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SYLLABUS

COURSE CONTENTS:

- UNIT 1: Financial Accounting – Concept, Importance and Scope, Accounting Equation, Basic of Indian Accounting Standards & IFRS, Principles of Double Entry, Ledger Accounting, Preparation of Trial Balance, Implications of GST.
- UNIT 2: Preparation of Financial Statements – Profit and Loss Account and Balance Sheet; Depreciation Accounting (Straight line Method & Written Down Value Method).

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Unit-1

Topic-1 : Financial Accounting – Concept, Importance and Scope

1. Concept of Financial Accounting

Financial Accounting is the branch of accounting that deals with recording, summarizing, and reporting the financial transactions of a business. It provides information in the form of financial statements such as **Profit and Loss Account, Balance Sheet, and Cash Flow Statement** that are useful to stakeholders for decision-making.

- It is based on **double-entry system** of accounting.
- It focuses on **historical data** (i.e., past transactions).
- It provides a **true and fair view** of the financial position and performance of an organization.

Definitions:

1. *American Institute of Certified Public Accountants (AICPA)* –
“Financial accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part, at least of financial character, and interpreting the results thereof.”
2. *Smith and Ashburne* –
“Financial accounting is concerned with the provision of information to outside parties who have an interest in the business, such as shareholders, creditors, employees, and government.”

In short: **Financial Accounting = Recording + Summarizing + Reporting financial data.**

2. Importance of Financial Accounting

Financial Accounting plays a crucial role in the success and transparency of business operations. Its importance can be explained as follows:

(i) Systematic Record of Transactions

It ensures all financial transactions are recorded in a systematic and chronological order, avoiding confusion and errors.

(ii) Determination of Profit or Loss

Through the **Profit and Loss Account**, it shows the net result of operations – whether the business has earned a profit or suffered a loss during a period.

(iii) Assessment of Financial Position

The **Balance Sheet** reflects the financial health of a business, showing assets, liabilities, and owner's equity at a particular date.

(iv) Helps in Decision-Making

Managers, investors, creditors, and other stakeholders use financial data to

make informed decisions about investment, lending, or expansion.

(v) Evidence in Legal Matters

Properly maintained accounts act as evidence in courts, tax authorities, and regulatory investigations.

(vi) Facilitates Comparisons

Standardized financial statements allow comparison of performance over different periods and with other organizations.

(vii) Statutory Compliance

Financial Accounting helps businesses comply with legal requirements such as **Income Tax Act, Companies Act, GST, SEBI Regulations, etc.**

(viii) Basis for Future Planning and Control

Historical financial data forms the basis for budgets, forecasts, and business planning.

(ix) Attracts Investors and Lenders

Clear financial reports build confidence among potential investors and financial institutions.

3. Scope of Financial Accounting

The **scope** of financial accounting is wide and extends to various functions and stakeholders:

(i) Recording of Transactions

Recording day-to-day transactions in journals and ledgers, following accounting principles.

(ii) Classification and Posting

Transactions are classified into categories such as assets, liabilities, income, and expenses, and then posted to respective accounts.

(iii) Preparation of Trial Balance

To check the arithmetical accuracy of accounts, a trial balance is prepared.

(iv) Preparation of Financial Statements

Includes **Trading Account, Profit & Loss Account, and Balance Sheet** to show performance and position.

(v) Interpretation of Results

Analyzing and interpreting financial statements to understand profitability, liquidity, and solvency.

(vi) Communication of Information

Sharing financial reports with interested parties – owners, shareholders, creditors, employees, and government authorities.

(vii) Compliance with Accounting Standards & Law

Ensuring accounts are maintained according to **GAAP, IFRS, and statutory requirements.**

(viii) Support for Other Branches of Accounting

Acts as a foundation for **Cost Accounting, Management Accounting, and Auditing.**

(ix) Global Application

Used by multinational corporations for consolidation of accounts across countries, following international standards.

TOPIC-2 : Accounting Equation, Basics of Indian Accounting Standards (Ind AS), International Financial Reporting Standards (IFRS)**Accounting Equation**

The **Accounting Equation** is the foundation of double-entry bookkeeping. It ensures that a company's financial records remain balanced.

Formula:

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

Components:

- **Assets:** Resources owned by the business (e.g., cash, inventory, equipment).
- **Liabilities:** Obligations owed to outsiders (e.g., loans, accounts payable).
- **Owner's Equity:** The owner's claim on the assets (e.g., capital, retained earnings).

Example:

If a company has ₹10,00,000 in assets and ₹6,00,000 in liabilities, the owner's equity is: [₹10,00,000 = ₹6,00,000 + ₹4,00,000]

This equation must always balance after every transaction.

