Topics	Suggested Weight	Chapter in Carter
1. Principles of Accounting	15	01
Business entity		
Money measurement		
Cost concept		
Going concern concept		
Accrual and realization		
Conservatism, consistency and materiality conventions		
2. Basic Accounting Method	30	
Accounts and classification		01 *et seq.*
Balance sheet. Revenue accounts		02 *et seq.*
Capital and revenue expenditure		10
Depreciation		06
Accruals and pre-payments		02 *et seq.*
Reserves and provisions		02, 20, 22, 23, 24
Appropriations		17, 18, 21
3. Applications of Accounting Method	55	
Final accounts of different organizations including partnerships and companies		02, 10, 17, 18, 19, 20, 21, 22, 23, 24
Manufacturing accounts		16
Accounting for special purposes		04, 07, 08, 09, 11, 12, 13, 14, 26, 27, 28
Control accounts		05
4. Cost Accounting Method	30	15
Fundamental concepts		
Relation to financial accounting		
Absorption and marginal costing		
Job and process costing		
Standard costing		
Pricing policy		
5. Accounting for Future Profitability	30	
Budgeting		15
Variance analysis		
Breakeven analysis		
Capital budgeting including DCF		29

Topics	Suggested Weight	Chapter in Carter
6. Performance Evaluation and Control	25	
Concepts of capital employed Working capital Use of ratios Balance sheet and profit and loss analysis Funds flow statements		02, 29
Limited companies' capital structure		19, 20, 22
Dividend and retention policies		20, 21, 23, 24, 29
7. Data Processing and the Applications of the Computer The place of the computer in accounting systems and introduction to mechanized accounting	15	01
	200	

The weighting is 200 because the course should extend over two years.

CONTENTS

CHAPTER 03

THE CORRECTION OF BOOK-KEEPING ERRORS

CHAPTER 04

BILLS OF EXCHANGE, PROMISSORY NOTES AND BANK SERVICES

CHAPTER 05
ACCOUNTING SYSTEMS AND CONTROL ACCOUNTS

CHAPTER 06
DEPRECIATION OF FIXED ASSETS

CHAPTER 07
STOCK VALUATION AND CONTROL

CHAPTER 08
STOCK EXCHANGE TRANSACTIONS AND INVESTMENT ACCOUNTS

CHAPTER 09

CONSIGNMENT ACCOUNTS

CHAPTER 10

REPORTING THE INCOME AND FINANCIAL POSITION OF CLUBS, SOCIETIES AND VOLUNTARY ASSOCIATIONS

CHAPTER 11

INCOMPLETE RECORDS

CHAPTER 12

FINANCING ASSET ACQUISITION; ROYALTIES; CONTAINERS

CHAPTER 13

DEPARTMENTAL ACCOUNTS

CHAPTER 14

BRANCH ACCOUNTS

CHAPTER 15

COST ACCOUNTING

CHAPTER 16

DETERMINATION OF MANUFACTURING AND CONTRACT PROFITS

CHAPTER 17

PARTNERSHIP ACCOUNTS

CHAPTER 18

DISSOLUTION OF PARTNERSHIP

CHAPTER 19

COMPANIES: FORMATION AND CAPITAL

CHAPTER 20

COMPANIES: RAISING OF CAPITAL

CHAPTER 21

COMPANY EARNINGS

CHAPTER 22

THE PUBLISHED ACCOUNTS OF COMPANIES

CHAPTER 23

COMPANIES: DEBENTURE REDEMPTION

CHAPTER 24

COMPANIES: REDEEMABLE PREFERENCE SHARES

CHAPTER 25

BUSINESS SALES, PURCHASES, TAKE-OVERS, MERGERS, RECONSTRUCTIONS

CHAPTER 26

BANKRUPTCY, STATEMENT OF AFFAIRS, DEFICIENCY ACCOUNT, TRUSTEE'S ACCOUNTS

CHAPTER 27

LIQUIDATION

CHAPTER 28

ACCOUNTING FOR TAXES, LEVIES, ALLOWANCES AND GRANTS

CHAPTER 29

INTERPRETATION OF FINAL ACCOUNTS AND BALANCE SHEETS

CHAPTER 01

BASIC PRINCIPLES AND SYSTEMS OF ACCOUNTING

Ah, how very sorely they're mistaken,
Who think that money doesn't count,
Fruitfulness turns into famine
When the kindly stream runs out.

BERTHOLDT BRECHT

ACCOUNTING is a discipline concerned with the recording, analysis, and forecasting of income and wealth of business and other entities. Generally it records in money terms the flow of economic values between or within economic entities, and it is applied in two main fields.

