

Contents

PAGE

About the Authors *I-5*

Preface *I-7*

Acknowledgements *I-11*

Chapter Heads *I-13*

PART I

ACCOUNTING IN BUSINESS

1

ACCOUNT FOR DECISION-MAKING: A MANAGERIAL PERSPECTIVE

- Accounting Defined *3*
- Objectives of Accounting *4*
- Ethics in Accounting *5*
- Limitations of Accounting *5*
- Advantages of Accounting *5*
- The Fields of Accounting *5*
- Social Responsibility Accounting *6*
- Financial Accounting and Management Accounting *6*
- Financial Accounting *7*
- Management Accounting *8*
- Functions of Management *11*
- Planning *11*

PAGE

- Control 12
- Forms of Business Organisation 12
  - Sole Proprietorship 12
  - Partnership 13
  - Corporation 14
- What is Forensic Accounting? 14
- Illustrative Problems 15
- Review Questions 18
- Critical Thinking Exercises 18
- Classroom Activities 19
- Conceptual Analysis 20

2

ANALYSING AND RECORDING BUSINESS TRANSACTIONS

- Generally Accepted Accounting Principles (GAAP) 21
- Principles of Accounting 27
  - The Accrual Concept 27
  - The Business Entity Concept 27
  - The Going Concern Concept 27
  - Money Measurement Concept 27
  - The Cost Concept 28
  - The Conservation Concept 28
  - The Consistency Concept 28
  - The Dual Aspect Concept 29
  - The Realisation Concept 30
  - Matching Concept 30
  - The Accounting Period Concept 30
  - Materiality Concept 30
- The Accounting Equation 31
- Assets 31
  - Current Assets 32
  - Fixed Assets 32

PAGE

- Other Assets 33
- Miscellaneous Expenditure and Losses 33

◆ Liabilities 34

- Current Liabilities 34
- Long-Term Liabilities 35
- Owner's Equity 35

◆ Analysing Accounting Transactions 37
◆ Double-Entry Accounting: The Equality of Debits and Credits 38
◆ Accounting Equation Analysis 38
◆ What is an account? 39
◆ Types of Accounts 40
◆ Recording Transactions 40

- The Journal 40
- Ledger 41
- The Trial Balance 42

◆ The Adjustment Entries 51
◆ Illustrative Problems 52
◆ Review Questions 58
◆ Review Problems 59
◆ Critical Thinking Exercises 71
◆ Classroom Activities 71
◆ Conceptual Analysis 72
◆ Case Study 72
◆ Annexure I: List of Indian Accounting Standards (IND AS List) 73
◆ Annexure II: International Accounting Standards (IAS) as recognized and updated for 2024 74

3
ANALYSING AND RECORDING BUSINESS TRANSACTIONS

◆ Objective of Making Financial Statements 77
◆ Financial Statements, Income Statements and Balance Sheet 77
◆ Assets 78

PAGE

- Current Assets 78
- Fixed Assets 79

◆ Liabilities and Net Worth 79

- Current Liabilities 79
- Non-Current Liabilities 79

◆ Net Worth 80

◆ Format of an Income Statement and a Balance Sheet 80

◆ Illustrative Problems 88

◆ Review Questions 106

◆ Review Problems 107

◆ Critical Thinking Exercises 112

◆ Classroom Activities 112

◆ Conceptual Analysis 113

◆ Case Study 114

4

DEPRECIATION METHODS

◆ Definition 115

◆ Depreciation, Depletion and Amortisation 116

◆ Measuring Depreciation 116

- Cost of an Asset 116
- Salvage Value or Estimated Residual Value 116
- Useful Life 116

◆ Causes of Depreciation 117

◆ Characteristics of Depreciation 117

◆ Objective of Depreciation 117

◆ Why Provide for Depreciation? 117

◆ Conditions for Claiming Depreciation 118

◆ Depreciation is a Process of Cost Allocation not of Valuation 118

◆ Depreciation Methods 119

- Straight-Line Method (SLM) 119

PAGE

- Written Down Value Method 120
- Sum-of-the-Years-Digits Method (SYD Method) 121
- Double-Declining Balance Method 121
- Units-of-Production Method 122

