CA FOUNDATION

ACCOUNTING

SAHARA

2nd Floor, Service Road, Behind Maruthi Mandir,
Vijayanagar, Bangalore - 560040
Mobile: 8123482818

SAHARA

CA FOUNDATION

ACCOUNTING

2nd Floor, Service Road, Behind Maruthi Mandir,
Vijayanagar, Bangalore - 560040
Mobile: 8123482818

Web: www.saharaias.com
E-mail: info.saharaias@gmail.com

CA FOUNDATION

PAPER 1: ACCOUNTING

Index

Chapter - 1 unit 1

THEORETICAL FRAMEWORK

INTRODUCTION

In all activities (whether business activities or non-business activities) and in all organisations (whether business organisations like a manufacturing entity or trading entity or non-business organisations like schools, colleges, hospitals, libraries, clubs, temples, political parties) which require money and other economic resources, accounting is required to account for these resources. In other words, wherever money is involved, accounting is required to account for it. Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function.

MEANING OF ACCOUNTING

Traditional Definition

Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof.

[American Institute of Certified Public Accountants (AICPA) (1941)]

Modern Definition

The dimension of accounting is much broader than that described above. A widely accepted definition of accounting is given by the American Accounting Association in 1966 which treated accounting as "the process of identifying' measuring and communicating economic information to permit informed judgments and decisions by the users of accounting information.

[American Accounting Association (AAA) (1966)]

MEANING OF TRANSACTION

A transaction is a particular type of external event, which can be expressed in terms of money and **brings change in the financial position of a business unit**. **A transaction involves transfer of something of value between two or more entities.** A transaction may be an exchange in which each party receives as well as sacrifices value. In other words, in every transaction, there is a movement of value from one source to another. For example, when goods are purchased for cash, there is a movement of goods from the seller to the buyer and a movement of cash from the buyer to the seller.

A transaction can also be a **non-reciprocal transfer** in which a business unit incurs a liability (penalty imposed by a local authority) or transfer an asset to another entity (payment of income tax) or receives an asset (subsidy received from Government) or cancellation of a liability (provision for workmen's compensation) without directly receiving (or giving) value in exchange.

Transactions may be **external** (between a business entity and a second party, for example, goods sold on credit to X) or **internal** (not involving second party, for instance, depreciation charged on the machinery).

MEANING OF EVENT

Event is an occurrence, happening, change or incident, which may or may not bring any change in the financial position of a business unit. It may be an internal event that occurs within a business unit, such as using new materials in production, death of the general manager or threat by a labour union to call a strike. It may be an external event that involves interaction between a business unit and its environment, for example, a change in the price of a product that the business unit buys or sells, or an improvement in technology by a competitor.

ILLUSTRATION 1

State with reasons whether the following events are transactions or not to Mr. X (Proprietor):

1. Mr. X started business with capital (brought in cash) Rs 40,000.
2. Paid salaries to staff Rs 5,000.
3. Purchased machinery for Rs 20,000 in cash.
4. Opened a bank account by depositing Rs 4,000.
5. Received pass book from bank.
6. Appointed Mr. B. Sen as manager.
7. Received interest from bank Rs 500.
8. Received a price list from B.
9. Received free samples Rs 1,000.
10. Gave lift to a supplier in the business car.

Solution

Here, each event is to be considered from the view point of Mr. X's business. Those events which can be measured in terms of money and will change the financial position of the business of Mr. X should be regarded as transaction:

1. It is a transaction, because it changes the financial position of Mr. X’s business. Cash will increase by Rs 40,000 and Capital will increase by Rs 40,000
2. It is a transaction, because it changes the financial position of Mr. X's business. Cash will decrease by Rs 5,000 and Salaries (expenses) will increase by Rs 5,000.
3. it is a transaction, because it changes the financial position of Mr. X’s business. Machinery comes in and cash goes out.
4. It is a transaction, because it changes the financial position of the business. Bank balance will increase by Rs 4,000 and cash will decrease by Rs 4,000,
5. It is not a transaction, because it does not change the financial position of the business of Mr. X.
6. It is also not a transaction, because it does not change the financial position of the business of Mr. X.
7. It is a transaction, because it changes the financial position of Mr. X’s business. Bank interest will increase by Rs 500 and cash will increase by the same amount.
8. it is not a transaction, because it does not change the financial position of the business of Mr. X.
9. It is not a transaction.
10. It is not a transaction because it does not change the financial position of the business of Mr. X.

