Introduction to Accounting

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Need for Accounting

Whenever we start doing business, a number of transactions take place. For example, if we start a business of say, a book store (i.e. we'll be buying books from wholesalers and publishers, and selling them to customers), following things pop up in our minds at the first instance:

1. Taking an office/shop on rent for the purpose of our business
2. Contacting the wholesalers and the publishers
3. Purchasing books from them
4. Advertising
5. Selling the books to customers

Now, when the business starts functioning, we'll want to know how much profit we have earned from the business in a year. It is practically impossible to just remember whatever happened in the whole year. For example, we may have bought books from the wholesalers or publishers on credit (credit: the ability of a business entity to obtain goods before payment), so we would want to know how much money we owe them. On the other hand, we may have sold certain books to our customers on credit (credit: the ability of customers to obtain goods before payment), and we would want to know how much money our customers owe us.

Therefore, it is advisable to record **all** the **Financial Transactions** that take place, **as and when** they take place. Hence, the need for "Accounting" arises. A Financial Transaction is a transaction which involves money. The financial transactions are recorded in what is called "Books of Accounts".

Book Keeping, Accounting, and Accountancy

Book Keeping

Book Keeping is mainly concerned with record keeping or maintenance of books of accounts. The maintenance of books of accounts includes the following four activities:

1. Identifying the transactions of **financial nature** from amongst the various transactions.
2. Measuring the identified transactions **in terms of money**.
3. Recording the identified transactions.
   Recording is done in what is called the "Books of Original Entry", also known as "Journal".
4. Classifying them.
   Classification is done in what is called "Ledger".

Account

- In actual practice, the individual transactions of like nature are recorded, added and subtracted at one place. Such a place is customarily termed as an "Account".
- It is abbreviated as "A/c".
- Examples:
  - Any organisation these days needs a computer. Many a times, more than one computer is required. Old Computers would be sold off and new Computers would be bought for as long as the Business continues. The purchase and sale of computers will be recorded in one place, called the "Computer Account" or the "Computer A/c".

    - All the transactions related to a particular supplier*, say, Ram, would be recorded in a place called “Ram A/c”.
      *Supplier: a person from whom the business purchases goods for further sale; for example, in the business of a book store, the wholesalers or the publishers from whom the business purchases books, are suppliers.
    - All the transactions related to Cash will be recorded in a place called “Cash A/c”.
- When a transaction of a particular nature occurs for the first time, it is said that an Account is opened for that type of transaction. For example, in case of a new supplier, say Shyam, with whom no business has ever been transacted, a new Account, called the “Shyam A/c” will be opened in the books of accounts, and all the transactions related to Shyam, i.e. Purchase of Goods and Payment to the supplier will be done in Shyam A/c.

Ledger

Ledger is a book containing various “Accounts”.

Accounting

Accounting starts where Book-Keeping ends. It includes the following activities:

1. Summarising the classified transactions.
   Summarising is done in the following three forms:
   - Trial Balance
   - Trading and Profit & Loss Account
   - Balance Sheet

   Note: We’ll be studying these in detail later.
2. Analysing and interpreting the summarised results.
3. Communicating the information to the interested parties.

However, in actual practice, the accounting process includes the book-keeping function also.

Therefore, the definition of Accounting is as follows:

Accounting is a systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating **Financial Information.**

Thus, Accounting involves the following processes:

1. Identifying,
2. Measuring,
3. Recording,
4. Classifying,
5. Summarising,
6. Interpreting, and
7. Communicating.

On taking a look at the above definition, we find that these processes revolve around one thing, i.e. “Financial Information”. Financial Information is explained in a while.

