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# REVIEW OF RESEARCH



## ACCOUNTING SYSTEMS IN ARTS, SCIENCE & COMMERCE COLLEGES AFFILIATED TO UNIVERSITY OF MUMBAI.

**Dr. Ashwat R. Desai**  
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### ABSTRACT:

*In every Organization, where there are financial transactions, it is mandatory for the organization to maintain there financial records by following certain Accounting Systems. The Accounting Systems adopted must be formal & universal. It can be either cash basis accounting system or mercantile basis accounting systems or hybrid basis of accounting system*

**KEYWORD:** Cash Basis, hybrid basis, mercantile basis.

### INTRODUCTION :

In every organization, where there are financial transactions, it is mandatory that the accountant must maintain their financial records by following certain Accounting System. The accepted Accounting System must be formal and universal. The American Institute of Certified Public Accountants (AICPA) defines Accountancy as "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 financial character, and interpreting the results thereof. The Dictionary of Accounting Terms traces the Accounting System as: "Methods, procedures, and standards followed in accumulating, classifying, recording, and

reporting business events and transactions. The accounting system includes the formal records and original source data. Regulatory requirements may exist on how a particular accounting system is to be maintained." In order to meet the day to day requirements, the colleges need to record the transactions either on Cash Basis or on Accrual Basis Accounting. According to The Dictionary of Accounting Terms, Cash basis accounting is a "Method of recognizing revenue and expenses when

cash is received or disbursed rather than when earned or incurred."

### Advantages of maintaining books of accounts:

- a) Increase in memory power:** Human memory has some limitations. In the present set-up, it is not possible to remember all the business transactions. Therefore, the need arises to record transactions in different books of account.
- b) Information regarding performance and position:** The final accounts reveal how



much profit has been gained or loss suffered during the period. The balance sheet or position statement also depicts the exact financial position of a business by showing assets and liabilities on a particular date.

**c) Comparison:** The books of accounts maintained correctly and in a proper manner help a lot in making a comparison of the current year's profit with that of the previous year and show significant factors as to why profit is more or less in comparison to that of the previous year.

**d) Helpful in tax assessment:** Properly prepared accounts help a businessman in dealing with various tax regulating authorities like sales tax, central excise duty, income tax. Etc.

These require filing of periodic returns and submitting proof of activities. The records maintained under the accounting system help in preparing such returns.

**e) Proof in the court:** Properly prepared books of accounts can be produced as a proof of matters. This proof is admitted by the courts as evidence in legal matters.

**f) Business valuation:** If the business is to be sold off then the values of different assets help in the determination of proper price for the business which is to be charged from the purchaser.

**g) Helpful in raising loans:** Every business needs additional funds for its growth. This requirement is met by commercial banks and financial institutions in the form of loans. These institutions, before granting loans, screen various statements prepared under accounting information such as final accounts, fund flow statements, etc.

**h) Helpful in insolvency:** At the time of insolvency, one has to give proper accounting information to the official receiver. A properly maintained accounting record helps a businessman in providing various information regarding his assets and liabilities. Under the Insolvency Act, an insolvent has to prepare a statement of affairs and a deficiency account which is only possible if proper books of accounts are maintained.

**i) Assistance to various parties:** Accounting assists and guides the management /owners in planning business activities, taking certain decisions where choice of alternatives is involved and controlling the business operations to ensure the achievement of goals.

**j) Errors and frauds:** Proper accounting system not only checks errors and frauds, but also minimizes them. As in double entry system of book-keeping, business transactions are recorded at many places to minimize frauds

#### **BASIS OF ACCOUNTING SYSTEM:**

**a) Cash basis Accounting System:** Under cash basis accounting, entries are recorded only when cash is received or paid. No entry is passed when payment or receipt becomes due. Income under cash basis of accounting, therefore, represents excess of receipts over payments during an accounting period.

**b) Mercantile basis Accounting System:** Under mercantile basis of accounting entries are made on the basis of amounts having become due for payment or receipt. Income are credited to the period in which they are earned whether cash is received or not, similarly expenses and losses are debited to the period in which they are incurred, whether, cash is paid or not. All outstanding expenses and prepaid expenses, accrued incomes and incomes received in advance are adjusted while finalizing the accounts.

