



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 4

Sub: ACCOUNTANCY

Class 11

Chapter: Unit 1: Introduction to Accounting

Date: 02/07/2020

Topic: Basis of Accounting 2

Hybrid Basis

Hybrid basis of accounting is the mixture of cash basis of accounting and accrual basis of accounting. Under this method, income is recorded when cash is actually received. It does not take into consideration any accrued income. However, expenses are recorded as they are incurred, not when cash is paid. All outstanding and prepaid expenses are taken into consideration for calculating actual expenses of the accounting period.

Features:

- (1) It records income when cash is actually received.
- (2) It records expenses when it is incurred, not when cash is paid.
- (3) No record is made for accrued income.
- (4) All outstanding and prepaid expenses are taken into consideration for calculating actual expenses of the relevant accounting period.
- (5) It is the most conservative method of accounting.

Problem 1: Mr. X has provided the following information for the year 2019. You are required to calculate his net income under hybrid basis:

Fees received in cash	Rs. 35,100
Rent of chamber paid	Rs. 10,800
Rent of chamber paid in advance (included in the above)	Rs. 800
Rent of chamber paid in advance (included in the above)	Rs. 800
Fees accrued but not yet received	Rs. 2,000
Salary paid	Rs. 5,400
Salary outstanding	Rs. 500

Computation of Net Income of Mr. X under hybrid basis
For the year ended 31st December 2019

Particulars	Amount(Rs)	Amount(Rs)
Fees received in cash		35,100
Less: Expenses		
Rent paid	10,000	
Less: Rent paid in advance	800	10,000
Salary paid	5,400	
Add: outstanding salary	500	5,900
Net income under hybrid basis		19,200

Types of Accounting

- Financial Accounting
- Cost Accounting
- Management Accounting

Financial Accounting

Financial Accounting is that part of accounting which is mainly concerned with the historical, custodial and stewardship aspects of external reporting to shareholders, government and other users of accounting information outside the business entity.

Financial accounting emphasizes the stewardship aspects of accounting rather than the control or decision making aspects of accounting. It is the recording and processing of financial data affecting the business unit, which relates to the past and it is generally for one year. The end product of financial accounting is the Profit & Loss Account and the Balance Sheet. The preparation of financial accounting is based on Generally Accepted Accounting Principles (GAAP) enunciated by the accounting profession and is heavily constrained by legal regulations and accounting standards.

Cost Accounting

Cost Accounting is primarily concerned with the cost to produce goods and services. Cost accounting applies the principles of accounting in such a manner that it is possible to have a detailed recording and analysis of expenditures incurred in connection with the operation of any business, e.g., manufacturing, administration or selling, or the production of an article so that it is able to measure performance and control activities.

Objectives:

- (1) Costs and profits for different products can be ascertained.
- (2) Cost information can be used to prepare budgets and set standards.
- (3) Performance of the business can be monitored against plans.
- (4) Pricing of products may be based on cost.
- (5) The valuation of stock may become simplified.

- (6) The spreading of overhead costs amongst different products is helped.
- (7) Decision whether to use labour or machines for production can be made.
- (8) Decision whether to make or buy components can be made.

Management Accounting

Any form of accounting which enables a business unit to be conducted more efficiently can be regarded as management accounting. Management accounting is that part of accounting which is concerned, mainly with internal reporting to the managers of a business unit.

Objectives:

- (1) It provides financial information to the management.
- (2) It includes cost analysis and information for planning, control, decision making and performance appraisal.
- (3) It is the key part of internal information system of an organization.
- (4) It is equally applicable to manufacturing firms, service industries, local and central government and so on.
- (5) Planning is done by management accounting through the process of budgeting.
- (6) It enables all accounting efforts to be directed towards control of the organization.
- (7) Accounting data required for decision-making is supplied by management accounting.
- (8) The techniques of management accounting yields concise information covering the entire field of business activity.

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