Managerial Accounting
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Module - 3
Lecture - 6
Company Accounts

Welcome to the 5th sessions. So far we are discussing about financial accounting where in we have discussed what is accounting. We have also seen the formats of certain financial statements that is balance sheet followed by p n l account. In the last session, we were discussing about how to record the transactions we will go a step ahead in the recording of transactions. We will today see how to records record the transactions related to companies basic recording in journal ledger we have seen. Today, let us see are there any special requirements for the companies.

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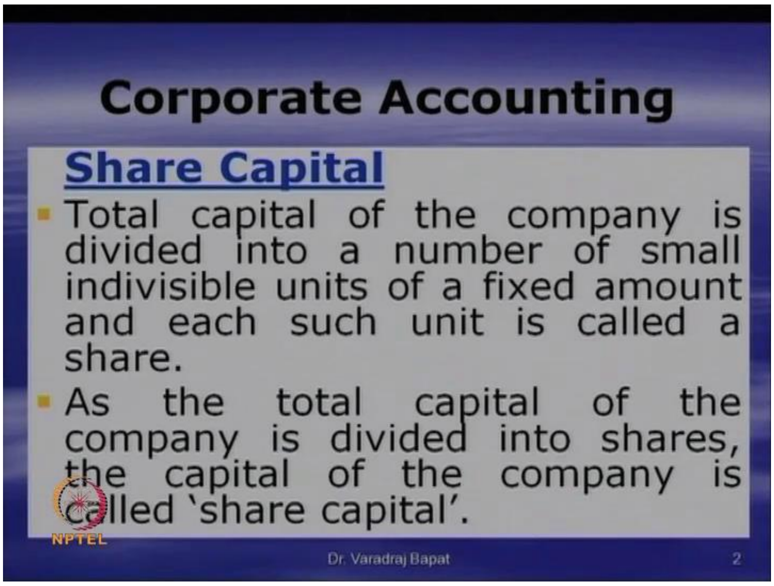

Now, as you know company is a different type of entity where it is not 1 person who is the owner a large number of people contribute to the creation of the company by contributing to the capital. The capital of the company is known as share capital. In case of a proprietary organization it is only 1 owner. So, it is known as proprietor's capital, in a partnership firm it is known as partner's capital but in a company it is known as share capital because it is contributed by many people. Today, we are going to learn how to record the transactions for share capital we have seen that the total capital of the company being contributed by many people it small unit is known as share.

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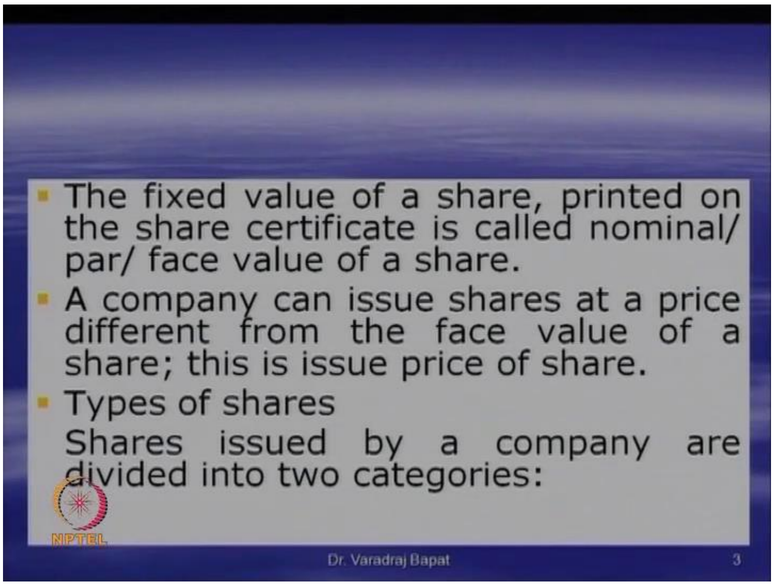

Now, the fixed value of the share which is printed on the share certificate is known as nominal value par value or face value of the shares. Now a days you do not see share certificates many of the companies have dematerialize their shares. So, shares are in the electronic form in those cases also there is some value which is known as face value of the share. Now, when company gives the shares to the people it is known as a process of issue of shares. So, sale of share from the company to the people is known as issue. Now, if the face value of the share is 10 rupees it is not necessary that company issues the shares at 10 rupees only it may issue it at say 15 rupees. So, value of the share at face is 10 company is collecting 5 rupees more that 5 rupees more is known as premium which is collected from the company. The issue price is known as 15 rupees. Now, if you look at the types of the shares.

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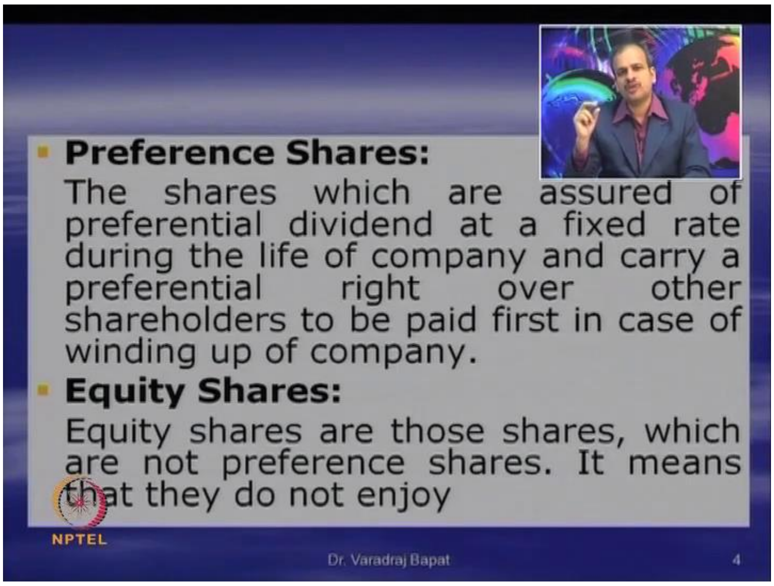

There are 2 types of the shares 1 is preference share other is equity share. Preference share as the name suggest they have a preference over other shareholders for what they have a preference? First preference they have is to receive the dividend. So, they are entitle to a fixed rate of dividend. Let us say 12 percent before other shares are paid any dividend these shareholders are paid 12 percent. In the same way they also have the preference in case of a winding up of the company. So, if the company is going to be closed then out of the available assets of the company first the capital of preference shares will be paid and then other shares are paid.

So, preference shares do have a preference of course, this preference is on paper only practically there is no much market for the preference share. Because they do not have access or do they do not share the additional profits of the company. As against this we have other category of shares which are known as equity shares. Now, equity shares are the real owners of the company and all the balance profit of the company is entitled to equity shares. So, typically if you look at the stock market all the shares which are coated are equity shares hardly any company issues preference shares and if issues also it is usually convertible. So, you have got the preference share and after 2 3 years you get the equity share out of it that is the only time people usually preferred to buy preference shares.

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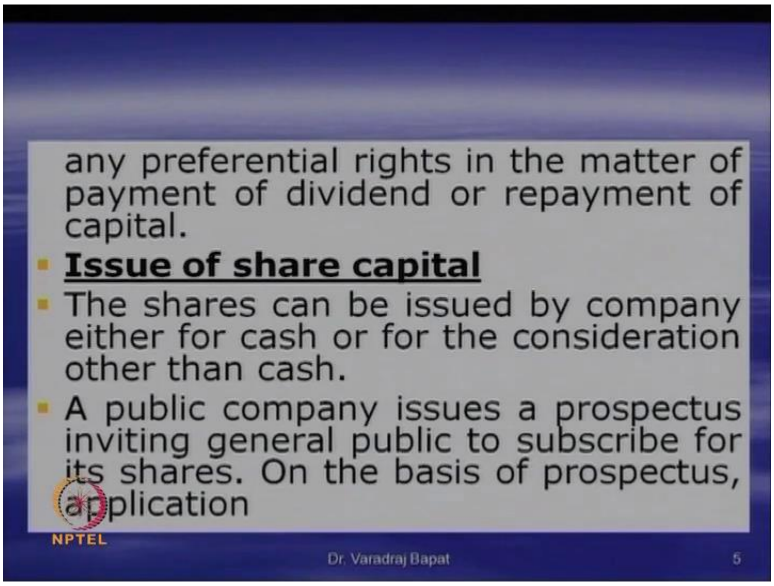

So, these are the main 2 types of shares as I told you equity shares are the main shares they are all share holders are par that is why they are known as equity shares. Now, let us understand what is the issue of share? As we have seen earlier the sale of share by the company is known as the issue. The shares can either be issued for cash or they may be issued for consideration other than cash. So, suppose I am a company I am giving you my shares at 15 rupees you pay me 15 rupees I will give you 1 share. This is a case of cash issue of share there is also issue for consideration other than cash. This happens when I am issuing share and as a consideration you do not pay me cash but you give me say your land. Many times what happens is 1 company takes over another company. So, another company’s property comes in and in Leo of that property the first company gives them shares such issues are known as issue for consideration other than cash. Now, public company can go for issue of shares to the general public for that they issue a document that is known as prospectus.

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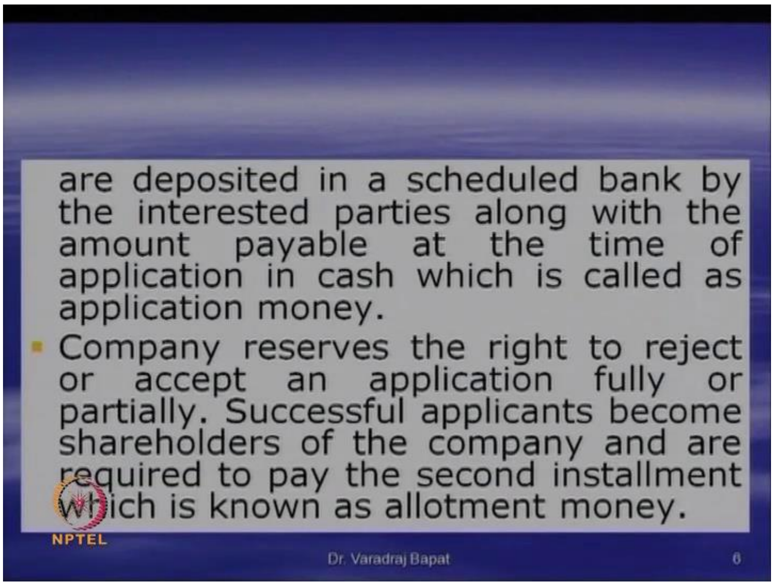

Now, on the basis of prospectors, the applications are deposited by the interested parties along with the money which is known as application money. So, we were assuming that company is getting issuing the shares at 15 rupees. Let us say it says that out of this 15 rupees you have to pay 5 rupees on application. And it will issue prospectus whoever is interested in getting the shares will deposit the share application form with 5 rupees. Now a day's many of the issues happen through electronic in the electronic form but way is same shareholders transfer 5 rupees per share along with the application in the electronic form. Now what happens is if there are more applicants then what the company wants to issue then the proportion at allotment will be made. So, if company is going to issue let us say 5 lakh shares but there are applications from for 10 lakh shares then the issue will be made proportionality to the application. Now, once the shares are issued they are usually required to pay the next installment which is known as allotment money.

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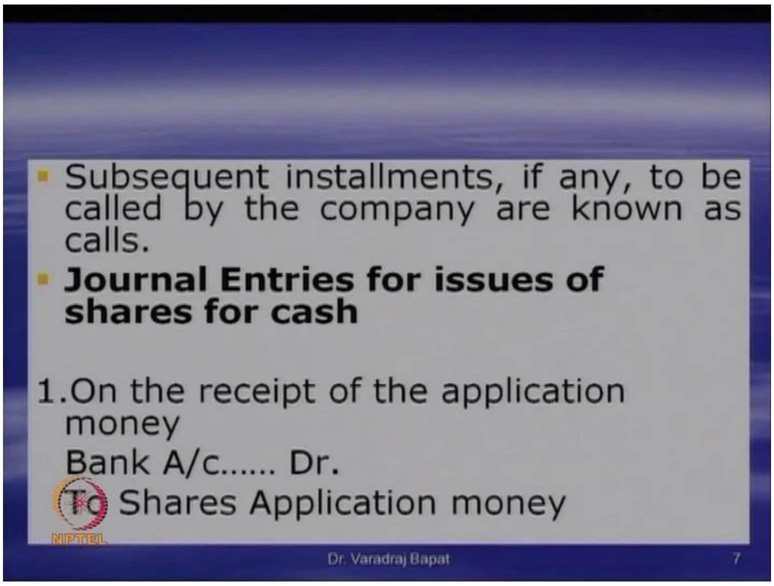

After allotment money company may call for further moneys which are known as money's which are payable on call. So, we were assuming that company is issuing shares at 15 rupees out of that 15 rupees 5 rupees is paid on application 5 rupees may be paid on allotment. And after the shareholders become the shareholders they may be asked to pay next 5 rupees that is called as money which is paid on call. Now, let us understand what are the journal entries for issue of shares for cash? As you can see here the first 1 is when the application money is received.