CLASSIFICATION OF TRANSACTION

Cash transaction: A transaction which involves immediate cash/cheque receipt or payment is called a Cash Transaction. For example, goods sold to X for cash Rs 5,000. In a cash transaction, the name of the party to whom goods are sold or from whom goods are purchased is not recorded. This is because, it serves no purpose.

Credit transaction: An external transaction not involving immediate cash receipt or payment is called a Credit Transaction. For example, Purchase of goods on credit from Y. In a credit transaction, delivery of goods and receipt/payment of money takes place on two different dates. In a credit transaction, the name of the party is recorded to ascertain how much is owed to or from him.

External transaction: A transaction which involves the business entity and a second party is called an External Transaction. For example, goods sold to Ram for Rs 2,000 on credit.

Internal transaction: A transaction which does not involve a second party is called Internal Transaction. For example, depreciation charged on machinery.

RULES FOR DETERMINING CASH OR CREDIT TRANSACTION

Students sometimes experience a little difficulty deciding whether a transaction is for cash or on credit. The following rules will help:

1. Cash purchases, cash sales and all transactions where the word 'paid 'is mentioned are to be treated as cash transactions. For example, salary paid, goods sold for cash and so on.
2. When a personal name or the name of a firm is mentioned in the transaction, it will be treated as credit transaction. For example, goods sold to X for Rs 500.
3. When both cash and personal name are mentioned in the transaction, it will be treated as a cash transaction. For example, goods sold to Y for cash Rs 1,000.

ILLUSTRATION 2

State whether the following are cash transactions or credit transactions:

1. Sachin commenced business with Rs 1,00,000.
2. Paid rent in advance Rs 5,000.
3. Purchased a typewriter for Rs 7,000 from Sen & Co.
4. Bought furniture from M/s. Modem Furniture for cash Rs 3,000.
5. Purchased goods from Sohan Brothers for cash Rs 30,000.
6. Sold goods to Shyam for Rs 25,000.
7. Bought goods from Ramesh Rs 20,000.
8. Paid rent Rs 1,000.
9. Paid salary to staff Rs 4,000.
10. Received cash from Shyam Rs 20,000.
11. Paid Romesh Rs 19,000.

ILLUSTRATION 3

State whether the following are external transactions or internal transactions:

1. Purchased a computer from HCL on credit for Rs 60,000.
2. Goods destroyed by fire Rs 1,000 (not insured).

3. Purchased an electronic typewriter for cash Rs 20,000.
4. Charged depreciation on furniture Rs 400 and Rs 200 on typewriter.

Solution

1. It is an external transaction. 2. It is an internal transaction.
3. It is an external transaction. 4. It is an internal transaction.

ACTIVITIES COVERED UNDER ACCOUNTING

1. **Identifying the Transactions and Events-** Accounting identifies transactions and events of a specific entity. A transaction is an exchange in which each participant receives or sacrifices value (e.g., purchase of raw. material). An event (whether internal or external) is a happening of consequence to an entity (e.g., use of raw material for production). An entity means an economic unit that performs economic activities (e.g., TISCO. TELCO. Birla Industries Ltd., Reliance Industries Ltd.).

2. **Measuring the Identified transactions and Events**- Accounting measures the transactions and events in terms of a common measurement unit that is the ruling currency of a country. e.g. in terms of Rupees in India.

3. **Recording**- It is concerned with the recording of identified and measured financial transactions in an orderly manner, soon after their occurrence in the proper books ol accounts.

4. **Classifying**-It is concerned with the classification of the recorded transactions so as to group the transactions of similar type at one place. This function is performed by maintaining the ledger in which different accounts are opened to which related transactions are brought to one place by posting. For example, all purchases of goods made for cash or on credit on different dates are brought to purchasers account.

5. **Summarising**-It is concerned with the summarization of the classified transactions in a manner useful to the users. This function involves the preparation of financial statements such as Income statement, Balance sheet, and statement of changes in financial position, statement of Cash Flow, Statement of Value Added.

6. **Analysing**-it is concerned with the establishment of relationship between the various items or group of items taken from Income statement of Balance Sheet or both. Its purpose is to identify the financial strengths and weaknesses of the enterprise. It provides the basis for interpretation.

