**Paradigm Shift in Accounting Rules – Modern Approach of Accounting**

**Dr. Paresh Shah**

**Professor, Rai School of Management Studies,**

**Rai University, Ahmedabad (INDIA)**

**Email Ids:** [**profpareshshah@yahoo.co.in**](mailto:profpareshshah@yahoo.co.in)**;** [**paresh.shah@raiuniversity.edu**](mailto:paresh.shah@raiuniversity.edu)

**Keywords:** accounting, assets, balance sheet, credit, debit, equity, expenses, golden rule, income, modern approach, retained earnings

**ABSTRACT**

Accounting has undergone a paradigm shift with the introduction of the *Modern Approach of Accounting (MAA)*, which provides opportunities for both technical and techno-commercial entrepreneurs to expand their knowledge and expertise. Due to the rise of data analytics and ESG initiatives, the value of information in the business sector has increased, making this approach vital for a productive economy that benefits society. The MAA takes a multidisciplinary approach, letting Entrepreneurs draw on expertise from areas that at first glance may seem unrelated to the issue at hand. Understanding the fundamental rules, assumptions, practices, and concepts of accounting is crucial in today's interconnected society. For both for-profit and non-profit entities and organisations, adopting what is known as the "Modern Approach of Accounting" can increase their worldwide competitiveness and access to investment capital. A chart of accounts or general ledger is used in financial accounting to keep track of assets, liabilities, and shareholders' equity. Assets, liabilities, and shareholders’ (owners’) equity are the three pillars of the conventional financial model. Assets equal liabilities plus equity is the arithmetic equation used by the current method of keeping track of transactions. Accounting's principal purpose is to compile financial statements at the end of each period by classifying, recording, and analysing all of the period's transactions. The balance sheet is the first of the four financial statements and summarises the company's assets, liabilities, and owners' equity.

1. **Introduction**

The accounting knowledge needs to concentrate on encouraging and supporting technical entrepreneurs and techno-commercial entrepreneurs (Entrs) to be learners in broader ranges of accounting competence while also channelling their professional skills in new contexts as the environment in which Entrs operate continues to change. Additionally, it is more important than ever for Entrs to develop their human qualities such as curiosity, creativity, and resilience as technology continues to challenge organisational conventions. This calls for a change in perspective to be more flexible and adaptable, to show a dedication to lifelong learning, and to continue to be ardent supporters of ethical decision-making. A wide range of decision makers, including but not limited to (a) the public, (b) present and potential investors, (c) management and employees within organisations, (d) suppliers and creditors, (e) customers, and (f) government authorities, benefit from the knowledge and profession of accounting. The competence of the accounting profession to meet users' informational needs contributes to a productive economy that benefits society. Information has grown in importance in the corporate world today as new prospects for data analytics to uncover insights arise from the proliferation of data. Organisations are increasingly relying on automation, autonomous systems, and intelligent systems to realise this promise. At the same time, stakeholders' expectations for information from organisations have grown because of the push for environmental, social, and governance (ESG) efforts. The competencies required by Entrs to deliver value through information, and at each stage along the data-to-decision value chain, are fundamentally evolving because of both changes. This data is derived from the recording of both business and non-business events in the local currency. Experts from all fields must work together to address the opportunities and problems presented by our increasingly data-driven and Artificial Intelligence (AI)-enabled environment. Taking an interdisciplinary approach allows Entrs to draw on knowledge and experience from fields that might initially seem unrelated to the problem at hand, but which, when use, can provide surprising results. To tap on Gen Z's eagerness to learn, researchers should instil and foster an "evergreen learning mindset" (Canada, 2021) in current and future Entrs. Prof. Irene Wiecek, a member of the International Panel of Accountancy Education (IFAC, 2019), notes the hyper-connected nature of today’s world: “Not only are we connected to each other; we are connected to machines and the machines are connected to machines. That’s the big picture” (Irene & Wiecek, 2022).

