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FINANCIAL ACCOUNTING	Accounting cycle, journal entries, Ind AS, bank reconciliation and a detailed topic-wise explanation.
TAXATION	Income-tax computation concepts and GST input tax credit, with examples relevant to Indian businesses.
AUDITING	Audit objectives, evidence and ledger scrutiny with practical warehouse and company situations.
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About this book

This is an independently authored, full-syllabus teaching resource for candidates preparing for Assistant Manager (Finance), Post Code 03. It explains financial accounting, taxation and auditing in accessible language, then shows how each idea works in Indian workplaces. The examples are illustrative and are not intended to represent actual transactions of any organisation.

Legal and editorial note

The legal reference date is **26 October 2026**. Income-tax discussions reflect the Income-tax Act, 2025 framework in force from 1 April 2026. GST classification, rates, forms, thresholds and tax compliance requirements can change through notifications. Verify current primary sources before applying any example to a real transaction. This book is educational material, not personalised tax, accounting, audit or legal advice.

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01 | Accounting Foundations, GAAP and the Accounting Cycle

1.1 Why accounting exists

Accounting is the language of business. A business may have cash in its bank account but still be making a loss, or it may report profit while customers have not yet paid. Accounting separates these different questions. It records transactions, classifies them, summarises them and explains the result to owners, managers, lenders, regulators and employees. In a warehouse, the finance team needs to know how much storage income has been earned, how much is recoverable from customers, and what it costs to operate the facility.

A **transaction** is an event that can be measured reliably in money and affects the business. Signing a proposal without creating a binding accounting event normally does not create a journal entry. Receiving a supplier's invoice for completed work does. The **accounting equation** is $\text{Assets} = \text{Liabilities} + \text{Equity}$. Assets are resources controlled by the business; liabilities are present obligations; equity is the residual interest after deducting liabilities from assets.

1.2 GAAP in simple language

Generally Accepted Accounting Principles (GAAP) are the broad principles, conventions and applicable standards used to prepare financial statements. **Accrual** means recognising income when earned and expenses when incurred, not merely when money moves. **Going concern** assumes that the entity will continue operating unless facts show otherwise. **Consistency** means applying policies consistently unless a justified change is required. **Materiality** means focusing on information capable of influencing users' decisions. **Prudence** calls for caution when making uncertain estimates, without deliberately understating assets or profits.

Substance over form is especially important in modern reporting: the economic reality of an arrangement may matter more than its label. A contract described as a service may contain a lease if the customer controls the use of an identified asset. **Matching** is a useful learning idea: relate expenses to the revenue or period they help generate; in formal reporting, recognition still follows the definitions and criteria in the applicable standards.

1.3 The complete accounting process

The usual path is **source document -> journal -> ledger -> trial balance -> adjustments -> financial statements**. A source document could be a tax invoice, goods receipt note, salary sheet, bank advice or debit note. A journal entry records debits and credits. The ledger collects all entries affecting one account. A trial balance lists closing ledger balances to check arithmetic equality. Adjustments recognise outstanding expenses, prepaid costs, depreciation and other year-end matters.

Under the double-entry system, total debits equal total credits in every complete entry. For assets and expenses, an increase is generally a debit. For liabilities, equity and income, an increase is generally a credit. Do not learn the rule as 'debit always means money coming in'; that shortcut fails for credit sales, depreciation and many adjustments.

1.4 Journal and ledger: an Indian warehouse example

A warehouse issues a storage invoice of Rs 1,18,000, including assumed GST of Rs 18,000 for this illustration. The customer will pay later. The entry is: **Trade Receivables Dr 1,18,000; To Storage Revenue 1,00,000; To Output GST 18,000**. The receivable increases, income is earned, and a tax liability is recognised. When the customer pays, **Bank Dr 1,18,000; To Trade Receivables 1,18,000**. The second entry does not create revenue again.

If the company pays Rs 12,000 rent in advance for next month, it initially recognises a **prepaid expense (asset)** rather than the current month's rent expense. At the relevant month-end it transfers the amount to rent expense. This is how accrual accounting prevents a distorted monthly profit.

1.5 Trial balance: what it can and cannot prove

A trial balance with equal totals is a useful arithmetic check, but it cannot prove that accounts are correct. An invoice omitted entirely, an entry posted to the wrong expense account, or two compensating errors can still leave the trial balance balanced. A good accountant therefore reconciles sub-ledgers, reviews supporting documents and checks unusual balances in addition to preparing the trial balance.

