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# PRINCIPALS OF ACCOUNTING

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**ABSTRACT**

The basic accounting function concerns towards the business economic data recording and communicating it to the relate entities. This accounting system facilitates the administration of the business financial activities. Various entities concerned to the business are the creditors, shareholders, employees, customers, management, government as well as the public largely. All the above entities are having diverse forms of interests and stakes at the business and accounting fulfils the detailed needs accordingly. In the recent past, the financial accounting function has gone through some significant changes. Just couple of years ago, sole proprietorships & partnerships were the chief forms of any Organisation and the main accounting function was to provide the economic detail about the organisation to its proprietors, who owned as well as managed it. Due to industrial revolution the financial internal sources found insufficient at meeting the needs of the organisations and the business organisations' dependence at external financing has increased. Now, the ownership and the management of the organisation are virtually been departed which is the result of dawn of the joint stock or public limited organisations. Due to the diverse of ownership and management, the management responsibility has increased diversely for accounting to owners that how perfectly the organisation is being operated and the capital is profitably utilized. So, the knowledge of the Principals of Accounting is a need of today's era.

**INTRODUCTION**

The increasing intricacy at financial and economic events and the efficient market rise, have led importance of financial accounting revelation. A Corporate report or financial report can be defined a perfect communication system in between the organisation and its' interested entities like investors. The accounting contains many dissemination detail channels of which the primary broadcasting channel is financial reports to the shareholders. This is the most direct, least expensive, most timely, and fairest method of reaching all shareholders. Corporate accounting is a process through which a business entity communicates with the outside world. The intangible scaffold of the corporate accounting is normally based on:

(1) Communication Timeliness.

(2) Communicated detail reliability.

(3) Detail materiality.

(4) Detail relevance to user.

(5) Presentation forms.

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A person can notice extraordinary development at the relations & contacts among the various countries at governmental and the non-governmental levels due to the effective accounting system. Consequently, there has been a remarkable expansion in corporate accounting because many organisations have a number of branches and subsidiaries in different countries all over the world. In recent years, the financial accounting is witnessing new point of reference which is appreciated understanding the users' detailed needs at financial statements. One of the major user groups consists of investors in corporate securities, particularly the ownership securities, which depend, to a large extent, on the detail contained in the financial statements to make / evaluate their decisions regarding investment / disinvestment in individual corporate securities, as well as manage their portfolios. Clearly, the needs of the users of financial statements are better served if accounting data are analogous, at least across organisations in similar business.

Other groups of users including employees, suppliers of raw materials, suppliers of loan funds and various government departments etc. also value analogous of financial statements. Such analogous detail could be provided only if organisations adopt uniform accounting procedures and disclose adequate detail about the accounting methods used. The relevance of maintaining consistency in accounting procedures will be of no use if accounting procedures used do not fall within the bounds of rationality when judged from the specific circumstances of an organisation and the environment in which the organisation is functioning. It is against this background that accounting standards assumed importance by drawing the boundaries within which acceptable conduct lies.

**ACCOUNTING PRINCIPALS**

1. Income Recognition Principle: At the point when you are recording data about your business, you need to consider the income acknowledgment guideline. This is the timeframe where incomes are perceived through the pay proclamation of your organization. All together for your incomes to be perceived in the period that the administrations were given in case you are on the accumulation premise, If you are on the money premise then, at that point, the incomes should be perceived in the period the money was gotten.
2. Cost Principle: Recording your resources when you buy an item or administration helps keep your operational expense's methodical. Record the securing cost of anything you burn through cash on and appropriately record deterioration for those resources.
3. Coordinating with Principle: Costs ought to be coordinated to the incomes perceived in a similar bookkeeping period and be recorded in the period the cost was caused. In case there is a timeframe where income was perceived on sold items or administrations, then, at that point the expense of those things ought to likewise be perceived..

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4. Complete honesty Principle: The data on fiscal summaries ought to be finished so that nothing is deceiving. With this aim, significant accomplices or customers will know about applicable data concerning your organization.
5. Objectivity Principle: The bookkeeping information ought to reliably remain exact and be liberated from sincere beliefs. Ensure the information is additionally upheld by proof that can incorporate vouchers, receipts, and solicitations. Having a goal perspective, for this situation, depends on monetary outcomes. For instance, your perspective may not be level headed in the event that you once worked for the very organization that you are currently a reviewer for on the grounds that your relationship with this customer may slant your work.