Basics of Indian Accounting Standards (Ind AS)

Indian Accounting Standards (Ind AS) are converged with IFRS to improve transparency and comparability in financial reporting.

Key Features:

- **Issued by:** Institute of Chartered Accountants of India (ICAI), notified by the Ministry of Corporate Affairs (MCA).
- **Purpose:**
 - Standardize accounting practices.
 - Improve reliability and comparability of financial statements.
 - Align with global standards while considering Indian context.

Classification:

1. **Presentation & Disclosure Standards:**
 - *Ind AS 1:* Presentation of Financial Statements.
 - *Ind AS 7:* Cash Flow Statements.
2. **Measurement & Recognition Standards:**
 - *Ind AS 2:* Inventories.
 - *Ind AS 16:* Property, Plant & Equipment.
3. **Financial Instruments:**

- *Ind AS 32, 107, 109*: Classification, recognition, and disclosure of financial instruments.

4. Industry-Specific Standards:

- *Ind AS 41*: Agriculture.
- *Ind AS 106*: Exploration for Mineral Resources.

Applicability:

- Mandatory for listed companies and large unlisted companies.
- Phased adoption for NBFCs and banks.

International Financial Reporting Standards (IFRS) IFRS are global accounting standards developed by the **International Accounting Standards Board (IASB)**.

Objectives:

- Create a common global language for business affairs.
- Enhance transparency, accountability, and efficiency in financial markets.

Key Principles:

- **Fair Value Measurement.**
- **Substance Over Form.**
- **Accrual Basis of Accounting.**
- **Consistency and Comparability.**

Differences from Ind AS:

Aspect	Ind AS	IFRS
Issuing Authority	ICAI & MCA (India)	IASB (International)
Customization	Includes Indian “carve-outs”	Uniform global standards
Applicability	Indian companies	Global companies
Legal Framework	Companies Act, 2013	IFRS Foundation

Topic- 3 Principles of Double Entry, Ledger Accounting

Preparation of Trial Balance, Implications of GST (Goods and Services Tax)

Principles of Double Entry

The **double entry system** is the foundation of modern accounting. It was first introduced by **Luca Pacioli** in 1494 and is based on the idea that **every financial transaction has two aspects**:

- **Debit (Dr.)** – What the business receives (value coming in).
- **Credit (Cr.)** – What the business gives (value going out).

Golden Rule:

“For every debit, there must be an equal and corresponding credit.”

Key Features:

1. **Dual Aspect Concept** – Every transaction affects at least two accounts.

- Example: If you buy furniture for ₹10,000 in cash →
 - Furniture A/c **Dr. ₹10,000** (asset increases)
 - Cash A/c **Cr. ₹10,000** (asset decreases)

2. Accounting Equation Maintained:

$$[\text{Assets}] = [\text{Liabilities}] + [\text{Capital}]$$

Double entry ensures this equation always balances.

3. Debit & Credit Rules (Golden Rules):

- **Personal Account** → Debit the receiver, Credit the giver.
- **Real Account** → Debit what comes in, Credit what goes out.
- **Nominal Account** → Debit all expenses & losses, Credit all incomes & gains.

Ledger Accounting

The **Ledger** is called the "Book of Final Entry."

After transactions are first recorded in the **Journal (Book of Original Entry)**, they are posted into the **Ledger**, which organizes them account-wise.

Think of it as:

- **Journal = Diary of daily transactions**
- **Ledger = Individual account-wise summary**

Steps in Ledger Accounting:

1. **Transaction Recorded in Journal** → Date-wise.
2. **Posting to Ledger** → Journal entries are transferred to relevant ledger accounts.
3. **Balancing the Accounts** → Debit and credit totals are compared, and the balance is carried forward.

Format of a Ledger Account:

Date	Particulars	Debit (₹)	Credit (₹)
01-04-2025	Cash A/c (Being cash received)	10,000	
03-04-2025	Purchase A/c (Being goods bought)		5,000
Balance (Dr – Cr) is then carried forward.			

Example:

Transaction: Started business with ₹50,000 cash.

- Journal Entry:
 - Cash A/c **Dr. 50,000**
 - To Capital A/c **Cr. 50,000**
- Ledger Posting:

Cash Account

Date Particulars Debit (₹) Credit (₹)

01-04 Capital A/c 50,000

Capital Account

Date Particulars Debit (₹) Credit (₹)

01-04 Cash A/c 50,000

Summary:

- **Double Entry Principle** ensures accuracy by recording both aspects (Dr & Cr).
- **Ledger Accounting** classifies and summarizes transactions account-wise, helping in preparing the **Trial Balance** and **Final Accounts**.

1. Preparation of Trial Balance

What is a Trial Balance?