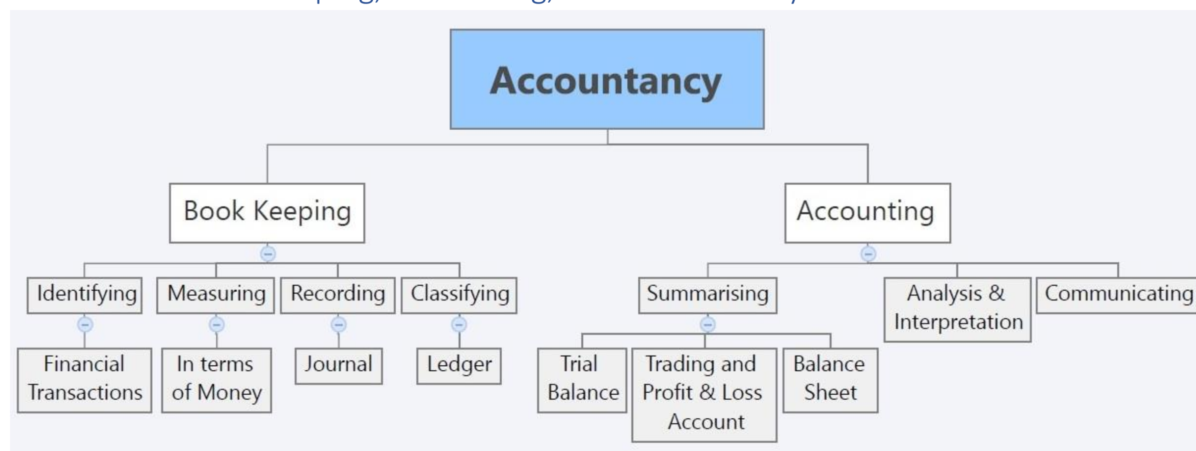
Hence, it is clear that Accounting concerns itself with only Financial Information. Any kind of Non-Financial Information is out of the scope of Accounting.

Accountancy

It refers to a systematic knowledge of accounting, concerned with the principles and techniques, which are applied in accounting. It tells us the following:

1. How to prepare the books of accounts,
2. How to summarise the accounting information, and
3. How to communicate it to the interested parties.

Overview of Book Keeping, Accounting, and Accountancy



Financial Information

Financial Information arises from Business Transactions. So, let us first understand what are Business Transactions.

Business Transaction

1. The term “Business Transaction” means a financial transaction or event entered into by two parties and is recorded in the books of account.
2. It is a financial event expressed in terms of money which brings a change in the financial position of an enterprise.
3. It is an agreement between two parties involving the transfer or exchange of goods or services.
4. Examples of business transactions are:
    a. Sale of Goods
    b. Purchase of Goods
    c. Receipt from Debtors (Debtor: A customer who owes money to the Business)
    d. Payment to Creditors (Creditor: A supplier to whom the Business owes money)
    e. Payment of Interest on Loan taken
    f. Purchase of Diesel for Generators
    g. Conveyance Expenses, etc.

So, a business transaction gives rise to Financial Information. Now, the last process in the definition of Accounting is Communicating the Financial Information. Since Accounting helps in Communication, it is known as the “Language of Business”.

Accounting Cycle

Remember when we started learning English? We started off by learning Alphabets, then we joined Alphabets to form Words, then we joined Words to form Sentences, then we joined Sentences to form

Paragraphs, then we joined Paragraphs to form a whole Chapter, and finally a set of Chapters became a Book!

So, we can say that following is the cycle of English Language:

Alphabets → Words → Sentences → Paragraphs → Chapters → Book

Similarly, we have an Accounting Cycle:

Voucher → Journal → Ledger → Trial Balance → Trading and Profit & Loss Account → Balance Sheet

We'll eventually learn each of these in detail.

Financial Statements

Throughout the year, a number of Business Transactions take place. At the end of the year, any businessman would want to know whether he has made any profit during the year, and if so, what is the amount of profit that he has made. Apart from Profit, there are certain other things that a businessman would like to know, for example:

1. Assets (Asset: Anything which is in the possession or is the property of a business enterprise including the amounts due to it from others, is called an Asset. Example: Cash Balance, Bank Balance, Furniture, Computers, Debtors, etc.)
2. Liabilities (Liability: It refers to the amount which the business enterprise owes to outsiders. Example: Creditors, Loan taken from Bank, etc.)

This is only possible if we have a summary of the transactions that took place throughout the year. As per the definition of Accounting, it is a systematic process of identifying, measuring, recording, classifying, **summarising**, interpreting and communicating Financial Information.

This summary is known as the "Financial Statements".

Therefore, "Financial Statements" is a summary report that shows how a Business has used the funds invested into it by the owner, and what is its current Financial Position. The three basic Financial Statements are:

1. Balance Sheet – This shows Business's Assets, Liabilities, and Net Worth* on a stated date,
2. Income Statement (also called Profit & Loss Account) – This shows how the Net Income of the Business is arrived at over a stated period, and
3. Cash Flow Statement – This shows the inflows and outflows of cash caused by the Business's activities during a stated period.