◆ Management Viewpoint 123

- Income Taxes 123
- The Principle of Consistency 123
- Estimating Correctly the Net Income 123
- Partial-Year Depreciation 123

◆ Change in Estimates for Depreciation 124
◆ Computation under the Companies Act, 2013 125
◆ Computation under the Income-tax Act, 1961 125
◆ Straight-Line Method (SLM) vs Written-Down Value (WDV) Method 125
◆ Disclosure in Financial Statements 125
◆ Depreciation for Tax Reporting in the US 125
◆ Comparing Depreciation Methods 127

- Straight-Line Method 127
- Diminishing-Balance Method 128
- Sum-of-Years-Digit Method 128
- Units-of-Production Method 129

◆ Accounting for Fixed Assets under IAS 16 130
◆ Illustrative Problems 131

- Inference 140

◆ Review Questions 141
◆ Review Problems 142
◆ Critical Thinking Exercises 144
◆ Classroom Activities 145
◆ Conceptual Analysis 145
◆ Case Study 145
◆ Annexure I 146

- Depreciation Methods Employed by Major Indian Companies 146
- TISCO 147

PAGE

5

INVENTORY VALUATION

- Definition of inventory (According to the IAS-2) *149*
- Inventory control is an essential part of business operations, and it has several important benefits, including *149*
- History of Inventory Valuation *149*
- Inventory Accounting System *150*
  - Periodic Inventory System *150*
  - Perpetual Inventory System *150*
  - Periodic Inventory System vs. Perpetual Inventory System *151*
- Methods of Inventory Valuation *151*
- Illustrative Problems *152*
- Comparison of the Methods: FIFO vs. LIFO *155*
- Changing Inventory Methods *156*
- Illustrative Problems *156*
- Review Questions *171*
- Review Problems *172*
- Critical Thinking Exercises *176*
- Classroom Activities *176*
- Conceptual Analysis *177*
- Case Study 1 *177*
  - Adidas *178*
- Case Study 2 *179*
- Case Study 3 *179*
  - Genius Overseas Company *179*
  - Ginni Automotive International Ltd. *180*
- Case Study 4 *181*
- ANNEXURE: Inventory Valuation Methods at Major Companies in India *181*

PAGE

PART II

ANALYSIS OF FINANCIAL STATEMENTS

6

STATEMENT OF CASH FLOWS

- Advantages and disadvantages of Cash Flow Statement *186*
- Purpose and Importance of the Statement of Cash Flows *187*
- Classification of Cash Flows *188*
- Operating Activities *188*
- Investing Activities *190*
- Financing Activities *190*
- Preparing a Statement of Cash Flows *191*
  - Direct Method *192*
  - Extraordinary Items *194*
- Significant Non-cash Activities *194*
- Significance of the Statement of Cash Flows *195*
- Presentation by Companies in India *195*
- Free Cash Flows *196*
  - Important Notes *197*
- Illustrative Problems *199*
- Review Questions *215*
- Review Problems *216*
- Additional Data *227*
- Critical Thinking Exercises *227*
- Classroom Activities *228*
- Conceptual Analysis *228*

PAGE

7

FINANCIAL STATEMENT ANALYSIS

- Significance of Analysis *230*
- Advantages of Financial Statement Analysis *231*
- History of Analysis *231*
- Some Interesting Facts *232*
- Techniques of Financial Statement Analysis *234*
- Horizontal Analysis *234*
- Trend Analysis *237*
- Vertical Analysis *244*
- Ratio Analysis *245*
- Types Ratios *247*
  - Liquidity Ratios *247*
  - Profitability Ratios *249*
  - Leverage Ratios *256*
  - Turnover Ratios (also known as Activity Ratios or Efficiency Ratios) *257*
- Final Consideration in Ratio Analysis *258*
- Illustrative Problems *259*
- Analysis of the Results *273*
  - Current Ratio *273*
  - Quick Ratio *274*
  - Stock-Turnover Ratio *274*
  - Debtors-Turnover Ratio *274*
  - Debt-Equity Ratio *274*
  - Interest-Coverage Ratio *274*
  - Gross-Profit Ratio *275*
  - Operating-Expenses Ratio *275*
  - Return-on-Assets *275*
  - Return-on-Capital Employed *275*
  - Return-on-Shareholder's Equity (ROSE) *275*
  - Earnings Per Share *275*

