

TOPIC

Module A

Accounting Principles and Processes

Unit 1

Definition, Scope and Accounting Standards

Guidelines of Accounting

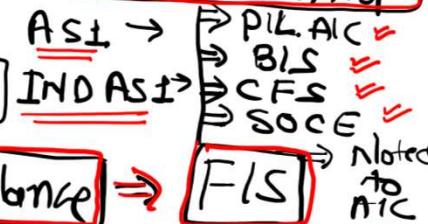
- ⇒ IFRS = World ✓
- ⇒ AS = Indiq ✓
- ⇒ IND-AS = For Convergence of AS with IFRS. ✓
- ⇒ US GAAP = USA

TOPIC

Accounting

Accounting often is called the language of business

Non monetary trans
are not accounted



- Accounting records the transactions in terms of money:

Features of Accounting

- Accounting is an art of recording, classifying and summarising business transactions:

Bill → Journalising → Journal → Posting → Ledger(A/c) → Trial Balance → P/L
↓ Datewise Common features "Balancing" ⇒ Casting
- Accounting also summarises the data, recorded in books of account, and presents them in a systematic way, in the form of

✓ i) Trial Balance ⇒ Summarise ⇒ closing Balances of A/c

1.4.24 to 31.3.25

✓ ii) Profit and loss account and ⇒ Results ⇒ "PERIOD OF TIME" ⇒ Profit or loss

✓ iii) Balance sheet ⇒ Position of Business ⇒ "POINT OF TIME" ⇒ 31.3.2025

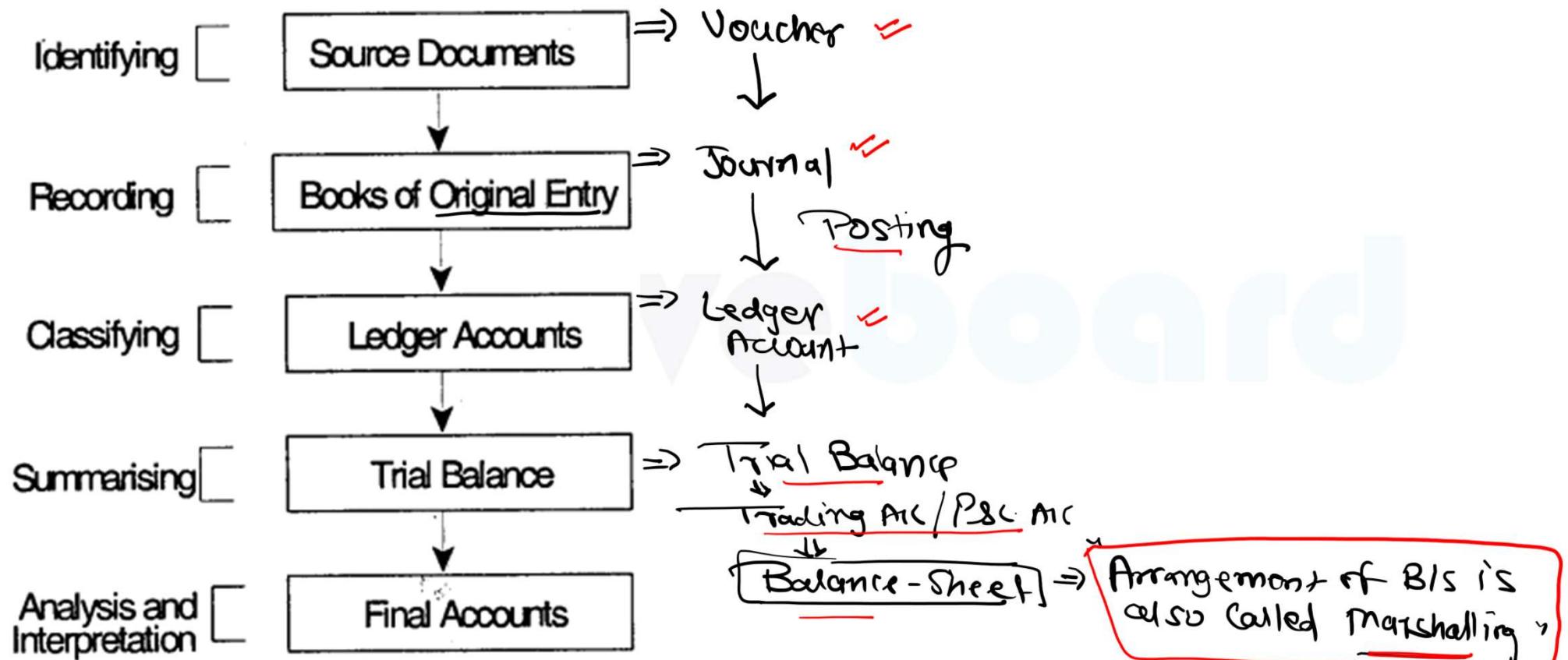
* SOCE = "Statement of change in Equity"

