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B.COM HONOURS	SEMESTER 2	CALICUT UNIVERSITY	COURSE CODE: COM2CJ101

FINANCIAL ACCOUNTING

EXAM REVISION NOTES

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MODULE I

1. INTRODUCTION TO THE SINGLE ENTRY SYSTEM (INCOMPLETE RECORDS)

Introduction to the Single Entry System (Incomplete Records): The standard system of financial accounting universally taught, practiced by modern corporations, and mandated by regulatory statutes across the world is the Double Entry System.

Distinct Features of Incomplete Records: An examination of single entry records reveals several consistent operational characteristics:

- **Maintenance of Personal Accounts Only:** Proprietors predominantly maintain personal accounts of debtors and creditors.
- **Centrality of the Cash Book:** The Cash Book is the primary—and often the only—formal book of original entry.
- **Heavy Reliance on Original Source Documents:** Because nominal and real ledgers do not exist, the business relies heavily on physical filing cabinets containing raw vouchers, purchase invoices, delivery challans, and counterfoils to reconstruct financial history when needed.
- **Lack of Uniformity:** Every small trader invents their own idiosyncratic method of recording transactions.

Double Entry vs. Single Entry Types of Single Entry: To master the accounting treatment of incomplete records, a student must understand the structural differences between scientific double entry accounting and single entry record-keeping, as well as the various degrees to which single entry is implemented in the field.

Pure Single Entry System

The Statement of Affairs (Capital Comparison) Method: The fundamental economic premise of the Capital Comparison method is rooted in the accounting equation: Capital = Assets minus; Liabilities.

Step 2: Ascertain Closing Capital (C1)

Standard Format of Statement of Profit or Loss: Below is the universal structural format used by accountants to present the calculation of profit or loss under the Net Worth method:

Profit Loss Account vs. Statement of Profit or Loss

- **1. Method of Ascertainment:** ; Determines profit by comparing closing capital with opening capital (Net Worth Comparison).
- **2. Operational Breakdown:** ; Provides no itemized details of operating expenses; only shows net capital movements.
- **3. Trading Account Linkage:** ; Has no Trading Account; Gross Profit on sales is completely unknown.
- **4. Double Entry Status:** ; It is a memorandum statement; not an account, with no debit or credit sides.

Format and Logic of Key Reconstruction Ledger Accounts: Below are the structural formats of the primary control accounts used during the conversion process:

- **To Cash Paid to Creditors:** By Balance b/d (Opening Creditors)
- **To Bank (Cheques paid):** By Bills Payable (Dishonoured)
- **To Discount Received:** By Credit Purchases (Balancing Figure)

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

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Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
- **Revenue amp; Cost Allocation:** ; Ind AS 115 (Revenue from Contracts with Customers) amp; CAS 1 to 24 Cost Accounting Standards.
- **Fiscal Risk amp; Tax Compliance:** ; GST Law Section 16/36 Rules amp; Income Tax Act Transfer Pricing Provisions.
- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

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Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 6): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

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MODULE II

1. CONCEPTUAL FRAMEWORK AND CLASSIFICATION OF BRANCHES

Conceptual Framework and Classification of Branches: In the contemporary global business environment, commercial enterprises rarely restrict their operations to a single physical location.

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Distinction Between a Branch and a Department: Although both branches and departments function as organizational sub-units of a parent business, they differ fundamentally across geographic, administrative, and accounting dimensions:

- **1. Geographic Location:** , Clothing, Electronics, Groceries in a mall).
- **2. Operational Nature:** ; Functions as a specialized product or functional division within a single store.
- **3. Expense Allocation:** ; Common expenses (building rent, central air conditioning, director fees) must be artificially apportioned across departments.
- **4. Accounting System:** ; Accounts are strictly maintained centrally under a columnar departmental accounting system.

Inland Branches (Home Branches)

- **Dependent Branches:** Outlets that possess zero accounting autonomy; all formal financial books are maintained exclusively by the Head Office.
- **Independent Branches:** Outlets that maintain their own comprehensive, autonomous double-entry accounting records, extracting an independent trial balance at year-end.

Accounting for Dependent Branches: The Debtors System: When accounting for dependent branches, the Head Office may adopt one of several methods depending on the scale and complexity of the branch.

