1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 01 (Class XI, Semester - 1)
Module Name/Title	Theory Base of Accounting – Part 2
Module Id	keac_10202
Pre-requisites	Basic knowledge of meaning and objectives of accounting
Objectives	After going through this lesson, the learners will be able to understand the following: • System of Accounting • Basis of Accounting • Accounting Standards • International Financial Reporting Standards (IFRSs)
Keywords	Double entry system, Single entry system, Accrual basis of accounting, Cash basis of accounting, Accounting standards, IFRS

2. Development Team

Role	Name	Affiliation
National MOOC Coordinator (NMC)	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Mohd. Mamur Ali	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Shipra Vaidya	DESS, NCERT, New Delhi
Subject Matter Expert (SME)	Shri Rajesh Kumar	Government Sarvodaya Bal Vidyalaya, Lok Vihar, Pitampura, Delhi
Review Team	Prof. Surinder Kumar	PGDAV College, University of Delhi

Table of Contents

1. System of Accounting
2. Basis of Accounting
3. Accounting Standards
4. IFRS
5. Summary

1. System of Accounting

The systems of recording transactions in the book of accounts are generally classified into two types: (i) Double entry system and (ii) Single entry system. Double entry system is based on the principle of "Dual Aspect" which states that every transaction has two effects, e.g. receiving of a benefit and giving of a benefit. Each transaction, therefore, involves two or more accounts and is recorded at different places in the ledger. The basic principle followed is that every debit must have a corresponding credit. Thus, one account is debited and the other is credited.

Double entry system is a complete system as both the aspects of a transaction are recorded in the book of accounts. The system is accurate and more reliable as the possibilities of frauds and misappropriations are minimised. The arithmetic inaccuracies in records can mostly be checked by preparing the trial balance. The system of double entry can be implemented by big as well as small organisations.

Single entry system is not a complete system of maintaining records of financial transactions. It does not record two-fold effect of each and every transaction. Instead of maintaining all the accounts, only personal accounts and cash book are maintained under this system. In fact, this is not a system but a lack of system as no uniformity is maintained in the recording of transactions. For some transactions, only one aspect is recorded, for others, both the aspects are recorded. The accounts maintained under this system are incomplete and unsystematic and therefore, not reliable. The system is, however, followed by small business firms as it is very simple and flexible.

2. Basis of Accounting

From the point of view of timing of recognition of revenue and costs, there can be two broad approaches to accounting. These are:

(i) Cash basis; and

(ii) Accrual basis

Under the *cash basis*, entries in the book of accounts are made when cash is received or paid and not when the receipt or payment becomes due. Let us say, for example, if office rent for the month of December 2016, is paid in January 2017, it would be recorded in the book of account only in January 2017.

Similarly sale of goods on credit in the month of January 2017 would not be recorded in January but say in April, when the payment for the same is received. Thus this system is incompatible with the matching principle, which states that the revenue of a period is matched with the cost of the same period. Though simple, this method is inappropriate for most organisations as profit is calculated as a difference between the receipts and disbursement of money for the given period rather than on happening of the transactions.

Under the *accrual basis*, however, revenues and costs are recognised in the period in which they occur rather when they are paid. A distinction is made between the receipt of cash and the right to receive cash and payment of cash and legal obligation to pay cash. Thus, under this system, the monitory effect of a transaction is taken into account in the period in which they are earned rather than in the period in which cash is actually received or paid by the enterprise. This is a more appropriate basis for the calculation of profits as expenses are matched against revenue earned in relation thereto. For example, raw material consumed is matched against the cost of goods sold.

3. Accounting standard

Accounting standards are written policy documents covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in financial statements. Accounting standard is an authoritative statement issued by ICAI, a professional body of accounting in our country. The objective of accounting standard is to bring uniformity in different accounting policies in order to eliminate non comparability of financial statements for enhancing reliability of financial statements. Secondly the accounting standard provides a set of standard accounting policies, valuation norms and disclosure requirements. In addition to improving credibility of accounting data, accounting standard enhances comparability of financial statements, both intra and inter enterprises. Such comparisons are very effective and widely used for assessment of firms’ performance by the users of accounting information for taking economic decisions.

Need for Accounting Standard

Accounting extends information to various users of information. Accounting information can serve the interest of different users only if it possesses uniformity and full disclosure of relevant information. There can be alternate accounting treatment and valuation norms which may be used by any business entity. Accounting standard facilitate the scope those alternatives which fulfils the basic qualitative characteristics of true and fair financial statement.

Benefits of accounting standard:

1. Accounting standard helps in eliminating variations in accounting treatment to prepare financial statements.
2. Accounting standard may call for disclosures of certain information which may not be required by law, but such information might be useful for general public, investors and creditors.
3. Accounting standard facilitate comparability between financial statements of inter and intra companies.

