etc

CONCEPT OF BUSINESS

The basic idea of business is the business concept. The business concept is developed through business models, plans, visions, and missions of one's business idea. For example, ***Ola and Uber taxi services*** started with the concept of integrating taxi drivers and serving them on demand under one brand. All other business strategies have been developed on their own business concepts. "Find a need and fill it" is the Mantra of new start-ups.

HOW DO YOU START A BUSINESS?

There are a number of steps one needs to go through in order to start a business. This includes conducting market research, developing a business plan, seeking capital or other forms of funding, choosing a location and business structure, picking the right name, submitting registration paperwork, obtaining tax documents (employer and taxpayer IDs), and pulling permits and licenses. It's also a good idea to set up a bank account with a financial institution to facilitate your everyday banking needs.

BUSINESS TRANSACTIONS

Any event that takes place in a business for which a value can be set is called a business transaction. The business transaction is known as a financial incident or is an accounting event that must be measurable in money and has a significant impact on the financial position of the business.

Example: Bought machinery worth of ₹50,000

Paid salary ₹12,000

Sold goods worth of ₹24,000

From the discussion above, we can highlight the following four important characteristics of a valid business transaction that any accountant or bookkeeper should consider before recording the transaction.

1. It is a monetary event.
2. Affects the financial position of the company.
3. It belongs to the business, not to the owner or anyone else who runs the business.
4. It is supported by a source document called Voucher

Transactions Vs Events

- The transaction is an exchange of an asset and discharge of liabilities with consideration of monetary value. While the event is anything in general-purpose that occurs at a specific time and a particular place.

- We can also say that all transactions are events and but all events are not transactions. This is because in order for events to be called transactions an event must involve the exchange of values.

Types of business transactions: In accounting, the transactions may be classified as:

1. Cash transactions
2. Credit transactions

1.Cash transactions

A transaction in which cash is paid or received immediately at the time when a transaction occurs is known as a cash transaction. Therefore, the settlement in form of receipt or payment is made instantly in relation to a business transaction.

Example: Bought goods for cash ₹5,000

Paid wages by cheque ₹21,000

The transactions made using debit or credit cards issued by financial institutions are also categorized as cash transactions.

2. Credit transactions

In this transaction, the settlement of commercial transactions by payment or receipt of money is postponed. But buyer has the right to take ownership of the goods and transport them to their store or home for use**.**

Example: 1. Bought goods on credit from zenith company ₹ 2000.

2. Sold goods on Credit to Mr. Hitesh ₹4000.

3. Furniture purchased from Classic Furniture Mart for ₹ 32,000.

Upon request, your seller agrees to be paid ₹ 32,000 for the furniture to be sold to you in the next month.

Book -keeping

Systematic recording of business data or business transactions in the books of accounts, by adhering the accounting principles is known as bookkeeping. Therefore;

- It is the daily record of transactions in the order in which they occur
- The transactions are financial in nature
- The transaction related to business activity

- **It helps to keep track of receipts, payments. Sales, purchases and record of every other transaction made from the business.**

What is Accounting?

> ➢ ***The process of recording and summarizing financial transactions is known as 'book-keeping'.***

> ➢ ***When the data is produced in reports for the use is called 'financial accounting'***.

Therefore, accounting is a business language by which a company communicates its activities with the outside world. Outsiders are mentioned here because they are users of accounting information, they are also known as Stakeholders.

Interested information users: Many users need financial information to make important decisions. These users can be divided into two broad categories: internal users and external users. Insiders include General Manager, CFO, Vice President, Business Unit Manager, Factory Manager, Store Manager, Line Supervisor, etc.

External users include present and potential Investors (shareholders), Creditors (Banks and other Financial Institutions, Debenture holders and other Lenders), Tax Authorities, Regulatory Agencies (Department of Company Affairs, Registrar of Companies, Securities Exchange Board of India, Labour Unions, Trade Associations, Stock Exchange and Customers, etc. Since the primary function of accounting is to provide useful information for decision-making.

How does accounting help each of the following external users?

1. **Banks and other financial institutions:** Banks provide finance in form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.
2. **Creditors:**Creditors are those individuals and organisations to whom a business owes money on account of credit purchases of goods and receiving services; hence, the creditors require information about credit worthiness of the business.
3. **Investors and potential investors:** They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, investors need information about profitability and solvency of the business.

4. **Tax authorities:** They need information about sales, revenues, profit and taxable income in order to determine the levy various types of tax on the business.
5. **Government:** It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policies measures and to address various economic problems like employment, poverty etc.
6. **Researcher:** Various research institutes like NGOs and other independent research institutions,stock exchanges, etc. undertake various research projects and the accounting information facilitates their research work.
7. **Public:** Public is keenly interested to know the proportion of the profit that the business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc.

Objective of Accounting

(i) Systematic Recording of Transactions

(ii) To ascertain profit and loss from the transactions made during the period

(iii) Providing Information to the Users for Rational Decision-making

(iv) Ascertain the Financial Position of Business

(v) To Know the Solvency Position

Function of Accounting

The main functions of accounting are as follows:

(a) **Measurement**: Accounting measures the past performance of the business entity and depicts its current financial position.

(b) **Forecasting**: Accounting helps in forecasting future performance and financial position of the enterprise using past data.

(c) **Decision-making**: Accounting provides relevant information net profit or loss and financial position of the business through financial statements to the users of accounts to aid rational decision-making.

(d) **Comparison and Evaluation**: Accounting assesses performance achieved in relation to targets and discloses information regarding accounting policies and contingent liabilities which play an