*Net Worth is basically Assets minus Liabilities.

Users of Financial Statements

1. As is evident from above, the first and foremost user of the Financial Statements would be the owner of the Business.
2. Apart from owner, there are certain other parties who could be the users of the Financial Statements.
3. Examples:
    a. An organisation has taken a loan from the Bank for the purpose of carrying on its business. Now, that Bank would also like to know whether the organisation is profitable or not. This can be only be known from the Financial Statements. Hence, Bank also becomes a "user" of the Financial Statements.

b. The creditors, i.e. the people to whom the organisation owes money, would also like to know whether the business is profitable or not, and hence, Creditors are also "users" of the Financial Statements.

4. Therefore, any person, who has a stake in the business of an organisation will become a "user" of the Financial Statements of that organisation.

Accounting Principles

Just like we have Grammar in English Language, which is basically the rules of English, we have some rules for Accounting as well, known as Accounting Principles.

Accounting Principles, Concepts and Conventions commonly known as Generally Accepted Accounting Principles or GAAPs are the basic rules that define the parameters and constraints within which Accounting operates. These principles are the theory base of accounting, on the basis of which financial statements are prepared. In other words, they are the guidelines for preparing the financial statements.

Accounting Principles are classified into two categories:

1. Accounting Concepts
2. Accounting Conventions

Accounting Concepts

In order to make the accounting language convey the same meaning to all people and to make it more meaningful, most of the accountants have agreed on a number of concepts which are usually followed for preparing the Financial Statements. These concepts provide a foundation for Accounting Process. No enterprise can prepare its financial statements without considering these basic concepts or assumptions. These concepts guide how transactions should be recorded and reported.

Following are the Accounting Concepts:

1. Going Concern Concept
2. Consistency Concept
3. Accrual Concept
4. Business Entity Concept
5. Money Measurement Concept
6. Accounting Period Concept
7. Cost Concept or Historical Cost Concept
8. Matching Concept
9. Dual Aspect Concept
10. Revenue Recognition Concept or Realisation Concept
11. Verifiable Objective Concept

Let us see these Concepts one by one in detail.

Going Concern Concept

1. According to this concept, it is assumed that business shall continue for a foreseeable period and there is no intention to close the business or scale down its operations significantly.
2. This implies that it will not be dissolved in the immediate future unless there is a clear evidence of closure.

Consistency Concept

1. As we'll move forward and study Accounting in detail, we'll come to know that there are certain rules to record certain types of transactions in the books of accounts.
2. Many-a-times, more than one rule could be present to record a particular type of transaction.
3. The business entity can choose to follow any one of those rules for recording that type of transaction for the first time.
4. However, in the subsequent years, such rule should not be changed, i.e. same rule should be followed to record that type of transaction subsequently.
5. This is known as the Consistency Concept.
6. According to the Consistency Assumption, accounting practices once selected and adopted, should be applied consistently year after year.
7. The concept helps in better understanding of accounting information and makes it comparable with that of previous years.

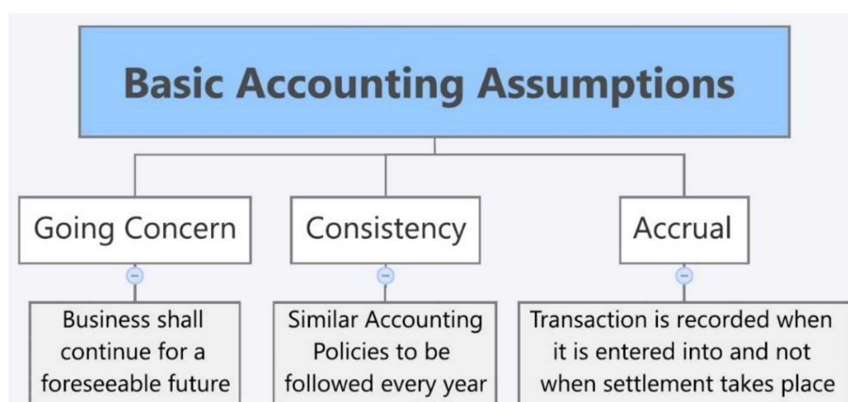
Accrual Concept

1. According to the Accrual Assumption, a transaction is recorded in the books of account at the time when it is entered into and not when the settlement takes place.
2. For Example, if goods are sold in the current accounting period (i.e., in the current year), but the payment is to be received after the current accounting period, even then, that sale is recorded in the books of accounts of the current accounting period.
   Similarly, if purchases are made in the current accounting period, but the payment towards them is to be made in the next accounting period, those purchases should be recorded in the current accounting period itself.