Limitations of accounting standard

1. Accounting standard makes choice between different alternate accounting treatments difficult to apply.
2. It is rigidly followed and fails to extend flexibility in applying accounting standards.
3. Accounting standard cannot override the statue. The standards are required to be framed within the ambit of prevailing statues.

Applicability of accounting standard

Except the purely charitable organization which does not have any commercial, industrial and business activity, accounting standard is applicable to:

1. Sole proprietorship unit
2. Partnership firm
3. Societies
4. Trusts
5. Hindu undivided family
6. Association of persons
7. Cooperative societies
8. Companies

4. International Financial Reporting System

There have been vast changes in the global economic scenario with the emergence of globalization, liberalization and privatization. The advent of translational corporations in search of funds in order to sustain their ongoing operations in addition to fuelling the growth of economy has resulted in raising capital globally, i.e., cutting across international boundaries. Since each country has its own set of rules and regulations for maintaining business records for accounting purposes and financial reporting, it becomes a cumbersome and complex exercise to comply with the existing accounting rules and regulations of that country in case the business enterprise decides to raise its capital needs from foreign country. In order to make economy more dynamic, competitive and to boost confidence amongst international analysts and investors, it is important that the financial statements put forward by the business organisations across the countries are comparable on similar parameters, investor friendly, fair, transparent and decision worthy. In view of this, a trend towards global convergence of accounting standards is seeking momentum for international financial reporting.

Need for IFRS

1. The important economic decisions are made on the basis of financial statements. In order to avoid manipulations of figures in the financial accounts, there is a need for consistent way of deciding which elements require recognition and measurement and how information is presented in the financial statements. Hence, IFRS helps to prevent material manipulation or errors in financial statements.
2. IFRS helps in global harmonization. Unless accounting activities are regulated, different countries will apply different set of accounting rules and regulations are prevalent in each country. This will restrict uniformity and comparability of financial statements. Hence, IFRS promotes global standards for ease of business growth.
3. It facilitates global investment. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investments and achieves substantial benefits for all capital market stakeholders.

To uniform accounting policies and procedures almost all countries have agreed to apply IFRS. But the name of this IFRS has been converged as Ind AS. In substance, Ind AS is not different from IFRS. Ind AS is accounting standards notified by ministry of corporate affairs and has wide range of convergence as compared to existing accounting standards.

The list of Ind AS and existing standards for comparative analysis is given below:

Ind-AS	Title	AS	Title
1	Presentation of financial statements	1	Disclosure of accounting policies Framework for preparation and presentation of financial statements
2	Inventories	2	Valuation of inventories
7	Cash flow statements	3	Cash flow statements
8	Accounting policies, changes in accounting estimates and errors	5	Net profit or loss for the period, prior period items and changes in accounting policies
10	Events after the balance sheet date	4	Contingencies and events occurring after the balance sheet date
11	Construction contracts	7	Construction contracts
12	Income taxes	22	Accounting for taxes on income
16	Property, Plant and equipment	10 6	Accounting for fixed assets Depreciation accounting
17	Leases	19	Leases
18	Revenue	9	Revenue recognition
19	Employee benefits	15	Employee benefits
20	Accounting for government grants and disclosure of government assistance	12	Accounting for government grants
21	The effects of changes in foreign exchange rates	11	The effects of changes in foreign exchange rates
23	Borrowing costs	16	Borrowing costs
24	Related party disclosures	18	Related party disclosures
27	Consolidated and separate financial statements	21	Consolidated financial statements
28	Investments in associates	23	Accounting for Investments in Associates in CFS
29	Financial reporting in Hyperinflationary economics	--	
31	Interests in joint ventures	27	Financial reporting of interest in joint venture
32	Financial instruments: presentation	31	Financial instrument: Presentation
33	Earnings per share	20	Earnings per share
34	Interim financial reporting	25	Interim financial reporting
36	Impairment of assets	28	Impairment of assets
37	Provisions, contingent liabilities and contingent	29	Provisions, contingent liabilities and contingent assets

	assets		
38	Intangible assets	26	Intangible assets
39	Financial instruments: recognition and measurement	30 13	Financial instruments: recognition and measurement Accounting for investments
40	Investment property	13	Accounting for investments
101	First time adoption of international financial reporting standards	--	
102	Share-based payments	--	G.N. on employee share based payment
103	Business combinations	14	Accounting for amalgamations
104	Insurance contracts	--	
105	Non-current assets held for sale and discontinued operations	24	Discontinuing operation
106	Exploration for and evaluation of mineral resources	--	
107	Financial instruments: disclosures	32	Financial instruments: disclosures
108	Operating segments	17	Segment reporting