- A **Trial Balance** is a statement prepared at the end of a period to check the **arithmetic accuracy** of ledger accounts.
- It shows the **closing debit and credit balances** of all accounts in the ledger.
- Main purpose: To ensure that **total debits = total credits**, which is the backbone of double-entry accounting.

Steps in Preparation of Trial Balance:

1. **Balance all ledger accounts** (difference between total debits & credits).
2. **List each account** with its closing balance in either debit or credit column.
 - Assets → Debit balance
 - Liabilities → Credit balance
 - Expenses & Losses → Debit balance
 - Incomes & Gains → Credit balance
3. **Total both debit and credit columns.**
4. If totals match → Books are arithmetically correct.

Format of Trial Balance

Trial Balance as on 31st March 2025

S. No.	Account Name	Debit (₹)	Credit (₹)
1	Cash A/c	50,000	
2	Purchases A/c	30,000	
3	Sales A/c		40,000
4	Capital A/c		40,000
5	Rent Expense A/c	10,000	
	Total	90,000	90,000

Objectives of Trial Balance

- To check **arithmetical accuracy** of books.
- To provide a **summary of all accounts**.
- To help in preparing **Final Accounts (Trading, P&L, Balance Sheet)**.

Limitations of Trial Balance

- It only checks **arithmetical accuracy**, not fraud or errors like:
 - Omission of entry.
 - Wrong account classification.
 - Compensating errors.

2. Implications of GST (Goods and Services Tax)

What is GST?

- GST (introduced in India on **1st July 2017**) is a **comprehensive indirect tax** levied on the supply of goods and services.
- It replaced multiple taxes like **VAT, Excise Duty, Service Tax, Entry Tax, Octroi** etc.
- GST is a **destination-based tax** (collected at the point of consumption).

Types of GST in India

1. **CGST** – Central Goods & Services Tax (collected by Central Govt.)
2. **SGST** – State Goods & Services Tax (collected by State Govt.)
3. **IGST** – Integrated GST (for inter-state supply, collected by Centre, shared with States)
4. **UTGST** – Union Territory GST (for UTs like Delhi, Chandigarh)

Implications of GST

For Business:

1. **Simplification of Tax System** – One single tax instead of multiple indirect taxes.
2. **Input Tax Credit (ITC)** – Businesses can claim credit for tax paid on purchases, reducing tax burden.
3. **Improved Transparency** – Every supply is recorded, reducing chances of tax evasion.
4. **Compliance Requirements** – Monthly/quarterly returns filing via **GST portal**, requiring digital accounting.
5. **Impact on Pricing** – Uniform tax structure changes cost of goods and services.

For Consumers:

1. **Elimination of Cascading Effect** – No tax on tax, hence reduction in final price in many sectors.
2. **Uniform Prices Across India** – Goods/services taxed similarly across

states.

3. **More Transparency** – Tax component shown clearly on bills.

For Economy:

1. **Widening of Tax Base** – More businesses brought into tax system.
2. **Boost to GDP** – Simplified taxation encourages trade & investment.
3. **Better Revenue for Govt.** – As compliance improves, govt. revenue rises.
4. **Control of Black Money** – Since GST is technology-driven, transactions become traceable.

Limitations / Challenges of GST

- **Compliance burden** for small businesses (many returns required).
- **Technical glitches** in GST portal.
- **Multiple tax rates** (0%, 5%, 12%, 18%, 28%) cause confusion.
- Initial **impact on inflation** in some sectors.

Summary:

- **Trial Balance** → a tool to ensure debit & credit balances match, preparing ground for final accounts.
- **GST** → modern indirect tax system that simplifies taxation, boosts transparency, but comes with compliance challenges.

UNIT- 2

Topic- 4: Financial Statements Overview

Financial Statements Overview

Financial statements are the final reports of accounting which show the **profitability** and **financial position** of a business.

They generally include:

1. **Trading Account** – shows gross profit/loss.
2. **Profit and Loss Account (P&L)** – shows net profit/loss.
3. **Balance Sheet** – shows assets, liabilities, and capital position.

2. Profit and Loss Account (P&L)

Definition

- A statement that shows **net profit or net loss** during a particular period.
- Prepared **after Trading Account**.
- Format:
 - **Debit side:** Expenses and losses.

- **Credit side:** Incomes and gains.

