

Corporate Accounting and financial Management
(CAFM) Part-1
HANDBOOK

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INTRODUCTION TO ACCOUNTING

1) ACCOUNTING ,ACCOUNTANCY, BOOK -KEEPING, ACCOUNTING CYCLE

- **Accounting** is the process of identifying ,measuring and communicating accounting information to permit informed judgments and decisions by the users of accounting .
- **Accountancy** refers to systematic knowledge of accounting .It explains why do and how to do various aspects of accounting .
- **Book keeping** is a part of accounting and concerned with maintenance of books of accounts
- **An accounting cycle** is a complete sequence beginning with the recording of transaction and ending with preparation of final accounts .
- **Users** : Internal users of an accounting include management and employees .

External users include short-term creditors , long-term creditors, customer, tax authorities, general public

OBJECTIVES AND FUNCTIONS OF ACCOUNTING

Objectives of Accounting	<ol style="list-style-type: none"> 1. To maintain systematic accounting records 2. To ascertain the financial position . 3. To ascertain the financial performance . 4. To communicate information to users . .
Function of Accounting	<ol style="list-style-type: none"> 1. Measurement 2. Forecasting 3. Decision-making 4. Comparison and evaluation 5. Control in Government regulation and taxation .

2)

- ✓ **Single Entry:** It is an incomplete 'double entry system. the first entry is made to the debit of an account, and the second entry to the credit of second account _usually a cash book and personal accounts are maintained.
- ✓ **Double entry system** :invented by Luca Pacioli .Every transaction has twofold aspects, i.e., one party giving the benefit and the other receiving the benefit .Every transaction is divided into two aspects, debit and credit. One account is to be debited and the other account is to be credited.Every debit must have its corresponding and equal credit personal and impersonal accounts are maintained. Helps in decision-making.

3) ACCOUNTING PRINCIPLE

Fundamental Accounting Assumptions	Three Fundamental Accounting Assumptions as per AS-1 : 1. Going Concern 2. Consistency 3. Accrual
Accounting Entity Principle	Distinction is made between personal transactions and business transactions and transactions of one business and other business entity .
Money Measurement Principle	Only those transactions which are capable of being expressed in money are recorded
Accounting Period Principle (Periodicity /Time Period Principle)	The economic life of enterprise is artificially split into periodic intervals which are known as accounting periods .
Going concern Principle	It is assumed that enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations .
Consistency Principle	Same accounting policy is followed from one accounting period to another
Prudence Principle	Anticipated losses are recognized but anticipated profits are ignored .

- ✓ **Accounting equation:** whole Financial Accounting depends on Accounting Equation which is also known as Balance Sheet Equation. The basic Accounting Equation is:

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity (capital)}$$

4) ACCOUNTING PROCESS

The two approaches for deciding an account are debited or credited.

- (A) *American Approach or Modern Approach*
- (B) *British Approach or Traditional Approach*

Meaning of an Account	An Account is a summary of relevant transactions at one place relating to a particular head .
Classification of Account	
(i) As per Traditional Approach	Personal , Real and Nominal
(ii) As per accounting Equation Approach	Assets , capital ,Liabilities, Expense and Revenue

Origin of Debt and Credit	The terms of debit and credit have their origin from the terms debito and credito as used by lucafrapacioli .
Meaning of Debit	Debit in relation to assets and expense represents an increase but in relation to liabilities ,capital , revenue represents a decrease.
Meaning of Credit	Credit in relation to assets and expense represents a decrease but in relation to liabilities ,capital , revenue represents a increase.
Equality	Every debit has an equal amount of credit .

Rules of debit and credit when Accounts are classified on Transaction Basis

Types of Accounts	Rules of debit	Rules of Credit
For Personal Accounts	Debit the receiver	Credit the giver
For Real Accounts	Debit what comes in	Credit what comes out
For Nominal Accounts	Debit all expenses and losses	Credit all Gains and profits

Rules of debit and credit when Accounts are classified on Accounting Equation Basis

Types of Accounts	Rules of debit	Rules of Credit
For Assets Accounts	Debit the Increases	Credit the Decrease
For Liabilities Accounts	Debit the Decreases	Credit the Increase
For Capital Accounts	Debit the Decreases	Credit the Increase
For Revenue Accounts	Debit the Decreases	Credit the Increase
For Expenses Accounts	Debit the Increases	Credit the Decrease