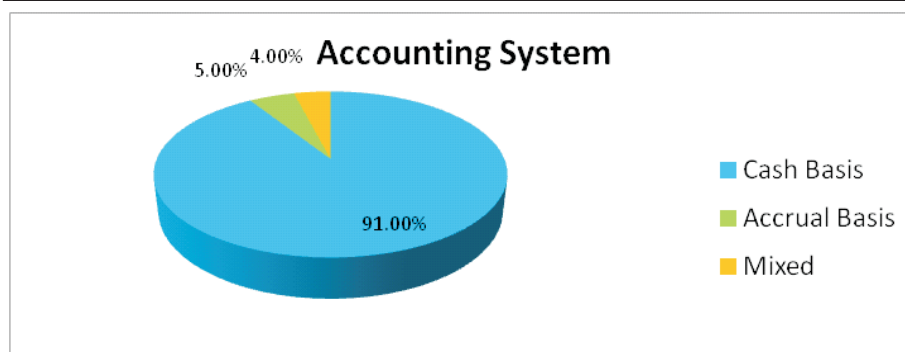
**c) Mixed or Hybrid basis of Accounting:** When certain items of revenue or expenditure are recorded in the books of account on cash basis and certain items on mercantile basis, the basis of accounting so employed is called Hybrid basis of accounting.

#### **Application of Accounting System in Colleges:**

The following table shows the accounting system practiced by the sample colleges.

**The Basis of Accounting System in colleges: Variable:**

Accounting System followed in colleges.	Response	
	No.	%
Cash Basis Accounting System	38	91.00
Mercantile Basis Accounting System	02	05.00
Any Other (Mixed Accounting System)	02	04.00
Total	42	100.00

**ACCOUNTING SYSTEM****Interpretation:**

- From the above table it is observed that there are 38 (i.e. 91. %) of the respondent colleges, which follow cash basis of accounting system.
- There are 02 (i.e.05%) of the respondent colleges, which follow accrual (Mercantile) basis of accounting system.
- There are only 02 (i.e.04 %) of the respondent colleges, which follow hybrid (combination of both bases of accounting) basis of accounting system.

**Books of Accounts maintained by the colleges:**

Educational institutions maintain the books of accounts similar to other enterprises. However some additional records to address its specific requirements are also maintained and to this end the conventional accounting record may also be appropriately modified

**General Ledger:** General Ledger is the final repository of the accounting records and data. The general ledger works as a central repository for accounting data transferred from all sub-ledgers or modules like accounts payable, accounts receivable, cash management, fixed assets, purchasing and projects. General ledger is the backbone of any accounting system which holds financial and non-financial data for an organization.

**Cash book:** It is a book of original entry, which serves the purpose of a journal as well as ledger for cash transactions and that is Cash Book. It is a book in which we record all the cash transactions of the business. Since in almost all business concerns, most of the business transactions are cash in nature. Like cash sales, cash purchases, payments of expenses, receipts of incomes, payments of deferred expenses etc, there is a need for a separate book in which all such transactions can be grouped. Cash Book serves the purpose of a separate Cash Journal; it is more a Ledger than a Journal. It is a journal as all the cash transactions are entered in it in the order of time. There is no need to enter a cash transaction in the journal if you maintain a cash book. It is also a Ledger as it contains a classified record of all the cash transaction.

**Bank Book:** A register that includes both deposits and withdrawals. This document can be checked against the bank statement to see if the transactions are correct. The depositor's book in which a bank records deposits and

withdrawals.

**Creditors Ledger:** A person or company to whom one owes money. A creditor may be a bank or another company. In the case of bonds and personal debt, the creditor is often an individual. A creditor may be secured, meaning that the debt has a collateral, or unsecured, meaning that the debt has no specific collateral/ all these information is record in the books called as Creditors Ledger.

**Dead Stock Register:** Dead stocks means when any stock goes beyond economical repair after certain period of its use, it considered as dead of its value.