Case A: Goods Invoiced to Branch at Cost Price: When the Head Office supplies goods to the branch at exact cost price (with zero markup), the Branch Account operates under straightforward matching principles:

- **To Opening Branch Assets (Balance b/d)::** By Opening Branch Liabilities (Balance b/d):
- **nbsp; nbsp; bull; Branch Stock (at cost):** nbsp; nbsp; bull; Branch Creditors / Outstanding Exp.
- **nbsp; nbsp; bull; Branch Debtors:** By Bank Account (Remittances from Branch):
- **nbsp; nbsp; bull; Branch Petty Cash:** nbsp; nbsp; bull; Cash Sales collected

Debtors System: Goods Invoiced at Invoice Price (Loading Mechanics): In modern commercial retail chains, the Head Office rarely discloses the actual cost price of merchandise to branch managers.

Accounting Treatment of Loading (Stock Reserve Mechanism): Under the principle of conservatism and GAAP matching rules, a company cannot recognize a profit on goods simply by shipping them from its central warehouse to its own retail branch.

Loading on Goods Returned by Branch

Comprehensive Worked Numerical Illustration (Invoice Price System): Let us analyze a comprehensive, realistic practical problem demonstrating the Debtors System when goods are invoiced at cost plus 25% (20% on Invoice Price), requiring loading adjustments and working notes.

Core Ledger Accounts Maintained in Head Office Books: Under this system, the Head Office maintains a complete set of interlocking control accounts for each branch:

Branch Debtors Account

Branch Profit Loss Account Goods Sent to Branch Account

- **Branch Profit amp; Loss Account:** Credited with Gross Profit from Branch Adjustment A/c.
- **Goods Sent to Branch Account:** Credited with goods sent at invoice price, debited with loading transferred to Branch Adjustment A/c and returns.

Key Characteristics of Independent Branches

- **Full Double-Entry Accounting:** The branch maintains a complete, independent set of accounting books (Journals, Cash Books, General Ledgers).
- **Local Procurement amp; Pricing Autonomy:** O.
- **Independent Banking:** Maintains its own independent bank accounts, depositing revenues and drawing cheques independently.
- **Independent Trial Balance:** At the close of the financial year, the branch balances all its ledger accounts and extracts its own complete, independent Trial Balance.

In Head Office Books: "[Location] Branch Account"

Year-End Reconciliation Incorporation of Branch Accounts: Theoretically, the Debit balance of the Branch Account in the Head Office general ledger must exactly equal the Credit balance of the Head Office Account in the branch general ledger.

Methods of Incorporating Branch Results into Head Office Books: To compile the master financial statements of the entire corporation, the Head Office must incorporate the independent branch's trial balance into its own general ledger using one of two methods:

MODULE III

1. NATURE AND CHARACTERISTICS OF NOT-FOR-PROFIT ORGANISATIONS (NPOS)

Nature and Characteristics of Not-for-Profit Organisations (NPOs): In economic society, organisations are broadly classified into two distinct operational categories based on their primary motives: commercial business enterprises and Not-for-Profit Organisations (NPOs).

Core Characteristics of Not-for-Profit Organisations

- **Service Motive:** The foundational raison d'être is humanitarian, educational, religious, charitable, or social service.
- **Absence of Individual Ownership:** Unlike sole proprietorships or partnerships owned by specific individuals, an NPO is formed as a charitable trust, society, or Section 8 non-profit company.
- **Primary Sources of Revenue:** NPOs do not generate revenue by selling goods at a profit margin.
- **Statutory Accounting Framework:** To ensure financial transparency and prevent fraud or misappropriation of public funds, NPOs are mandated by law to maintain formal double-entry records and compile an annual set of final financial statements.

Receipts Payments A/c

The Balance Sheet

Salient Features of Receipts and Payments Account

- **Nature of Account:** It is a Real Account.
- **Strict Cash Basis:** It records transactions strictly when cash is physically received or paid.
- **Inclusion of All Time Periods:** It records all cash received or paid during the current year, regardless of whether the transaction relates to the Previous Year, the Current Year, or the Subsequent (Future) Year.
- **No Distinction Between Capital and Revenue:** It treats capital cash flows and revenue cash flows identically.
- **Total Exclusion of Non-Cash Items:** Because it tracks physical liquidity only, non-cash expenses such as Depreciation on Fixed Assets, Bad Debts, Outstanding Salaries, and Accrued Interest are completely excluded.