1. **Micro Accounting** is the field with which this book is mainly concerned and it covers business accounting (financial, managerial and cost accounting), governmental accounting, and household accounting.
2. **Macro Accounting** covers the fields of national income, input-output, balance of payments and money flow accounting. Although this book is concerned mainly with business accounting the principles applied are similar to those that are applied in the other fields, both micro and macro.

Accounting Principles are usually rules and conventions which have been adopted as a general guide to action by the accountancy profession. These principles are formulated in such a way that the practical details of accounting may differ greatly from one company to another. To secure acceptance, an accounting principle must be *useful* in coping with a practical recording problem, it must be reasonably *objective*, that is, provide a similar answer in the hands of qualified practitioners, and finally it must be *feasible*. That is, it should not be expensive to apply.

Accounting Standards. The Accounting Standards Steering Committee (A.S.S.C.) statements of Standard Accounting Practice describe methods of accounting approved by the Institutes of Chartered Accountants, the Institute of Cost and Management Accountants, and the Association of Certified and Corporate Accountants. So far as possible, the recommendations and definitions of these bodies have also been incorporated in this book.

Significant Departures. Where financial accounts significantly depart from Standards, the financial effects should be disclosed and explained unless this is impracticable or misleading.

Book-keeping is the science and art of correctly recording in the books all those business transactions that result in a transfer of money or moneys worth within or between entities.

There are seven basic concepts in accounting, all of which are exemplified in the many practical problems considered in this book. They are modified by three conventions. The concepts are—

1. The Business Entity

All accounts are kept in respect of business entities which are distinct from the persons who own or manage these entities. Sometimes the law makes the same distinction, as in the case of a limited company which is a separate legal entity from the shareholders or its Directors. In other cases the law does not make such a distinction, as in the case of partnership and sole traders, but even so, the books of account are kept so as to maintain the distinction. In the case of companies, partnerships and accounts for taxation there are statutory requirements on the form and content of the accounts to be prepared and the accountant must, therefore, have sufficient knowledge of the relevant legislation if he is to account effectively. Several chapters of this book are concerned with such statutory accounting.

2. Money as a Common Denominator

Accounting uses money to express certain facts about a business, and in such a way that they can be added or subtracted. For instance, the ownership of plant or equipment worth £10,000 can be added to the ownership of raw materials worth £20,000 and a useful expression of the wealth of the business is obtained.

3. The Cost Concept

The resources acquired by a business are called assets and normally the price paid to acquire an asset is recorded in the books and forms a basis for subsequent treatment. The result is that at any moment of time the values recorded in books do not necessarily reflect the current value of the assets.

The income of the business is measured by the difference between the value obtained for selling its products compared to the cost of the resources used in making them. The costs not yet expended are shown in the balance sheet.

4. The Going Concern Concept

In most cases the accounting system will treat the values on the assumption that the business will continue trading. If the business decides to liquidate or become bankrupt then a different approach to valuation is required.

5. The Dual Aspect Concept

This principle is the central core of modern accountancy. All business events are regarded as having a dual aspect. In the Balance Sheet, the dual aspect is *static* since it shows the state of the business at one moment of time. The accounts are *dynamic*, since they record changes in the state of the business. The *Balance Sheet* is the statement of the position of a person, firm or enterprise which shows on one side the assets being used by the business and on the other, the sources of those assets. The sources are of two kinds: (1) proprietors or owners capital and (2) liabilities or the claims of outsiders on the assets.

The Balance Sheet therefore takes the following form—

$$\left.\begin{array}{c}\text{Liabilities}\\ +\\ \text{Proprietors' Capital}\end{array}\right\} = \text{Assets in use}$$

The Business Transaction is a transfer of values. This value may be in the form of money, goods, or services and usually goods or services will be exchanged for money. In all business transactions *equal* values are exchanged. If Smith buys furniture for £400, he gives £400 in cash and receives furniture to that value. If Smith is to keep a double entry record of this transaction he must record each transaction in two accounts. In one will be shown value received, in the other, value given.

Accounts. An account is a form of record, originally kept in the Ledger. A page was taken for each account and the account was divided into two.

DEBIT (*Dr*)	CREDIT (*Cr*)
Value received	Value given

The debit side records value received; the credit, value given. In the case of Smith, above, the transaction would be recorded by debiting £400 to his Furniture account and crediting £400 to his Cash account.

Each transaction involves two entries in the same set of accounts, a *debit* entry and a *credit* entry. Every debit must have a corresponding credit, and vice versa.

Balancing. Accounts may be balanced at the end of a period or at any time when it is convenient.