Now, here the money comes in for the company through bank that is why bank account is debited. And a separate account known as share application money account is created. So, money which comes in goes into bank account and share application money account is credited. Now, next step is allotment. So, once suppose I am a company I have called for applications and 1 lakh people have paid me 5 rupees and I have received now 1 lakh applications with the application money. Next step where I go for issue of shares when the shares are issued the application money is now, converted into share capital, because the shares are issued.

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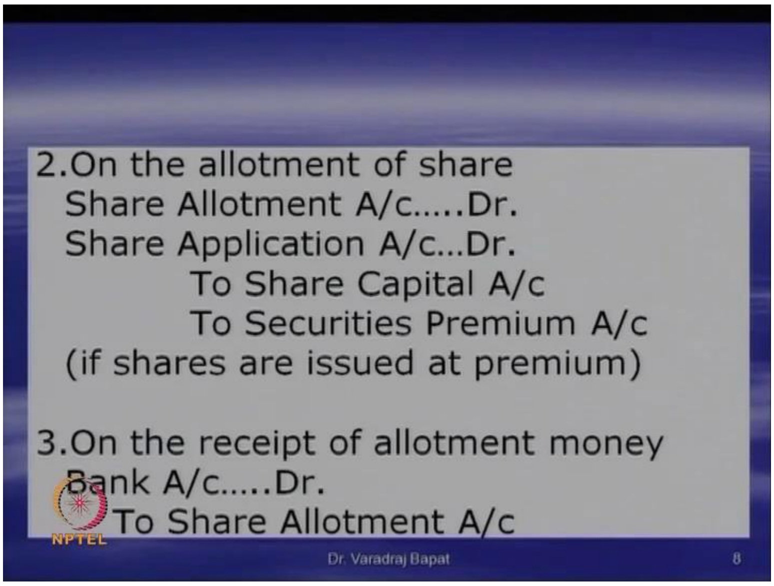

Simultaneously company also seeks some more money which is known as allotment money. So, now you can see here the journal entry it is share allotment money debit, share application money debit, because application money is already received allotment money is now, to be received. And the money is credited into share capital account and part of the money is credited into share premium account. Do you remember what is premium? In the beginning I have told you that if face value of the shares is 10 and I am issuing the shares on 15 that 5 rupees which extra the company collects is known as securities premium. So share capital account will be credited with 10 rupees and securities premium will be credited with 5 rupees. Now, next step is company has requested the shareholders to pay the allotment money. Once the paid the allotment money journal entry number 3 as you can see here will be passed. So, here company is receiving money. So, bank account is debited and share allotment account is credited. Let us go ahead now.

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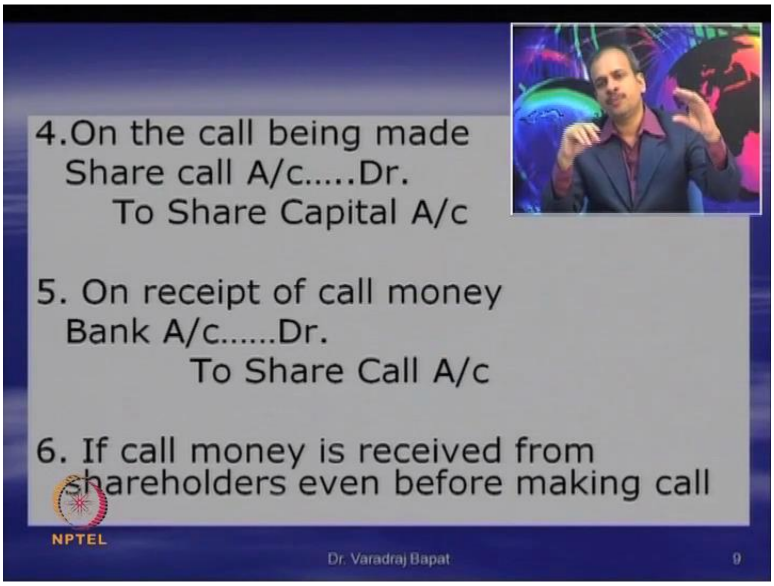

Now, in entry number 4 company makes call. So, company asks the shareholders to pay the remaining money. So, share call account is now, debited and share capital account is credited. Keep in mind whenever the money is going into share capital the share capital is account is credited. It has happened in 3 steps initially share application money was debited, share allotment money was debited and that whole money was credited into share capital. Now, share call account is debited and the money is credited into share capital. The next entry that is entry number 6 will happen when share holders will actually pay that money call money. So, bank account is debited as money comes in and it is credited to share call account.

So, I think it is fairly clear to you the money I will just go back to the entries, the money is received in 3 installments first the application money was received then company made a request to pay allotment. And allotment money then in entry number 3 allotment money was received, in entry number 4 company made request to pay call money, in entry number 5 the call money is also received. Now, this is a normal procedure. Now, sometimes what may happen is some shareholders may pay the money in advance while some shareholders will not pay the money though money will become outstanding. Let us see now, the entries for that entry number 6 as you can see here is if the call money is paid in advanced by the shareholders.

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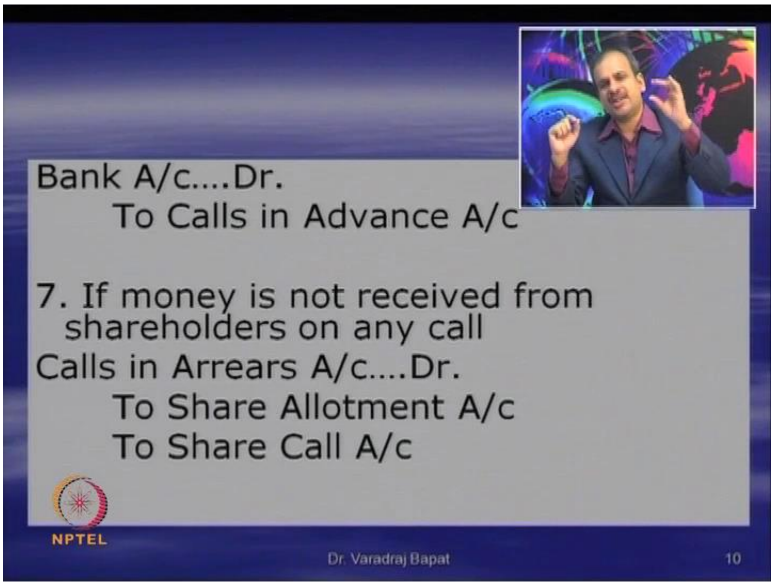

Now, in this case what will happen is bank account is credited and sh calls in advance separate account is created and calls in advance account is created. Seventh entry is a case where money is not received even after requesting the shareholders. In that case separate account called as calls in arrears account is created. So, you can see here calls in arrears account are debited and the money is created to share allotment to share call. So, any money which remains outstanding it is debited to calls in arrears account and credited to the respective accounts. You can see the next one now, normally what happens is if some of the shareholders are not paying the shares share money in time naturally they have to pay interest for it.

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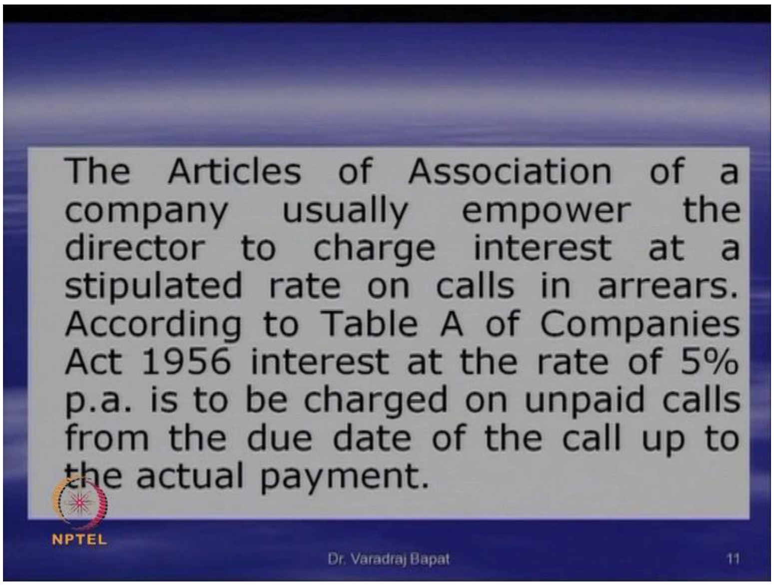

Now, as per company act companies can charge 5 percent on the unpaid calls. Companies' article of association of course should make the provision for such a call.

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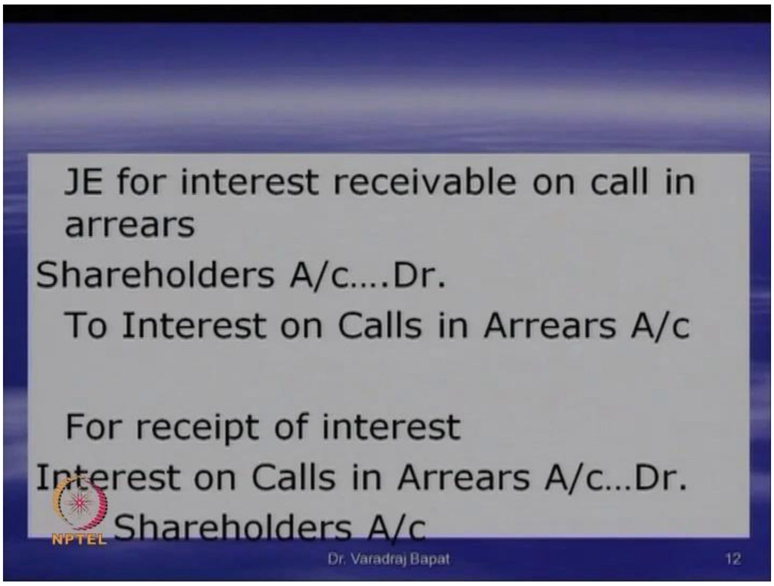

Now, when this money becomes receivable the entry will be passing for shareholders account debit to interest on calls in arrears. This is where the call in arrear interest becomes due. Subsequently when the money is received we have interest on calls in arrears debit to shareholders account. So, this is the entry for recording the interest and next entries for receiving the entries. In the same way that the company charges interest for late payment it also gives interest if shareholders pay the money in advance.

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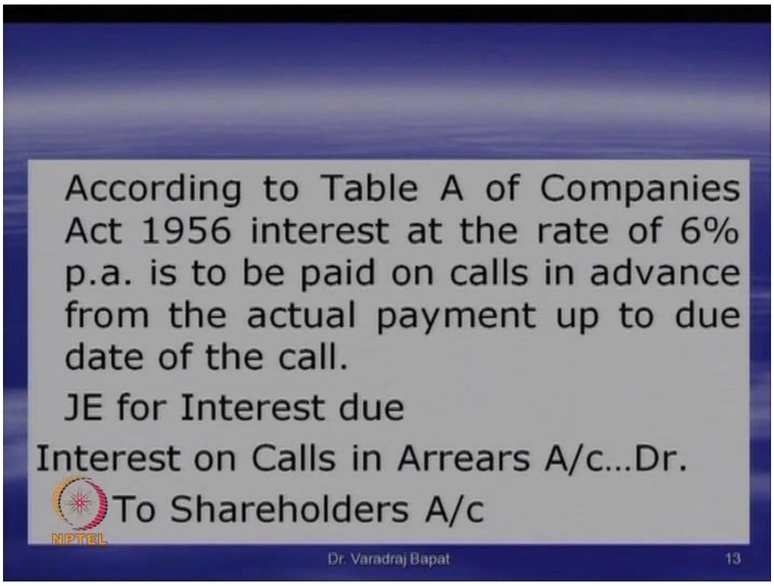

Now, interest at 6 percent is to be paid on calls in advance. Now, interest is to be paid to them.