☞ The above three Concepts, i.e. Going Concern, Consistency and Accrual are considered as the basic assumptions of Accounting, i.e. it is assumed that any enterprise will definitely follow these three principles while preparing their Books of Accounts.

☞ After preparing the Financial Statements, an annexure called the "Notes to Accounts" is also prepared. In this annexure, any significant information relating to the Financial Statements or any additional information is disclosed for the users of Financial Statements. For example, as discussed above in consistency concept, sometimes, there exist multiple rules relating to a particular type of transaction. Hence, it becomes important to mention in the "Notes to Accounts" the rule or the method used for recording that particular type of transaction.

☞ If any enterprise decides not to follow either of the above three basic assumptions, i.e. Going Concern, Consistency, and Accrual, only then it will have to disclose such fact along with the reasons for deviation.



Business Entity Concept or Separate Entity Concept

1. Suppose you open a book store, so, in common parlance, it would be said that the business is being carried on by **you**, and **you** are earning profit or incurring loss.
2. However, Accounting sees it differently.
3. According to the Business Entity Principle, a Business Entity is considered to be separate and distinct from its owners.
4. This means that the **Business Entity** is doing the business and not you; the **Business Entity** has earned the profit and not you; the **Business Entity** has incurred loss and not you!
5. This is done basically to distinguish between the Business Transactions and Personal Transactions. For example: If you go out for a movie with your friends, you wouldn't record it in the books of accounts of your business → This is your personal expense, not a business expense. If the Separate Entity concept was not there, you would have recorded your movie expenses in the books of accounts of the business, and that would have led to an incorrect profit.
6. Business transactions, therefore, are recorded in the books of account from the business's point of view and not from that of the owner's.
7. Owners being regarded as separate and distinct from business, they are considered creditors of the business to the extent of their capital (Capital is the amount of money invested in the business by the Proprietor/Owner).
8. Therefore, any money that the Proprietor invests in Business is a liability of the Business towards the Proprietor, i.e. the Business owes that money to the Proprietor.
9. So, if the Proprietor withdraws some money, out of his investment in the business, for his personal use, the Capital reduces, i.e. Liability of the Business towards the Proprietor reduces.
10. Similarly, if the Proprietor invests some additional money in the business, the Capital increases, i.e. Liability of the Business towards the Proprietor increases.

Money Measurement Concept

1. According to the Money Measurement Concept, only those transactions and events are recorded in the books of accounts which can be measured in terms of money.
2. Therefore, a transaction which cannot be measured in terms of money, no matter how crucial it is to the business entity, is not recorded.
3. For example, suppose there is a very hard working and an intelligent employee in the company with the help of whom, the business keeps on growing every day. Suddenly, this employee resigns. Now, this would be a huge loss of skill to the company. But, since resignation of an employee cannot be measured in terms of money, this will not be recorded in the books of accounts of the Company.

Accounting Period Concept

1. A while ago, we studied Financial Statements. The definition of Financial Statements is reproduced below:
   "Financial Statements" is a summary report that shows how a Business has used the funds invested into it by the owner, and what is its current Financial Position.
2. A question now arises that when should a Business Entity prepare its Financial Statements.
3. As per the Accounting Period Concept, a period (usually, a year) is decided at the start of a business, and Financial Statements are prepared after every year.
4. A year, after which the Financial Statements of a Business Entity are prepared, is known as a Financial Year. It usually starts from 1st April and ends on 31st March.

5. This is done because a number of users of Financial Statements require the information from the accounts at regular intervals so that decisions can be taken at the appropriate time.
6. Examples:
    a. Management requires information at regular intervals to assess the performance and funds requirement (short-term as well as long-term).
    b. Banks require accounting information periodically because they have invested money and have to ensure its safety and returns.
    c. Government of India levies Income Tax on Profits earned and they need to assess the tax from the Financial Statements.
7. Therefore, an Accounting Period is the interval of time at the end of which Income Statement and Balance Sheet are prepared to know the results and resources of the business.