**Stock Register:** Inventory is an idle stock of physical goods that contain economic value, and are held in various forms by an organization in its custody awaiting packing, processing, transformation, use or sale in a future point of time. Any organization which is into production, trading, sale and service of a product will necessarily hold stock of various physical resources to aid in future consumption and sale. While inventory is a necessary evil of any such business, it may be noted that the organizations hold inventories for various reasons, which include speculative purposes, functional purposes, and physical necessities.

**Payroll Summaries:** It contains and summarizes payroll information (amount of money paid to employees less deduction). Information includes employee's name, regular hours, sick hours, overtime hours, federal income taxes withheld, medical insurance deductions, union dues, gross pay, and net pay. The payroll register may be used as a supplementary record or as a special journal.

**Investment Register:** It is a register where organization keeps their records about their various investment such as fixed deposit in the bank, public deposit, share & stock investment, bond investment etc. it also mention date of investment & its maturity and interest or dividend.

**Fees Collection Register:** This register is used for recording the names and roll numbers of the non residential students and against their names columns are allocated for the period for which fees is to be received (monthly, quarterly, etc.). The fees received for a particular month is entered under that column and the blank entries enable the accountant to keep track of the outstanding dues.

**Caution Money Register:** This is a ledger in which an individual account is opened for security received from each student including details of cheque no. and date of receipt, etc. Similarly, when the security is refunded, the full details of refund are entered in that account.

#### **Maintenance of Books of Account by the colleges:**

The data stated in the table below shows the status of maintaining books of account as per the applicable rules and regulation in the sample colleges.



**The Books of Accounts maintained by the colleges:**

Variable: Books of accounts maintained by the colleges.	Response Yes		Response No		Total	
	No.	%	No.	%	No.	%
1. General Ledger	40	95.00	02	05.00	42	100.00
2. Day Books such as cash book, bank book & expense register	42	100.00	00	00.00	42	100.00
3. Journal Book	36	86.00	06	15.00	42	100.00
4. Creditors Ledger	24	57.00	18	42.00	42	100.00
5. Dead Stock Register	37	88.00	05	12.00	42	100.00
6. Stock register (For stationery, books, uniform, prospectus, etc.)	34	81.00	08	19.00	42	100.00
7. Payroll Summaries	42	100.00	00	00.00	42	100.00
8. Investment Register	26	62.00	16	38.00	42	100.00
9. Fees Collection Register	42	100.00	00	00.00	42	100.00
10. Caution Money Register (For recording deposits from learner)	36	86.00	06	14.00	42	100.00

**Interpretation:**

- There are 40 (i.e. 95.00%) colleges out of 42 respondent colleges, which maintain General Ledger and 02 (i.e. 04.80%) college do not maintain General Ledger.
- Forty Two (42) (i.e. 100.00%) colleges which maintain Day Books such as cash book, bank book & expense register.
- There are 36 (i.e. 86.00%) colleges which maintain Journal Ledger and which 06 (i.e. 14.00%) colleges do not maintain Journal Ledger.
- There are 24 (i.e. 57.00%) colleges which maintain Creditors Ledger and 18 (i.e. 43.00%) colleges which do not maintain Creditors Ledger.
- There are 37 (i.e. 88.00%) colleges which maintain Dead Stock Register and 05 (i.e. 12.00%) colleges which do not maintain Dead Stock Register.
- There are 34 (i.e. 81.00%) colleges which maintain Stock Register for Stationery, books etc. and 08 (i.e. 19.00%) colleges which do not maintain Stock Register for Stationery, books etc..
- Forty Two (42) (i.e. 100.00%) colleges which maintain Payroll Summaries.
- There are 26 (i.e. 62.00%) colleges which maintain Investment Register and 16 (i.e. 38.00 %) colleges which do not maintain Investment Register.
- All the 42 respondent colleges (i.e. 100.00%) maintain Fees Collection Register.
- There are 36 (i.e. 86.00%) colleges which maintain Caution Money Register and 06 (i.e. 14.00%) colleges which do not maintain Caution Money Register

**METHODS OF MAINTAINING BOOKS OF ACCOUNTS**

**a) Manual method:** Accounting is an intrinsic part of any business, large or small owners. Many small businesses do their accounting manually. Manual and computerized accounting systems perform basically the same processes; the accounting principles and concepts are the same with differences lying in the mechanics of the process. It is time consuming.