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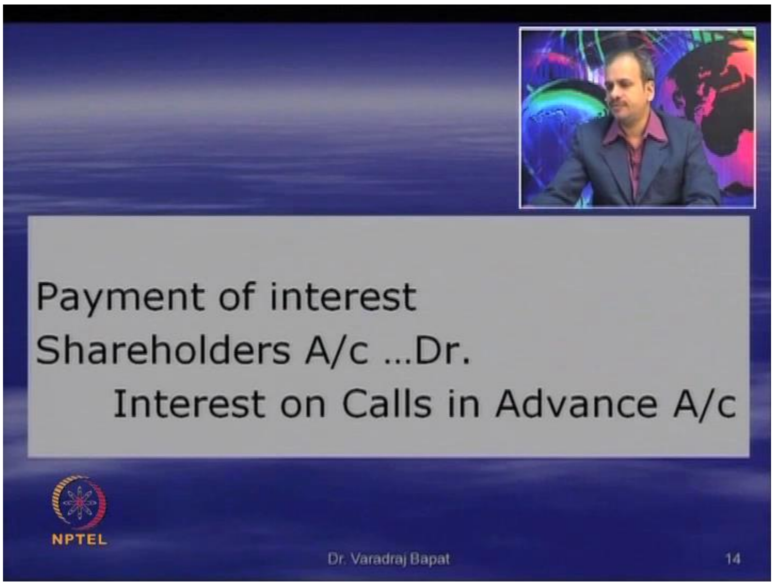

So, interest on calls in arrears debit to shareholders and the next entry is shareholders debit to interest on calls in advance. So, here what is happening is just like earlier entries they were calls in arrears these are the entries for calls in advance. So, the money which is to be which is received in advance company credits the interest and then shareholders pay that interest.

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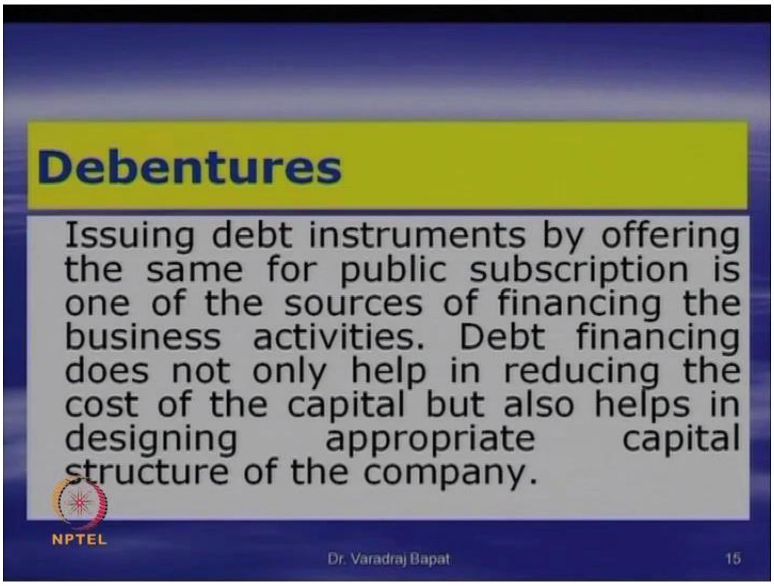

Now, let us go to the next type of security which is known as debenture. First let us understand what is a debenture? As you know shares is a ownership security So, shareholders are the owners of the company they pay money which is contributed as a capital. Now, debenture is a similar instrument that is also issued to people however debentures are a type of loan security or they are a type of debt.

So, if I am a company I will come out and tell the people that you pay me the money as loan. And that in leave of that loan I will give you a document or a security and I will pay you interest regularly and at the end of say 5 years 7 years 10 years I will pay back your money So, debenture is a type of debt security. The advantage for the company for debenture is instead of going to the bank I am paying the more interest company can approach people and issue the security by way of debenture. Now, issuing a debt instrument by offering the same to the public is one of the important sources of finance. Now, it helps them to reduce the cost of capital, because usually shareholders have high expectations of returns whereas, in case of debentures fixed rate of interest say 12 percent 13 percent 14 percent will be paid.

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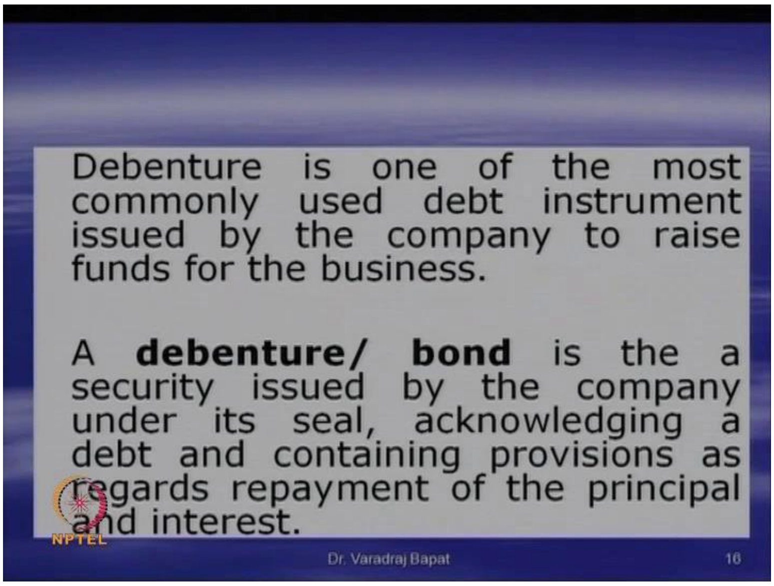

Now, let us understand the entries for recording the debenture. Now, debenture is the 1 more issue about a debenture or a bond they are 1 and the same thing. It is issued by the company under the common seal acknowledging the debt and containing the provision as regard the repayment of principal and also the payment of interest. Now, let us understand the entries for issue of shares. Now, issue of shares can be made in different ways sorry issue of debentures can be made in different ways.

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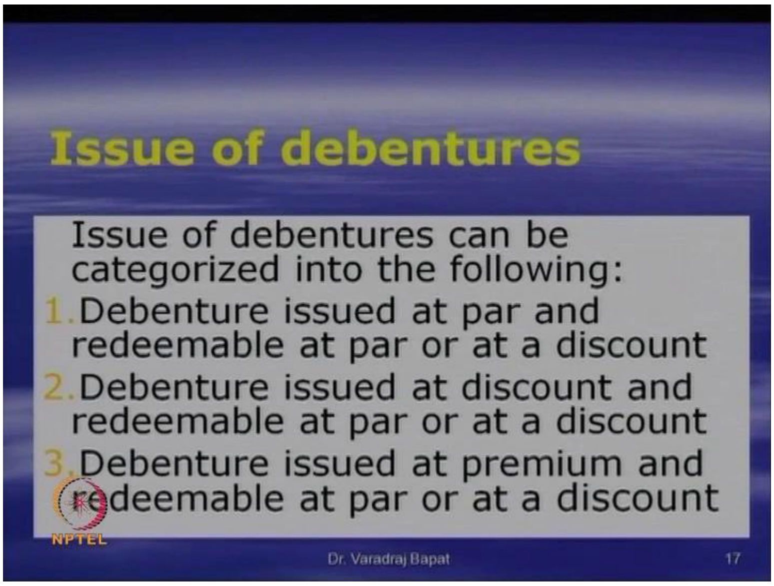

First is debenture is issued at par, but it is redeemed at par or at a discount. Second is issued at discount, but it is redeemed at par or discount. I hope you understand what is that par? At par means the same issue price as that of a face value many time debentures have a face value of 100 rupees. So, suppose debentures are of 100 rupees company may issue them at 100 then that will be called as issue at par. If the debenture has a face value of 100 it is issued at say 105, 5 rupees extra it collects that is known as issue at premium. And say 100 rupees debenture is issued at 97 that is below the face value it is known as issued at discount that 3 rupees is discount.

Same way when the debenture is paid back it can be at a premium it can be at a par or it can be at a discount. For example, debenture has a face value of 100 it may be redeemed at say 110 rupees company gives 10 rupees more it is known as redemption premium or it may be redeemed at just 100 rupees or it may be redeemed at less, but that happens very abnormally generally it is redeemed at par or it is redeemed at premium. Now, let us see the entries as they happen. So, first type is debentures are issued at par, but redeemed at premium or discount. Second type debentures are issued at discount and redeemable at par or discount. Third is there issued at premium but they are redeemable at par or at discount.

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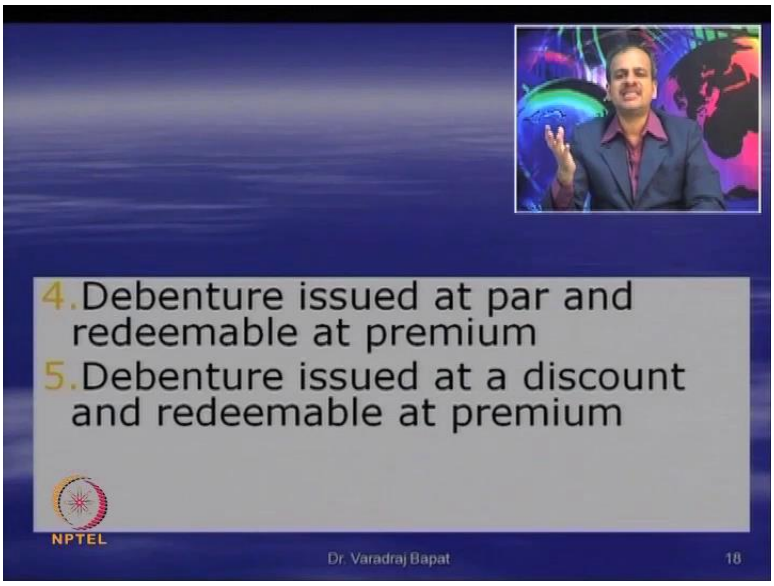

Fourth and fifth types also you can see. Now we will go to the entries how they are passed for the respective types.

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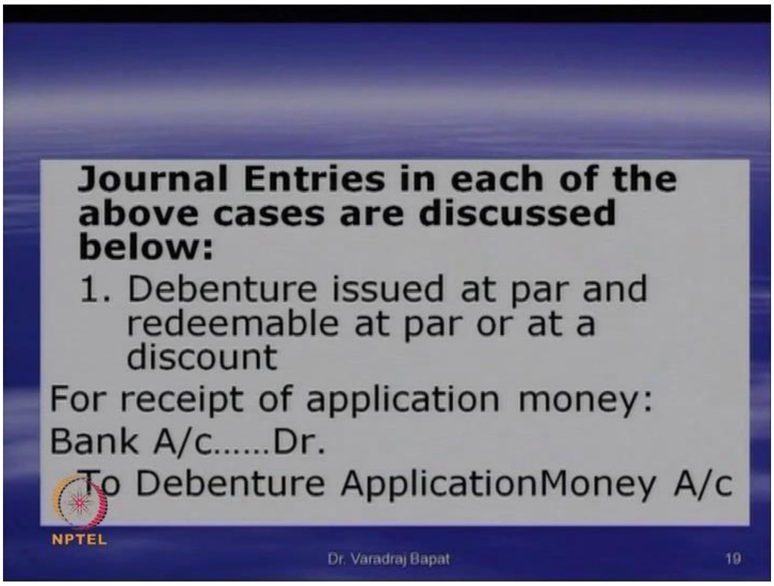

Now, first case, here debentures are issued at par and they are also redeemable at par or at discount. So, now, when the debentures are issued the entry will be bank account debit to debenture application money account. This is where the company receives money and application money is credited.

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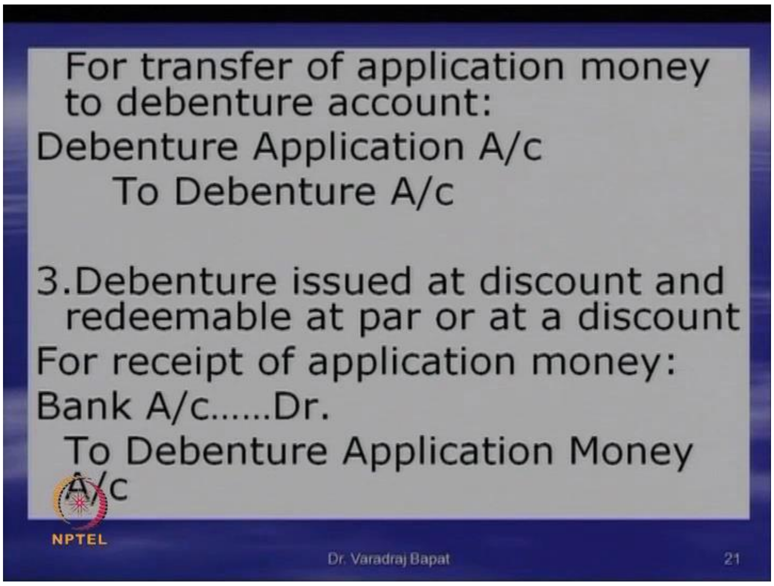

Now, when the actual debenture is issued the money from the application account will be transfer to the debenture. Now second entry now, when the debenture is being issued at discount, but it is redeemable at par. Then at the time of application we will pass the entry bank account debit to debenture application account however for the transfer the entry will be debenture application to debenture. Now, third case debenture which is issued at discount and redeemable at par or discount. Now, again the application entry remains same bank account debit to debenture application account.