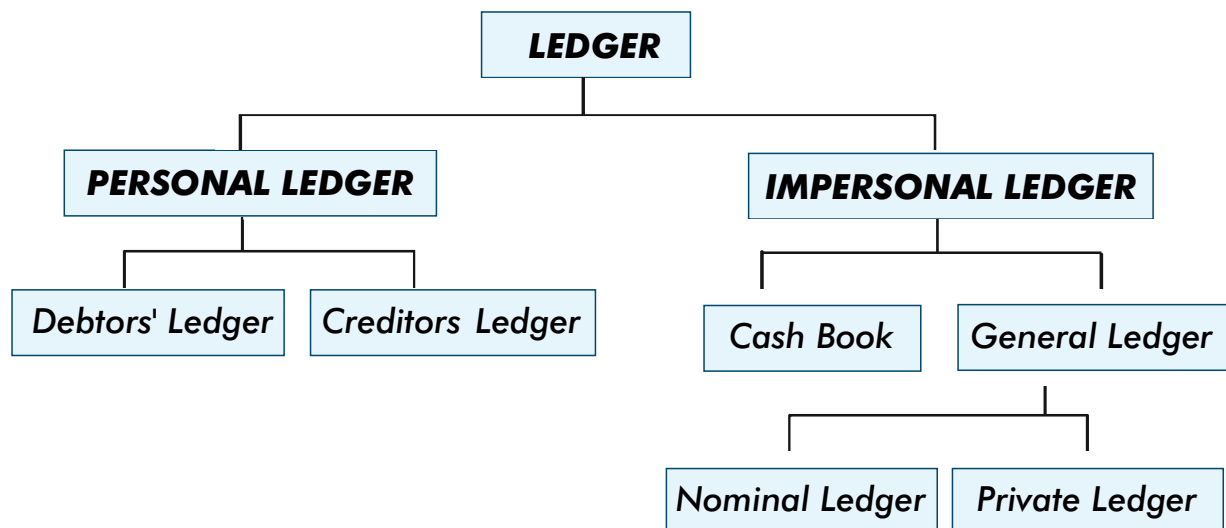
5) JOURNAL

Meaning of Journal	Journal is a book of prime entry in which transactions are recorded in chronological order .
Meaning of Journalising	Journalizing is a process of recording transaction in journal
Meaning of Journal Entry	Journal entry is an entry made in journal
Advantages of Journal	1. Chronological recorded 2. Explanation of Transaction 3. Recording of both aspects.

LEDGER AND POSTING

Meaning of Ledger	<p>1. Ledger is a principal book which contains all the accounts to which transaction recorded in the books of original entry are transferred .</p> <p>2. Ledger is also called a book of final entry as ledger is the ultimate destination of all transaction</p>
Form of Ledger	A ledger may be kept in the form of bound book , CDs or any other device
Utilities of a Ledger	<p>1. It provides complete information about all accounts in one book .</p> <p>2. It enables to ascertain what are the main items of revenues</p> <p>3. It enables to ascertain what are the main items of Expenses</p> <p>4. It enables to ascertain which are the assets and of what values</p> <p>5. It enables to ascertain what are the liabilities and of what amounts .</p> <p>If facilities the preparation of Final Accounts</p>
Meaning of Posting	Posting is the process of transferring the transactions recorded in the books of original entry in the concerned account(s)

Subdivisions of Ledger



6) TYPES OF SUBSIDIARY BOOKS

Meaning	Subsidiary Books (special Journal) are the books of original entry (or prime entry) which are used to record the specific transactions of similar nature for the first time on the basis of source documents .Thus subsidiary Books are part of journal
Types	<ol style="list-style-type: none"> 1. Cash Journals (i.e. Cash Book) 2. Goods journals (Purchase Book , Sales Book, Purchase Return Book , Sales Return Book) 3. Bills Journals (Bills Receivable Book , Bills payable Book) 4. Journal Paper

CASH BOOK

As special Journal	Cash book is special journal which is used to record all receipts and payments for the first time on the basis of source documents
As a Ledger	Cash Book is a ledger in the sense that it serves the purpose of Cash Account . Cash book is both journal and ledger.

