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B.Com Honours

Semester II

Calicut University

Accounting and Finance for Entrepreneurs

Course Code: COM2MN101 • Module 1 Notes

1. Foundations of Accounting for Entrepreneurs: Principles and Systems

For any business venture to succeed, the entrepreneur must speak and understand the "language of business"—accounting. Without structured accounting systems, founders cannot track costs, manage inventory, evaluate product margins, or satisfy tax regulations. This module introduces the key accounting principles, functions of accounting, types of accounting, the accounting equation, cash vs. accrual accounting, steps to open a business bank account, and transaction recording.

Functions of Accounting in Entrepreneurship

Accounting performs several vital functions for a startup:

- **Systematic Recording:** Maintaining a chronological record of cash, sales, and purchases.
- **Financial Evaluation:** Providing income statements to measure if the startup is profitable.
- **Compliance:** Ensuring accurate calculations for GST, Income Tax, and employee payroll.
- **Decision Making:** Providing internal cost statements to help price products and services.

Types of Accounting

Financial & Cost Accounting

- **Financial Accounting:** Preparing standard financial statements (Income Statement, Balance Sheet) for external users (investors, bank lenders, tax authorities).
- **Cost Accounting:** Analyzing internal manufacturing and operating costs to determine cost per unit, helping in product pricing.

Managerial & Tax Accounting

- **Managerial Accounting:** Preparing internal reports, budgets, and forecasts to help founders make operational decisions.
- **Tax Accounting:** Tracking transactions specifically to compute tax liability (GST, corporate income tax) and claim deductions.

The Accounting Equation & Double-Entry

Startups operate under the **Double-Entry Accounting System**, where every transaction affects at least two accounts. The system is built on the fundamental **Accounting Equation**:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Every transaction must keep this equation balanced. **Debits** increase assets and expenses; **Credits** increase liabilities, equity, and revenues.

Cash Basis vs. Accrual Basis Accounting

Founders must choose an accounting basis for their operations:

Comparative Basis	Cash Basis Accounting	Accrual Basis Accounting
Revenue Recognition	Recorded only when physical cash is received.	Recorded when earned (invoice sent), regardless of cash movement.
Expense Recognition	Recorded only when physical cash is paid out.	Recorded when incurred (bill received), regardless of cash movement.
Pros & Cons	Pros: Simple to track. Cons: Misrepresents monthly profitability.	Pros: Accurate matching of monthly revenues/costs. Cons: More complex; requires bookkeeping.
Regulatory Status	Not accepted for registered corporate entities.	Mandatory for registered companies under Companies Act, 2013.

Steps to Open a Business Bank Account

A critical step in setting up a business is separating personal and business funds by opening a current bank account:

- Choose Legal Entity & Register:** Obtain Certificate of Incorporation (for Pvt Ltd) or Partnership Deed.

2. **Apply for PAN:** Obtain a Permanent Account Number specifically in the name of the business entity.
3. **Draft Board Resolution:** Pass a resolution authorizing the opening of the bank account and designating signees.
4. **Provide KYC & Address Proof:** Submit government licenses (GST registration, Shop & Establishment certificate), address proof, and KYC documents of the directors/partners.

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