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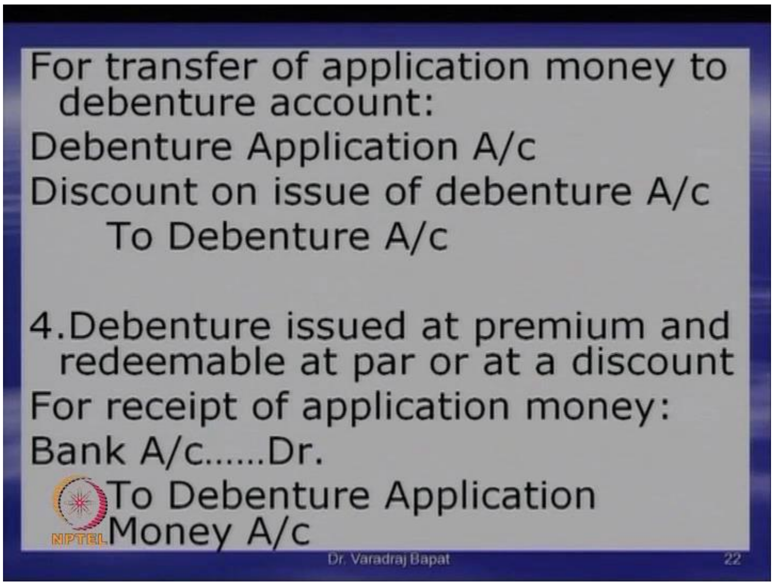

And when it is transferred it is slightly different. Now, it is debenture application account discount on issue of debenture account to debenture account. So, here is a case where though the debenture is 100 rupees company collects let us say only 97 rupees. So, 97 rupees will be received from debenture application account 3 rupees is a discount. That is why the entries like this debenture application debit 97 discount on issue of debenture is 3 and debentures account is 100. Now, let us see the fourth case. Fourth case is debenture is issued at a premium, but it is redeemable at par or at a discount. Again the first entry is same bank account debit to debenture application account for receipt of money.

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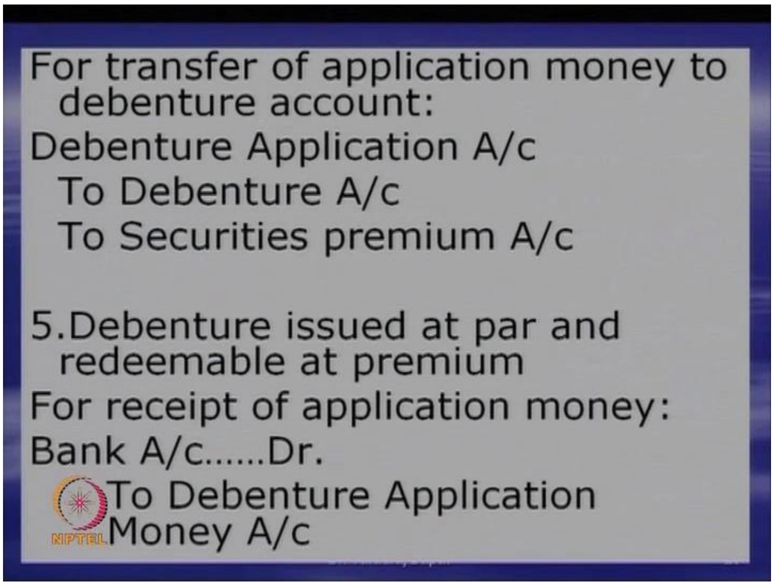

The second entry will slightly change, because now the debenture application money is transferred to debenture account and also securities premium account. So, here is a case where 100 rupees debenture is being issued at 105 rupees. So, people pay 105 out of that 100 rupees go to debenture account 5 rupees goes to securities premium account. Let us see the fifth case. In fifth case debentures are issued at par and their redeemable at a premium again the first entries same bank account debit to debenture application account.

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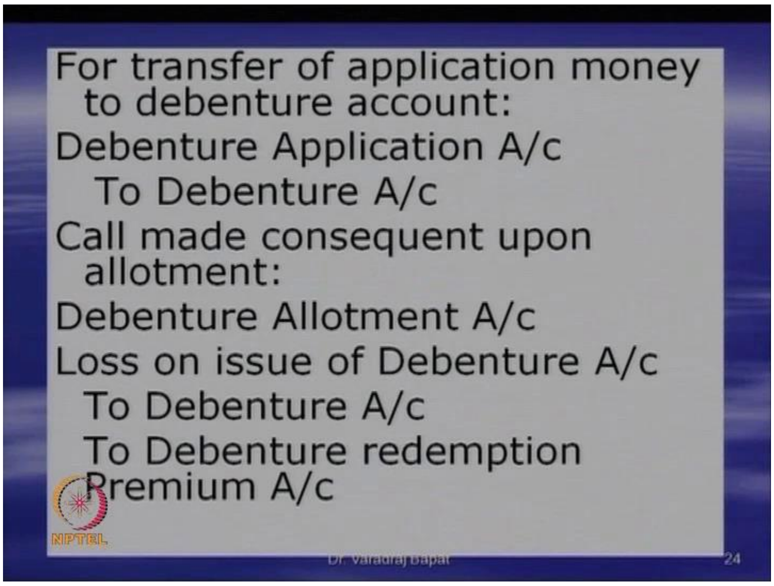

Now, for the transfer of application money to debenture account debenture application will be transferred to debentures. So, again the second entry also remains the same. Now, sometimes the call made subsequent upon allotment. So, here debenture allotment account is debited loss on issue debenture account is debited to debenture account and to debenture redemption account. What you should note is along with the credit to debenture account once extra account is known as debenture redemption account debenture redemption premium account is created. So when the debenture of 100 rupees is to be repaid let us say at 106 rupees that 6 rupees is known as redemption premium it is credited to an account known as debenture redemption premium account. Now let us go to the next case.

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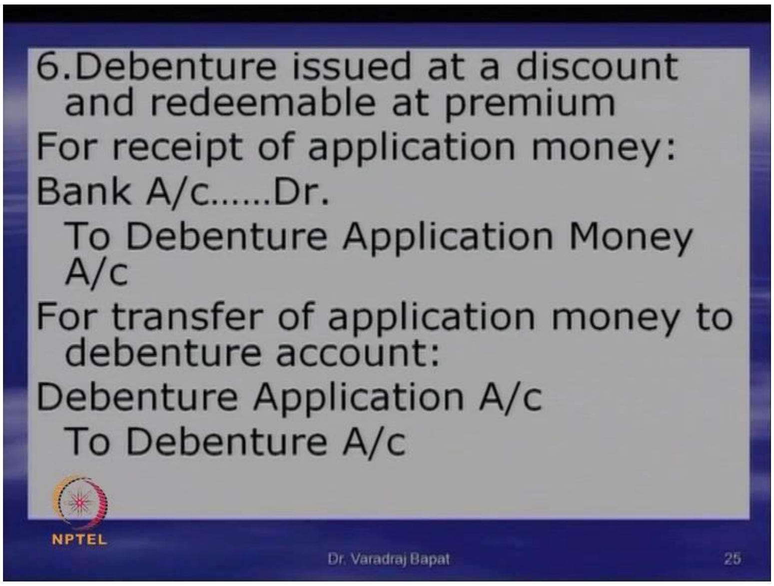

Sixth case is where debenture is issued at discount, but it is redeemable at a premium again the first entry is same bank account to debenture application account.

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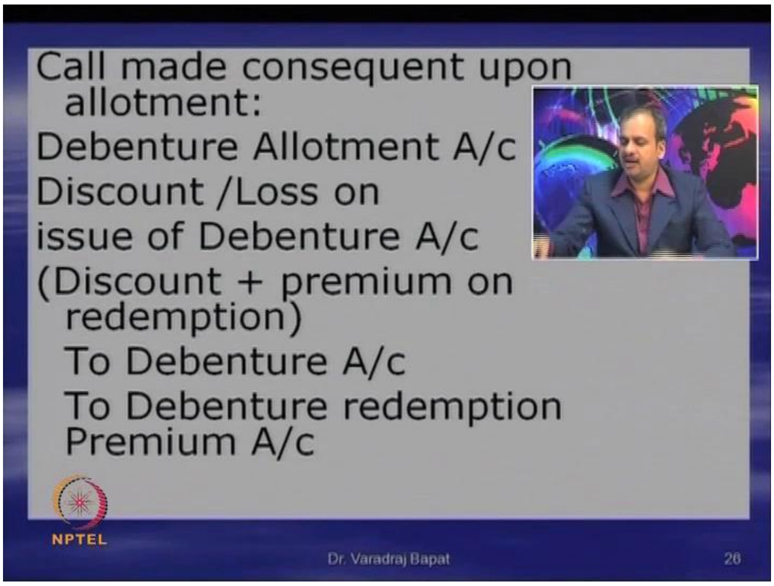

Now, when the transfer is made it is debenture application to debenture and on a subsequent call it is debenture allotment. Then debenture discount or loss on issue of debenture account debit to debenture account to debenture redemption premium account. So, I will just take a concrete case then I think it will be more clear to you. So, here what is happening is 100 rupees debenture is being issued at 97 and it will be redeemed at 106. So, company has 2 losses 1 it is giving a discount of 3 rupees and at the time of redemption it will repay 6 rupees more. That is why debenture account will have to be credited with 100 rupees debenture redemption premium is to be credited with 6 rupees and there is some loss on issue of debenture which is 9 rupees. I hope you are getting what is happening? So, I receive 97 there is a loss on issue which is 9. So, 97 plus 9 106 I credit 100 rupees to debentures and I credit 6 rupees to debenture redemption premium account I hope all the cases are clear to you.

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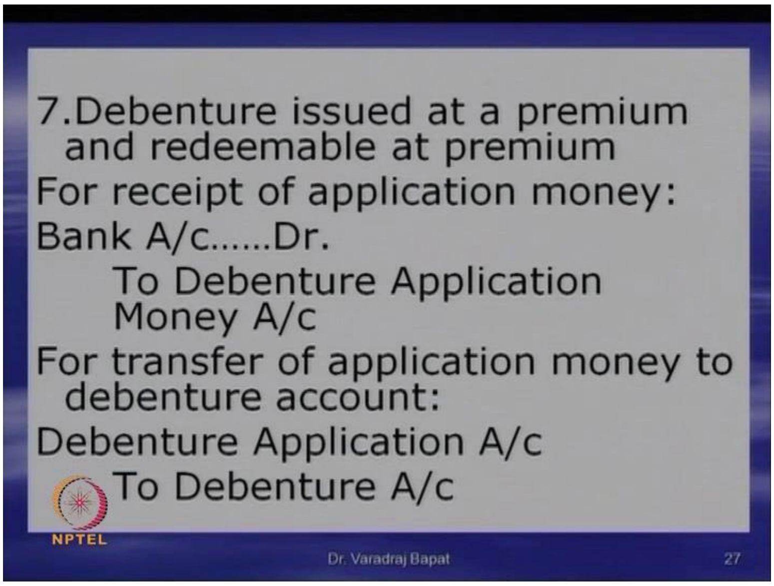

Now, seventh case; now, debenture is being issued at a premium and it is also being redeemed at a premium. So, what happens is company collects more than 100 let us say it collects 105 rupees and at the time redemption it pays also 105. First entry remains same bank account debit to debenture application money account. Now, the money is transferred that is also same debenture application to debenture.