TYPES OF CASH BOOK

(a) Single Column	It records only Cash Receipts and Cash Payments.
(b) Cash book with Discount Column	It records Cash Receipts and Cash Discount Allowed on debit side and Cash Payments and Cash Discount Received on credit side .
(c) Three column Cash Book	It records Cash Receipts ,Bank Receipts ,Cash Discount Allowed on debit side and Cash Payments ,Bank Payments Cash discount Allowed on debit side and Cash payments ,Bank Payments Cash discount Received on credit side .
(d) Petty Cash Book	It records the payments of Petty Cash Expenses .

ACCOUNTING FOR SHARE CAPITAL

- ✓ **Equity share capital:** i) with voting rights; or ii) with differential rights as to dividend or voting or any other right.
- ✓ **Preference share capital:** preferential right with respect to—payment of dividend at a fixed rate, in the case of a winding up
- ✓ **Voting rights on preference shares:** If a dividend has not been paid for a period of 2 years or more, then preference shareholders shall have a right to vote on all the resolutions placed before a general meeting of the company.
- ✓ **Issue of Shares at Discount :** As per companies Act 2013, a company shall not issue shares at a discount _ exception : as provided in section 54 for issue of sweat equity shares _ Any share issued by a company at a discounted price shall be void _ Penalty for not following : To company - fine from one lakh rupees to five lakh rupees _ Punishment to officer in default : imprisonment upto six months or fine from one lakh rupees to five lakh rupees, or with both.

7) JOURNAL ENTRIES

1. When application money is received : Bank a/c Dr _ To Share application a/c
2. When it is transferred to share capital : Share application a/c Dr _ To Share capital
3. When allotment money becomes due: Share allotment a/c Dr _ To Share capital a/c
4. When allotment money is received: Bank a/c Dr _ To share allotment a/c
5. When first call becomes due: Share first call a/c Dr _ To Share capital a/c
6. When first call money is received: Bank a/c Dr _ To share first call a/c
7. When final call money becomes due: Share final call a/c Dr _ To Share capital a/c
8. When final call money is received: Bank a/c Dr _ To share final call a/c

In cases of premium :

Entry 3 : Share allotment a/c Dr _ To share capital _ To security premium a/c

8) UTILISATION OF SECURITY PREMIUM

Under Section 52(2) of the Companies Act 2013, the Securities Premium Account may be applied by the company – (a) For issue of fully paid bonus shares; (b) in writing off the preliminary expenses (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures (e) for the purchase of its own shares or other securities under section 68.

Utilization of securities premium for any other purpose would be treated as reduction of capital

The Securities Premium Account must be shown as "Securities premium reserves" separately in the liabilities side of the balance sheet under the head "Reserves & Surplus"

- ✓ **interest on calls-in-advance** : The amount received as calls-in-advance is a debt of the company _the company is liable to pay interest on the amount of Calls-in-Advance at a maximum rate of 12% p.a. _interest payable on Calls-in- Advance is a charge against the profits of the company. **interest on calls in arrear** : at a rate 10% per annum. _However, the directors have the right to waive the payment of interest on Calls-in-Arrear _The interest on Calls-on-Arrear Account is transferred to the Profit and Loss Account at the end of the year.

9) FORFEITURE OF SHARES

Cancellation of shares for non-payment of money When shares are issues at par : Share capital a/c Dr _

To Share forfeiture a/c
To calls in arrear a/c

(Share capital is debited with face value if shares are forfeited after final call
Is debited with called up value if shares forfeited before final call)

When shares are issued at premium & premium is received :

Share capital a/c Dr _

To Share forfeiture
a/c To calls in arrear
a/c

When shares are issued at premium & premium is not received : Share capital a/c Dr

Security premium a/c Dr

To Share forfeiture
a/c To calls in arrear
a/c

10) RE-ISSUE OF SHARES

At par : Bank a/c Dr _ To share capital

At premium : Bank a/c Dr _ To share capital _ To security premium a/c

Transfer to capital reserve : Share forfeiture a/c Dr _ To capital reserve a/c (Only for shares reissued)

- ✓ **Payment of dividend** : **As per Section 51** of the Companies Act, 2013, a company may, if so authorized by its articles, pay dividends in proportion to the amount paid-up on each share. _ Thus dividend can be paid on partly paid up shares in proportion to the amount paid-up on each share. _ no dividend is paid on calls-in-advance

11) SWEAT EQUITY SHARES

Sweat equity shares : equity shares issued by a company to its directors or employees at a discount for providing their know-how or making available rights in the nature of intellectual property rights or value additions

- ✓ **Bonus shares** (Section 63) : a company may issue fully paid-up bonus shares out of : its free reserve _ the securities premium account _ the capital redemption reserve account.