Cost Concept or Historical Cost Concept

1. According to the Cost Concept, an asset is recorded in the books of account at the price paid to acquire it and the cost is the basis for all subsequent accounting of the asset.
2. Since the acquisition cost relates to the past, it is referred to as Historical Cost.
3. However, the cost concept does not mean that assets will continuously be shown at their acquisition price for as long as the business entity owns them.
4. Their cost is systematically reduced from year to year.
5. This systematic reduction is done over the useful life of the asset.
6. Useful life means the number of years (accounting periods) during which that asset is expected to be used.
7. The process of systematic reduction of the cost of an asset over its useful life is known as Depreciation.
8. For example, a computer is purchased for ₹50,000 on 01.04.2017 and is expected to be used for 5 years. Now, at the time of purchase, i.e. on 01.04.2017, the computer will be recorded in the books of accounts at ₹50,000. Since the useful life is 5 years, ₹10,000 will be deducted from the cost of ₹50,000 every year, so that, after 5 years, the value of the computer becomes NIL. Therefore, on 31.03.2018, ₹10,000 will be deducted from ₹50,000 and the computer will now be shown in the Financial Statements at ₹40,000. Similarly, on 31.03.2019, another ₹10,000 will be deducted from ₹40,000 and now the computer will be shown in the Financial Statements at ₹30,000.

Matching Concept

1. Let's start with an example to understand this concept.
2.
    - Suppose I buy 10 Books for ₹1,000.
    - This means that 1 Book costed me ₹100.
    - Now, if I sell 5 Books @ ₹150 each, I will get ₹750.
    - Now, is it correct to say that the total amount that I spent (Cost) was ₹1,000 and the total amount I earned (Revenue) is ₹750, and hence I incurred a Loss of ₹250?
    - Absolutely Not!
    - The logical thing would be to see, at what amount did I buy the Books which I sold.
    - I sold 5 Books for ₹750.
    - I had bought those 5 Books for ₹500.
    - So, I made a profit of ₹250.
3. What we saw above is Matching Concept.
4. This concept is very important for correct determination of net profit.

5. According to this concept, in determining the net profit from business operations, all costs which are applicable to revenue of the period should be charged against that revenue, i.e. deducted from that revenue.
6. Accordingly, for matching costs with revenue, first revenues should be recognised and then costs incurred for generating that revenue should be recognised.
7. This concept is based on the Accounting Period Concept.

Dual Aspect Concept

1. There are always two aspects of a Business Transaction.
2. Examples:
    a. Purchase of Machinery for ₹50,000. The two aspects in this transaction are:
        i. Incoming of Machinery
        ii. Outflow of Cash
    b. Sale of Machinery for ₹75,000. The two aspects in this transaction are:
        i. Outgoing of Machinery
        ii. Inflow of Cash
    c. Purchase of Furniture for ₹50,000. The two aspects in this transaction are:
        i. Incoming of Furniture
        ii. Outflow of Cash
3. According to this concept, every business transaction is recorded as having a dual aspect.
4. Since every business transaction has a dual aspect, therefore, two accounts are affected.
    a. In the above example of Purchase of Machinery, the following two accounts will be affected:
        i. Machinery A/c
        ii. Cash A/c
    b. In the above example of Sale of Machinery, the following two accounts will be affected:
        i. Machinery A/c
        ii. Cash A/c
    c. In the above example of Purchase of Furniture, the following two accounts will be affected:
        i. Furniture A/c
        ii. Cash A/c
5. The system of recording transactions based on this principle is called the "Double Entry System".
6. We'll study the Double Entry System later in detail.

Revenue Recognition Concept or Realisation Concept

1. According to the Revenue Recognition Concept, revenue is considered to have been realised when a transaction has been entered into and the obligation to receive the amount has been established.
2. It is to be noted that recognising revenue and receipt of an amount are two separate aspects.
3. Examples:
    a. An enterprise sells goods in December, 2017 and receives the amount in April, 2018. Revenue of this sales should be recognised in December, 2017, i.e. when the goods are sold. It is so because the legal obligation has been established (upon sales) in December, 2017.