7. **Interpreting**-It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Nowadays the first six functions are performed by electronic data processing devices and the accountant has to concentrate mainly on the interpretation aspects of accounting. The accountants should interpret the statements in a manner useful to the users so as to enable the users to make reasoned decisions out of alternative courses of action. The accountant should explain not only what has happened but also (a) why it happened, and (b) what is likely to happen under specified conditions.

8. **Communicating**-it is concerned with the transmission of summarised analyzed and interpreted information to the users to enable them to make reasoned decisions. It is an

information system which communicates the accounting information to the users (whether internal or external) to enable them to make reasoned decisions.

MEANING OF ACCOUNTANCY

Accountancy refers to a systematic knowledge of accounting. It explains 'why to do' and 'how to do' of various aspects of accounting. It tells us why and how to prepare the books of accounts and how to summarize the accounting information and communicate it to the interested parties.

MEANING OF BOOK KEEPING

Book-keeping is a part of accounting and is concerned with record keeping or maintenance of books of accounting which is often routine and clerical in nature. It only covers the following four activities

1. Identifying the transactions and events
2. Measuring the identified transactions and events in a common measuring unit
3. Recording the identified and measured transactions and events in Proper Books of Accounts
4. Classifying the recorded transactions and events in ledger.

The basic objective of book-keeping is to maintain systematic record of all financial transactions.

DISTINCTION BETWEEN BOOK KEEPING AND ACCOUNTING

Basis of Distinction	Book-keeping	Accounting
1. Scope	Book-keeping involves- a. identifying the transactions, b. measuring the identified transactions, c. recording the measured transactions, d. Classifying the recorded transactions.	Accounting in addition to Book-keeping involves summarizing the classified transactions, analysing the summarised results, interpreting the analyzed results and communicating the interpreted information to the interested parties.
2. Stage	Book-keeping is primary stage.	Accounting is the secondary stage. It starts where book- keeping ends.
3. Basic Objective	The basic objective of book-keeping is to maintain systematic records of financial transaction.	The basic objective of accounting is to ascertain net results of operations and financial position and to communicate information to the interested parties.
4. Who Perform s	Book-keeping work is performed by junior staff.	Accounting work is performed by senior staff.
5. Knowledge Level	The book-keeper is not required to have higher level of knowledge that of an accountant.	The accountant is required to have higher level of knowledge than that of book-keeper.
6. Analytical Skill	The book-keeper may or may not possess analytical skill.	An accountant is required to posses analytical skill.

7. Nature of Job	The job of a book-keeper is often routine and clerical in nature.	The job of an accountant is analytical in nature.

MEANING OF ACCOUNTING CYCLE

After identifying and measuring the financial transactions, the accounting cycle begins. An accounting cycle is a complete sequence beginning with the recording of the transaction and ending with the preparation of the final accounts. The steps involved in an accounting cycle are as under:

Step 1: **Journalizing**

Record the transactions in the Journal.

Step 2: **Posting**

Transfer the transactions (recorded in the Journal) in the respective accounts opened in the Ledger.

Step 3: **Balancing**

Ascertain the difference between the total of debit amount column and the total of credit amount column of a ledger account.

Step 4: **Trial Balance**

Prepare a list showing the balances of each and every account to verify whether the sum of the debit balances is equal to the sum of the credit balances.

Step 5: **Income Statement**

Prepare Trading and profit & Loss Account to ascertain the profit or loss for the accounting period.

Step 6: **Position Statement (i.e., Balance Sheet)**

Prepare a Balance Sheet to ascertain the financial position as at the end of the accounting period.

USERS OF AN ACCOUNTING INFORMATION AND THEIR NEEDS

The users of accounting information include present and potential investors, management, employees, lenders, suppliers and other trade creditors, customers, government and their agencies and the public. These users use accounting information in order to satisfy some of their varied needs for information. Some of the users and their needs for information are shown below:

Users	Need for Information
1. Short-term Creditors [For example e, suppliers of raw-materials/ goods, supplier of short term loans]	Short-term creditors need information to know amount owing to them will be paid when due and whether they should extend, maintain or restrict the flow of credit to an individual enterprise.
2. Long-term Creditors [For example, supplier s of long-term loans]	Long-term creditors need information to determine whether their principal and the interest thereof will be paid when due and whether they should extend, maintain or restrict the flow of credit to an enterprise.