For this reason, it is important for anyone who wants to learn and understand accounting to know the main accounting rules, assumptions, practices, and principles. This is more than just learning some accounting facts for a test and forgetting them two days later. In the study of accounting, these rules come up all the time. Believe me. Once Entrs know the basic rules of accounting, most talks about accounting will make more sense. In society, innovators have similar viewpoints. The significance of having the ability to translate between business and technological concepts is emphasised in addition to basic skill sets including leadership, problem-solving, and analytics. It also views the capacity to interpret outputs, whether from a dashboard or a report, as a crucial skill that will help society. The purpose of this chapter is to educate readers across the world about the sea change that the ***Modern Approach of Accounting (MAA)*** has brought in the way that books of account are kept. There are other ways to style or show an account, but T-accounts are the most widely used method. T-accounts format account balances by maintaining a left and right side for debits and credits, respectively. The final step is to calculate the account's overall balance. T-accounts also include a title or heading that shows the account's name and number. In today’s culture, the T-accounts format, has been replaced by columnar way.

1. **MODERN APPROACH OF ACCOUNTING**

Transactions are the lifeblood of any firm, big or small. Financial in nature, transactions have an impact on the financial standing of any business or non-business organisation. Businesses and individuals in today's "Global Village," where many nations have updated their accounting standards, need to adopt new accounting methods to improve the reliability of their financial reports. An ideal accounting system needs to be created so that assets, liabilities, owners’ capital, income, and expenses are all reflected correctly. The system also needs to be straightforward enough for technologists, medical professionals, and other non-business specialists to use effectively. As a result, new research and developments are needed to solve the issues that have arisen since the traditional approach to accounting, known as the Golden Rule of Accounting, (since 1494, developed by Luca Pacioli) (Paresh, 2007, pp. 113-116) based on three types of accounts was inadequate to assist all stakeholders in the global economy. When it comes to tracking tax revenue for the purpose of funding developmental activities at the federal, central, state, and local level, the *Modern Approach of Accounting (MAA)* reflects the accounting's potential for effectiveness in terms of clarity, understandability, and support for developing of accounting and finance functions. The global competitiveness of businesses and the availability of investment possibilities will be bolstered through the promotion of government organisations and an entrepreneurial attitude. The Golden Rule of Accounting has been replaced by five categories of accounts through arithmetical equation in *MAA* (Paresh, 2007, pp. 106-113). Although early efforts at redefinition were grounded in research conducted while instructing students and volunteers from non-commercial backgrounds in management, this was only the beginning. The author spent considerable time in the last decade of the twentieth century researching and conceptualising the useful teaching tool of Dual Aspects (Paresh, 2007, p. 27). The term *"Adopted Approach"* was first used to describe this instructional strategy (Paresh, 2007, p. 106), and the term is used to describe the book's treatment of the accounting cycle. In later editions, the same instructional strategy is referred to as the *"Modern Approach of Accounting"* (Paresh, 2013, p. 89; Paresh, 2019, p. 18).

1. **Accounts**

Financial accounting revolves around the accounting system. Each business transaction has an up or down effect on the balances of one or more accounts. An account is a listing of all transactions involving a certain asset, debt, or equity (capital). Earnings minus costs minus any withdrawals made by owners (or dividends in the case of a corporation) equals equity, also called Owners' Equity. The account as an either as a paper based notebook or digital notepad. Changes made to a particular accounting item over time are noted in a paper based notebook or digital notepad dedicated solely to that item. Names and numbers are used to identify and keep track of various accounts. Moreover, accounts also support subaccounts. An example of a sub-account within the primary asset account is the car account. The general ledger is where all the financial records are kept. This is analogous to a file where organisation keep track of various account notebooks.