"Particular day"

Asset

Liability

TOPIC

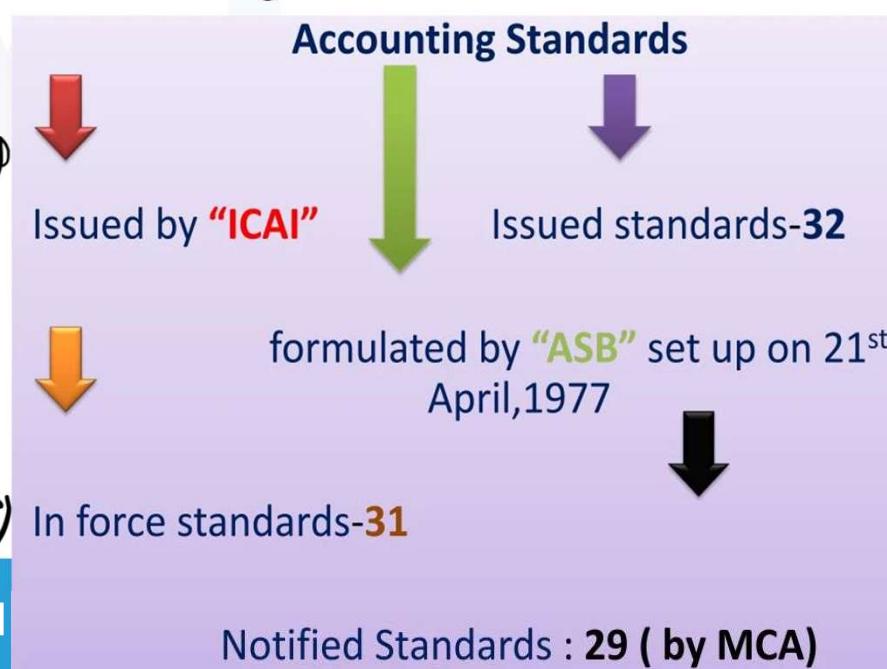


TOPIC

Accounting Standards in India and Its Definition and Scope

The Institute of Chartered Accountants of India (ICAI), recognising the need to harmonise the diverse accounting policies and practices, constituted an 'Accounting Standards Board' (ASB) on 21st April, 1977. The main function of the ASB is to formulate accounting standards so that the council of ICAI may mandate such standards

- ⇒ Frame: ASB ⇒ 32 ↘ ↗ Not published
- ⇒ Issue: ICAI ⇒ 32 ↘ ↗
- ⇒ Publish (Notify): ⇒ MCA ⇒ 29 ↘ ↗ Must follow
↳ Becomes law
- ⇒ Currently Applicable: Q7 ↘
 - AS-6 (Dep) Merged → AS-10 (P.P.E)
 - AS-8 (R/D) Merged → AS-26 (Intangible Asset)



TOPIC

 Sec. 134 → Bd respo for AS
 Sec. 129 → If not Comply, then Show disclose

Section 134(5) of the Companies Act 2013 also casts a responsibility on the board of directors to comply with mandatory accounting standards.

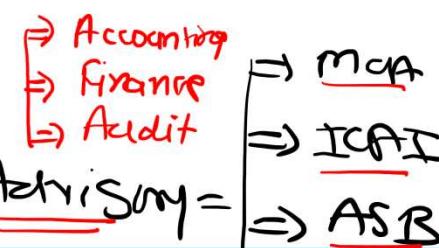
Under the Section 129(5) of the Companies Act 2013, where the financial statements do not comply with the accounting standards, such companies shall disclose the following:

- The deviation from the accounting standards \Rightarrow How much not Complied
 - The reasons for such a deviation \Rightarrow Why not Complied
 - The Financial effects, of any arising out of such a deviation. \Rightarrow Financial Impact

