



## **Principle of Accounting**

### **Program**

**MBA (Non Business)**

### **Submitted to**

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**Q1: Statement of Financial position of ABC corporation at December 31,2019.**

<b>Assets</b>	<b>Rs</b>	<b>Liability</b>	<b>Rs</b>
<b>Current Assets</b>		Current liabilities	
Furnishings	58,000	Account payable	60,000
Account Receivable	10,500	Salaries payable	35,000
Snow mobiles	16,000	Interest payable	10,000
Cash	22,000	Notes payable	6,00,000
Total current assets	106,500	<b>Total liabilities</b>	7,05,000
<b>Non current assets</b>			
Equipment	30,000	Equity	4,31,500
Land	500,000		
Buildings	500,000		
Total non current assets	10,30,000		
Total assets	11,36,500	Total liability and equity	11,36,500

Q2:

**A.Increase an asset and increase a liability –**

Ans: Purchase a fixed asset with bank financing. Purchase inventory on credit

Dr Merchandize inventory

Cr Accounts Payable

**B.Decrease an asset and decrease a liability.**

Payment to a supplier Dr Accounts payable Account Cr Cash/Bank Account

**C. Increase one asset and decrease another asset**

Ans: Sale of an asset

Dr Bank/Cash Account

Cr Asset Account

**D. Increase an asset and increase owner's equity**

Ans. Capital introduced by owner

Dr. Asset Account

Cr Equity Account

**E. Increase one asset, decrease another asset, and increase a liability.**

Ans. Asset purchase on lease and pay rentals in advance

Dr Asset under lease

Cr Liability under lease

Cr down payment(cash/bank)

Q3. Briefly explain the difference between financial accounting and management accounting.

Financial accounting.

1. AIM

. The main aim of financial accounting is to provide information to outside parties. Outside parties include creditors, investors, customers, etc. Hence, it is mainly aimed at assisting investors in making informed decisions

2. REGULATORY REQUIREMENTS.

It is a mandatory requirement for every public organization by the government. Thus, they are governed by Accounting Standard Boards, companies' law and government

GOVERNING PRINCIPLE.

Financial accounting statements are prepared based on 'Generally Accepted Accounting Principles (GAAP)'. This GAAP is different for different countries with more or less same features.

4.TIME HORIZON.

The time horizon for financial accounting is 'past'. Generally, it is one accounting year.

5.REPORTING BENECIARIES

It is prepared for outside or external parties. External parties like shareholders, suppliers, customer, government, banks, etc

## 6.RELEVANCE AND PRECISION OF DATA.

Financial Accounting Data of financial accounting are 100% verifiable and precise. Hence, everything has evidence to support it.

Management accounting.

### 1.AIM.

Financial Management Here, the aim is different than financial accounting. Generally, management accounting information is meant for management to make informed business decisions

### 2.REGULATORY REQUIREMENTS.

It is at the discretion of management. There is no mandatory requirement but still, institutes like CIMA, ICWAI, etc provide some framework and formats

### 3.GOVERNING PRINCIPLE

There is no standard basis for preparing management accounting statements. Hence, they are prepared based on the requirement of the management team.

### 4.TIME HORIZON

### 5.REPORTING BENEFICIARIES

Management accounting It has no specific time horizon but the main focus is on the future

Management accounting Reports prepared under management accounting are useful to internal parties like CEO, directors, promoters, and higher-level managers, etc.

## 6. RELEVANCE AND PRECISION OF DATA.

Data of management accounting is not necessarily 100% verifiable. So, the data should be relevant, timely and logical. For instance, nobody can forecast sales perfectly.