**III.a. Various Account Types**

As per traditional approach, three primary types of accounting in the chart of accounts or general ledger are asset, liability, and equity. According to the conventional i.e., traditional method, the asset, liability, and equity accounts make up the three main sections of the general ledger or chart of accounts. The debit side of the ledger is where a business keeps track of its assets. Liability accounts, which are in the credit position, represent the debts that a company has incurred to third parties. A credit balance can also be found in the equity accounts that show the owners' proportion of the business. This is one another way that business deals can be documented. The term "Modern Approach of Accounting" is used to refer to this method. The accounting equation forms the basis for the recording of transactions in the MAA system. Here, the concept is based on the arithmetical equation in the form of “Assets Equal to Obligations plus Equity”. In accounting, there are two sides to every transaction: the debit and the credit. The MAA way of recording commercial transactions in the general diary is distinct, even though the MAA employ a double entry approach. The accounting equation must change in two ways with each transaction. For example, every increase in an asset, there must also be:

1. loss of value in another investment or
2. the development of a new liability, or
3. stockholders' equity has grown.

The outcome might depend on two or more factors. For example, ₹ 1,00,000 rise in one asset can result in ₹ 60,000 drop in another asset and ₹ 40,000 increase in a liability. Similar consideration must be given to every shift in asserted responsibility or ownership. As a result, there are five distinct categories of accounts. Those categories of accounts are asset accounts, liability accounts, income accounts, expense accounts, and owners’ capital accounts.

***III.b.* Rearranging and Adding Functions to MAA Formulas**

(1)

(2) This approach relies on this equation as its foundation to analyse financial dealings. The foundation of the double entry system of accounting is the accounting equation. The organisation’s total assets come from both its creditors and its owners. This means that the organisation's assets are always exactly balanced by its obligations. Financial accounting refers to obligations owed to third parties as liabilities whereas similar obligations owed to the company's owners are classified as capital. The accounting equation that describes the interplay between assets, liabilities, and capital is as follows:

(3)

(4)

(5) Capital is the dependent variable because it is the difference between the asset value and the liability value. It is possible for a single transaction to have the same positive or negative impact on both sides of an equation, cancelling each other out to zero. For there to be a rise in capital, there must be an increase in assets without an increase in liabilities or a reduction in another asset. When the opposite occurs, a reduction in capital results from an increase in liability without an increase in asset or a decrease in another liability. The preparation of financial statements is a primary function of accounting. Each financial transaction during an accounting period needs to be categorised, recorded, and analysed to prepare them at the conclusion of the period. At first, this is done in a record book called the journal, where transactions are documented in chronological order as they occur in the monetary system. Each individual transaction is given its own entry in the Journal. Transactions are not comprehensive enough to be read in a single sitting. A dedicated ledger is needed to compile all the financial dealings for a certain account in one convenient location. This volume referred as the *Ledger.* A ledger is a book in which financial transactions are recorded in a standardised and organised format. A ledger is an official record of financial transactions that have been copied over from a journal or other books of original entry. L.C. Cropper, defined "the book which contains a classified and permanent record of all the transactions of an organisation is called the ledger." Another name for the Ledger is the *Book of Final Entry.* Transactions recorded in the books of original entry are posted to the journal, which acts as a repository for all accounts either as per Conventional rules regarding Personal, Real, and Nominal accounts or Modern Approach of Accounting Approach in terms of increases or decreases relating to Assets Account, Liabilities Account, Capital Account, Income and Gains Account, and Losses and Expenses (both explicit and implicit nature) Account. The books of original entry or subsidiary books are the places where most organisation’s transactions are initially recorded. They are entered into the ledger afterward. *Posting* refers to the action of moving data from the books of initial entry for the relevant accounts to the general ledger. Two or more accounts are involved when a transaction takes place. Each account also has a monetary value attached to it. The first step in creating a diary entry is figuring out which accounts are affected and by how much. A format of an *Account* (Table 1) has information like Date, Cross Account, Post Reference, Debit, Credit, and Running balance are the six sections.