_However, no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

- ✓ **Journal entry for bonus shares :**

Step 1 : On making partly paid up shares as fully

paid up : P & L a/c Dr

General reserve a/c Dr

Capital reserve a/c Dr

To share capital a/c

Step 2 : On issue of bonus shares :

P & L a/c Dr

General reserve a/c Dr

Capital reserve a/c Dr

Secuirity premium a/c Dr

Capital redemption reserve a/c Dr

To share capital a/c

- ✓ **Bonus shares Vs Right shares :**

Bonus Shares	Right Shares
Bonus shares are shares issued by a company free of cost to its existing shareholders on a pro rata basis out of free reserve.	When company issues further shares to existing shareholder in ration of their holding such issue is known as right issue.
In case of bonus issue there is no cash flow.	In case of right issue there is cash inflow to the company.
Bonus issue is made on the recommendation of the Board and authorization from general meeting of the company.	In case of right issue authorization form members through ordinary or special resolution is necessary.
Issue of bonus share does not affect the market value of the company.	Right issue of shares affects the market value of the company.

BUY-BACK OF SHARES

- ✓ **Objective** :To increase promoters' holding in the company _To increase EPS_To Achieve or maintain a target capital structure_To increase the underlying share value_To prevent unwelcome take-over bids_To pay back surplus cash not required by business.
- ✓ According to section 68(1) of the Companies Act 2013, a company may purchase its own shares out of— (a) its free reserves; (b) the securities premium account; or (c) the proceeds of the issue of any shares or other specified securities:

12) CONDITIONS FOR BUY BACK

Conditions for buy back: must be authorized by its articles _ a special resolution has been passed at a general meeting of the company authorizing the buy-back _Debt equity ratio should be 2:1 _all the shares or other specified securities for buy-back are fully paid- up_ No offer of buy-back shall be made within a period of one year from the date of the closure of the preceding offer of buy-back_Every buy-back shall be completed within a period of one year from the date of passing of the special resolution_Company shall extinguish and physically destroy the shares or securities so bought back within seven days of the last date of completion of buy-back

- ✓ **Transfer of certain sums to capital redemption reserves account (section 69)** :After buy back, sum equal to the nominal value of the shares so purchased shall be transferred to the capital redemption reserve account _capital redemption reserve account may be used for issue of fully paid bonus shares.
- ✓ **Prohibition on buy back in following circumstances: (section 70)** No company shall directly or indirectly purchase its own shares or other specified securities—
 - a) through any subsidiary company including its own subsidiary companies;
 - b) through any investment company or group of investment companies; or
 - c) if a default, is made by the company, in the repayment of deposits interest payment Or payment of redemption of debentures or preference shares or payment of dividend to any shareholder

13) ENTRIES FOR BUY BACK

On sale of investment : bank a/c Dr _ To investment a/c
 On buy back : Share capital a/c Dr _ To Share holders a/c
 On payment of money : shareholders a/c Dr _ To Bank a/c
 On transferring face value to CRR : P & L a/c/ General reserve a/c Dr _ To CRR a/c

ISSUE & REDEMPTION OF PREFERENCE SHARES

- ✓ Max period for redemption (sec 55) : twenty years from the date of their issue
- ✓ Max period for redemption for infrastructural project : 20 – 30 years
- ✓ **Redemption of preference shares** : The preference shares can be redeemed only when **they are fully paid up** -out of the divisible profits- or out of the proceeds of a fresh issue of shares

14) CAPITAL REDEMPTION RESERVE

Where preference shares are redeemed out of profits, a sum equal to the nominal amount of the shares so redeemed must be transferred out of the profits of the company which would otherwise to be available for dividend to a reserve fund called 'Capital Redemption Reserve Account' _The main purpose to create CRR is to keep the capital structure of the company intact _ Other purpose to protect the interest of creditors

15) ENTRIES FOR REDUMPTION OF PREFERENCE SHARES

1. **On redemption of shares at premium :**
Preference share capital a/c Dr
Premium on redemption a/c Dr
To Preference shareholders a/c
2. **On payment of money : Preference shareholders a/c Dr _ To Bank a/c**
3. **On writing of loss / premium : Security premium or P & L a/c Dr_ To premium on redemption**
4. **When redemption is made by fresh issue of shares : Bank a/c Dr _ To share capital**
5. **When redemption is made out of profits :** **Profit and loss a/c Dr**
General reserve a/c Dr
Dividend equiliasation a/c Dr
To Capital redemption reserve a/c

