St. Lawrence High School

A Jesuit Christian Minority Institution

Study Material 10

Sub: ACCOUNTANCY Class 11

Chapter: Unit 2: Theory Base of Accounting Date: 01/08/2020

Topic: Fundamental Accounting Assumptions & Principles 3 & Indian Accounting Standards

Revenue Recognition (Realization)

According to this concept, revenue should be brought into account only when it is actually realized. However, it is not always easy to determine when revenue is realized. In determining profits, credit sales are also taken into account. However, the customers may not pay their dues or may return the goods, so that actual income may be less than estimated. Thus, there arises a problem of recognizing and recording revenue in the books of account for a specific accounting period. In principle, revenue can be recognized at the point of sale or when cash is collected or at any intermediate point. The terms of contract between the buyer and the seller determine the point of sale. However, a sale is generally complete when the goods are delivered by the seller and accepted by the buyer. There is no need to wait until the cash is received.

There are several exceptions to this rule:

1. Long term contract, work in progress- revenue is recognized before completion of the job.
2. Cash Basis- where debt collection is doubtful.
3. Hire-purchase transactions- revenue is recognized in proportion to the instalments over price.
4. Unrealized holding gains and losses- these may occur between the points of purchase and sale.

Matching:

Since the matching concept is an essential part of accrual accounting, these two are often used interchangeably. Like accrual concept, the matching concept also results from periodicity concept. The matching concept requires that the expenses for an accounting period should be matched against related revenues, rather than recognizing revenues as being earned at the time when cash is received or recognizing expenses when cash is paid. For ascertaining profit, a misleading impression would be given if the cash received in a particular period is simply compared with the cash paid out during the same period. This is because, the exact period in which the cash is either received or paid may bear no relationship to the period in which the business transaction took place. As most businesses keep accounts on accrual basis, it is necessary that the accounting system match periodically the revenues earned against expenses incurred. The result of these matching being, the net income or net loss. This method requires proper allocation of costs into appropriate period so that relevant incomes and expenses are matched. The profit of an accounting period is the revenues from transactions less expenses incurred in producing those revenues. If expenses cannot be traced to specific items of revenues, they are generally written-off in the year in which they are incurred.

Indian Accounting Standards

Concept:

Accounting standards are accounting rules and procedures relating to measurement, valuation and disclosure issued by the Council of **The Institute of Chartered Accountants of India**. Accounting standards are stated to be the norms of accounting policies and practices by way of guidelines that should be followed while preparing accounts and disclosed in the annual financial statements. The accounting standards are intended to apply only to items which are material.

Since accounting standards are the rules to be followed in the preparation of financial statements, these are regarded as a mechanism for resolving the conflicts of interest among various prepares and users of accounting information. Accounting standards are generally appropriate to the normal conduct of business and are in conformity with local conditions. Accounting standards serve public interest and are based on a conceptual framework of accounting. Necessarily, the utility of accounting standards results in a consequential improvement in the quality of preparation of financial statements.

Objectives:

The primary objectives of Accounting Standards is to minimize equally acceptable accounting practices, bring uniformity and standardization of accounting policies, procedures and presentation of financial statements. It is felt necessary at both national and international level to bring uniformity in accounting policies and procedures. Besides, the primary objectives of Accounting Standards are as follows:

1. Accounting Standards promote better understanding of accounting statements, the disclosure of significant accounting policies and the manner in which accounting policies are disclosed in in the statements.
2. Accounting information is more useful if it is published on a comparable basis, and comparability is not possible without accounting standards.
3. Accounting standards provide a generally accepted language for financial statements that renders them more comprehensible to the users of accounting information.
4. Accounting standards may be regarded as means to establish that the collective wisdom and experience rather than the viewpoint of individual accountant may prevail in the matter.
5. Accounting Standards provide the norms on the basis of which financial statement should be prepared.
6. Accounting Standards ensure uniformity in the preparation and presentation of financial statement by removing the effect of diverse accounting practices. The accounting standards being followed make financial statements more credible, meaningful and comparable.
7. Accounting Standards create a sense of confidence among the users of accounting information. Accounting information created by applying accounting standards is considered reliable by users of such information.

8. Accounting Standards helps auditors in auditing accounts. They also help accountants follow uniform practices and policies.
9. To provide standards which are transparent to users.
10. For the eradication the huge amount of variation in the treatment of accounting standards.
11. To provide a suitable starting point of accounting.

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