**IMPERATIVENESS OF THE ACCOUNTING STANDARDS**

The imperativeness of the accounting standards can further be judged from the following points:

- Accounting standards lay down general and alternative procedures and practices with respect to a problem, thereby permitting the organisations to follow any method of their liking, provided the method is used consistency year after year. Consequently, two organisations, though engaged in identical activities, may adopt different procedures or follow different methods to tackle particular problems of an identical nature. However, accounting standards emphasise revelation of the procedures and practices in use as well as maintaining of consistency in their use year after year.
- The accounting standards allow the organisation to shift from one method to another in case of need. In such a situation, what the standards require is only the revelation of this fact, together with the quantification of the effect of this shift on the results reported.
- Efficiency in furnishing useful accounting detail of analogous value can be achieved only when the industrial undertakings follow uniform accounting procedures and practices for similar types of problems under similar situations. The primary thrust of accounting bodies (International Accounting Standards Committee, Accounting Standards Board etc. which are involved in the development and issue of accounting standards) should, therefore, be to develop and issue accounting standards, suggesting uniform procedure for treatment of similar type of problems.

**RECENT TRENDS IN ACCOUNTING**

One of the major intents of financial accounting is to supply detail for inventive decision-making. Each organisation, owes its existence to communication of financial detail. But the corporate managements regard the required legal bindings as to financial revelations not as the minimum limit but as the maximum limit. As such, those having a reasonable right of detail (investors, creditors, employees, government and public at large) have to satisfy

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themselves with the existing data. Barring a few cases, the accounting practices are mainly concerned with meeting the requirements of the Company Laws.A rapid development at Indian economy has led towards the corporate sector growth, resulting in increasing emphasis being laid on financial accounting which acts as a link in between the management and the user groups of the financial statements. A number of amendments in the Organisations Act have been made over the past years with regard to revelations in Indian Organisations but there are sets of detail which have not yet been made obligatory to be published in the form of organisation communication e.g. accounting for social costs, investments made in human resources, impact of inflationary tendencies, statement of value added, financial forecasting, projected income. The present Paper is devoted to analyzing the basic principles of accounting with regard to the revelation of human resource accounting, price level accounting, value added accounting, social accounting and cash flow accounting. The purpose of discussing these aspects of annual reports in this paper is that the presenter is convinced that the style of presentation of detail enhances the communicating feature of published data to the users.

**HUMAN RESOURCE ACCOUNTING**

The resources of an organisation may be classified into three broad groups *viz.* the human resources, the physical resources and the financial resources. Without human resources in an organisation, the physical and the financial resources cannot be operationally effective. One of the most important aspects of the business manager's job is the use of resources to achieve the immediate and long-run goals of an organisation but regarding their organisation's human resources, business managers had very little detail. Behavioural scientists, concerned with the management of organisations, pointed out that the failure of accountants to value human resources was a serious handicap for effective management. The variables in human behaviour like group loyalty, skill motivation, and the capacity for effective interaction, communication and decision making, are the true indicators of organisational health. How these variables are managed largely determines the end results of an organisation.

**PRICE LEVEL ACCOUNTING**

Accounting is a service function which identifies measures and communicates economic magnitudes relating to a particular period to its internal as well as external users. The unit of measurement universally used in accounting is money which has been subjected to major erosion in value all over the world, especially during the last four decades. The existing accounting practices of preparing financial statements are based on an important accounting assumption, namely the monetary postulate, which states that the value of the monetary unit is stable and that fluctuations in it may be ignored in the preparation of accounts. But with the movements – upwards or downwards - in the price-levels, the assumption of a stable

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monetary unit does not hold good. In fine, money as such is no longer a reliable unit of measurement and hence the need for incorporating the effects of price-level changes in the accounting statements has assured significance.

**APPLICATION OF PRICE LEVEL ACCOUNTING IN INDIA**

An analysis of the annual reports of the selected organisations in the public and private sectors for the period under study brings out that only a few organisations have been accounting the price level accounting in their annual reports.