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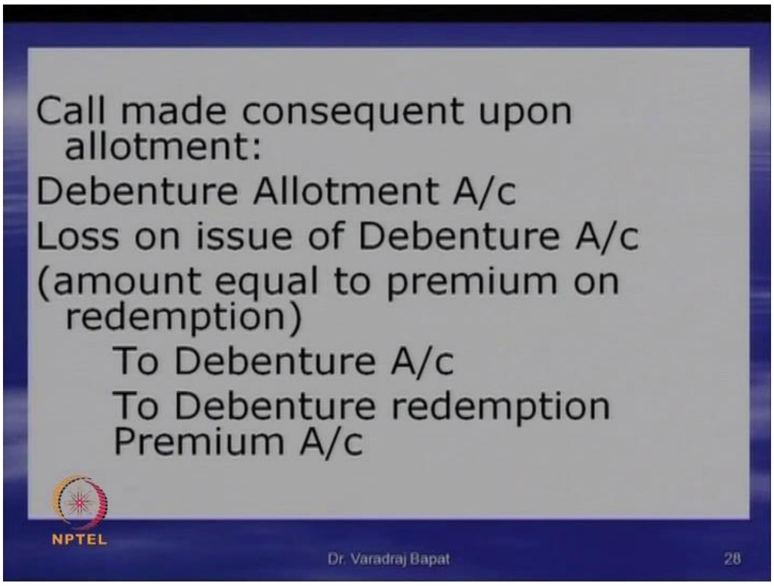

Now, on subsequent allotment debenture allotment account debit, loss on issue of debenture account debit, which is for the premium to debenture account to debenture redemption premium account. So, here what is happening is that 6 rupees which I have to pay extra at the time of redemption. I am crediting to debenture redemption premium account and it is being provided as loss on issue of debenture account. So, we have considered 7 cases I know it is little complicated, because lot of options are there but it is pretty simple. I will just repeat it again what I have said. So, see debenture suppose as a face value of 100 various possibilities are there 1 possibility is it is issued at less than the face value. So, it is say issued at 97.

So, 3 rupees loss happens at the time of issue itself that is shown as discount on issue of debenture. Now, suppose it is issued at 97 or at 100, but it is being redeemed at 106 So, at the time of repayment there is going to be a loss. So, what company will do is it will credit 100 rupees to debenture account and it will credit 6 rupees to redemption premium account. Now, there are varies combinations of this things issue at discount at par at premium redemption also at discount at par at premium. That is why you could see those 7 cases just go through them slowly again I hope you will be clear. Let us go to the next one.

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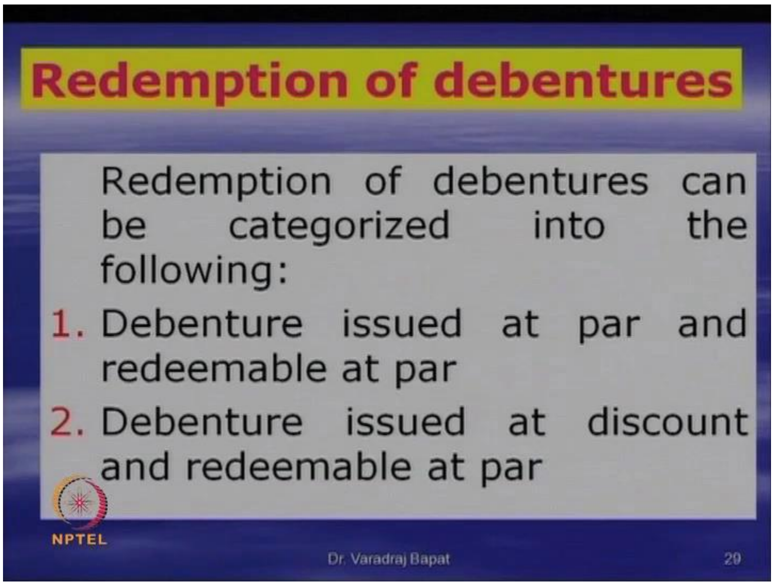

The redemption of debenture entries. Now, a redemption of debentures can be categorized into different types first 1 debenture issued at par and redeemed also at par. A simple case. So, 100 rupees issued 100 rupees redeemed second it is issued at a discount and redeemed at premium. So, issued at 97 but paid back at 100.

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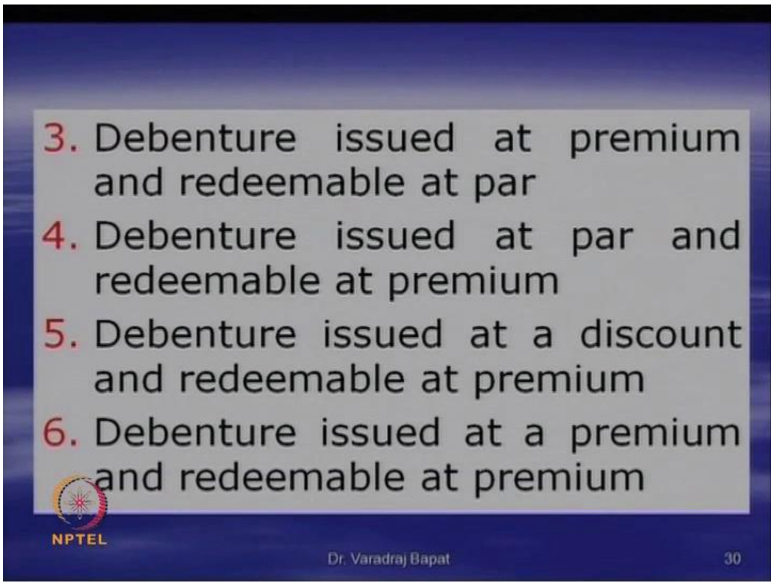

Third it is issued at premium redeemed at par. So, let us say it is issued at 105 but it will be redeemed at 100. Fourth it is issued at par but redeemed at discount at premium So, it is issued at 100 rupees but it is redeemable at 106, fifth debenture is issued at a discount but redeemable at premium. So, what happens is 100 rupees debenture issued at 97 but it is redeemed at 106, sixth case debenture is issued at premium and it is also redeemed at premium. So, let us say 100 rupees debenture it is issued at 105 it is redeemed at 106.

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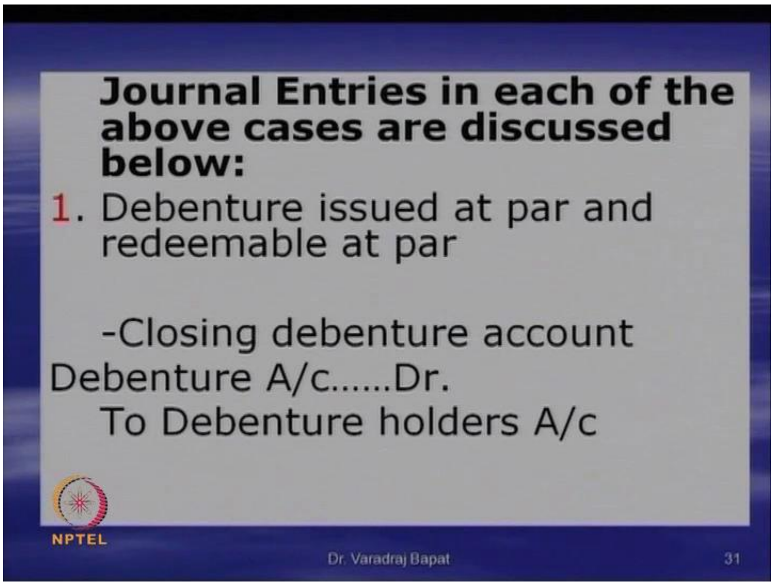

Now, let us understand the entries for recording the redemption. Now, when the debenture is issued at par and redeemable at par then for closing the debenture account it is debenture account debit to debenture holder's account.

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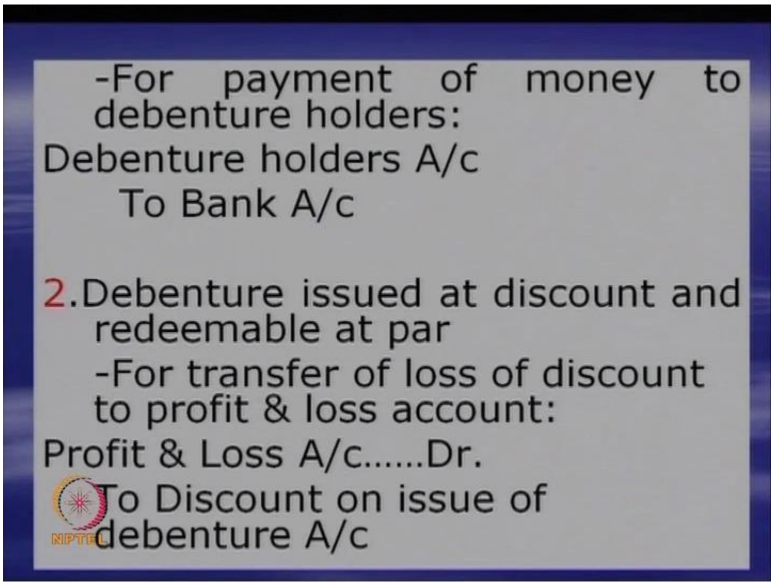

And when we pay it is debenture holders to bank. Now in this first case both was at par So, issued also at par and paid also at par just try to see the basic entries, because they will be repeated in all other cases. So, first entry was passed for debenture account debit to debenture holder's account. So, the debenture is canceled and money is credited to the holders second entry is for debenture holders to bank. So, the money is actually paid back to the debenture holders. Now, let us go to the second case second case is a case where debenture is issued at discount but it is redeemed at par. So we now, you can imagine a case where at issue itself there is a loss that loss needs to be transferred to p n l account. So, we have p n l account debit to discount on issue of debenture account to record that loss, because of discount.

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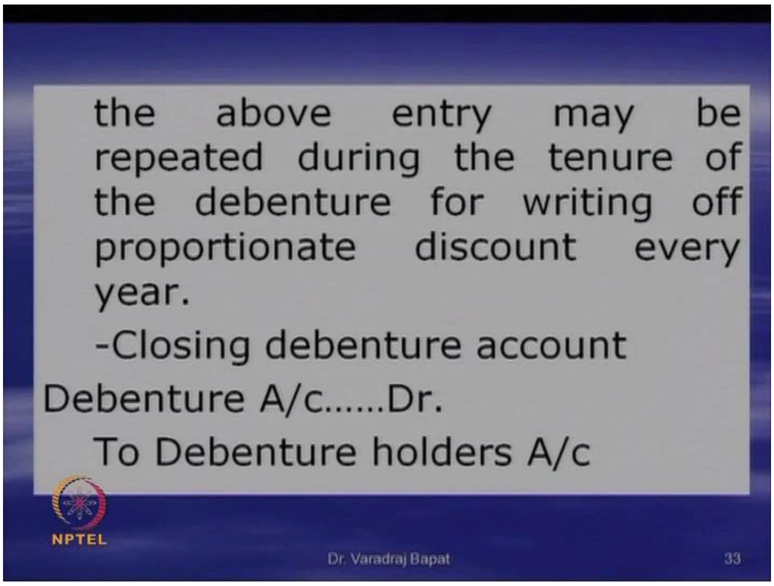

When the account is closed we have debenture account to debenture holder's account. Now, this debenture premium loss on issue of debenture or the discount may be return of proportionately every year. In that case this first entry that is p n l to discount will be repeated every year for that much of amount. So, let us say there is a discount of 3 rupees I am write of 1 rupee each year like that.

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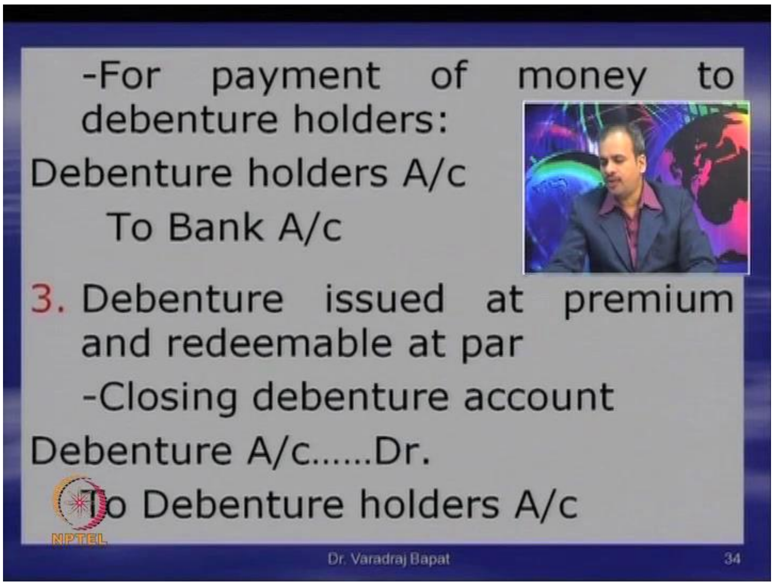

Now, this entries same debenture holders are being paid So, debenture holders account debit to bank account. Now, let us see case number 3. Now, in case number 3 what is happening? Debentures are issued at premium. So, they are issued say at 105 and they redeemed at par first entry that is closure of debenture account is same debenture account debit to debenture holder's account.