The entries on the debit and credit sides of an account are unlikely to be equal. The balance is the difference between them. It is entered *twice.* Once *above the line,* i.e. above the totals. In this position it brings the smaller side to the same total as the larger. Once *below the line,* on the opposite side of the account. In this position it starts the new period of account.

CASH ACCOUNT

			£				£
19..				19..			
Jan	1	Capital . . .	1,000	Jan	2	Purchases . .	20
					3	Expenses paid . .	10
					5	Balance c/d . .	970
			1,000				1,000
Jan	6	Balance b/d . . .	970				

Advantages of Double Entry. These may be summarized as follows—

(*a*) **A Complete Record of Each Transaction.** When plant is purchased, wages paid, or discount received, etc., the business is affected in two respects by each transaction. As the number of transactions may be hundreds or thousands each day it would be impossible to keep track of all these aspects through single records. Double entry not only keeps records of personal accounts for debtors (who owe value to the firm) and creditors (to whom value is owed) but it also shows gains, losses, and assets held.

(*b*) **Control of the Business.** As the information in the accounts covers all aspects of its affairs, day-to-day control is made easier, and it is easier to see the trend of the changes which are taking place all the time.

(*c*) **A Check upon the Arithmetical Accuracy of the Clerical Work.** Since every debit has a corresponding credit, the total debits must at any time equal the total credits. Whether this be so or not is easily ascertained by means of a Trial Balance.

(*d*) **Preparation of Final Accounts and Balance Sheet.** As the accounts contain full information, it is easy to prepare the accounts needed at the end of the year or at convenient interim times. These assess the present position and show how that position has changed during the year.

6. The Accrual Concept

In accounting, the income accruing to the owner of a business is not necessarily the amount of cash actually received in a period of account. Any event which increases the proprietor's capital involves the accrual of income. Many difficult problems arise in deciding how much income has actually accrued in any period: these problems are dealt with in a number of chapters in this book, for instance, on joint ventures, company profits, royalties, hire purchase and treatment of containers. Accrual of income is always measured over a period of time which is normally the accounting year. This year may be broken down into interim periods in which reports are made to management or the share-holders. Companies quoted on the London Stock Exchange must publish interim statements of profits every six months.

Expenditure. Expenditure takes place whenever an asset or service is acquired. The acquisition may involve the immediate payment of cash, the payment of cash later or pre-payment.

Expense. Expenses are costs incurred in earning revenues. Those expenditures which may be charged against the revenues for a period will be considered as operating expenses. Expense implies a decrease in the proprietor's capital in the firm.

Cost. A cost is any monetary sacrifice whether or not this sacrifice has affected the proprietor's equity during a given accounting period. A cost is incurred when goods are produced, whether they are sold or not.

Expense, on the other hand, is cost which has expired and been charged against revenues. The accrual concept is applied both in ascertaining the revenues for a period and in ascertaining the expenses to be charged against the revenues.

7. The Realization Concept

Revenue is considered as earned on the day which is realized and this is when goods are transferred to the customer in exchange for a valuable consideration. The Accountant usually uses the date the product is shipped to the customer or the date on the invoice, whichever is the later. Difficult problems arise in deciding, for instance, how far income from hire purchase transactions has been realized.

ACCOUNTING CONVENTIONS

Since the accounting concepts stated above permit many differences in application to actual circumstances, three conventions are generally observed in interpreting them.

1. **Conservatism.** The first convention is that whilst the accountant will be prepared to anticipate possible future losses, he is not prepared to bring into account possible future profits however likely these may be. Obviously this cannot be carried to unreasonable ends but wherever a decision is to be made on the valuation of assets he will generally decide in favour of that valuation which underestimates the profits or the balance sheet values of the firm.

2. **Consistency.** This means that whilst certain alternatives are considered equally acceptable, the accountant having adopted one, must follow that method over a reasonable period of time. In the short run, for instance, one method of stock valuation may result in a higher profit for a firm but in the long run the profits shown will tend to be the same whatever the circumstances. Whilst changes of methods may be made it is accepted that these should not be made frequently nor for the purpose of mis-representing the profits of the firm.

3. **Materiality.** This means that the size of an amount will influence the treatment of it. Cumbrous controls and procedures should not be applied to items of small importance. Similarly, in presenting final accounts and balance sheets of a large company the figures will be rounded off to the nearest thousand or even million pounds. Items such as loose tools and small machines may be lumped together for balance sheet purposes if the value is relatively small in relation to the other assets. Some firms use "whole pound" accounting systems in which all items are rounded off to the nearest pound. In management accounting it is usually better to have early results rather than to wait for more accurate results which come too late to influence management decisions.