PAGE

- Price-Earnings Ratio (P/E) 276
- Dividend - Payout Ratio 276

◆ Review Questions 277
◆ Review Problems 278
◆ Critical Thinking Exercises 286
◆ Classroom Activities 287
◆ Conceptual Analysis 287
◆ Case Study 1 288
- Alpha Chemical Industries 288

◆ Case Study 2 291

PART III

COST BEHAVIOUR PLANNING AND DECISION-MAKING

8

COST CONCEPTS FOR PLANNING AND CONTROL

◆ Concept of Cost 295
◆ Cost Concept Related to Income Statement 297
◆ Advantages of Cost Concepts 298
◆ Cost classification for a manufacturing firm 299
◆ Prime Cost 300
◆ Non-Manufacturing Costs 300
- Fixed Cost, Variable Cost, Semi-Variable Cost 301

◆ Semi-Variable Cost 303
◆ Classification of Fixed Cost 303
◆ Classification of Variable Costs 304
◆ Cost Concepts for Control 304
◆ Controllable & Non-Controllable Costs 305
◆ Other Cost Concepts 306
◆ Are Fixed Cost and Sunk Cost the Same? 306
◆ Illustrative Problems 307
- Absorbed and Variable Costs 310
- Sunk and Committed Costs 310

PAGE

- Opportunity and Incremental Costs *310*
- Avoidable and Unavoidable Costs *310*
- Standard Costs *310*
- Post-manufacturing Costs *311*
- Life-Cycle Costs *311*
- Period Costs *316*
- Product Costs *316*
- Variable Costs *316*
- Fixed Costs *317*
- Material Overheads *317*
- Direct Materials *317*

◆ Review Questions *321*
◆ Review Problems *323*
◆ Critical Thinking Exercises *326*
◆ Classroom Activities *326*
◆ Conceptual Analysis *327*
◆ Case Study on Cost Concepts *327*

9

COST-VOLUME-PROFIT AND BREAK-EVEN ANALYSIS

◆ Break-Even Analysis *330*
◆ Advantages of Break-Even Analysis *330*
◆ Break-Even Point *331*
◆ Contribution Margin *331*
◆ Contribution Margin Ratio *331*
◆ Equation for Break-Even Point in Units *331*
◆ Equation for Break-Even Point in Rupees *332*
◆ Importance *332*
◆ Assumptions underlying CVP Analysis *332*
◆ Profit Planning *333*
◆ The Break-Even Graph *333*

PAGE

- The Profit-Volume Graph (P/V Graph) *334*
- P/V Ratio *335*
- Margin of Safety (M/S) *336*
- Limitations Underlying CVP Analysis *336*
- Applications of CVP Analysis *337*
- Illustrative Problems *339*
- Case Study 1 *352*
- Case Study 2 *353*
- Case Study 3 *354*
- Case Study 4 *355*
- Review Questions *359*
- Review Problems *360*
- Critical Thinking Exercises *364*
- Classroom Activities *365*
- Conceptual Analysis *365*

10

RELEVANT COSTING IN MANAGERIAL DECISIONS

- The Concept of Relevant Information *366*
- Relevant Costing *367*
- Make or Buy Decisions *369*
- Accepting a Special Order *370*
- Dropping a Product Line *372*
- Own vs. Lease Out Decision *373*
- To Sell or Process Further *374*
- Illustrative Problems *375*
- Review Questions *388*
- Review Problems *389*
- Critical Thinking Exercises *392*
- Classroom Activities *393*
- Conceptual Analysis *393*