1.6 Adjustment and closing entries

Year-end adjustments recognise unpaid bills, prepayments and depreciation. Examples: **Electricity Expense Dr; To Electricity Payable; Prepaid Insurance Dr; To Insurance Expense** (if originally expensed); and **Depreciation Expense Dr; To Accumulated Depreciation**. In a manual system, closing entries transfer income and expenses to profit or loss.

Worked illustration

A depot has opening capital Rs 5,00,000, buys furniture for Rs 60,000 cash, earns service income Rs 1,40,000 on credit and incurs unpaid wages Rs 25,000. Ignore tax. Assets include cash Rs 4,40,000, furniture Rs 60,000 and receivables Rs 1,40,000: total Rs 6,40,000. Liabilities are wages payable Rs 25,000. Equity is capital Rs 5,00,000 plus profit Rs 1,15,000 = Rs 6,15,000. Thus assets Rs 6,40,000 = liabilities Rs 25,000 + equity Rs 6,15,000.

Common exam traps

- Cash receipt is not always revenue; an advance received for an unperformed service may be a liability.
- A balanced trial balance does not detect an omitted transaction.
- Owner's withdrawal is not an operating expense in a sole proprietorship.
- A purchase of equipment is normally capital expenditure, not immediate expense, subject to materiality and applicable policy.

Check your understanding

Q1. Why is an unpaid electricity bill recorded? **Answer:** The service was consumed and the expense belongs to the period, so a payable exists.

Q2. Can profit be higher than net operating cash inflow? **Answer:** Yes. Credit sales may increase profit without immediate cash collection.

Q3. Why is a bank loan not sales revenue? **Answer:** It creates cash and an obligation to repay, not income from operations.

03 | Indian Accounting Standards (Ind AS): The Practical Framework

3.1 What Ind AS means

Indian Accounting Standards are accounting standards notified by the Ministry of Corporate Affairs under the Companies Act, 2013 for entities to which the Ind AS framework applies. They are substantially converged with IFRS, with Indian carve-outs and specific requirements. **Ind AS is not automatically mandatory for every small business**; applicability depends on relevant rules, entity category and prescribed criteria. Other entities may follow applicable Accounting Standards rather than Ind AS.

The conceptual framework supports useful information for investors, lenders and other creditors. Fundamental qualitative characteristics include **relevance** and **faithful representation**. Enhancing characteristics include comparability, verifiability, timeliness and understandability. A financial statement is useful when numbers reflect economic events rather than merely legal wording.

3.2 Financial statement presentation: Ind AS 1

A complete set of financial statements ordinarily includes a balance sheet, statement of profit and loss (including other comprehensive income where applicable), statement of changes in equity, statement of cash flows and notes, together with comparative information. Current and non-current classifications help readers understand liquidity. A liability is not classified as current merely because its amount is large; the settlement rights and operating cycle matter.

Other comprehensive income (OCI) contains specified items that standards require or permit outside profit or loss. Do not treat OCI as a general dumping ground for unusual expenses. The classification and possible later reclassification depend on the relevant Ind AS.

3.3 Key standards at a glance

- **Ind AS 2:** inventories; lower of cost and NRV.
- **Ind AS 7:** cash flow statements; operating, investing and financing activities.
- **Ind AS 8:** accounting policies, changes in accounting estimates and errors.
- **Ind AS 10:** events after the reporting period.
- **Ind AS 12:** income taxes, including deferred tax.
- **Ind AS 16:** property, plant and equipment (PPE).
- **Ind AS 19:** employee benefits.
- **Ind AS 21:** effects of changes in foreign exchange rates.
- **Ind AS 36:** impairment of assets.
- **Ind AS 37:** provisions, contingent liabilities and contingent assets.
- **Ind AS 38:** intangible assets.
- **Ind AS 109:** financial instruments.
- **Ind AS 115:** revenue from contracts with customers.
- **Ind AS 116:** leases.

4.6 Fraud and control perspective

A strong process uses separate people for initiating payments, authorising them, recording entries and reviewing reconciliations where practical. Reconciliations should be timely, independently reviewed and supported by bank statements. Long-outstanding reconciling items are warning signs. A cheque outstanding for several months may require inquiry and appropriate follow-up, not indefinite carry-forward.