UNDERWRITING

- ✓ **Underwriting** : contract entered into by the company with persons or institutions, called underwriter _ they get commission called as “Underwriting commission.” _ underwriters may be individuals, partnership firms or joint stock companies.
- ✓ **Underwriter** : takes complete responsibility of shares _ if shares or debentures are not taken up by public in full then underwriter will take shares _ receives commission_ for all shares . **Broker** : takes responsibility of limited shares _ if shares or debentures are not taken up by public in full then broker will not take shares _ receives brokerage_ only for shares taken by public.

16) TYPES OF UNDERWRITING

Types of underwriting : **Complete Underwriting** : whole of shares is underwritten, it is said to be complete underwriting. **Partial Underwriting** : only a part of the issue of shares is underwritten _ company is treated as “Underwriter” for the remaining part of the issue.

- ✓ **Firm Underwriting** : In case of normal underwriting, underwriter takes only those shares which are not subscribed by normal public. _In firm underwriting : there is definite commitment by the underwriter to take up a specified number of shares irrespective of the number of shares or debentures subscribed for by the public. _so total liability = net liability (shares not taken by public) + firm shares.
- ✓ **Underwriting commission** : As per section 40(6) of the Companies Act 2013, for shares, commission should not exceed 5% of the price at which the shares are issued or the amount or rate authorized by the Articles, whichever is less. For debentures, commission should not exceed 2.5% of the price at which the shares are issued or the amount or rate authorized by the Articles, whichever is less. So maximum commission for shares is 5 % and for debentures is 2.5%.

- ✓ **Marked or unmarked applications :** Applications which have stamp of respective underwriter are called as marked applications. _ Applications received by the company without any stamp are called as Unmarked applications.

17) DETERMINATION OF LIABILITY OF UNDERWRITERS

Particulars	Underwriter A	Underwriter B
Gross liability		
Less : Marked applications + firm shares		
Less : unmarked applications (in the ratio of gross liability)		
Less : surplus if any		
Net liability		
+ firm shares		
Total liability		

DEBENTURES

- ✓ *Issue of debentures for cash : At par , At discount , At premium*

18) ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH

Asset a/c Dr _ To debentures a/c

(If there is profit then it is credits as capital reserve and if loss arises then it is debited as goodwill a/c)

- ✓ **Issue of debentures as collateral security** : it is issue of debentures as security against loan. Accounting treatment : **Case 1** : when there is no entry then mention collateral security as narration under loan .

Case 2: When there is entry : pass entry as *Debenture suspense a/c Dr – To Debenture a/c*

19) TERMS OF ISSUE OF DEBENTURES & ENTRY FOR ISSUE

1. **Issue at par(10)**
redemption at par (10) :
Bank a/c (10) Dr _ To debenture a/c (10)
2. **Issue at discount (8) & redemption at par (10) :**
Bank a/c (8) Dr and Discount on issue a/c (2) Dr _ To debenture (10)
3. **Issue at par (10) & redemption at premium (13) :**
Bank a/c (10) Dr and loss on issue a/c (3) Dr _
To debenture a/c(10) and premium on redemption a/c (3)
4. **Issue at discount (8) & redemption at premium (13) :**
Bank a/c (8) Dr and Discount a/c Dr (2) loss on issue a/c (3)
Dr _ To debenture a/c(10) and premium on redemption a/c (3)

20) REDEMPTION OF DEBENTURES

1. *Lumsum redemption : with DRR or DRF (sinking fund)*
2. *Annual drawing*
3. *Purchase of own debentures*
4. *Conversion into shares*

21) LUMSUM REDEMPTION

Case 1 : When money is not invested - every year Transfer profit to Debenture redemption reserve (DRR)

Case 2 : When money is invested - every year Transfer profit to Debenture redemption fund (DRF) or sinking fund

22) PURCHASE OF OWN DEBENTURES

Case 1 : when debentured are purchased & immediately cancelled

Debenture a/c Dr
Debenture interest a/c Dr
 To bank
 To profit on redemption

Case 2 : when debentured are purchased & held as investment

Own Debenture a/c Dr
Debenture interest a/c Dr
 To bank

✓ **Cum interest = amount including interest**

CONSOLIDATION

- ✓ A holding company is one which acquires all or a majority of the equity shares of any other company called subsidiary company in order to have control over the subsidiary company.