3. Present Investors [For example, equity share holders]	Present investors need information to judge prospects for their investment and to determine whether they should buy, hold or sell the shares
4. Potential/Investors [For example, those who want to invest]	Potential investors need information to judge prospects of an enterprise and to determine whether they should buy the shares.
5. Management	Management needs information to review the firm's (a) short-term solvency, (b) long-term solvency (c) activity (viz. effective utilisation of its resources), (d) profitability in relation to turnover, (e) profitability in relation to investments and to decide upon the course of action to be taken in future.
6. Employees	Employees and their representative groups are interested in information about the stability and profitability of the employers. They are also interested in information which enables them to assess the ability of the enterprise to pay remuneration, retirement benefits and to provide employment opportunities.
7. Tax Authorities	Tax authorities need information to assess the tax liabilities of an enterprise.
8. Customers	Customers have an interest in information about the continuation of an enterprise, especially when they have established a long term involvement with, or are dependent on, the enterprise.
9. Government and their Agencies	Government and their agencies are interested in the allocation of resources and, therefore, the activities of enterprise. They also require information in order to regulate the activities of enterprise, determine taxation policies and as the basis for the national income and similar statistics.
10. Public	Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people, they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about trends and recent developments in the prosperity of the enterprise and the range of its activities. While all the information needs of these users cannot be made by financial statements, there may be some needs which are common to all users. The information contents of the financial statements which meet information needs of the investors or providers of risk capital will also meet most of the needs of other users.

PRIMARY OBJECTIVES OF ACCOUNTING

The main objectives of accounting are as follows:

1. To maintain systematic accounting record
2. To ascertain the financial performance

3. To ascertain the financial position
4. To communicate the information to the users

FUNCTIONS OF ACCOUNTING

The main functions of accounting are given below:

1. **Measurement:** Accounting measures past performance of the business entity and depicts its current financial position.
2. **Forecasting:** Accounting helps in forecasting future performance and financial position of the enterprise using past data.
3. **Decision-making:** Accounting provides relevant information to the users of accounts to aid rational decision-making.
4. **Comparison & Evaluation:** Accounting assesses performance achieved in relation to targets and discloses information regarding accounting policies and contingent liabilities which play an important role in predicting, comparing and evaluating the financial results.
5. **Control:** Accounting also identifies weaknesses of the operational system and provides feedbacks regarding effectiveness of measures adopted to check such weakness.
6. **Government Regulation and Taxation:** Accounting provides necessary information to the government to exercise control on the entity as well as in collection of tax revenues.

LIMITATIONS OF ACCOUNTING

1. **Ignores the Qualitative Elements:** Since the accounting is confined to the monetary matters only, the qualitative elements like quality of management quality of labour force, public relations are ignored.
2. **Not Free from Bias in many situations:** the accountant has to make a choice out of various alternatives available, e.g. choice in the methods of depreciation (e.g., straight Line or written down), choice in the method of inventory valuation (e.g. FIFO, LIFO etc.). Since the subjectivity is inherent in personal judgment, the financial statements are therefore not free from bias. As a result, the analysis of financial statements also cannot be said to be free from bias.
3. **Estimated Position and not Real Position** Since the financial statements are prepared on a going concern basis as against liquidation basis, they report only the estimated periodic results and not the true results since the true results can be ascertained only on the liquidation of an enterprise.
4. **Ignores the Price-level changes in case of financial statements Prepared on Historical costs:** In case of financial statements prepared on historical costs the fixed assets are shown in the Balance Sheet at historical costs less depreciation and not at the replacement value which is often far higher than the value stated in the Balance Sheet. The analysis of such financial statements will not yield strictly comparable results unless the price-level changes are taken into account.
5. **Danger of Window Dressing** When the management decides to enter wrong figures to artificially inflate or deflate the figure of profits, assets and liabilities, the Income Statement fails to provide true and fair view of the result of operations and Balance Sheet fails to provide true and fair view of the financial position of the enterprise.

