

A Study about the Accounting Practices in Business of India

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ABSTRACT

The development of accounting practice in India has largely been influenced by the practice in the United Kingdom. No regulatory body is specifically responsible for the establishment of accounting principles. In several accounting areas, mandatory requirements for accounting practices are included in the Companies Act. The Institute of Chartered Accountants of India (ICAI) has during the last few years issued the following accounting standards and guidance notes. The accounting in the past was restricted to the record keeping but today it covers a wide range of activities involving business planning and control, decision making, problem solving, performance measurement and evaluation, co-coordinating and directing auditing and tax determination and cost planning and management, etc. But the accounting in wholesale and retail business is restricted to cash book, ledger, trial balance, trading account, profit and loss account and balance sheet and submitting these to tax authorities and banks at the end of financial year for verification and tax purpose and for continuation of banking facilities.

Keywords: Accounting Practices, Accounting Standards.

INTRODUCTION

In today's business environments accounting practices play a significant role in arriving at overall result at the end of the year. Earlier, accounting was restricted to book keeping only but in today's scenario accounting covers a wide range of activities, including business planning and control, problem solving and performance evaluation and measurement.

Progress and prosperity of business depend upon adoption of proper accounting practices. For a business to survive in the competitive era, accounting contributes significantly, irrespective of the period it reveals to. But most businessmen give less attention towards accounting of their business transactions. They usually concentrate more on selling and buying of their products and this has been more in the case of wholesale and retail businesses. Further, the transactions have increased enormously over a period of time in number and value and therefore chance of profit-making have also risen. A worthy business enterprise looks at profit, not as a transaction wise proposition but looks at it as an annual result of business efforts. Of late, customer's expectations have risen and so have the variety and quantity of goods to be stocked for sale. The sale of products on credit is part and parcel of wholesale and retail business. Investment increases in direct proportion to stocks and credit while profit rises in direct proportion to the risk borne. In addition, it is very difficult for individuals or group of individuals to keep track of each and every event and transaction of the businesses during a particular period.

The accounting may be done in two ways actual and accrual bases. In the case of actual basis, actual receipt of incomes and actual payment of expenditures are taken in to consideration irrespective of the period they relate to while accounting the business transactions. But in the case of accrual basis, income and expenditure of a particular period are taken consideration irrespective of their time. Both these methods have their own merits and demerits. But the wholesale and retail businessmen usually adopt actual basis for accounting their business transactions irrespective of the benefits of accrual basis due to lack of expertise.

Accounting Standards

- AS 1: Disclosure of accounting policies.
- AS 2: Valuation of investors.
- AS 3: Changes in financial position.
- AS 4: Contingencies and events occurring after the balance sheet date.
- AS 5: Prior-period and extraordinary items and changes in account policies.
- AS 6 Depreciation Accounting
- AS 7 Construction Contracts (revised 2002)""
- AS 8 Accounting for Research and Development
- AS 9 Revenue Recognition
- AS 10 Accounting for Fixed Assets
- AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003),
- AS 12 Accounting for Government Grants
- AS 13 Accounting for Investments
- AS 14 Accounting for Amalgamations
- AS 15 Employee Benefits (revised 2005)
- AS 16 Borrowing Costs
- AS 17 Segment Reporting
- AS 18 Related Party Disclosures
- AS 19 Leases
- AS 20 Earnings Per Share
- AS 21 Consolidated Financial Statements
- AS 22 Accounting for Taxes on Income.
- AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
- AS 24 Discontinuing Operations
- AS 25 Interim Financial Reporting
- AS 26 Intangible Assets
- AS 27 Financial Reporting of Interests in Joint Ventures
- AS 28 Impairment of Assets
- AS 29 Provisions, Contingent Liabilities and Contingent Assets

WHOLESALE AND RETAILERS

Wholesalers and retailers are important middlemen who generally facilitate flow of goods from the producers to the consumers. Let us study in details about them.

I WHOLESALE

Wholesalers are one of the important middlemen in the channel of distribution who deals with the goods in bulk quantity. They buy goods in bulk from the producers and sell them in relatively smaller quantities to the retailers. In some cases they also sell goods directly to the consumers if the quantity to be purchased is more.

II. RETAILERS

Retailers are the traders who buy goods from wholesalers or sometimes directly from producers and sell them to the consumers. They usually operate through a retail shop and sell goods in small quantities. They keep a variety of items of daily use.

In this study Anand city's wholesalers and Retailers is taking into consideration more than 1200 wholesalers and 6000 retailers are there in Anand city. For this study purpose different items wholesalers and retailers is selected like Grainer, Medicines, Book Stores, General Stores, Electrical Stores. For this study purpose different Anand area's are selected like Sardar Gunj, Subhas Marg, Mayfair Road, Railway Station, and Gamdiwad.