**b) Computerized Method:** Meigs and Mary (1998) in their book, Financial Reporting define computerized accounting system as: "A computerized accounting system as a system that uses computers to input, process,

store and output accounting information in form of financial reports. He adds that accounting system records all transactions that routinely deal with events that affect the financial position and performance of an entity."

In the computerized accounting system accounting software are used for recording the transactions in the books of accounts. Accounting software processes data and creates reports much faster than manual systems. Calculations are done automatically in software programs, minimizing errors and increasing efficiency. Once data is input, you can create reports literally by pressing a button in a computerized system. It is costly as user has to bear the expenses of machine i.e. computer and also accounting software.

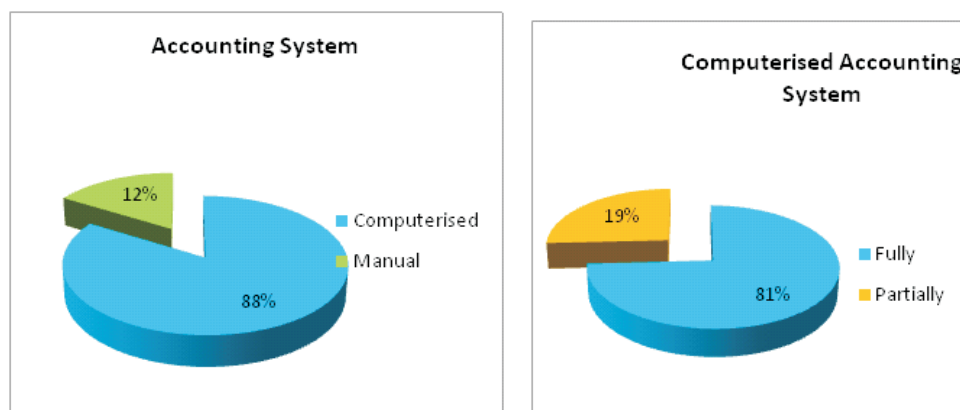
#### The status of computerized accounting system in the colleges:

The information tabulated below states the present scenario of computerized accounting system in the sample colleges. The colleges under study have both systems of accounting computerized and manual. Majority of colleges have installed the required software for maintaining their accounts. This signals that they are pacing with the modern techno-savvy world, catering to the demands of the factors related to the colleges, which the following table amplifies.

#### The Status of Computerized accounting system at colleges:

Variable:	Computerized						Manual		Total	
	Fully		Partially		Total		Nos	%	Nos.	%
	Nos.	%	Nos	%	Nos.	%				
Status of Computerized accounting system at colleges	07	19	30	81	37	88	05	12	42	100
<b>Total (100%)</b>	<b>07</b>	<b>19</b>	<b>30</b>	<b>81</b>	<b>37</b>	<b>88</b>	<b>05</b>	<b>12.</b>	<b>42</b>	<b>100</b>

**Graph 4.2: Computerized Accounting System**



#### INTERPRETATION:

- There are 37 (i.e. 88%) follow Computerized Accounting System out of these 07 (i.e. 19 %) colleges have fully computerized accounting system, whereas 30 (81%) colleges have it partially.
- There are 05 (i.e.12.00%) out 42 respondent colleges, which do not have computerized accounting system, they maintain their accounts manually.

#### CONCLUSION:

It is observed that majority of the colleges maintain various books of accounts i.e. General Ledger, Cash Book, Bank Book, Payroll summaries, Fund Ledger, Caution Money Register, Dead Stock Register, Journal Book



etc. Most of these colleges follow cash basis of accounting system as compared to other accounting systems such as mercantile accounting system and mixed accounting systems as the fund granted to the college has to be utilized in the same academic year. It is further observed that Majority of the colleges have computerized accounting system as accounting data is processed faster than the manual method.

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