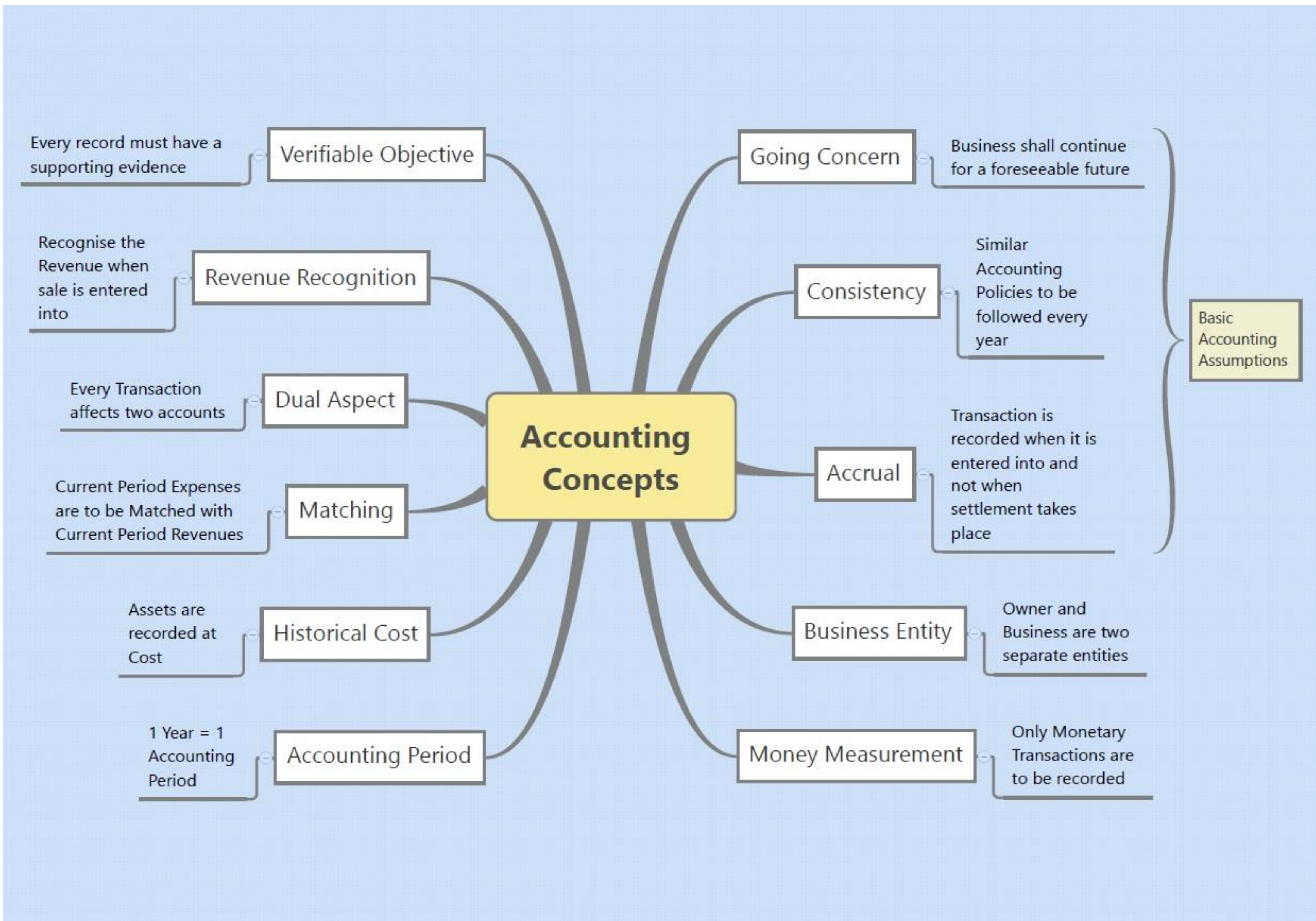
b. Suppose, an enterprise has received an advance in December, 2017 for sales to be made in April, 2018. In this case, revenue shall be recognised in April, 2018, when the sale will take place because the legal obligation to receive the amount would be established in April, 2018.

Verifiable Objective Concept

1. The Verifiable Objective Concept holds that accounting should be free from personal bias.
2. Measurements that are based on verifiable evidences are regarded as objectives.
3. It means all accounting transactions should be evidenced and supported by business documents.
4. These supporting documents are:
   a. Cash Memo
   b. Invoices
   c. Sales Bills, etc.
5. These supporting documents provide the basis for accounting and audit.