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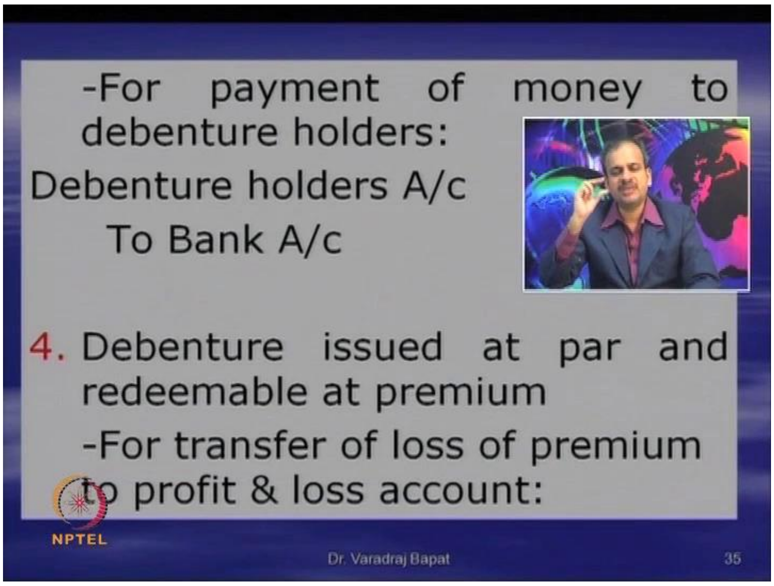

Now, for payment of money again it is same debenture holders to bank. Now let us say take case number 4. Now, it is debentures are issued at par but redeemable at premium now what happens here is for transfer of loss of premium we have to k show transfer it to p n l. Because here company is issuing debenture at 100 rupees, but may be it will redeem it at 106. So, 6 rupees becomes a loss to the company.

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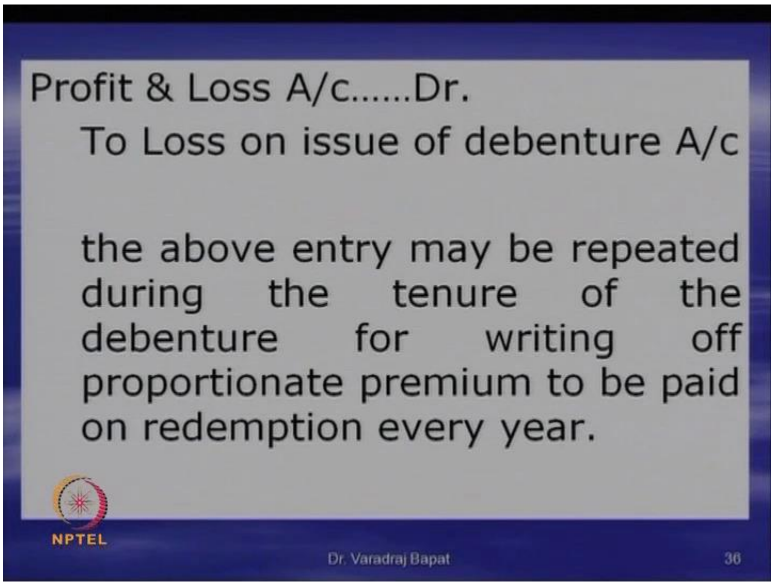

Now, a p n l account debit to loss on issue of shares. So, this loss will be transferred to p n l account. This may be done at 1 time or it may be done proportionately every year. So, we may have said it is 6 rupees and debentures have a life of 3 years we may write off 2 rupees in each year debenture.

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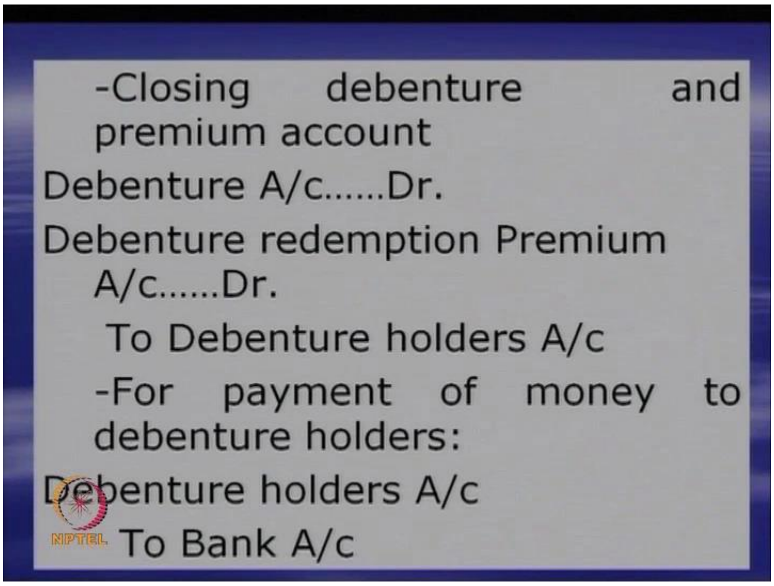

Account while it is closed there is a slight difference you can see debenture account, debit debenture redemption premium account is also debit to debenture holders account. So, what is happening is 100 rupees debenture 6 rupees premium So, debenture account debit for 100 debenture redemption premium account for 6 rupees and total of 106 rupees is credited to debenture holder’s account. And next entry is of course, for making the payment. So, debenture holders to bank.

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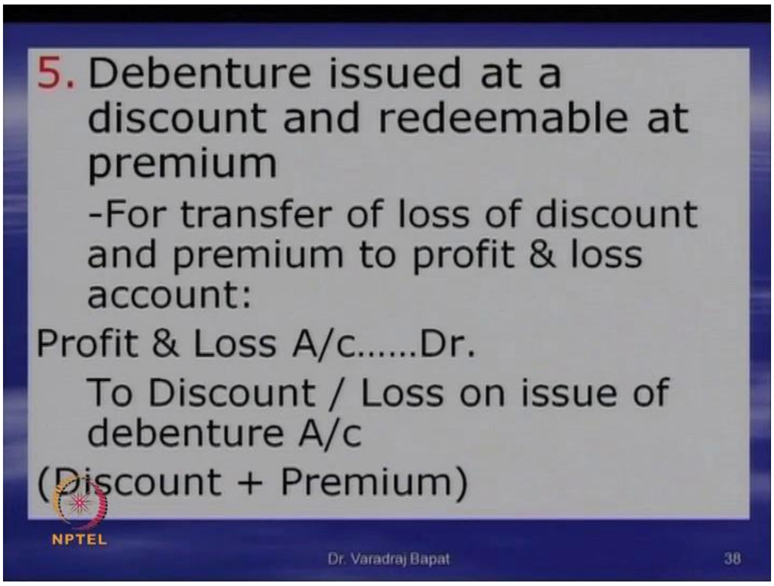

Now, let us take case number 5. In case number 5 the debentures are issued at discount but they are redeemed at premium. So, company has losses on both the sides. It is being issued at 97 and being redeemed at 106. So, this 9 rupees loss 3 plus 6 will be transferred to p n l So, entry will be p n l account debit to discount or loss on issue of debentures account when the debenture account is closed we have debenture account debit debenture redemption premium account debit to debenture holders account. So, 100 rupees will come from debenture 6 rupees will come from redemption premium and whole of 106 will be credited to debenture holders subsequently of course, that amount is paid to them. So, next entry is debenture holders to bank.

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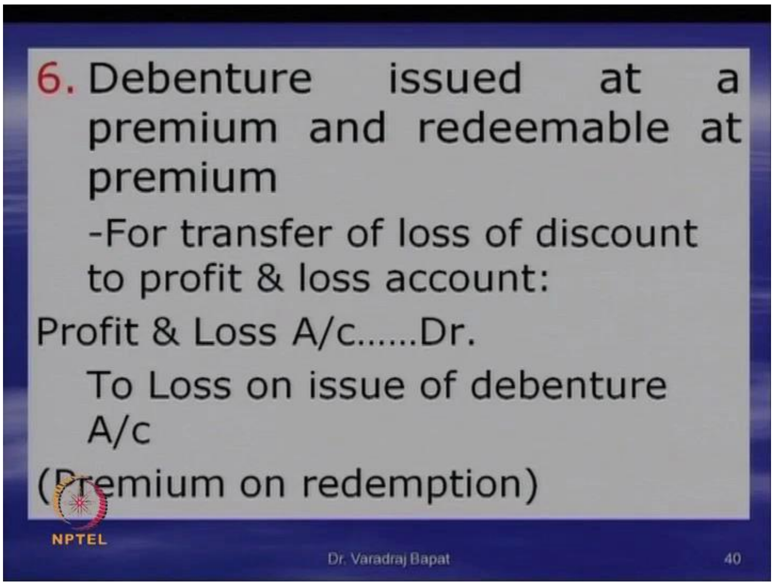

Now, let us take case number 6 case number 6 is debentures issued at premium and redeemed at premium. Again if there is any loss then p n l account debit to loss on issue of debenture account when the debenture account is closed we have debenture account debit, debenture redemption premium account debit to debenture holders account. This is pretty the same entry, because the money is being paid with premium. Last entries also same So, when the money is being paid it is debenture holders to bank.

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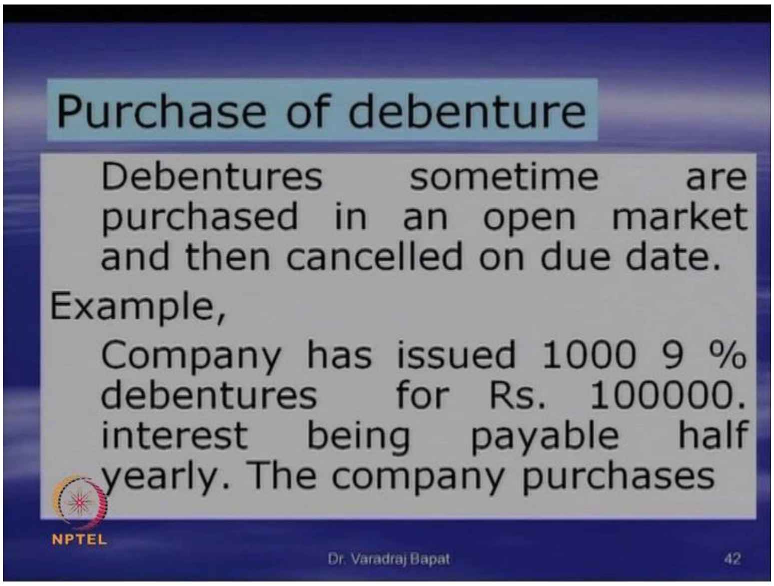

Now, last case what happens is there is a purchase of debenture by company on its own. So, sometimes company issues the debenture and during the period of their tenure let us debentures are for 5 years then in between also company can purchase back its own debentures. So, let us understand the entries for that case So, an example is given to you company has issued 1000 9 percent debentures. Let us say for 1 lakh. So, each debenture of 100 rupees and the interest is paid every 6 months.

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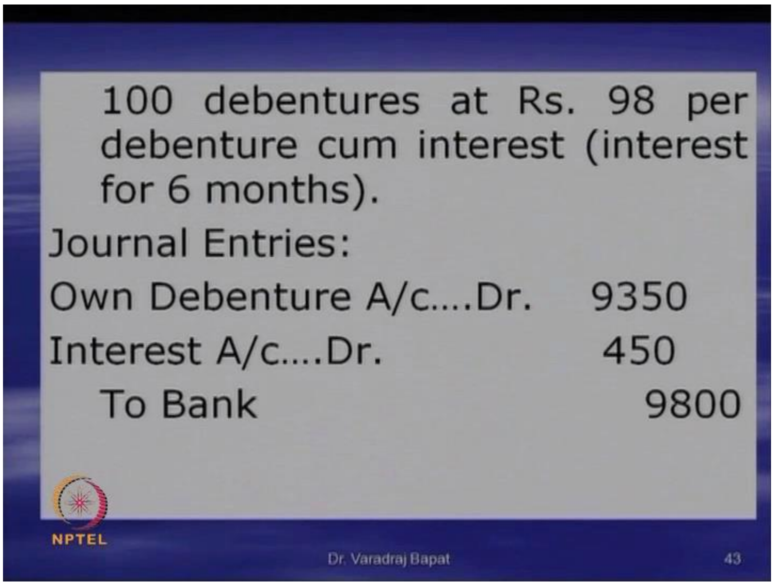

Now, company purchases 100 debentures at 98 rupees cum interest. Now, here you will have to understand the concept of cum interest. So, what happens is when company buys debentures for 98 rupees subsequently it is going to also receive some interest on it. Now, you can see the entry that own debenture account a new account is created, because we are buying back our own debenture interest account is debited, because the interest which will otherwise pay now we are paying to bank. Now, the purchase has been made for 98 rupees for 100 debentures that is why bank account is credited with 9800. Now, can you calculate this 450 rupees, how do you get this 450? I will just go back a moment you can see here the debentures were carrying a rate of 9 percent. So, 9 percent means on 100 rupees 9 rupees is paid as a interest for the whole year.

