together and shown at cost prices. As recorded facts are not based on replacement costs, the financial statements do not show current financial condition of the concern.

2. Accounting Conventions:

Certain accounting conventions are followed while preparing financial statements. The convention of valuing inventory at cost or market price, whichever is lower, is followed. The valuing of assets at cost less depreciation principle for balance sheet purposes is followed.

The convention of materiality is followed in dealing with small items like pencils, pens, postage stamps, etc. These items are treated as expenditure in the year in which they are purchased even though they are assets in nature. The stationery is valued at cost and not on the principle of cost or market price whichever is less. The use of accounting conventions makes financial statements comparable, simple and realistic.

3. Postulates:

The accountant makes certain assumptions while making accounting records. One of these assumptions is that the enterprise is treated as a going concern. The other alternative to this postulate is that the concern is to be liquidated, this, is untenable if management shows an intention to liquidate the concern. So the assets are shown on a going concern basis. Another important assumption is to presume that the value of money will remain the same in different periods.

Rule of personal Account: Debit the Receiver
Credit the Giver

Artificial Persons Accounts

These are not living or human beings but have a separate entity as per the law. Such business can be operated by Board of Governors, Head of Departments, and Principles etc.

For Example: Standard Chartered Bank, Club or Society Accounts
When an account represents certain person(s) is called representative personal accounts.

Real Accounts

Real accounts represent the assets both tangible and intangible.

For Example: Furniture, building, plant& machine, cash, goods, Patents,Trademarksetc.

Rule of Real Account: Debit what comes in
Credit What Goes Out

Nominal Accounts

These accounts have no existence in real life but just a name in the books of account. These are also called proprietary because they are related to business proprietor.

For Example: Salary Accounts, Discount Accounts, and Rent Accounts etc.

Rule of Nominal Account: Debit all Expenses and losses
Credit all incomes and Gains

(v) It shows probable expenditure to be incurred;

(vi) It indicates the capital to be employed during the period;

Thus, a budget sets the firm's goals in clear formal terms to avoid confusion and provides a detailed plan of action for achieving the goals. It is a means of communication by which the top management uses the budget as a vehicle to communicate their ideas to the subordinates who are to give them the practical shape.

It coordinates the various activities (such as sales, production, purchases etc.) of the organisation in such a way that the use of resources is maximised. It also provides a means of measuring and controlling the performance of the organisation, and supplies information to the management, on basis of which necessary corrective actions may be taken.

Types:

I. Functional Budgets:

A functional budget is a budget which relates to the individual functions of the organisation like sales, production, purchase, capital expenditure etc. For each function there is usually a separate budget which is controlled by the functional manager.

Normally, the various functional budgets which are drawn up in an organisation are:

1. Sales Budget

This budget is a forecast of quantities and values of sales to be achieved in a budget period. Generally, sales budget is the starting point for the preparation of the functional budgets. This budget can be prepared on the basis of products, sales areas or territories, salesmen or agent wise, types of customers etc.

A sales budget may be prepared with the help of any one or more of the following methods:

(i) Analysis of Past Sales:

The past sales are analysed to find out as to what changes are likely to happen in future. However, in addition to past sales, the sales manager must consider other factors affecting future sales e.g., seasonal fluctuations, growth of market, trade cycle etc. Statistical method may be used for projecting sales.

(ii) Market Analysis:

The purpose of market analysis is to ascertain the potential market demand for a product, product design required by customers, fashion, trends, purchasing power of people, activities of competitors and the prices that consumers are likely to pay.

(iii) Reports of Salesmen:

Salesmen—who are men in close touch with the market—may be asked to submit a report to the sales manager as to expected sales, customers' tastes and preferences, possible competition etc.

•There must be a performance appraisal for each unit or division based on the achievement is relations to the assigned and responsibility. The performance appraisal should be connected to the reward system.

Responsibility centers

Responsibility center is the units or functions of an organization headed by a manager or chief having direct responsibilities for the performance of the center. Generally, the responsibility centers are divided into four groups as given below.

Cost center

Cost center is a segment whose manager is responsible for costs but not for revenues. A cost center can be relatively small, such as manufacturing cell, the office of the chief executive, or legal department a cost center could also be quite large such as a factory or the entire administrative areas for a large firm. Large cost center might be composed of small cost centers. For example, a factory might be segmented into many work situations, each of which is a cost center.

Identifying a responsibility center, as a cost center does not mean that its' manager is responsible only for controlling cost. A purpose department manager is responsible for evaluating and selecting vendors and it therefore responsible for the quality of manorial and components the vendor's supply.

Revenue center

Revenue centers are responsibility centers whose manager are held responsible for earning revenues but nor for the costs of generating revenues. Hospitals are the principle users of revenue center, largely because of cost allocate issues and third party reimburse (such as Medicare, novices). Some companies evaluate marketing manager by revenue and ignore costs. But any center generates costs, if only the salary of it's'

•The objective of each responsibility center must be pre-determined.
•The right and responsibilities of each center must be defined.
•There must be an environment that fosters the co-ordination and co-operation among the responsibility centers.
•Each responsibility center should be able to provide accounting information as required.

3. State any four importance of responsibility accounting.

The importance of responsibility accounting can be mentioned as under.
a. Based on the principles of decentralization: responsibility accounting promotes decentralization in an organization. It helps to carry out the organizational activities effectively and efficiently.
b. Effective performance evaluation: responsibility accounting makes the performance appraisal simple and effective.
c. Effective responsibility: since the head or manager of each responsibility center tries his best to discharge the responsibilities assigned to him effectively, there is a low change of deviation between the objective and achievement.
d. Motivation to employees: under responsibility accounting, the employees are more responsible toward their works. This is due to reward and a punishment system that is development under responsibility accounting.

limitations of responsibility accounting.

The limitations of responsibility accounting are given below.
a.All the organizations may not be divisible into a number of responsibility centers.
b.It is might be difficult to assign the authority and responsible to the manager of each center in an organization.