23) COST OF ACQUISITION

Money invested in shares of subsidiary company by the holding company is called as investment in shares & amount paid for such investment is called as cost of acquisition.

- ✓ **Intrinsic value** : when all the shares of subsidiary company are held by holding company then holding company has ownership in the all net assets of the subsidiary company (net assets = total assets – liability = equity holders fund). Such amount realized by holding company is called as intrinsic value.

24) MINORITY INTEREST

If all the shares are not held by holding company then net assets or equity holder's fund (share capital + reserve & surplus) of subsidiary company is divided into holding company & outsiders. In this case, the claim of outside shareholders in the subsidiary company is called as "Minority Interest"

- ✓ **Cost of Control** : The "excess" amount paid (more than face value or book value of shares) by the holding company to acquire 'controlling interest' in the subsidiary company.

25) TREATMENT OF PRE-ACQUISITION PROFIT OR LOSS

Treatment of pre-acquisition profit or loss : It is divided into holding company & minority holders in their respective proportion. Share of minority holder is added to minority interest. And share of holding company is added to intrinsic value because it is capital profit.

- ✓ **Treatment of pre-acquisition reserve :** It is divided into holding company & minority holders in their respective proportion. Share of minority holder is added to minority interest. And share of holding company is added to intrinsic value.
- ✓ **Treatment of post-acquisition profit & reserve :** It is divided into holding company & minority holders in their respective proportion. Share of minority holder is added to minority interest. And share of holding company is added to profit & loss a/c or general reserve as it is revenue profit. It is shown in the consolidated balance sheet under Reserve and surplus.

26) DISTRIBUTION OF SHAREHOLDERS FUND OF SUBSIDIARY COMPANY INTO HOLDING COMPANY AND MINORITY HOLDERS

Holding company	Minority interest
Share capital	Share capital
+ Pre-acquisition profit / loss	+ Pre-acquisition profit / loss
+ Pre-acquisition reserve	+ Pre-acquisition reserve
+ Revaluation profit /loss	+ Revaluation profit /loss
INTRINSIC VALUE	+ Post- acquisition profit /loss
	+ Post-acquisition reserve
	MINORITY INTEREST
Post- acquisition profit /loss	
+ Post-acquisition reserve	
TRANSFER TO BALANCE SHEET	

Intrinsic value – cost of acquisition = goodwill or capital reserve

27) TREATMENT OF INTERCOMPANY OWING

Debtors Vs Creditors : When one company sells goods to other on credit then it appears as debtors in balance sheet of selling company & appears creditors in the balance sheet of buying company. Then, on consolidation, **subtract that amount from debtors of one company & creditors of other company.**

Bills payable Vs bill receivable : When certain amount appears as bills receivable in balance sheet of one company & appears as bills payable in the balance sheet of other company. Then, on consolidation, **subtract that amount from bills receivable of one company & bills payable of other company.**

Advance or loan : When one company gives loan to other company then it appears as loan on asset side of lending company & liability side of borrowing company. Then **cancel that amount from balance sheet of both company on consolidation.**

28) TREATMENT OF UN-REALISED PROFIT INCLUDED IN UNSOLD GOODS

When one company purchases goods from other company then selling company sells goods at cost plus profit basis. Such profit included in amount of stock is called as stock reserve. Treatment of stock reserve depend upon following two cases :

Case 1 : When holding company sells goods to subsidiary company :

Subtract amount of stock reserve from stock of subsidiary company.

Subtract amount of stock reserve from P & L a/c of holding company which appears in consolidated balance sheet.

Case 2 : When subsidiary company sells goods to holding company :

Subtract amount of stock reserve from stock of holding company.

Subtract amount of stock reserve from pre-acquisition profit of subsidiary company.

29) BONUS SHARES

- (a) **Issue of bonus shares out of capital profit (Pre -acquisition profits) :** In this case there will be no effect on accounting treatment
- (b) **Issue of bonus shares out of post acquisition profit :** In this case, a part of the revenue profits will get capitalized resulting in decrease of cost of control or increase in capital reserve.