☞ Audit: It is an official inspection of an organisation's books of accounts, typically by an independent body.

A Summary of Accounting Concepts is given on the next page.


Accounting Concepts
Verifiable Objective
Every record must have a supporting evidence
Revenue Recognition
Recognise the Revenue when sale is entered into
Dual Aspect
Every Transaction affects two accounts
Matching
Current Period Expenses are to be Matched with Current Period Revenues
Historical Cost
Assets are recorded at Cost
Accounting Period
1 Year = 1 Accounting Period
Going Concern
Business shall continue for a foreseeable future
Consistency
Similar Accounting Policies to be followed every year
Accrual
Transaction is recorded when it is entered into and not when settlement takes place
Business Entity
Owner and Business are two separate entities
Money Measurement
Only Monetary Transactions are to be recorded
Basic Accounting Assumptions

Accounting Conventions

Convention means a way in which something is usually done. It is generally associated with something that's been prevailing for a very long period of time and is acceptable in the society. For example, touching the feet of elders → There is no rule that one should touch the feet of elders, but, since it has been going on for a very long period of time and is an acceptable way of greeting elders, it's there.

Similarly,

Accounting Conventions are the outcome of accounting practices or principles being followed by the enterprises over a period of time. Conventions may undergo a change with time to bring about improvement in the quality of accounting information.

Following are the main Accounting Conventions:

1. Convention of Full Disclosure
2. Convention of Materiality
3. Convention of Conservatism (Prudence)

Convention of Full Disclosure

This Convention requires that all significant information relating to the economic affairs of the enterprise should be completely disclosed. Another way to understand this is that **all** the **monetary transactions** are to recorded in the Books of Accounts.

Convention of Materiality

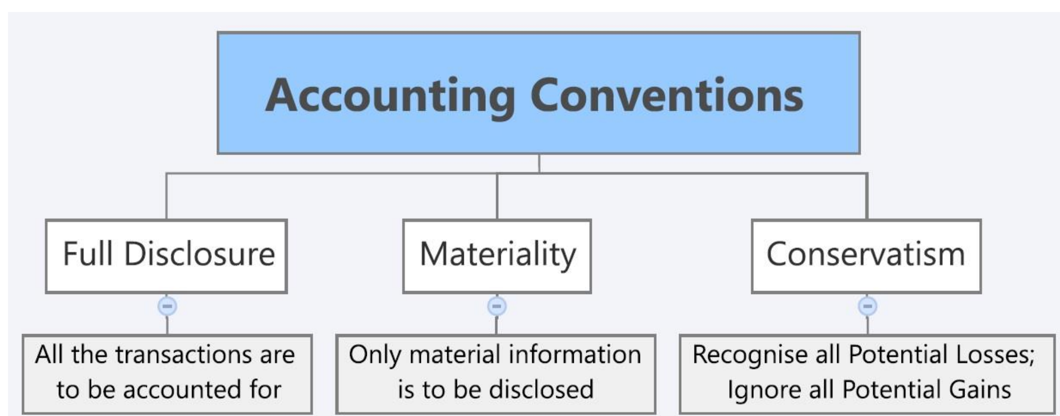
1. According to this convention, items having an insignificant effect or being irrelevant to the user need not be disclosed.
2. These unimportant items are either left out or merged with other items, otherwise accounting statements will unnecessarily be overburdened, i.e. the total number of Accounts will become huge.
3. Examples:
    a. Suppose in our book store, if someday Amitabh Bachchan comes to buy some books, we'll obviously offer him some snacks, etc. Now, we'll have to record in our books of accounts the expenses incurred to provide snacks to Amitabh Bachchan. Since, this amount is insignificant, it would be merged with "Shop Expenses A/c" and no separate account will be opened.
    b. Suppose a computer in an organisation requires a minor repair, then, no separate A/c by the name of "Repairs to Computer A/c" will be opened. It would just be clubbed under "General Repairs A/c". However, had the repair been of significant nature or value, then a separate account would have been opened to record the same.

Convention of Conservatism (Prudence)

1. General Example:
    - To understand Conservatism, let's take an example of a superstition. Some of the common superstitions prevailing in India are:
        - A black cat crosses the road in front of you
        - Left eye starts flickering, etc.
    - Whenever such a thing happens, it is believed that bad luck will befall the person with whom this has happened.