Accounting Treatment of Peculiar Items in NPO Accounts: Not-for-Profit Organisations receive specific types of income and incur specific forms of expenditure that do not exist in standard commercial trading businesses.

Subscriptions (Core Revenue Income)

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Legacies (Capital Receipt)

Entrance Fees / Admission Fees

- **Default View (General Practice):** Treated as recurring Revenue Income and credited to Income amp; Expenditure A/c.
- **Alternative View:** If instructed by rules/examiner, capitalized and added to the Capital Fund.

Sale of Old Assets vs. Sale of Old Newspapers / Sports Materials

- **Sale of Old Fixed Assets (Furniture, Plant):** The gross cash realized is a capital cash flow.
- **Sale of Old Periodicals / Used Tennis Balls:** Routine recurring receipt.

Calculating Subscription Income (Accrual Adjustment): The Receipts and Payments Account shows the actual cash collected for subscriptions during the year (Sreceived).

- ADD rarr; Subscriptions Outstanding at the End of Current Year: Represents income earned in the current year that has not yet been collected in cash.
- LESS rarr; Subscriptions Outstanding at the Beginning of Current Year: Represents cash collected this year that was actually earned during the previous year.
- ADD rarr; Subscriptions Received in Advance at the Beginning of Year: Represents cash received last year for the benefit of the current year.
- LESS rarr; Subscriptions Received in Advance at the End of Current Year: Represents unearned cash collected this year relating to next year.

The Income and Expenditure Account: The Income and Expenditure Account is the core revenue statement of a Not-for-Profit Organisation. It corresponds exactly to the Profit amp; Loss Account of a commercial enterprise.

Receipts and Payments A/c vs. Income and Expenditure A/c

- **1. Nature of Account:** ; Nominal Account (Summary of operational revenues amp; expenses).
- **2. Accounting Basis:** ; Strictly Accrual Basis.
- **3. Period Covered:** ; Restricted strictly to the Current Accounting Year only.
- **4. Capital vs. Revenue:** ; Records Revenue items only; Capital items are completely excluded.

Non-Fund Based vs. Fund-Based Accounting

- **General / Unrestricted Fund (Capital Fund):** The accumulated general capital of the NPO derived from lifetime fees, legacies, general donations, and accumulated annual operating surpluses.

Step 1: Draft Opening Balance Sheet

Step 3: Compile Income Expenditure A/c

MODULE IV

1. STATUTORY AND REGULATORY FRAMEWORK OF COMPANY FINAL ACCOUNTS

Statutory and Regulatory Framework of Company Final Accounts: In modern corporate enterprise, the Joint Stock Company represents the most dominant and legally sophisticated form of business organization.

Statutory Mandates under the Companies Act, 2013: In India, the preparation of financial statements of joint stock companies is governed strictly by the following core provisions of the Companies Act, 2013:

- **Section 129(1) - True and Fair View:** Mandates that the financial statements shall give a true and fair view of the state of affairs of the company, comply with the Accounting Standards notified under Section 133, and strictly adhere to the presentation format prescribed in Schedule III to the Companies Act, 2013.
- Section 129(2) - Presentation at Annual General Meeting (AGM): At every annual general meeting of a company, the Board of Directors must lay before the shareholders the audited financial statements for the financial year.
- **Section 133 - Accounting Standards:** Grants authority to the Central Government to prescribe Indian Accounting Standards (Ind AS), formulated by the Institute of Chartered Accountants of India (ICAI) and recommended by the National Financial Reporting Authority (NFRA).
- Section 134 - Board's Report amp; Financial Approvals: Mandates that financial statements must be signed by the Chairperson, Managing Director, Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Company Secretary before submission to the statutory auditors.

Division I (AS Compliant)

Division III (NBFCs)

Ind AS 1: Presentation of Financial Statements: Ind AS 1 (Presentation of Financial Statements) sets out the overall basis for presenting general purpose financial statements to ensure comparability both with the entity's own financial statements of previous periods and with the financial statements of other entities.