Sec 132 NACAS Replaced by NFRA

NFRA

National financial Reporting Authority



List of Accounting Standards

- AS-1 : Disclosure of Accounting Policies ✓
- AS-2 : Valuation of Inventories Stock ✓
- AS-3 : Cash Flow Statements ✓
- AS-4 : Contingencies and Events Occurring after the Balance Sheet ✎
- AS-5 : Net Profit or Loss for the Period Prior Period Items and Changes in Accounting Policies ✎
- AS-6 : Depreciation Accounting AS-8 → AS-26
- AS-7 : Accounting for Construction Contracts ✎
- AS-9 : Revenue Recognition ✎
- AS-10 : Accounting for Fixed Assets → Property, Plant & Equipment PPE ✎
- AS-11 : The Effects of Changes in Foreign Exchange Rates ✎
- AS-12 : Accounting for Government Grants ✎
- AS-13 : Accounting for Investments ✎
- AS-14 : Accounting for Amalgamations ✎
- AS-15 : Employee Benefits ✎
- AS-16 : Borrowing Costs ⇒ Interest ✎

- AS-17 : Segment Reporting ✎
- AS-18 : Related Party Disclosures ✎
- AS-19 : Leases ✎
- AS-20 : Earnings per Share ✎
- AS-21 : Consolidated Financial Statements Holding > 50% ✎
- AS-22 : Accounting for Taxes on Income ✎
- AS-23 : Accounting for Investments in Associates in consolidated financial statements Trade 20% ✎
- AS-24 : Discontinuing Operations ✎
- AS-25 : Interim Financial Reporting ✎
- AS-26 : Intangible Assets ⇒ Goodwill / Patent / trademark / Copyright Rights
- AS-27 : Financial Reporting of Interests in Joint Ventures ✎
- AS-28 : Impairment of Assets Show in foot note Court Case = below BIS
- AS-29 : Provisions, Contingent Liabilities & Contingent Assets
- X AS-30 : Financial Instruments: Recognition & Measurement
- AS-31 : Financial Instruments: Presentation
- AS-32 : Financial Instruments: Disclosures

TOPIC

International Financial Reporting Standard (IFRS)

The International Financial Reporting Standards (IFRS) are accounting standards that are issued by the International Accounting Standards Board (IASB) with the objective of providing a common accounting language to increase transparency in the presentation of financial information.

What is IASB?

- (IASB) IN 2001 → IFRS
- (IASC) → IAS ⇒ International Accounting Standard
International Accounting Standard Committee

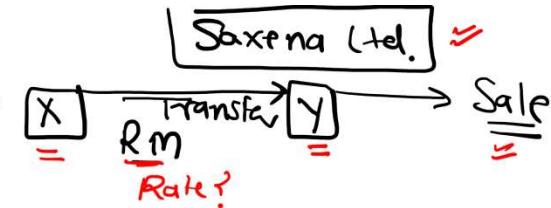
TOPIC

List of International Financial Reporting Standards (IFRS)

- IFRS 01- First-time Adoption ✓
- IFRS 02- Share-based Payment
- IFRS 03- Business Combinations
- IFRS 04- Insurance Contracts
- IFRS 05- Non-current Assets ✓
- IFRS 06- Mineral Resources
- IFRS 07- Financial Instruments ✓
- IFRS 08- Operating Segments
- IFRS 09- Financial Instruments ✓ ~~Temp~~ ✓
- IFRS 10- Consolidated Financial Statements
- IFRS 11- Joint Arrangements
- IFRS 12- Disclosure of Interests in Other Entities
- IFRS 13- Fair Value Measurement ✓
- IFRS 14- Regulatory Deferral Accounts

*It will change NPA classification
ECL
Expected credit loss*

- IFRS 15- Revenue from Contracts
- IFRS 16- Leases ✓
- IFRS 17- Insurance Contracts

TOPIC**Transfer Pricing**

Transfer pricing is the method used to sell a product from one subsidiary to another within a company. This approach is used when the subsidiaries of a parent company are measured as separate profit centers. Transfer pricing impacts the purchasing behavior of the subsidiaries, and may have income tax implications for the company as a whole.

1. Comparable uncontrolled Price Method : at arms length price

⇒ Normal Market Price



900 → Y → 1000
Bad debts

1000 - 100 → Sale

Bad debts

NPAC (Bad debts)