Worked illustration

Cash book balance is Rs 78,000 debit. A deposited cheque Rs 11,000 has not cleared; issued cheques Rs 6,000 have not been presented; bank credited interest Rs 400 not in cash book; bank debited charges Rs 200 not recorded. Adjusted cash book = $78,000 + 400 - 200 = \text{Rs } 78,200$. Bank statement = $78,200 - 11,000 + 6,000 = \text{Rs } 73,200 \text{ credit}$.

Common exam traps

- The same reconciling item changes sign when the starting point changes.
- A bank error is not corrected by inventing a cash book entry.
- Outstanding deposits and outstanding issued cheques have opposite effects.
- Reconciliation is a control procedure, not proof that every bank transaction is genuine.

Check your understanding

Q1. Is an unpresented cheque a cash book error? **Answer:** No, normally it is a timing difference.

Q2. How is an unrecorded direct deposit handled? **Answer:** Record it in the cash book and then reconcile.

Q3. Why review old reconciling items? **Answer:** They may indicate errors, stale instruments or irregularities.

13 | Income Tax: Salary, Deductions and Computation

13.1 Salary income: the starting point

Salary income can include basic pay, dearness allowance, taxable allowances, bonus, commission, perquisites and certain retirement-related receipts, subject to the applicable rules. A payroll officer must distinguish an **allowance**, a **reimbursement**, a **perquisite** and an **exempt receipt**. The label on a payslip is not by itself decisive; statutory conditions and evidence matter.

The Income-tax Act, 2025 provides a **standard deduction up to Rs 75,000** for salary income computed under section 202(1), and up to Rs 50,000 in the other specified case, subject to the statutory salary limit. The new-regime figure is important for practical salary examples. [R7]

13.2 Step-by-step salary computation

First total the salary items chargeable to tax. Second, determine any exclusions or exemptions permitted under the chosen regime. Third, deduct eligible salary deductions, including the relevant standard deduction. Fourth, add other heads of income and apply permissible set-offs and deductions. Fifth, compute slab and special-rate taxes separately where necessary. Finally consider rebate, surcharge, cess, TDS and advance tax.

Example: An employee has gross taxable salary before standard deduction Rs 12,75,000, no other income and qualifies for Rs 75,000 standard deduction. Total income is Rs 12,00,000. Normal slab tax is Rs 60,000; subject to the resident-individual rebate conditions and absence of excluded special-rate income, rebate of Rs 60,000 reduces the normal tax to zero. The familiar headline 'no tax up to Rs 12.75 lakh salary' is therefore conditional, not a universal rule for every receipt.

13.3 Worked slab calculation above rebate threshold

An employee has taxable salary Rs 15,00,000 before standard deduction and no other income. After Rs 75,000 deduction, total income is **Rs 14,25,000**. Tax: 0-4 lakh nil; next 4 lakh at 5% = Rs 20,000; next 4 lakh at 10% = Rs 40,000; next 2.25 lakh at 15% = Rs 33,750. Total normal tax = **Rs 93,750**. Assuming no rebate, surcharge or other adjustments, health and education cess at 4% is Rs 3,750, giving **Rs 97,500** before TDS credits. Verify the tax year and special circumstances in a real computation.

13.4 Other heads: essential concepts

House property: tax treatment depends on ownership, use, annual value, interest and applicable deductions. **Business or profession:** start with commercial results and make tax-law adjustments, including eligible depreciation and disallowances. **Capital gains:** identify the capital asset, transfer, holding period, cost and relevant special-rate rules. **Other sources:** may include interest, dividends and other taxable receipts not assigned elsewhere.

Example: A company receives a refundable security deposit of Rs 5 lakh from a customer. The amount is not ordinary business income merely because it entered the bank account; it may create a liability. By

16 | GST Input Tax Credit, Invoicing and Returns

16.1 The idea of input tax credit

Input Tax Credit (ITC) allows eligible registered persons to use GST paid on qualifying business inputs against output tax, subject to statutory conditions. It is designed to reduce cascading tax. ITC is not available merely because GST appears on an invoice. The recipient must satisfy relevant conditions involving registration, documents, receipt of goods/services, supplier compliance and other restrictions.