**SOCIAL ACCOUNTING**

Accounting detail is used by several groups, such as shareholders, investors and employees. As the detail needs of such groups are different, accounting detail must be designed in a way to meet the needs effectively. In addition to this there are other stakeholders like consumers and the society at large who also like to be informed about the result of the activities of a business concern. It is only in recent years that people have started appreciating the stake of society in the conduct of business, because of the sale of dangerous drugs, alarming levels of environmental pollution caused by the effluents let out into streams, dust and fumes that emit from chimneys and radioactive wastes dumped into seas. In our own country where awareness was not high, the Bhopal gas tragedy was a watershed for the public to understand its' stake in the business that is carried on by national and multinational organisations.

**CASH FLOW ACCOUNTING**

The enlarged public interest in complete and honest statements of business operations and financial statements places major responsibilities on accountants in financial accounting. Investors, whose funds are at stake, are the major decision-makers, making decisions affecting their present holdings or potential investments. For such decision-making, the present set of accounting detail may not be of much relevance. This system is based on the recording of accounting events but often does not adequately report the cash impact by these accounting events. The cash consequences of events that are recorded are often obscured. Many a time, management faces the paradox of huge profits and yet impossible to pay dividends or even taxes. This is because either cash is not received even though there is profit or the cash received is drained out. An organisation may make good profits but the entire amount may be lying as book debts or may have been blocked in inventories.Owing to increasingly tight money supplies in the past few years and to an increasing extent in the recent period, management interest has been focused upon means to better utilise the large amounts of cash which flow through the business process. Moreover, in order to run the business efficiently, the management takes special care of two financial aspects - profits and liquidity. That accounting system will be regarded useful in decision-making which provides

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relevant, reliable and timely detail of these two aspects. The Cash Flow Accounting takes care of both profitability and liquidity.

**CONCLUSIONS**

Largely, the conclusion can be that in the mean of product & standard the various accounting standard revelations are better of the public sector than in private sector organisations. Revelation of the various items like method of valuation of inventory, accounting procedures in a separate statement, cost formula used, publication of statement of changes in financial position as a separate statement and publication of this statement with comparative figures, gross amount of each class of assets, depreciation method used, depreciation rate, historical cost or other cost substituted for historical dost, gross and net value of assets 'at the beginning and at the end of the accounting year, and additions during the year, have been made more in the public sector than in the private sector, whereas revelations of some other items such as research and development revenue expenses, and expenses incurred on acquisition of fixed assets have better scores in the private sector than in the public sector analysis. Some items like accounting procedures for previous year adjustments, research and development, revenue recognition, valuation of investment and purchase and sale, audit of accounting procedures and counter- signing by Chairman/Managing Director/Chairman-cum-Managing Director; cost formula used; statement of changes in financial position; useful life of the asset; research and development revenue expenses; and expenses incurred on acquisition have relatively low revelation in both the public and private sectors.

The major reason for better revelation in the public sector may be assigned to the impact of "Comptroller and Auditor-General’s Audit" on the revelation practices in the public sector organisations. Secondly, some of the public sector organisations are organisations winning prizes from ICAI HMT, MMTC, SAIL, OIL and BHEL and these organisations have shown outstanding presentation and compliance with accounting standards. Thirdly, the better revelation in the public sector organisations than in the private sector organisations may be attributed to the ownership pattern, which is diversified and is in the hands of the government in the public sector. The private sector managements like to disclose least possible because of the fear of competition and preference for keeping secrets. Introduction of abridged form of annual reports after the amendments in the Organisations Amendment Act, 1988 is also one of the reasons for low revelations in the private sector.

Thus, the study concludes that compliance with accounting standards and adoption of the latest trends in accounting are more or less a matter of compulsion and not voluntary effort. The accounting standards which have been mandatory during the period under study have found hundred per cent compliance in all the organisations, irrespective of the sectors to which they belong. In other cases, compliance has been better in the public sector than in the private sector, the main reason being financial implications which the private sector hesitates

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to bear beyond what is needed for compulsory revelation. Moreover, fear of competition does not hamper public sector in disclosing freely, whereas it adversely affects the private sector. In India, since accounting detail system has not developed here fully as yet, a number of decisions in an organisation are taken through other methods. The private sector does not feel like adopting the latest trends in accounting voluntarily because of their limited use in decision-making. To boost compliance with accounting standards and adoption of recent trends in accounting, it is suggested that the concerned authorities like ICAI and the government should propagate these developments widely and conduct research studies so as to identify fully the reasons behind low adoption of the new developments.

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