PAGE

- Case Study 1 *394*
- Case Study 2 *394*

11
THE BUDGETING PROCESS

- Introduction *395*
- Advantages of Budget *395*
- Budgets, Budgeting and Budgetary Control *396*
- Basic Principles of an Effective Budget *397*
- What does a Budget Look Like? *398*
- The Budget Period *398*
- Limitations of Budgeting *398*
- Fixed Budget vs. Flexible Budget *399*
- Master Budgets *400*
- The Sales Budget *400*
- The Production Budget *402*
- The Manufacturing Cost Budget *402*
  - Direct Materials Budget *402*
- Direct Labour Budget *403*
- The Manufacturing Overhead Budget *404*
- The Selling Expenses Budget *405*
- The General and Administrative Expenses Budget *405*
- The Capital Budget *405*
- Cash Budget *406*
- Forecasted Income Statement *407*
- Forecasted Statement of Financial Position (Balance Sheet) *407*
- Budget Implementation *407*
- Special Aspects of Budgeting *407*
- Zero-Base Budgeting (ZBB) *407*
- Traditional Budgeting vs. Zero-Base Budgeting *408*
  - Key Elements of Zero-Base Budgeting *409*

PAGE

- Procedure of Zero-Base Budgeting *409*
- Advantages of Zero-Base Budgeting *410*
- Disadvantages of Zero-Base Budgeting (ZBB) *410*
- Performance Budgeting *410*
- Illustrative Problems *411*
- Review Questions *419*
- Review Problems *420*
- Critical Thinking Exercises *426*
- Classroom Activities *426*
- Conceptual Analysis *427*
- Case Study *427*

12

STANDARD COSTING AND VARIANCE ANALYSIS

- Definition of Standard Cost and Standard Costing *429*
- Standard Costs and Budgets *430*
- Importance of Setting Standard Costs *430*
- Objectives of Using Standard Costs *431*
- Advantages of Standard Costs *433*
- Types of Standards *433*
- Variance Analysis *434*
- Kinds of Variances *435*
- Material Variances *435*
- Labour Variances *438*
- Labour Rate Variance *439*
- Labour Efficiency Variance *440*
- Overhead Variances *441*
- Two-Way Analyses *443*
- Three-Way Analyses *443*
- Calculation of Overhead Variances *444*
- Interpreting through Variance Analysis *446*

PAGE

- Is the Variance Significant? 446
- What action should be taken? 446
- Evaluation of Cost Variance 446

◆ Illustrative Problems 448
◆ Review Questions 463
◆ Review Problems 465
◆ Critical Thinking Exercises 468
◆ Classroom Activities 469
◆ Conceptual Analysis 470
◆ Case Study 1 471
◆ Responsibility Report 474
◆ Case Study 2 474
◆ Case Study 3 475

PART IV

COST CONTROL AND PERFORMANCE EVALUATION

13

RESPONSIBILITY ACCOUNTING AND DIVISIONAL PERFORMANCE MEASUREMENT

◆ Responsibility Centres 480
◆ Benefits of responsibility accounting and divisional performance measurement 481
◆ Divisional Performance Measurement 482
◆ Efficiency and Effectiveness 483
◆ Criteria for Divisional Performance Measurement 483
◆ Types of Responsibility Centres 483

- Cost/Expenses Centre 483
- Profit Centre 484
- Investment Centre 485

◆ Evaluating Investment Centres 485
◆ ROI vs RI 487
◆ Alternative Base 489
◆ Illustrative Problems 489

PAGE

- Review Questions 502
- Review Problems 504
- Critical Thinking Exercises 511
- Group Learning Exercises 511
- Conceptual Analysis 512
  - Evaluating Division Performance 512
- Case Study 1 513
  - Segment Analysis 513
- Case Study 2 514
- Case Study 3 515