16.2 Conditions and blocked credits

Common checks include whether the recipient holds a valid tax invoice or other prescribed document, whether goods or services were received, whether the supplier's reporting and tax-payment conditions are met as required, whether the recipient filed relevant returns, and whether credit is blocked by law. Some personal-consumption items, specified vehicles and other categories may be restricted. ITC on capital goods and services must be evaluated separately where rules require it.

16.3 GST accounting entries

Assume eligible input GST of 18% on office services costing Rs 50,000. Invoice entry: **Office Expense Dr 50,000; Input CGST Dr 4,500; Input SGST Dr 4,500; To Supplier 59,000**, for an assumed qualifying intra-state transaction. If ITC is not eligible, the tax may form part of the relevant expense or asset cost. The finance officer should not leave a recoverable GST balance in the books when the law blocks the credit.

16.4 Output tax and set-off

When a taxable sale occurs, the supplier records revenue and output GST separately. Eligible ITC is then utilised against output liabilities following prescribed utilisation rules. The sequence and restrictions for IGST, CGST and SGST credits matter. A simple teaching formula is **net cash GST = output liability - eligible utilised ITC**, but the actual electronic credit and cash ledger mechanism and cross-utilisation restrictions must be respected.

16.5 Tax invoices, credit notes and debit notes

A **tax invoice** supports a taxable supply and must contain prescribed particulars. A **credit note** may be issued in specified situations such as reduction in taxable value or tax, subject to statutory conditions and time limits. A **debit note** may address an increase. These documents affect both commercial receivables and tax reporting. A purely commercial discount after supply does not always reduce GST unless legal conditions are met.

A.i | Indian Accounting Standards (Ind AS): Recognition, Measurement and Presentation

Why this topic matters in a finance examination

Indian Accounting Standards are more than a list of numbers to memorise. They provide a common method for deciding **when** a transaction should appear in the accounts, **at what value** it should appear, **where** it should be presented, and **what must be disclosed**. The Ministry of Corporate Affairs notifies the standards under the Companies Act framework. Applicability depends on the entity, its category and the relevant notification. A candidate must not assume that every Indian business follows Ind AS; other accounting frameworks may apply to some entities. The ICAI's 2025-26 Ind AS compendium and later MCA amendments are the appropriate primary references.

The best way to study a standard is to ask five questions: What transaction is covered? What is the recognition test? What is the initial amount? What happens at later reporting dates? What information must readers see in the notes? This sequence turns technical language into a practical decision. A company cannot recognise an asset simply because management wants to show a stronger balance sheet, nor can it postpone an expense just to improve profit.

The conceptual framework in an everyday Indian example

Imagine a logistics company has received Rs 8 lakh as a refundable security deposit from a customer. Cash has increased, but the company also has an obligation to return the deposit subject to the contract. Therefore, the receipt is not automatically income. The transaction has created an asset (cash) and a liability (refundable deposit). Now suppose the customer pays Rs 8 lakh for storage services that will be provided during the next eight months. Cash has again increased, but revenue is recognised as the service is provided; the unearned portion is a contract liability. Two receipts of the same amount can have different accounting treatment because their economic substance differs.

The framework emphasises relevant information and faithful representation. Useful information should be complete, neutral and free from material error, while acknowledging reasonable estimates. Comparability, verifiability, timeliness and understandability make the information more useful. A finance officer should document the assumptions behind material estimates rather than presenting a precise-looking number without evidence.

Ind AS 115: five-step revenue model

Step 1 is to identify an enforceable contract with a customer. Step 2 identifies distinct promises to transfer goods or services. Step 3 determines the transaction price, considering variable amounts and relevant constraints. Step 4 allocates that price to distinct performance obligations, generally using relative stand-alone selling prices. Step 5 recognises revenue when or as control transfers. In a warehousing contract, the storage service is often provided continuously over time; a separately priced handling service may be performed at a particular time. Whether the promises are distinct requires analysis of the actual contract.

Worked Indian case: A warehouse agrees to provide three months of storage for Rs 3,00,000 and a separately identifiable loading service for Rs 40,000. The customer pays Rs 3,40,000 in advance.