Charge market resale Price - Adj. Bad debts

2. Resale Price Methods

⇒ Charge market resale Price - Adj. Bad debts

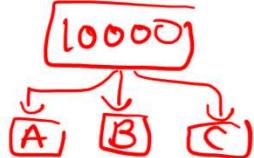
3. Cost-plus transfer pricing ⇒ Cost + 20% Profit ⇒ 1000**4. Profit Split** ⇒ (X) 60% ⇒ (Y) 40%**5. Transactional net margin : (Resale price + cost plus)/ 2**

$$(900 + 1000)/2 = \underline{\underline{950}}$$

TOPIC

Types of Accounting

- Stewardship Accounting :- "oldest form Ac" \Rightarrow Rich People used to appoint Stewards
- Financial Accounting :- only financial data \Rightarrow Profit/ Asset/ liability/ Capital
- Cost Accounting :- only cost data \rightarrow Material | labour | overhead | Prime cost | Cost of production
- Management Accounting :- Provides Summary info. for decision-making
- Social Responsibility Accounting :- Show Social Contribution in Ac
Sec. 135 \Rightarrow CSR @ 2% of 3y Avg. NPV
- Human Resource Accounting :- Show HR Value (Money) in BIS like other Asset
- Inflation Accounting :- Show Impact of Inflation on Assets
- Value Accounting :- Show Individual contributions in total Profitability
- Fair Value Accounting :- Show Assets at Current Sale Value



TOPIC

ORIGINS OF ACCOUNTING PRINCIPLES

thirteenth and fourteenth centuries in Italy where the modern system of bookkeeping took birth. In 1494, at Venice, Luca De Bargo Pacioli, an Italian monk, is known as father of accounting/ Modern Accounting/ Double Entry System/ DR/CR.

India

Kouti Ma

Arthashastra => Maurya's System

Book: "Summa - DE - Arithmetic
and Geometrica"

TOPIC

INDIAN ACCOUNTING STANDARDS (Ind AS)

⇒ Why? → "To Convergence with IFRS"

These are converged form of IFRSs (International Financial Reporting Standards).

Indian Accounting Standards (Ind AS) notified by the Ministry of Corporate Affairs (MCA) companies which are required to follow Ind AS. These are:

- (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India
- (b) Unlisted companies having net worth of rupees two hundred and fifty crore or more

*Accordingly, the RBI vide its circular dated March 22, 2019

deferred the implementation of Ind AS till further notice. ⇒ "Bank need not to follow yet."

TOPIC

The impairment requirements of Ind AS 109: $\Rightarrow \text{NPA} \Rightarrow \underline{\underline{ECL}} = \begin{cases} \text{12 m. ECL} \\ \text{Lifetime ECL} \end{cases}$

Financial Instruments, are based on an Expected Credit Loss (ECL) that replaces the incurred loss model under the extant framework. The Bank will be generally required to recognize either a 12-Month or Lifetime ECL,

Ind AS 109 will change the Bank's current methodology for calculating the provision for Standard Assets and non-performing assets (NPAs).

Ind AS 101 ✓	First-time adoption of Ind AS	Ind AS 1	Presentation of Financial Statements
Ind AS 102	Share-Based payments	Ind AS 2	Inventories Accounting ✓
Ind AS 103	Business Combination	Ind AS 7	Statement of Cash Flows ✓
Ind AS 104	Insurance Contracts	Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 105 ✓	Non-Current Assets Held for Sale and Discontinued Operations	Ind AS 10	Events after Reporting Period
Ind AS 106	Exploration for and Evaluation of Mineral Resources	Ind AS 11	Construction Contracts
Ind AS 107	Financial Instruments: Disclosures	Ind AS 12	Income Taxes ✓
Ind AS 108	Operating Segments	Ind AS 16	Property, Plant and Equipment
Ind AS 109 ✓	Financial Instruments <i>imp</i>	Ind AS 17	Leases ✓
Ind AS 110	Consolidated Financial Statements	Ind AS 18	Revenue
Ind AS 111	Joint Arrangements	Ind AS 19	Employee Benefits
Ind AS 112	Disclosure of Interests in Other Entities	Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance

Ind AS 113	Fair Value Measurement ✓	Ind As 21	The Effects of Changes in Foreign Exchange Rates
Ind AS 114	Regulatory Deferral Accounts	Ind AS 23	Borrowing Costs ✓
Ind AS 115	Revenue from Contracts with Customers	Ind AS 24	Related Party Disclosure
Ind AS 27	Separate Financial Statement	Ind AS 36	Impairment of Assets
Ind AS 28	Investment in Associates and JVs	Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets ✓ Imp
Ind AS 29	Financial Reporting in Hyperinflationary Economics	Ind As 38	Intangible Assets ✓ Imp
Ind AS 32	Financial Instruments : Presentation	Ind AS 40	Investment Property
Ind AS 33	EPS	Ind AS 41	Agriculture ✓ Imp
Ind AS 34	Interim Financial Reporting		

TOPIC

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OF USA (US GAAP)