**Table 1. Format of Account**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Cross Account Name | Post Reference Number | Left Column (Debit) (Dr) (₹) | Right Column (Credit) (Cr) (₹) | Running Balance (Dr/Cr) (₹) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

These nouns can also be used as verbs: The left column is where put the amount want to "debit an account" with. To "credit an account" is to enter the corresponding monetary amount into the relevant ledger entry in an accounting system. The primary goal of *posting* is to keep a sorted and summarised record of all the transactions that have occurred on a certain account over a given time frame. The ledger's net result may be calculated quickly. Depending on the frequency with which it is needed (daily, weekly, fortnightly, monthly, quarterly, yearly), it is prepared. A running balance for each account is kept in the last Running Balance columns of the ledger. It is more common for a running balance to appear in one of the two far-right columns labelled Debit balance or Credit balance, but not both. Whatever it takes to boost a debit or credit account's typical amount is the default. The column in which the current balance of an account is recorded is known as the *Normal Balance* column. Ledger accounts have entries on both their debit and credit sides, and the balance of an account is the difference between the two amounts once posting is complete. A financial account's *Balance* is the sum of all its debits and credits. The sum of all debits equals the sum of all credits. When one side has a bigger total than the other, this is said to be in Balance. By noting down the discrepancy between the debit and credit amount columns, the balance is brought into accord. When attempting to strike a period balance, there are three distinct outcomes that may occur. All transactions will net either a negative amount (debit or credit) or a positive balance (credit or debit) or zero (no change). If the sum of the debits is greater than the sum of the credits, the difference is called the debit balance. If the sum of the credits is more than the sum of the debits, the difference between the two is referred to as a credit balance. When all debits and credits add up to zero, the account has a nil balance. Due to the absence of a balance, the account has been closed. The normal balance of the account is normally the Increase (Positive) balance of an account, as explained in table 2, below.

**Table 2. Category of Accounts as per Modern Approach of Accounting**

|  |  |  |  |
| --- | --- | --- | --- |
| *Category of Accounts* | *Debit the* | *Credit the* | *Normal Balance in Account* |
|  |  |  |  |
| 1.  Assets Accounts | Increase | Decrease | Debit |
| 2.  Liabilities Accounts (Creditors Equities) | Decrease | Increase | Credit |
| 3.  Capital Accounts (Owner’s Equities) | Decrease | Increase | Credit |
| 4.  Incomes and Gain A/c (Revenue Account) | Decrease | Increase | Credit |
| 5.  Expenses and Losses (Explicit Nature of accounts) | Increase | Decrease | Debit |
| 6. Dividend to Shareholders’ or Withdrawal by owners’ (Implicit Nature of accounts) | Increase | Decrease | Debit |
|  |  |  |  |

Reconciling an imbalanced number is not the same as posting. No counterbalance can be found in any other ledger. When making such contrasting entries, use either carried down or brought down. Accountants may also substitute carried forward (c/f) or carried over (c/o) and brought forward (b/f) or brought down (b/d), in practise. Both c/f and c/o indicate that something is being carried forward, while b/f and b/d indicate that something is being brought forward and/or down. While carried down (c/d) and brought down (b/d) are typically used when the balance is shown on separate pages, they are interchangeable when shown on the same page. Balance is written as c/o and b/d when it is carried over to the following page. Both c/f and b/f are used when the remaining balance must be carried over to the next page. The sum of an organisation's debit and credit balances in its ledger accounts must always balance. A trial balance is a copy of the organisation's ledger that includes the balances of all the organisation's accounts as of a given date. At any moment, run a trial balance to verify that debits are equivalent to credits. It's just a checklist, used to double-check work before finalising financial statements. If the sums in the two total columns are different, an error has occurred and needs to be fixed.

1. **REPORTS OF FINANCIAL CONDITION**

Journalizing, publishing to ledgers, and calculating the trial balance are the processes that collect the data needed to construct financial statements. According to the accounting period concept, organisation must publish annual or monthly financial reports that span the same time. Information on these statements is derived mostly from the trial balance, with appropriate computations and summary totals added for context. The first of the four financial statements are the primary topic of this subsection.

**IV.a. Balance Sheet**

A snapshot of an organisation's financial health as of a certain date can be found in the balance sheet. It is the final step in the accounting cycle and represents the sum of the company's financial data. The balance sheet is a snapshot in time that displays the total assets, total liabilities, and total shareholders' equity. First comes the list of assets. Following the assets are the liabilities and shareholders' equity section, which is then totalled. The sole difference is that the retained earnings statement's ending balance, rather than its ledger, is used to calculate the amount reported for retained earnings on the balance sheet. The Cash Dividends account is not shown anywhere on the balance sheet.