SUB-FIELDS OF ACCOUNTING

The various subfields of accounting are:

1. **Financial Accounting –** It covers the preparation and interpretation of financial statements and communication to the users of accounts. It is historical in nature as it records transactions which had already been occurred. The final step of financial accounting is the preparation of Profit and Loss Account and the Balance Sheet. It primarily helps in determination of the net result for an accounting period and the financial position as on the given date.
2. **Management Accounting –** It is concerned with internal reporting to the managers of a business unit. To discharge the functions of stewardship, planning, control and decision-making, the management needs variety of information. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control. Management Accounting will be dealt with at higher levels of the Chartered Accountancy Course.
3. **Cost Accounting –** The terminology of Cost Accounting published by the Institute of Cost and Management Accountants of England defines cost accounting as: the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.
4. **Social Responsibility Accounting –** The demand for social responsibility accounting stems from increasing social awareness about the undesirable by-products of economic activities. As already discussed earlier, social responsibility accounting is concerned with accounting for social costs incurred by the enterprise and social benefits created.
5. **Human Resource Accounting –** Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.

TRUE AND FALSE

1. There is no difference between book keeping and accounting, both are same.
2. Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3. Financial accounting is concerned with internal reporting to the managers of a business unit.
4. Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business
5. Summarising is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.
6. Balance sheet shows the position of the business on the day of its preparation and not on the future date.
7. Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.
8. Accounting can be viewed as an information system which has its input processing methods and output.

ANSWERS

1. False: Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records. Book-keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system.
2. False: Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3. False: Management accounting is concerned with internal reporting to the managers of a business unit.
4. False: Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods
5. False: Recording is the basic function of accounting. Summarising is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements
6. True: Balance Sheet is a statement of the financial position of an enterprise at a given date.
7. True: Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.
8. **True:** Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

BASIC ACCOUNTING TERMS

Terms	Meaning
Entity	An entity means an economic unit that performs economic activities (e.g. TISCO, TELCO, Birla Industries Ltd., Reliance Industries, Bajaj Auto, Raymonds).
Business	(a) It represents the set of activities which are regularly carried on by a person or organisation for the purpose of earning profits from such activities. (b) For example- • A Tea shop owner regularly prepares teas and sells it in glasses to his customers. • Samsung regularly sells mobile phones to the customers. (c) Business may be • Manufacturing – Purchasing Raw Materials, converting them into Finished Goods and selling the goods. • Trading – Buying Finished Goods and selling them as such without any conversion. • Service – Rendering services to clients Eg. Doctors, Chartered Accountants etc. *(Note: No Goods)*
Goods	• Items / products / Articles which are regularly traded by the businessmen are called "Goods". • Eg. For a mobile shop owner, mobile phones are "goods", as he regularly purchases and sells them. • However, for the same mobile shop owner, if he purchases one motor bike for carrying the mobile phones, then the motor bike is not considered as goods for him.
Cost / Historical cost	• It represents the amount actually spent or the liability actually incurred. • For eg. Assume that a land is purchased for Rs. 100 lakhs some years ago, but its market value today is Rs.150 lakhs. In this case, the Historical cost is Rs.100 lakhs only.
Purchases	• (from Buyer's angle) It refers to Buying of Finished Goods / Raw materials by one person from another person for consideration. *[Note:* Sale of one party is the purchase for another party.] • The term 'purchases' refers to the total amount of goods obtained by an enterprise for resale or for use in the production of goods or rendering of services in the normal course of business. The purchases may be for cash or for credit. For example, in case 100 units are purchased @ Rs 2 per unit for cash, Rs 200 is called as the amount of cash purchase. In case 200 units are purchased @ Rs 3 per unit on credit, Rs 600 is called the amount of credit purchases.
Purchase return	When purchased goods are returned to the suppliers these are known as purchase returns. Such returns are also known as **return outwards.**
Finished Goods	• It refers to the products manufactured by the manufacturer. For a trader, the goods purchased and sold by him are called finished goods.
Sales (from the angle of seller)	• "Sales" refers to transfer of ownership of goods or services to customers for a price. • Hence, 3 conditions for sale are – (a) Transfer of ownership (refer below) (b) ownership must be in goods (refer below) (c) Consideration