Now, for 6 months how much interest will be paid? So, 9 rupees for the whole year So, 4 and half rupees for the 6 months there are 100 debentures So, 4 and half into 100 So, 450 is a interest for the 6 months. So, when I buy the debenture at 98 rupees actually I am paying out of that 98 450 rupees by way of interest. That is why own debenture account is debited with the balance that is 9350 interest account is debited with 450 to bank 9800. I will just repeat what has happened when we buy from the market the debentures at 98 rupees we pay the party 98 but of this 98 450 or 9800 450 was by way of interest and remaining 9350 was for purchasing our debenture. That is why the entry is like this own debenture debit 9350, interest account debit 450 to bank 9800 I hope I am clear. Now, suppose out of this debenture 40 debentures are now, sold back. So, we brought debentures at 98 we are going to sell them back.

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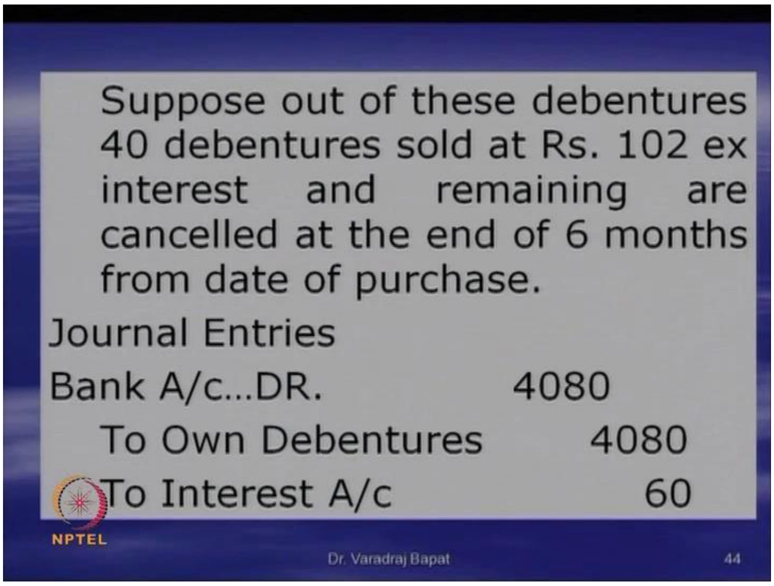

Let us assume that we are selling them at 102 rupees ex interest and remaining interest remaining ones are canceled at the end of 6 months. Now, first of all you should know what is ex interest? As we saw last time concept of cum interest in cum interest what happens is the interest is included in the price. So, 98 rupees was with interest cum means with interest whereas, in this case 102 is ex interest. So, by ex interest what it means is interest is paid extra. Now, that is why when we are selling the debentures at 102 40 debentures So, you can multiply 102 into 40 So, we got 4080. So bank account debit is 4080 how much will be the interest we know that the interest is at 9 percent per debenture we are going for 40 debentures. So, 40 into 9 for the whole year it would have been 360. Now, here the proportionate interest taken is 60. So, bank account debit 4080 own debenture 4080 and 2 interest 60.

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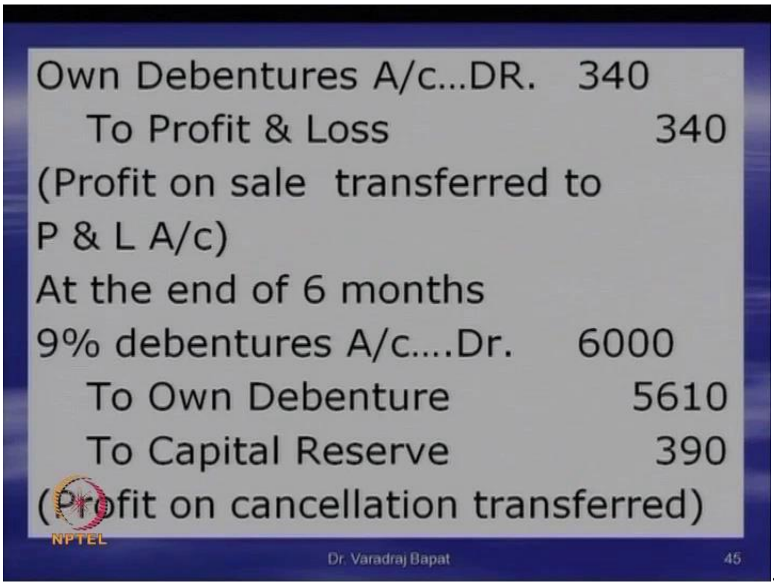

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Now, here we have earned some profit and that profit is 340 rupees. So, own debenture account debit 340 and we will transfer 340 to profit and loss. Now, how did you calculate this 340? Can you check just give a thought you can see we have sold 40 debentures. So, we purchased at 98 and we have sold them for 102. So, we have made a profit from every debenture that profit we are calculating. So, if we calculate at 4 rupees per debenture the profit comes to 4 into 40 that is 160, but here the profit shown is 340 can you imagine why it is 340? Let us go back I think it will be clearer to you if you go back.

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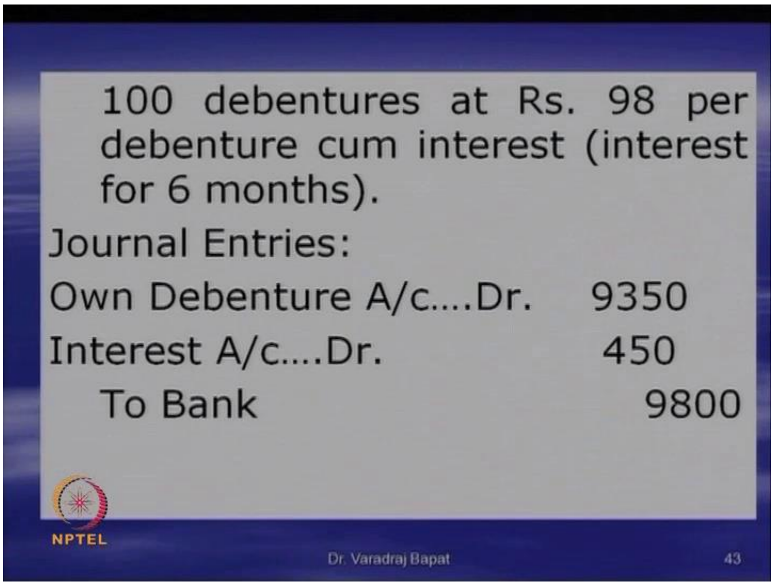

If you go back you will see that we did purchase debentures at 98, but it was cum interest out of 98 4.5 was actually our interest. So, we got debenture only at 93.5 per debenture out of this we have sold some debentures at 102. So, 102 minus 93 this is the profit we have earned So, we get a profit of 340 on those forty debentures. So, own debenture account debit 340 and p n l account credit 340. Now, the last entry at the end of 6 months when the debentures are canceled we have passed this entry 9 percent debentures account debit 6000 to own debenture 5610 to capital reserve 390. Now, what is this capital reserve? As you can see actually we got the debenture only at 93.50 when we cancel it 100 rupees are saved for the company that is why this 6.5 per debenture is our profit.

So, 9 percent debentures debited at 6000 our own debenture account has a balance of 9160 So, that way will cancel. And a profit instead of being transfer to p n l account since it is a capital in nature why its capital? Because this is not our day to day business to buy and sell debentures we have bought our debentures and we have canceled them. So that profit will be transferred to capital reserve. You can see the entry again it is 9 percent debenture debit 6000 to own debenture 95610 to capital reserve 960. So, here we have we have discussed the recording of various transactions on share capital and on debenture. I know they are slightly complicated, but I will request you to refer some book or you can refer to our web course where in you can see these entries and then try to understand them more.

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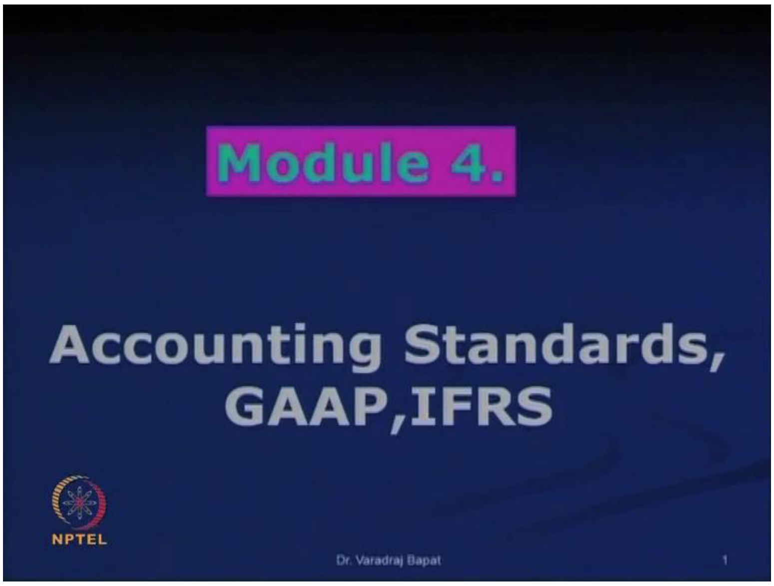

Now, let us go to the next thing next is a very interesting topic and that is on accounting standards G A A P and I F R S. Now, you might have heard about the term G A A P the full form is generally accepted accounting principles. Now a day's new principles or new concepts which are issued at international level have become very popular they are known as I F R S the full form is international financial reporting standards. Now, every country has its own standards So, U S has U S G A A P, India has Indian G A A P. Europe has some gaap known as Euro GAAP. So, what is meant by is there are some fundamental principals which are required to be followed while preparing any financial statements or while preparing the accounts those are known as G A A P. Now, let us try to see what are the concepts, what are the assumptions which are used for recording various transactions?

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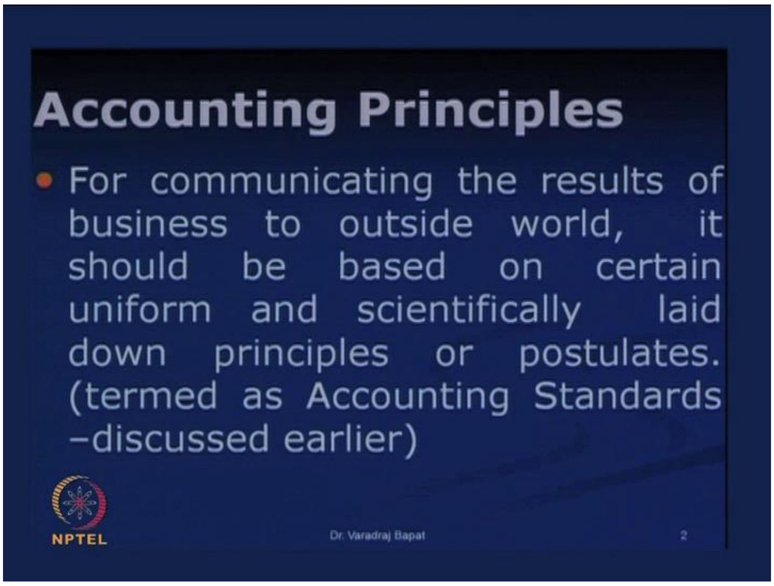

Now, first one; what is accounting principle? Now, for communicating the results of the business to outside world. It should be based on certain uniform and scientifically laid down principles or postulates.