**IV.b. Retained Earnings Statement (Report of Profits Kept)**

The retained earnings statement details the growth (or decline) in the Retained Earnings account because of the net income (or loss) and cash dividends paid out during the accounting period being analysed.

**IV.c. Revenue Statement (Income Statement or Profit and Loss Statement)**

One financial statement (the income statement) is dedicated to disclosing the net income from an organisation's operations during a given time, due to the importance of doing so to for business and non-businesspeople and investors. The income statement is a financial report that describes an organisation’s earnings, costs, and net profit for a certain period, usually either a monthly or yearly, based on accounting period selected by organisation. The basic equation, to determine net income (or loss), revenues are subtracted from expenditures. The expenses are broken down once the income has been listed. When the difference is in the positive, it is a net income or profit. When the difference is negative, the net loss is shown as a negative figure inside brackets. The income statement is the single best indicator of an organisation's financial health. It starts and stops at a certain time. The matching concept is reflected in the income statement, which solely reports revenues and expenditures for the period in question. Outside of that time frame, no income or expenses are considered.

**IV.d. Linking Financial Reports**

At the end of each accounting period, three financial statements are generated. The income statement begins with the monthly or accepted accounting period’s net income. Next, the statement of retained earnings details the Retained Earnings balances at the start and finish of the accounting period, as well as the factors that led to any changes. The asset, liability, and owners’ equity totals are summarised in the balance sheet. These steps are elaborated as under in brief. #1 The first step is to create an Income Statement. It's an accounting period review of earnings and costs. The ledger totals serve as our starting point. The outcome can be positive or negative net income. #2 The second report is the Statement of Retained Earnings. The income statement's net income is added to the retained earnings balance at the start of the month, and any dividends paid out are subtracted. At the end of each accepted accounting period, this generates a fresh amount of retained earnings. #3 Last but not least is the Balance Sheet. As of the final day of the accounting period, it details an organisation’s assets, liabilities, and shareholders' equity. Except for retained earnings, all other totals come straight from the books. The final figure on the retained earnings statement is the source of the Retained Earnings Value. The balance sheet can be thought of as a MAA approach with all the pieces blown out.