General Format of P&L Account

Particulars	Debit (₹)	Particulars	Credit (₹)
Salaries	xx	Gross Profit b/d	xx
Rent	xx	Commission Received	xx
Depreciation	xx	Interest Received	xx
...		...	
Net Profit c/d	xx		

3. Balance Sheet

Definition

- A statement showing the **financial position** of a business on a particular date.
- It shows:
 - **Assets** (what the business owns)
 - **Liabilities** (what the business owes)
 - **Capital/Equity** (owner's investment + profits – drawings)

General Format of Balance Sheet

Balance Sheet as on 31st March 2025

Liabilities	₹	Assets	₹
Capital	xx	Fixed Assets	xx
Add: Net Profit	xx	Current Assets	xx
Less: Drawings	(xx)	Closing Stock	xx
Creditors	xx	Cash in Hand	xx
Loans	xx	Debtors	xx
		Bank Balance	xx
Total	xxx	Total	xxx

4. Example

Trial Balance of XYZ Traders (31st March 2025)

Particulars	Debit (₹)	Credit (₹)
Cash in Hand	20,000	
Bank Balance	30,000	
Debtors	40,000	
Purchases	1,20,000	
Sales		2,00,000
Salaries	25,000	
Rent	10,000	



Particulars	Debit (₹)	Credit (₹)
Furniture	50,000	
Capital		60,000
Creditors		35,000
Closing Stock (given)	30,000	

Step 1: Trading Account

Particulars	Debit (₹)	Particulars	Credit (₹)
Opening Stock	—	Sales	2,00,000
Purchases	1,20,000	Closing Stock	30,000
Gross Profit c/d	1,10,000		
Total	2,30,000	Total	2,30,000

Gross Profit = 2,30,000 – 1,20,000 = 1,10,000

Step 2: Profit & Loss Account

Particulars	Debit (₹)	Particulars	Credit (₹)
Salaries	25,000	Gross Profit b/d	1,10,000
Rent	10,000		
Net Profit c/d	75,000		
Total	1,10,000	Total	1,10,000

Net Profit = 1,10,000 – (25,000 + 10,000) = 75,000

Step 3: Balance Sheet**Balance Sheet of XYZ Traders as on 31st March 2025**

Liabilities	₹	Assets	₹
Capital 60,000		Furniture	50,000
Add: Net Profit 75,000	1,35,000	Closing Stock	30,000
Creditors	35,000	Debtors	40,000
		Bank Balance	30,000
		Cash in Hand	20,000
Total	1,70,000	Total	1,70,000

Summary

- **Profit & Loss A/c** → Shows profit earned (₹75,000 in example).
- **Balance Sheet** → Shows financial position (Assets = Liabilities + Capital).
- Together, they provide a **complete financial picture** of a business.

TOPIC-5: Depreciation Accounting

Depreciation means the reduction in the value of a fixed asset due to wear and tear, passage of time, usage, or obsolescence. It is treated as an expense in accounting because it allocates the cost of an asset over its useful life.

Two common methods of depreciation are:

1. Straight Line Method (SLM)

Also called the **Fixed Instalment Method**.

Formula:

$$\text{Depreciation per year} = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Useful Life}}$$

- Same amount of depreciation is charged every year.
- Asset value reduces in equal installments.

Example (SLM):

- Cost of Machine = ₹1,00,000
- Scrap Value = ₹10,000
- Useful Life = 5 years

$$\text{Depreciation per year} = \frac{1,00,000 - 10,000}{5} = ₹18,000$$

Depreciation Chart (SLM):

Year	Opening Value	Depreciation	Closing Value
1	1,00,000	18,000	82,000
2	82,000	18,000	64,000
3	64,000	18,000	46,000
4	46,000	18,000	28,000
5	28,000	18,000	10,000 (Scrap)

Here, depreciation expense is **constant** every year.

2. Written Down Value Method (WDV)

Also called **Diminishing Balance Method**.

Formula:

$$\text{Depreciation} = \text{Opening Value of Asset} \times \text{Depreciation Rate}$$

- Depreciation is charged at a **fixed percentage** on the **reducing balance** of the asset.



- Higher depreciation in early years, lower in later years.

Example (WDV):

- Cost of Machine = ₹1,00,000
- Rate of Depreciation = 20%
- Scrap value not considered directly.

Depreciation Chart (WDV):

Year	Opening Value	Depreciation (20%)	Closing Value
1	1,00,000	20,000	80,000
2	80,000	16,000	64,000
3	64,000	12,800	51,200
4	51,200	10,240	40,960
5	40,960	8,192	32,768

Here, depreciation expense **reduces every year**.

Key Differences (SLM vs WDV)

Basis	Straight Line Method	Written Down Value Method
Amount of Depreciation	Same every year	Decreases every year
Asset Value	Reduces uniformly	Reduces faster in earlier years
Simple to use	Very simple	Slightly complex
Popularity	Used when assets give equal benefit every year (e.g., furniture, buildings)	Used when assets lose value quickly (e.g., machinery, vehicles, computers)



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TIT TECHNOCRATS



UNBEATABLE PLACEMENTS

Autonomous Institute (by UGC, Govt. of India as per Clause 7.4)