30) TREATMENT OF DIVIDEND RECEIVED FROM SUBSIDIARY COMPANY

a. **When dividend is received for pre-aquisition period :**

It is treated as capital income & so it reduces cost of investment by crediting to investment a/c.

Its journal entry is as follows : Bank a/c Dr _ To investment a/c

b. **When dividend is received for post-aquisition period**

It is treated as revenue income & is credited to P & L a/c. Bank a/c Dr _ To P & L a/c

CASH FLOW STATEMENT

31) DIRECT METHOD

:This method is applicable when income statement or P & L is given.

Particulars	Rs.	Rs.
Cash Flow from operating activity :		
Cash received from customers		
Less : Cash paid to supplier		
Less : Cash paid to employee		
Less : Cash paid for other operating expenses		
Cash generated from operations		
Less : Tax paid		
<hr/>		
Cash flow from operating activity		

32) INDIRECT METHOD

Particulars	Rs.	Rs.
Net profit before tax & dividend		
Add : adjustment for P & L a/c		
Net operating profit before working capital changes		
Add : Changes for working capital		
<hr/>		
Cash generated from operations		
Less : Tax paid		
<hr/>		
Cash flow from operating activity		

✓ **IMP Accounts for investment activity : For purchase & sale of asset**

Assets Account

To bal b/d	By depreciation a/c
To profit on sale	By loss on sale
To Purchase	By sale
	By bal c/d

Depreciation

To depreciation on assets sold (asset account)	By bal b/d
To bal c/d	By current year depreciation (P & L a/c [this amount should be taken at non – cash items place])

ACCOUNTING STANDARD

33)

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.

- ✓ *The objective of general purpose financial reporting is to provide financial information that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.*

34)

Two important characteristics of financial information relates to relevance and reliability

Convergence of varied Accounting Standards with International Financial Reporting Standards (IFRS) has gained worldwide momentum in recent years to ensure uniformity and transparency in reporting standards.

- ✓ *India has committed to convergence of its Indian Accounting Standards (Ind AS) with IFRS in a phased manner beginning April 1,2016.*
- ✓ *A revised roadmap for implementation of Indian Accounting Standards (Ind AS) finalized by the council of the ICAI (Institute of Chartered Accountants of India) and submitted to MCA (Ministry of Corporate Affairs) for its consideration.*
- ✓ *(ICAI): The Institute of Chartered Accountants of India*
(ASB): Accounting Standards Board
(IAS): International Accounting Standards
(IFRS): International Financial Reporting Standards
(IASC): International Accounting Standards Committee
(IFRIC): International Financial reporting Interpretations Committee
(IASC):International Accounting Standards Committee
(SIC): Standard Interpretations Committee

RATIO ANALYSIS

35) BALANCE SHEET RATIOS

Both numerator & denominator in these ratio are taken from balance sheet. e.g. Current ratio ,Liquidity ratio ,Proprietorship ratio

Income statement ratios : Here, both terms are taken from income statement.

Gross profit ratio Net profit ratio Operating ratio

Mixed ratios : Here, one term is taken from balance sheet & other is taken from income statement. E.g Stock turnover ratio,Debtors turnover ratio ,

36) CLASSIFICATION ACCORDING TO PURPOSE

Profitability ratio : Gross profit ratio , Net profit ratio, Capital employed ratio
Liquidity ratio : Current ratio,Liquidity ratio

Turnover ratio : Stock turnover ratio, Debtors turnover ratio, Fixed asset turnover
Leverage ratio: Debt- equity ratio ,Capital gearing ratio ,Proprietary ratio

✓ **Current ratio** : = $\frac{\text{Current Assets}}{\text{Current liability}}$ ideal current ratio = 2 : 1

✓ **Quick ratio** := $\frac{\text{Quick Assets}}{\text{Quick Liability}}$ ideal quick ratio = 1:1

Where, Quick Assets = Current Assets – Stock.