1. **Summary**

The Modern Approach of Accounting (MAA) is a paradigm shift in accounting rules that focuses on encouraging technical entrepreneurs and techno-commercial entrepreneurs to learn and develop their skills in new contexts. This approach is crucial for a productive economy that benefits society, as information has grown in importance in the corporate world due to data analytics and the push for environmental, social, and governance (ESG) efforts. The modern approach of accounting involves an interdisciplinary approach, allowing Entrepreneurs to draw on knowledge and experience from fields that may seem unrelated to the problem at hand. Researchers should foster an "evergreen learning mindset" in current and future Entrs to tap into Gen Z's eagerness to learn. In today's hyper-connected world, it is important for anyone who wants to learn and understand accounting to know the main accounting rules, assumptions, practices, and principles. The Modern Approach of Accounting (MAA) has brought about changes in the way books of account are kept, with T-accounts being the most widely used method. Transactions are the lifeblood of any firm, and businesses and individuals in today's "Global Village" need to adopt new accounting methods to improve the reliability of their financial reports. The MAA reflects the accounting's potential for effectiveness in terms of clarity, understandability, and support for developing accounting and finance functions. The Golden Rule of Accounting has been replaced by five categories of accounts through arithmetical equation in MAA. The adoption of the "Modern Approach of Accounting" can help boost global competitiveness and investment opportunities for businesses and non-business organizations. The traditional approach of financial accounting involves the recording of transactions in a chart of accounts or general ledger, which consists of three primary types: asset, liability, and equity. The modern approach of accounting uses an arithmetical equation to record transactions, with assets equal to obligations plus equity. There are five distinct categories of accounts: asset accounts, liability accounts, income accounts, expense accounts, and owners' capital accounts. The accounting equation describes the interplay between assets, liabilities, and capital, with capital being the dependent variable. The preparation of financial statements is a primary function of accounting, with each financial transaction categorised, recorded, and analyzed to prepare them at the end of the period. This is done in a record book called the journal, where transactions are documented in chronological order. A dedicated ledger is needed to compile all financial dealings for a specific account in one convenient location. A ledger is an official record of financial transactions that have been copied over from a journal or other books of original entry. Transactions recorded in the books of original entry are posted to the journal, which acts as a repository for all accounts either as per either Conventional rules approach or the Modern approach of accounting approach. Two or more accounts are involved when a transaction takes place, each having a monetary value attached to it. The format of an account includes information like Date, Cross Account, Post Reference Number, Debit, Credit, and Running Balance. The term posting refers to the process of keeping a sorted and summarised record of transactions in an accounting system. The ledger's net result can be calculated quickly and is prepared based on the frequency of the transaction. A running balance for each account is kept in the two last debit and credit columns of the ledger. The normal balance column records the current balance of an account. A financial account's balance is the sum of all its debits and credits. When one side has a bigger total than the other, this is called balance. By noting the discrepancy between the debit and credit amount columns, the balance is brought into accord. There are three distinct outcomes when attempting to strike a period balance: all transactions will net either a negative amount (debit or credit), a positive balance (credit or debit), or zero (no change). The normal balance is usually the increase (positive) balance of an account. Reconciling an imbalanced number is not the same as posting. A trial balance is a copy of the organization's ledger that includes the balances of all the accounts as of a given date. Financial statements are essential for businesses to track their financial health and performance. They are derived from the trial balance, with the first of the three financial statements being the balance sheet. The balance sheet represents the sum of an organisation’s financial data, including total assets, liabilities, and shareholders' equity. The retained earnings statement details the growth or decline in the account due to net income and cash dividends paid out during the accounting period. The revenue statement is the single best indicator of an organization's financial health, describing its earnings, costs, and net profit for a specific period. At the end of each accounting period, three financial statements are generated: the income statement, the statement of retained earnings, and the balance sheet. The income statement starts with the monthly or accepted accounting period's net income, while the statement of retained earnings details the retained earnings balances at the start and finish of the accounting period. The balance sheet is an MAA approach, summarizing assets, liabilities, and shareholders' equity.

**REFERENCES**

Canada, C., 2021. *CPA: Leading the Way - Competency Map 2.0,* Canada: s.n.

IFAC, 2019. *Handbook of Education Pronouncements.* International Education Standards- 3 (2021) ed. Canada: CPA.

Irene & Wiecek, I., 2022. *How Tech Savy do you need to be as a CPA?,* Canada: s.n.

Paresh, S., 2007. *Basic Financial Accounting For Management.* First ed. Delhi: Oxford University Press.

Paresh, S., 2013. *Financial Accounting for Management.* Second ed. Delhi: Oxford University Press.

Paresh, S., 2019. *Financial Accounting for Management.* Third ed. Delhi: Oxford University Press.

**Web Address**

Reference style used Harvard-Anglia because it is equivalent to APA-7 guidelines.

Paresh, S., 2019. Financial Accounting for Management, 3rd Edition, Oxford University Press

<https://global.oup.com/academic/product/financial-accounting-for-management-9780199494439?q=paresh%20shah&lang=en&cc=gb>

Paresh, S., 2013. Financial Accounting for Management, 2nd Edition, Oxford University Press

google.co.in/books/edition/Financial\_Accounting/E-xbLwEACAAJ?hl=en&sa=X&ved=2ahUKEwjj37Pjm8\_-AhXzcGwGHYsnDD8QiKUDegQIHhAE

Paresh, S., 2007. Financial Accounting for Management, 1st Edition, Oxford University Press

<https://www.amazon.com/Financial-Accounting-Management-Paresh-Shah/dp/0195690095#detailBullets_feature_div>

ISBN-13:978-0-19-569009-5; 10:0-19-569009-5