EVOLUTION OF ACCOUNTING

Double entry system of accounting as understood today is believed to have originated in the last quarter of the 13th century and evidence leads to its use in Florence at that point of time. The oldest surviving records include those of Rinerio and Baldo Fini between 1296 A.D and 1305 A.D and the branch ledger of Giovanni Forolfi for the years 1299A.D and 1300 A.D. The first record of complete double entry system is the Massari (treasurers) accounts of the city of Genoa in 1340. Luca Pacioli a Franciscan friar's book Summa de Arithemeticia Geometria Proportoni et proportionalita Review of Arithmetic Geometry and Proportions published in 1494 is the first book on double entry book-keeping. But there are contentions that Benedetto Cotrugli was the first person to write on double -entry book-keeping in 1458 but his book was published only 1573. Thus Luco Pacioli got the distinction of publishing for the first time as book on double - entry book-keeping.

The whole of Pacioli's book is not on double-entry book-keeping discourse on double -entry book-keeping is contained in part-I, section 9, treatise 11 under the heading Particularis de computis et scripturis (Particulars of Reckoning and their Readings). Pacioli did not invent double-entry. He has stated that his writings are based on the system prevalent in Venice 100 years before. For debit and credit Pacioli has used debito(owed to) and credits (owed by) which in turn derived from Latin debeo and credo .Debeo means "owed to me the proprietor and credo means "trust" "believe" in the proprietor. Pacioli's principle was that "All entries have to be double entry that is if you make one creditor you must make some one debtor".

DEFINITION OF ACCOUNTING

The Accounting Principles Board (APB) of the AICPA in its statement No.4 „Basic Concepts of Accounting Principles Underlying Financial Statements of Business Enterprises" 1970 have defined "Accounting is a service activity .Its function is to provide information primarily financial in nature about economic entities that is intended to be useful in making economic decisions."

Accounting as a language of business helps to communicate financial information relating to business entities by the use of symbols and rules like any language. Just like language it undergoes various changes over a period of time and adjusts itself to changing needs of the users of the accounting information.

ACCOUNTING CONCEPTS AND CONVENTIONS

Accounting is the language through which the performance and financial status of an enterprise is communicated to the outside world. In order that the messages communicated through the accounting language is understood by the users, there should be certain common principles. Accountants all over the world agree on certain basic points on which financial accounting theory and practice are based which are commonly referred to as „accounting principles", „postulates of accounting", „accounting concepts", „accounting conventions" and „accounting standards".

In this study the basic principles on which accounting is based are proposed to be classified into „Accounting Concepts „and" Accounting Conventions". All those basic assumptions or conditions upon which the science of accounting is based are grouped under accounting concepts.

Those customs or traditions which guide the accountant while preparing the accounting statements are included under the head accounting conventions.

REVIEW LITERATURE

R.J.Chambers has stated that when accounting is looked upon as a communication system it denotes “the process of encoding observation in the language of the accounting system of manipulating the signs and statements and decoding and transmitting the result”.

Accounting is considered to be a language of the business by means of which business information is communicated to various outside parties. Just like any other medium of communication it should be thoroughly studied and understood.

Paton has stated “It is the business whose financial history the book keeper and accountant are trying to record and analyze. The books of accounts are the record of the business the periodic statements of operations and financial condition are the reports of the business.”

Louis Goldberg has stated that the focus of accounting should be an effective economic control of the resources. People act on behalf of entities and decisions are made by specific individuals or group of individuals. The process and procedure of accounting are carried out by people.

SIGNIFICANCES OF THE STUDY

- 1) The wholesalers and retailers can get accounting information whenever required, by maintaining accounts
- 2) Profit or loss of the business and financial position of the business can be known at the end of the accounting period.
- 3) This study helps the owners of the business to exercise control based on the information of the assets and liabilities of the business.
- 4) This study is also necessary to determine the taxes payable to the government, and it is also useful in planning about the taxes eg. Income tax, Sales Tax, Value Added Tax etc.,
- 5) Current year’s information can be compared with the information of the previous year and with that of other firms and on that base making a right decision.

ANALYSIS AND INTERPRETATION OF DATA

Accounting practices adopted by the wholesale and retail businessmen have analyzed from different angles of accounting. It has started from the ownership structure of business and incorporated various practical aspects of accounting.