14

TRANSFER PRICING

- Definition of Transfer Pricing 516
- Benefits of Transfer Pricing 517
- Transfer Pricing Facts 518
- Objectives of Transfer Pricing 518
- Transfer Pricing Methods 519
  - Market Price 519
  - Full Cost With or Without a Profit Markup 520
  - Variable Cost Transfer Pricing 520
  - Negotiated Transfer Pricing 521
  - Dual Transfer Prices 521
- Illustrative Problems 527
- Review Questions 544
- Review Problems 545
- Critical Thinking Exercises 551
- Classroom Activities 551
- Conceptual Analysis 551
- Case Study 1 551
- Case Study 2 552

PAGE

15

JOB ORDER COSTING AND BATCH COST

- Job Order Costing *554*
- Job Order Costing Advantages *555*
- The Job Cost Sheet *556*
- Flow of Costs in Job Costing *556*
- Illustrative Problems *559*
- Review Questions *576*
- Review Problems *576*
- Critical Thinking Exercises *582*
- Classroom Activities *582*
- Conceptual Analysis *583*

16

PROCESS COSTING AND JOINT PRODUCT COSTING

- Equivalent Units: A Key Concept *585*
- Weighted Average Method *586*
- First-In-First-Out (FIFO) Method *587*
- Normal Losses and Abnormal Gains/Losses *592*
- Normal Losses with a Scrap Value *595*
- Abnormal Losses *596*
- Abnormal Gains *596*
- Abnormal Gains and Scrap Values *597*
- Joint Product Costing *598*
- Methods of Joint Product Costing *599*
  - Market Value at Split-Off Point Method *599*
  - Net Realisable Value Method *599*
  - Physical Output Method *599*
- Example on Joint Costs *600*
- Illustrative Problems *601*

PAGE

- Review Questions 613
- Review Problems 614
- Critical Thinking Exercises 618
- Classroom Activities 618
- Conceptual Analysis 619

17
VARIABLE COSTING AND ABSORPTION COSTING

- Absorption Costing and Variable Costing 620
- Comparison of Absorption Costing and Variable Costing 621

Appendix I 623

Appendix II 624

- Under-and Over-Recovery of Overheads 624
- Variable Costing and the Recovery of Overheads 625
- Reconciliation of Profit under Absorption and Variable Costing Methods 627
- Illustrative Problems 630
- Variable Costing and the Contribution Margin Approach 637
- Review Questions 638
- Review Problems 638
- Critical Thinking Exercises 645
- Classroom Activities 646
- Conceptual Analysis 646
- Case Study 646
  - Absorption and Variable Costing Concepts and Procedures 646

PART V

EMERGING CONCEPTS IN ACCOUNTING

18
HUMAN RESOURCES ACCOUNTING AND INFLATION ACCOUNTING

- Human Resource Accounting 651
- Advantages of Human Resource Accounting 652

PAGE

- Methods of Accounting Human Resources 653
  - Monetary Measures 653
  - Non-Monetary Measures 655
- Determination of Human Value 655
- Importance of Human Resource Accounting 656
- Inflation Accounting 656
- Methods of Accounting for Inflation 657
  - Current Cost Accounting (CCA) 658
  - Current Purchasing Power Method (CPP) 658
- Problems in Implementation 659
- Inflation and Productivity Measurement 660
- Intensification of Budgeting 660
- Inflation and Dividend Policy 660
- Limitation of Inflation Accounting 660
- Review Questions 662
- Critical Thinking Exercises 663
- Classroom Activities 663
- Conceptual Analysis 664

19

LIFE-CYCLE COSTING

- What is Life-Cycle Costing 665
- One-Off and Recurring Costs 666
- The Process 666
- The Methodology of LCC 668
- Cost Break-down Structure (CBS) 668
- Cost Estimating 668
- Discounting 668
- Inflation 669
- LCC Models 669
- Limitations of LCC 669

PAGE

- Review Questions *670*
- Critical Thinking Exercises *671*
- Classroom Activities *671*
- Conceptual Analysis *671*

Annexure 1 : Important Formulae *673*

Annexure 2 : Glossary of Important Terms in Management Accounting *677*