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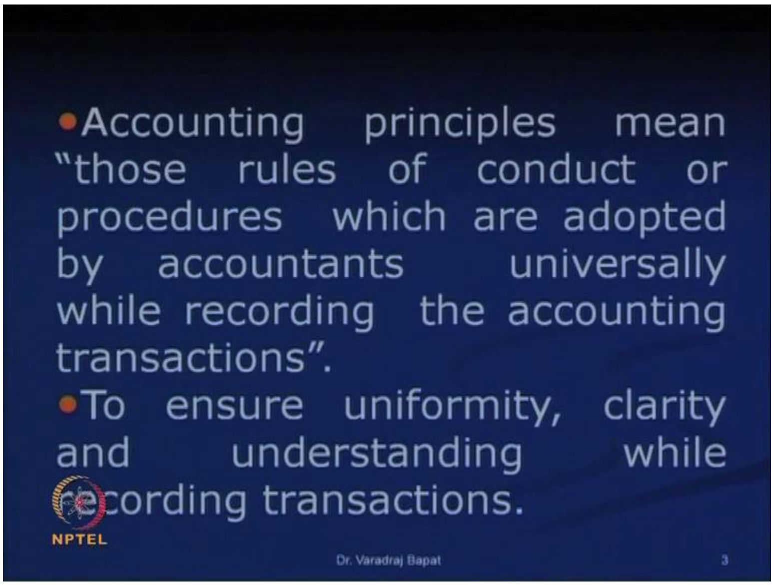

Now, accounting principles are those rules of conduct or procedure which are adopted by accountants universally while recording the accounting transactions. Now, it is necessary to ensure that they are uniform there is uniformity clarity and understanding of this principles.

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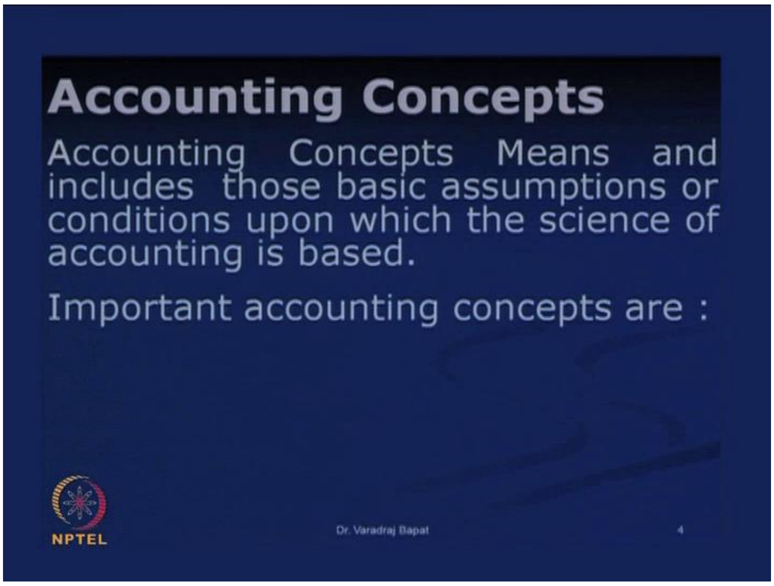

Now, let us see what is an accounting concept? Accounting concepts are those basic assumptions and conditions upon which the science of accounting is based. You will get more clarity once we see some examples.

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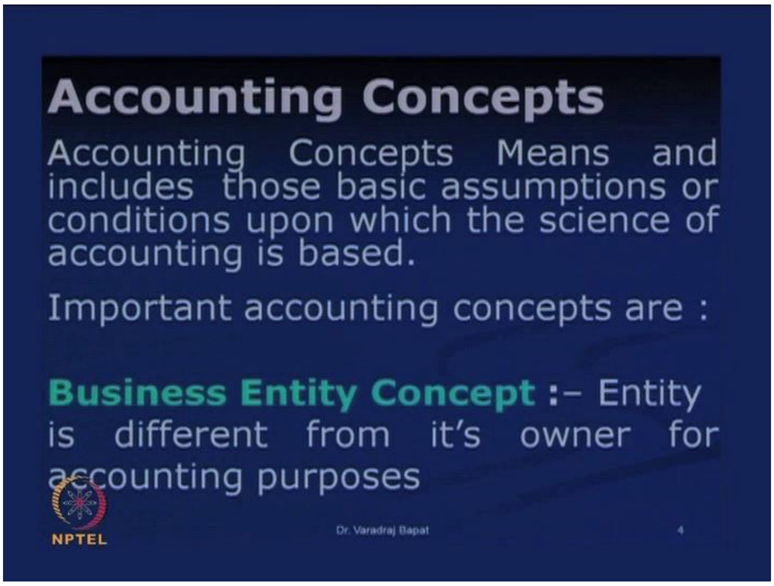

One of the concepts is known as business entity concept. Now, what it tries to say is that the company or the organization is different from the owners. Now, when owner say records 1 lakh rupees in the company do you have to record any entry for it? The answer is yes, because owner is a different person, company is a different person by company. I mean any business entity even if owner starts a proprietary concern he puts in 1 lakh rupees from his personal account into proprietary concern. We will record the entry as capital received from the owner in the books of the business organization. This happens, because there is a fundamental concept known as business entity concept. So, entity is different from the owner this is a business entity concept.

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Now, let us see the next concept. Next concept is dual aspect concept when we have seen the recording of transactions actually we have already discussed this concept we have also seen balance sheet equation which says that equities or capital plus liabilities is equal to asset. This happens, because of dual aspect concept. So, what is concept tells you that when any transaction is happening 2 things are affected. I will give you an example suppose we are paying salary. So, on 1 hand salary is expense on the other hand our cash balance will reduce So, 2 things will happen.

Suppose I am a business entity I make a sale I receive cash So, I receive cash but my stock of goods go down So, again 2 things change. Suppose I purchase let us say a new fixed asset new machinery comes in I pay money. So, 2 effects even for a noncash transaction we discussed a case where company receives land and instead of paying money it gives shares. So, land comes in and the share capital increases So, any transaction which you can think of will always have 2 effects. That is why it is known as dual aspect concept. I will request you to imagine more and more transactions and see what are the 2 effects is you do not get 2 effects there is something wrong in I mean you are not properly identify the accounts or the things which are affected, but there will be 2 effect or dual effect for every transaction. Let us go to the next concept.

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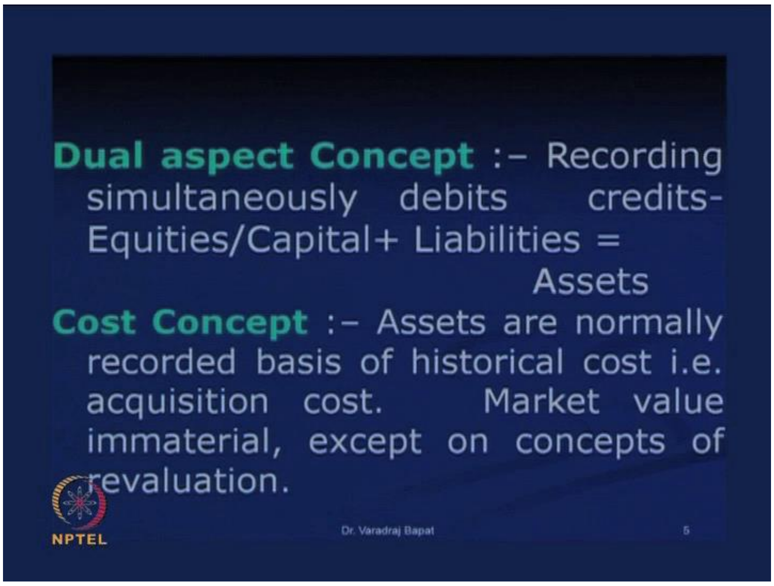

Next concept is known as cost concept. The assets are normally recorded on the basis of historical cost that is the acquisitioned cost and market value is immaterial this is the cost concept. So generally for any recording suppose I purchase the machinery let us say at 1 lakh rupees. And now, a new model has come and new model, because of new model the value of this machinery has gone down to 80000. Still I will record the machinery only at 1 lakh same way it can way other way round that let us assume I purchase a land at 1 crore. Now the market is going the land price has become 1 point say 5 crores still in my books of account I continue the show the land at 1 crore only. This happens, because of cost concept.

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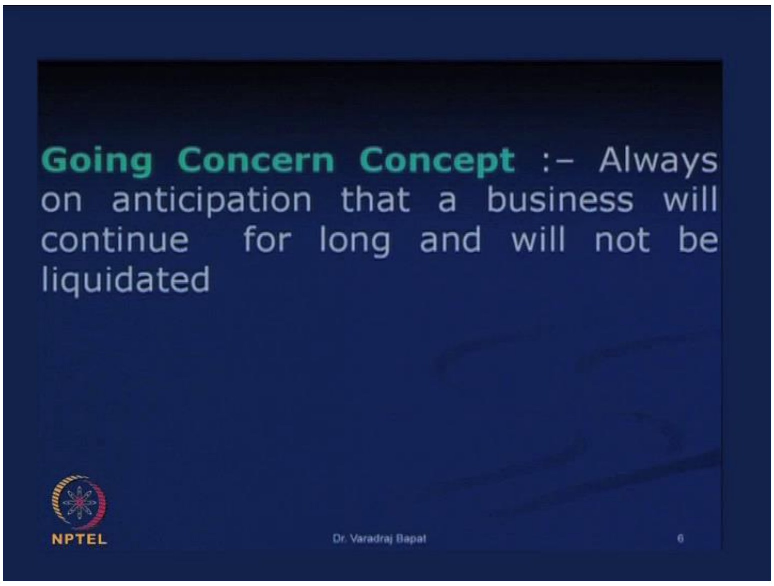

Next is known as going concern concept. Now, it is assumed that the business entity will have fairly a long life and that is known as going concern concept. Now, because of this we do provide for depreciation or we do assume we were taking a case that we have purchase a machinery for 1 lakh. The market value has gone down to 80 but we continue to show the amount at 1 lakh, because we are assuming that we are going to use the asset for long period. That is why we do not immediately assume that we are selling the asset this comes because of the fundamental concept known as going concept.

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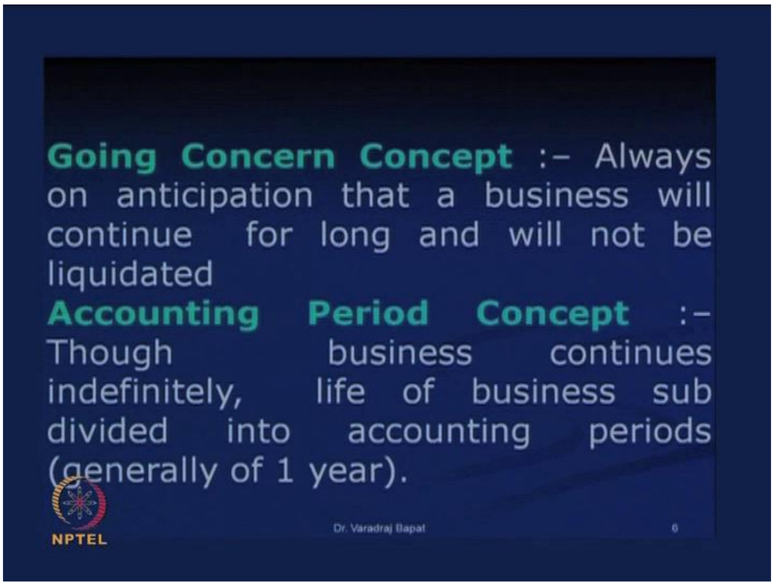

Next concept is known as accounting period concept. Now, in accounting period concept though the life of the business is unlimited. It is divided into parts and which are known as accounting period. Generally accounting period is that of 1 year are you aware what are the accounting periods in various countries? Are you aware what is a accounting period let us say in India when do the companies close their accounts in other worlds typically companies close their account on 31st march So, from first April to 31st march is a standard accounting period in India what is a accounting period in U S? It is from first Jan to thirty first December and so on different countries have different periods, but the fundamental that you should have some accounting period always case.

One of thing do you know why do we celebrate Diwali? There are various reasons, but one of the important reasons is traditionally from by Indian tradition. The accounting period used to close on the day of lakshmi pujan and the new books of accounts or chopadies as they were called they are opened the next day. So, in India for a very long time we follow this concept of accounting period which tells that at the end of the period you should close the books. By closing the books we should calculate the profit and loss report what was the profit or loss also make the balance sheet. So, though p n l balance sheet can be made any day it is compulsory that it should be made at the end of the year. Sometimes instead of year it is done on a quarterly basis every 3 months that is, but you should have some accounting period that is what is learn by this concept. Now, we have seen 5, 6 concepts in our next session will go ahead with few more concepts of accounting. Let us stop here.

Thank you so much.