Generally the ownership structure of firms may be Sole proprietorship, Partntership firm, Private and Public companies. But the present study is limited to the wholesale and retail business. Therefore, the firm may be either a sole proprietorship or a partnership. In the case of sole proprietorship firm, an individual promotes, finance, controls and manages the business enterprise. But partnership is an association of two or more individuals to carry on as co-owners of the business and share profit or losses as per the agreement. The ownership structure of sample respondents in the study area is depicted in the **table – 1**

TABLE – 1 BUSINESS STRUCTURES OF SAMPLE RESPONDENTS

Ownership Structure	Type of Business		
	Wholesale	Retail	Total
Sole Proprietorship	41 (46.07) (82.00)	48 (53.93) (96.00)	89 (100.00) (89.00)
Partnership Firm	9 (81.82) (18.00)	2 (18.18) (4.00)	11 (100.00) (11.00)
Total	50 (50.00) (100.00)	50 (50.00) (100.00)	100 (100.00) (100.00)

Note: Figures in parentheses on the right and below the figures indicate percentage to the Respective row and column totals.

Source: Primary Data

It is revealed from the table – 1 that out of the total, 89% of the firms are sole proprietorship and only 11% of the firms are partnership. This means that the majority of the businessmen preferred individual ownership to partnership. Out of the total partnerships. The percentage of partnership form or ownership structure is high in wholesale business as compared to retail business. This indicates that the wholesale firms preferred more for partnership form of structure as compared to the retail business due to their inability to invest huge amount of capital.

Basic knowledge of accounting like type of accounts, debit and credit, methods of entry, posting entries to ledger, preparation of trading, profit and loss account and balance sheet is essential to the owners to improve the financial position of business. However many owners of business lack basic manual and computer accounting knowledge.

Based on the frequencies in preparation of trial balance, the details are depicted in Table-8

TABLE – 2: CLASSIFICATION OF BUSINESSMEN BASED ON FREQUENCY IN PREPARATION OF TRIAL BALANCE

Frequency of Trial Balance	Type of Business		
	Wholesale	Retail	Total
Monthly	--	--	--
Quarterly	14(100.00) (28.00)	--	14(100.00) (14.00)
Half yearly	17 (51.52) (34.00)	16(48.48) (32.00)	33 (100.00) (33.00)
Yearly	19(35.85) (16.00)	34 (64.15) (32.00)	33 (100.00) (33.00)
Total	50 (50.00) (100.00)	50 (50.00) (100.00)	100 (100.00) (100.00)

Note: Figures in parentheses on the right and below the figures indicate percentage to the respective row and column totals.

Source: Primary Data

It is clear from the Table – 8 that 28% of wholesaler preparing trial balances once in a quarter. 34% of wholesaler and 32% of retailer preparing trial balance once in a half yearly. 38% of wholesaler and 68% of retailer preparing trial balance once in a year. This signifies that retail businessmen have worried less about accounting as compared to the wholesaler businessmen. Further, of the total respondents who prepared trial balance quarterly, the wholesalers constituted the highest percentage as compared to the respondents who prepared trial balance half yearly and yearly.

Business being an economic entity has to earn profit for survival and growth. Profitability of business not only depends upon the efficiency in buying and selling of goods but also depends upon how well accounts are maintained. It is a good practice of accounting to measure and evaluate the business results at regular intervals to take immediate corrective actions to improve the financial performance of a business. The business results are measured by preparing trading, profit and loss account and balance sheet at regular intervals.

SUGGESTIONS

- Business accounts maintain through computer. The computerization of account enables businessmen to get all the required information at anytime without much cost.
- Regularly in Auditing Accounts so it ensures more transparency and businessmen can control the business in right ways and go for further growth.
- Frequently organize conferences, seminars and workshop by market association so that they can get basic knowledge on different aspects of accounting and taxation to the businessmen.
- To take the insurance of shops and goods so it will be protect the businessmen from men made and natural calamity.

The Accounting of business transactions on regular basis is very essential to survive in the competitive era. Accounting plays an important role in the growth and development of wealth of businessmen. It helps them to know the financial position of their business. Further, regular accounting reduces the risk of and manages to avoid the unwanted costs of business. Therefore, there is an immediate need to adopt the principles and practices of modern accounting systems in recording and accounting the business transactions in the interest of businessmen in particular and public in general.

FINDINGS

- The most of the businessmen prefer sole proprietorship compare to partnership firm in this wholesaler prefer partnership firm more compare to retailer due to their inability to invest huge amount of capital.
- The most of the businessmen got basic knowledge of accounting in these wholesaler businessmen are in high percentage to got basic knowledge of accounting.
- The most of the businessman are maintain their accounts through computer and in this wholesalers number is more compare to retailer. When maintain account through computer so the chance of mistake is very less and benefit is more.

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