United States Securities and Exchange Commission (SEC) ↳ ⇒ SEBF

American Institute of Certified Public Accountants (AICPA) ↳ ⇒ ICAI

1. Audit and Accounting Guidelines, ✓
2. Statements of Position, ⇒ Balance-Sheet ✓
3. Practice Bulletins, ✓

Financial Accounting Standards Board (FASB) ↳

Governmental Accounting Standards Board (GASB) ↳

Basic Accounting Terminology

- 1. Business
- 2. Proprietor/Owner
- 3. Capital
- 4. Drawing *Business money used by owner for personal use*
- Less
- 5. Business Transactions
 - 1. Cash Transactions
 - 2. Credit Transactions
- 6. Account
- 7. Debit \Rightarrow Exp / Asset
- 8. Credit \Rightarrow Income / liability / Capital
- 9. Goods
- 10. Purchase

- 11. Sale
- 12. Purchase Return / Returns Inward
- 13. Sale Return / Returns Outward
- 14. Assets
 - 1. Fixed Assets $T \geq 1Y$
 - \Rightarrow Building
 - \Rightarrow Furniture
 - \Rightarrow Machine
 - 2. Tangible Fixed Assets \Rightarrow (Land)
 - 2. Intangible Fixed Assets \Rightarrow Brand
 - 2. Current Assets $T \leq 1Y$
 - \Rightarrow Cash
 - \Rightarrow Stock
 - \Rightarrow Debtors
- 15. Liabilities
 - 1. Fixed Liabilities $T \geq 1Y$
 - \Rightarrow Bond
 - \Rightarrow Deb.
 - \Rightarrow Loan
 - 2. Current Liabilities $T \leq 1Y$
 - \Rightarrow DO
 - \Rightarrow CC
 - \Rightarrow Creditor
 - 3. Contingent Liabilities

Golden Rules of Accounting

Asset ↪

1. Real Accounts ↪

⇒ Natural ↪
⇒ Artificial ⇒ Company

2. Personal Accounts ↪

Debit :-

→ What comes in DR.

The Receiver ⇒ DR.

Credit :-

→ What goes out CR.

The Giver ⇒ CR.

Applicable to :-

→ This rule is applicable to all assets of the business

Like:-

- Cash
- Land and Building
- Plant and Machine
- Furniture and Fixture
- Trade marks.
- Etc.

This rule is applicable to Persons, artificial persons and representative persons

Like:-

- Aman
- Ram And Sons .
- HAPPSS Store. (T.A.)
- Bank A/c (SBI)
- Outstanding Salary
- Prepaid Expenses
- Etc.

Routine Income and Exp

3. Nominal Accounts ↪

All Expense and Loss DR.

All Income and Profit CR.

This rule is applicable to all Expenses, Income and Losses/Profits

Like:-

- Salary
- Wages
- Purchases
- Sales
- Commission Received
- Etc.

TOPIC

JOURNAL

Eg:- "Machine & SL Purchased in Cash"

comes in => DR.
Real A/c
comes in => DR.

Real A/c
Going out => CR.
Real A/c

Machinery A/c Dr. 52
to Cash A/c SL

Eg:- "TATA Ltd. took loan from SBI" & 20cr

Personal
Receiver => DR.
Cash
Real A/c
In = DR.

TATA Ltd. A/c Dr. 20cr
X to SBI A/c 20cr.
Cash A/c Dr. 20cr.
X to SBI A/c 20cr.

Eg:- "Salary & 20,000 Paid"

Exp => DR.
Nominal
Cash
Asset
Real
Going out = CR

=> Salary A/c Dr. 20000
To Cash A/c 20000

TOPIC

Golden Rule :-

	DR.	CR.
Real	<u>IN</u>	<u>out</u>
Personal	<u>Rec.</u>	<u>giver</u>
Nominal	<u>Exp</u>	<u>Inw.</u>

Eg:- Building £ SOL buy from Raju
 ↴ Asset
Real A/c ⇒ Comes In = DR.
 ↴ Personal
 ↴ Giver = CR. ⇒ Credit transaction

Building A/c Dr. SOL
 TO Raju Ac SOL

Eg:- Sales £ 50,000 through Bank
 ↴ Income - Nominal
 ↴ CR.
 ↴ Personal
 ↴ Receiver = DR.

Bank A/c Dr. 50,000
 TO Sales 50,000

Eg:- Furniture £ 100000 Sold to Sumil
 ↴ Real A/c
 ↴ going out = CR.
 ↴ Personal
 ↴ Receiver = DR.

Sumil A/c Dr
 TO Furniture A/c

Cash A/c Dr.
 TO Sales

Eg:- Salter of £ 5,00,000 for Cash?
 ↴ Income = CR.
 ↴ Real M/c ⇒ Come in = DR.