General Features and Core Principles of Ind AS 1: Ind AS 1 outlines eight non-negotiable principles that must govern the compilation of company financial statements:

- **1. Fair Presentation amp; Compliance:** Financial statements must present fairly the financial position, financial performance, and cash flows of the entity.
- **2. Going Concern Assumption:** Management must assess the entity's ability to continue operations for at least 12 months from the reporting date.
- **3. Accrual Basis of Accounting:** An entity must prepare its financial statements (except for cash flow information) using the strict accrual basis of accounting, recognizing items as assets, liabilities, equity, income, and expenses when they satisfy definitions and recognition criteria.
- **4. Materiality amp; Aggregation:** Each material class of similar items must be presented separately.

Line-by-Line Analytical Structure of SOPL

I. Revenue from Operations

- Gross Sale of Manufactured and Traded Goods (Net of trade discounts and GST).
- Revenue from Rendering Commercial Services.
- , sale of scrap, export incentives, duty drawback).

Classification of Operational Expenses (By Nature)

- **Cost of Materials Consumed:** Pertains strictly to manufacturing concerns.
- **Purchases of Stock-in-Trade:** Pertains to commercial trading goods purchased in finished form for direct resale without further processing.
- Changes in Inventories of Finished Goods, Work-in-Progress (WIP), and Stock-in-Trade: Represents the net movement in inventory holdings over the year, computed as: textOpening Inventory minus; textClosing Inventory.
- **Employee Benefits Expense:** All forms of compensation paid to the workforce: Salaries, wages, bonuses, director sitting fees, contributions to Provident Fund (PF), Employee State Insurance (ESI), gratuity schemes, and staff welfare expenses.
- **Finance Costs:** Total borrowing and financial servicing costs: Interest on bank term loans, interest on debentures, cash credit processing charges, and debt discount amortization.

The Current vs. Non-Current Classification Criterion: Schedule III mandates that every asset and liability must be rigorously classified as either Current or Non-Current based on the entity's Operating Cycle:

- **Operating Cycle:** The time elapsed between the acquisition of raw materials/assets for processing and their realization in cash or cash equivalents.
- **Current Asset:** An asset expected to be realized in, or intended for sale or consumption in, the normal operating cycle; held primarily for the purpose of trading; or expected to be realized within 12 months after the reporting date.
- **Current Liability:** A liability expected to be settled in the normal operating cycle; held primarily for trading; or due to be settled within 12 months after the reporting date.
- **Non-Current:** All assets and liabilities that do not satisfy the criteria of current items.

Statement of Changes in Equity (SOCE): One of the most profound structural innovations introduced by Ind AS 1 is the mandatory presentation of the Statement of Changes in Equity (SOCE) as a primary financial statement.

Part A: Equity Share Capital Reconciliation

Movement Rows in the SOCE Matrix: For each reserve column in Part B, the SOCE documents the following sequential movements:

- Balance at the beginning of the reporting period.
- Changes in Accounting Policy or Prior Period Error Corrections (applied retrospectively under Ind AS 8).
- Restated Opening Balance.
- Total Comprehensive Income for the Year (Profit from P amp;L added to Retained Earnings; OCI gains added to OCI reserves).
- Dividends Distributed to Shareholders (Deducted from Retained Earnings).

Key Statutory Adjustments in Company Final Accounts: When compiling the Statement of Profit and Loss and the Balance Sheet from a given Trial Balance, several specialized corporate adjustments must be executed under the Companies Act, 2013 and applicable Indian Accounting Standards.

Interim Dividend

Corporate Income Taxation Advance Tax Set-Off: Companies are taxed on their net taxable profit computed under the Income Tax Act, 1961.

- **Provision for Taxation (Current Tax):** The estimated tax liability for the current year.
- **Advance Tax amp; TDS Paid:** Tax already deducted or paid in advance to the government during the year.
- **Year-End Set-Off:** In the Balance Sheet notes, Advance Tax is set off against the Provision for Tax of the same assessment year, presenting only the net payable liability or net refund receivable.

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