- In order to protect himself from bad luck, that person takes some action, like, if a black cat crosses the road in front of him, he would touch water before moving forward on the road, etc.
- However, if a good omen happens, say, flickering of right eye, people don't just start distributing sweets!
- This is exactly what conservatism is.

2. According to this convention, all anticipated losses should be recorded in the books of accounts, but all anticipated or unrealised gains should be ignored.
3. In other words, conservatism is the policy of playing safe.
4. Provision is made for all known losses, even though the amount cannot be ascertained with certainty.
5. Examples:
    a. Suppose there is a debtor (debtor: a customer who owes money to the business) who owes ₹50,000 to the organisation. Unfortunately, before the due date of payment, he goes underground! He becomes untraceable! Now, clearly, the organisation won't be getting the money. So, even though there is still time in the due date, and it may so happen that the debtor appears on the due date and pay the money to the organisation, it is "prudent" (sensible) for the organisation to make a provision for the loss of ₹50,000.
    b. Suppose there is a legal case going on against an organisation. Now, the organisation could either win the case or lose the case. It would be prudent for the organisation to make a provision for the **expected** loss, in case it loses the case. A point to be noted here is that the amount of money that would be lost, in case the organisation loses the case, is not ascertainable with certainty. However, an expected amount of loss could be calculated with some legal help. The organisation should make a provision for such expected loss.
6. Many accounting policies, which we'll be studying later are based on the conservatism principle.



Bases of Accounting

"Bases" is the plural of "Basis". "Basis" means the system or principles according to which an activity or process is carried on.

One of the main objectives of accounting is to ascertain the profit or loss of a business enterprise at the end of an accounting period. There are two bases of ascertaining profit or loss, namely:

1. Cash Basis, and

2. Accrual Basis.

Cash Basis

1. Under this basis, incomes are not recorded unless they are received in cash.
2. Similarly, expenses are recorded only when they are paid in cash.
3. In other words, credit transactions are not recorded at all and are ignored till cash is actually received or paid for them.
4. Thus, profit is merely the excess of actual cash receipts in respect of
   a. sale of goods and
   b. other incomes

   over actual payments in respect of
   a. purchase of goods,
   b. expenses on wages,
   c. expenses on salary,
   d. expenses on rent etc.
5. Example:
   - Question: During a year, Ashok had cash sales of ₹3,90,000 and credit sales of ₹1,60,000. His expenses for the year were ₹2,70,000, out of which ₹80,000 is still to be paid. Find out Ashok's income for the year following the Cash Basis of Accounting.
   - Solution:

Particulars	**Amount (₹)**
Revenues (Inflow of Cash, i.e. Cash Sales)	3,90,000
Less: Expenses (Outflow of Cash) (₹2,70,000 – ₹80,000)	1,90,000
Net Income	**2,00,000**

   - Note: Credit Sales of ₹1,60,000 and Outstanding Expenses of ₹80,000 will not be considered under Cash Basis of Accounting.

Accrual Basis

1. Under this basis, incomes are recorded when they are earned or accrued, irrespective of the fact whether cash is received or not. Example: Sales made on credit will be included in the total sales of the period.
2. Similarly, expenses are recorded when they are incurred or become due and not when the cash is paid for them. Example: Rent due to the landlord but not paid will be treated as expense for the period when it is due and not in the period when it is paid.
3. Hence, in accrual basis, profit or loss of a particular period is the result of matching of the revenues earned and expenses incurred during the period.
4. This makes it necessary to consider outstanding expenses, prepaid expenses, accrued incomes, incomes received in advance, etc. for the preparation of financial statements.
5. Example:
   - Question: During a year, Ashok had cash sales of ₹3,90,000 and credit sales of ₹1,60,000. His expenses for the year were ₹2,70,000, out of which ₹80,000 is still to be paid. Find out Ashok's income for the year following the Accrual Basis of Accounting.
   - Solution:

Particulars	**Amount (₹)**
Total Sales (Cash Sales, i.e. ₹3,90,000 + Credit Sales, i.e. ₹1,60,000)	5,50,000
Less: Expenses for the year	2,70,000
Net Income	**2,80,000**

- Note: ₹80,000 expenses still to be paid belong to this year and hence are to be charged against the revenue of this year. Similarly, credit sales of ₹1,60,000 are taken in the year in which sales transaction is done.