Quick Liability = Current liability– Bank OD

37)

$STR = \frac{\text{sales}}{\text{average stock}}$ (use this formula when gross profit is not known)

$STR = \frac{\text{cost of sales}}{\text{average stock}}$ (use this formula when gross profit is known)

$$\text{Stock velocity} = \text{Finished goods storage period} = \frac{365 \text{ days}}{\text{Stock Turnover ratio (STR)}}$$

$$\checkmark \text{ Debtors' Turnover Ratio (DTR)} = \frac{\text{Net Credit Sales in a year}}{\text{Average Stock of Debtors and Receivables}}$$

$$\text{Average Collection Period} = \frac{365 \text{ days or 12 months}}{\text{Debtors' turnover Ratio (DTR)}}$$

$$\checkmark \text{ Creditors' Turnover Ratio (CTR)} = \frac{\text{Net Credit purchases in a year}}{\text{Average of creditors and payables}}$$

$$\text{Average payment Period} = \frac{365 \text{ days or 12 months}}{\text{Creditors' turnover Ratio (CTR)}}$$

$$\checkmark \text{ Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets}}$$

$$\checkmark \text{ Capital Turnover Ratio} = \frac{\text{Net sales}}{\text{Average Capital Employed}}$$

$$\checkmark \text{ Return on Equity} = \frac{\text{Profit After Tax}}{\text{Equity}}$$

Here, Equity = Equity share capital + Preference Share Capital + R & S

38)

Gross profit = Sales – COGS

✓ Operating expenses = Administration expenses + Selling & distribution expenses

✓ Operating profit = Gross profit – Operating expenses

✓ Working capital = Current asset – Current liability

✓ Capital employed = Fixed asset + Current asset – current liability

✓ Capital employed = Net worth + long term loans

✓ Net worth = Proprietor's fund = owner's fund =
= equity share capital + preference share capital + reserve & surplus

39)

$$\text{Return on Assets (ROA): } ROA = \frac{\text{Net Profit after taxes}}{\text{Average Total Assets}} \text{ or } \frac{\text{Net Profit after taxes}}{\text{Average Tangible Assets}} \text{ or } \frac{\text{Net Profit after taxes}}{\text{Average Fixed Assets}}$$

$$\text{Return on Capital Employed (ROCE): } = \frac{\text{Earnings before interest and taxes(EBIT)}}{\text{Capital Employed}} \times 100$$

$$\text{Return on Equity (ROE): } = \frac{\text{Net Profit after taxes- Preference dividend (if any)}}{\text{Net worth equity shareholders ' Fund}} \times 100$$

40)

$$\text{Earnings per Share (EPS): } = \frac{\text{Net profit available to equity shareholders}}{\text{Number of equity shares outstanding}}$$

$$\text{Dividend per Share (DPS): } = \frac{\text{Total Dividend paid to equity shareholders}}{\text{Number of equity shares outstanding}}$$

$$\text{Dividend Payout Ratio (DP): } = \frac{\text{Dividend per equity share(DPS)}}{\text{Earning per Share (EPS)}}$$

$$\text{Price-Earnings per Share (P/E Ratio) } = \frac{\text{Market Price per Share(MPS)}}{\text{Earning per Share(EPS)}}$$

MARGINAL COSTING

- ✓ **Marginal costing** is the accounting system in which variable costs is charged to cost units and fixed costs of the period are written-off in full against the aggregate contribution. Its special value is in decision -making. This technique of costing is also known as “**Variable Costing**”, “**Differential Costing**” or “**Out -of-pocket costing**”

41) SALES

- **Variable cost**

Contribution

- Fixed cost

Profit

- ✓ $\text{Contribution} = \text{Sales} - \text{Variable cost of sales}$
 $= \text{Fixed cost} + \text{Profit}$
- ✓ $P / v \text{ ratio} = \text{Contribution} / \text{sales} * 100$
 $= \text{Change in profit} / \text{change in sale} * 100$

42) BEP

At break-even point, there is no profit no loss.

If actual sales level is below break-even point the company will incur loss. If actual sales level is above break-even point the company will incur profit.

$\text{B.E.P (in units)} = \text{Fixed cost} / \text{contribution per unit}$

$\text{B.E.P (In Rs)} = \text{Fixed cost} / \text{PV ratio}$

- ✓ $\text{Actual Sales} - \text{B.E.P. sales} = \text{Margin of safety.}$

43) CVP ANALYSIS (COST- VOLUM- PROFIT ANALYSIS)

It is the analysis of three variables, viz. cost, volume and profit _As quantity increases VC increases but FC remains same. So total cost also increases_ As quantity increases value of sale also increases P initially when company sells small quantity of units total cost is greater than sales. So it incurs loss _ As it sells more & more quantity, sales exceeds total cost. So it makes profit _Level at which there is no profit no loss is called as B.E.P. (break even point)