	– some money or money's worth must be given by one person to another. • Transfer of Ownership: Ownership in goods is transferred when the risks of loss and rewards relating to such goods are transferred. • The term sales is used only for the sale of those goods which are purchased for resale purposes. It also includes revenue from services provided to the customer. The term 'sales' is never used for sale of fixed assets. • Example: Mr. X buys one mobile phone from Mr. Y. When Mr. X comes out of Y's shop, somebody stole the mobile phone. In this case, the loss of mobile phone due to theft is to be borne by Mr. X and NOT by Mr. Y. However, if the same phone is stolen when it is kept in the display of Mr. Y's shop, then Mr. Y shall bear the loss of mobile phone. Thus in the above case, there is a transfer of risk from Mr. Y to Mr. X after the purchase of mobile phone. When there is transfer of risk, it is considered as transfer of ownership and hence sale. • If tarun sells computer to varun, the ownership of computer will be transferred from tarun to varun and tarun is entitled to receive agreed price of computer from varun. • Sale of properties other than goods: If items other goods are sold (For eg. Motor car), then it is not considered as "Sales" for Accounting purposes. It is referred by the name of the respective item. Hence, if mobile phone dealer sells motor car, it is NOT referred by the general name of "Sales", but is referred as "Motor Car Sold". • If a cloth dealer sells cloth, it is termed as sales but if the same cloth dealer sells old furniture or computer, it will not be termed as sales. • The sales may be for cash or on credit. For example, in case 60 units are sold @ Rs 5 per unit for cash. Rs 300 is called as the amount of cash sales. In case 120 units are sold @ Rs 6 per unit on credit, Rs 720 is called as the amount of credit sales.
Sales return	Some customers might return the goods sold to them. This is known as sales return or 'return inwards'.
Raw Materials	• (Applicable only for manufacturing business) It refers to the base materials from which finished goods are manufactured [for eg water bottles are made from plastics. In this case, water bottles are finished goods whereas plastics are raw materials]. For a trader, there is no raw materials as he does not produce anything
Stock	• It refers to the balance finished goods / raw materials existing at the beginning or end of a specified period. • Closing stock – stock at the end of a specified period • Opening stock – stock at the beginning of the period • Example – Mr. A purchased 10,000 Kgs of sugar in 2011. He sold 8,000 kgs throughout 2011. In this case, the stock on 31.12.2011 is 2,000 kgs of sugar. • This is closing stock on 31.12.2011. On 01.01.2012, the above stock of 2,000 kgs is carried forward from 2011. This is opening stock on 01.01.2012.

Assets	• **Technical definition:** An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. • **General definition:** Anything which will enable a business enterprise to get cash or a benefit in future is an asset. Thus, cash and bank balances, stock, furniture, machinery, land and building, bills receivable, money receivable from debtors all are assets.
Classification of assets	a. Current assets b. Fixed assets
Current assets	Current assets are those assets which are held (i) in the form of cash, (ii) for their conversion into cash, and (iii) for their consumption in the production of goods or rendering of services in the normal course of business. For example, Cash in hand, Cash at Bank, Stock of Finished Goods, Debtors, Bills Receivables, Stock of Raw Materials, Stock of Work-in-Progress. Prepaid expenses.
Fixed assets	Fixed assets refer to those assets which are held for the purposes of providing or producing goods or services and those that are not held for resale in the normal course of business
Types of fixed assets	a. Tangible b. Intangible c. Capital work in progress d. Intangible assets under development
Tangible Fixed Assets	Refers to those fixed assets which can be seen and touched. For example, Land and Building, Plant and Machinery and Furniture and Fixtures.
Intangible Fixed Assets	Refer to those fixed assets which cannot be seen and touched. They do not have a physical existence. For example, Goodwill, Patent, Trademarks, Copyrights and the like. For example, with the help of patents businessman is able to produce goods and his good will helps him in attracting customers easily. Therefore, these help the entity in earning profits as much as the tangible assets.
Fictitious assets	These are the assets which cannot be realized in cash no further benefits can be derived from these assets. Example preliminary expenses not written off, debit balance in P/L A/c. These assets are not really assets but are shown on the assets side only for the purpose of transferring to P/L A/c gradually over a period of time.
Wasting assets	Those assets which are consumed through being worked or used such as mines. As soon all the minerals are extracted the mine becomes valueless. For example coal mines, oil wells etc
Capital commitment:	**Future liability for capital expenditure in respect of which contracts have been made.**
Expired cost:	**The portion of the expenditure from which no further benefit is expected. Also termed as expense.**
Floating charge:	**A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a Debt**
Obsolescence:	**Diminution in the value of an asset by reason of it becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.**