B.ii | Goods and Services Tax Act, 2017: Supply to Return Filing

Start with the taxable event: supply

GST is a destination-oriented indirect tax system. The first question is whether a transaction constitutes a supply under the applicable law, including any relevant deeming rules and exclusions. Next identify whether the supply is of goods or services, its classification, whether an exemption applies, who is liable, the place of supply, time of supply, value and applicable tax rate. Only then should an invoice and tax entry be prepared. A correct arithmetic calculation using the wrong classification or place of supply is still a wrong answer.

Indian warehouse example: A warehousing company provides storage services to a registered business customer. The tax treatment can depend on the nature of goods stored, classification of service, exemption notifications and place-of-supply rules. Storage of some agricultural produce may have a different treatment from commercial storage of other goods. Therefore, a general 'warehouse services always attract one fixed rate' statement is unsafe. In a textbook example using an assumed 18% rate, that assumption is solely for teaching invoice arithmetic, not a classification conclusion.

CGST, SGST and IGST: why place of supply matters

An intra-State taxable supply ordinarily attracts CGST and the relevant State or Union Territory component; an inter-State taxable supply ordinarily attracts IGST. The supplier's address and customer's address alone do not always decide the result; specific place-of-supply rules apply, including special rules for certain services. A supply related to immovable property may be governed by the location of that property. A finance officer must identify the supply category and apply the corresponding statutory rule before choosing the tax type.

Illustrative arithmetic: A taxable intra-State service has value Rs 2,00,000 and an assumed total GST rate of 18%, split equally for this example. CGST = Rs 18,000 and SGST = Rs 18,000; invoice total = Rs 2,36,000. If the same assumed-rate supply were properly classified as inter-State, IGST would be Rs 36,000 instead. The total tax may be the same in this illustration, but reporting and credit utilisation differ. Real rates and place-of-supply rules must be verified.

Composite supply and mixed supply

A composite supply consists of two or more naturally bundled supplies supplied together in the ordinary course of business, one of which is the principal supply; the tax treatment generally follows the principal supply. A mixed supply combines supplies for a single price that are not naturally bundled and can attract the highest applicable rate among the components under the relevant rule. The difference is not whether the invoice has two lines. It is whether the supplies are naturally bundled in the ordinary course and how they are offered.

Teaching example: A hotel room with customary bundled facilities may raise composite-supply questions. A festive gift hamper combining unrelated goods for one price may raise mixed-supply questions. In warehousing, storage plus handling may require analysis of contract terms, commercial

C.i | Auditing Concepts: Objective, Risk, Evidence and Professional Judgement

What an audit actually does

An audit is a systematic process of obtaining and evaluating evidence against appropriate criteria and reporting a conclusion. A financial statement audit aims to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion in accordance with the applicable reporting framework. Reasonable assurance is high but not absolute assurance. Auditors do not guarantee that every fraud will be detected, nor do they prepare management's accounts as a substitute for management's responsibilities.

The distinction between **management responsibility** and **auditor responsibility** is fundamental. Management prepares the financial statements, maintains records, establishes internal controls and assesses going concern. The auditor plans and performs procedures, obtains sufficient appropriate evidence, evaluates misstatements and forms an opinion. An auditor's independence and professional scepticism help prevent management assertions from being accepted without challenge.

Audit risk in three parts

A useful model is $\text{Audit Risk} = \text{Risk of Material Misstatement} \times \text{Detection Risk}$. Risk of material misstatement includes inherent risk and control risk. Inherent risk is susceptibility to misstatement before considering controls. Control risk is the risk that the entity's controls will not prevent, detect or correct a misstatement on time. Detection risk is the risk that audit procedures fail to detect an existing material misstatement. This model is conceptual rather than a formula for producing exact numerical percentages in every audit.

Warehouse case: A depot manually calculates storage charges using occupancy days, rate slabs and exemptions. The calculation is complex, creating inherent risk. If the same employee calculates, approves and posts bills without independent review, control risk is higher. The auditor may respond by testing more transactions, independently recalculating bills, examining contracts and reconciling occupancy records to invoices. Stronger procedures reduce detection risk but cannot make it zero.

Audit assertions turn accounts into testable questions

For transactions, assertions include occurrence, completeness, accuracy, cut-off and classification. For balances, existence, rights and obligations, completeness, valuation and presentation matter. Each assertion needs different evidence. To test **existence** of receivables, the auditor may seek external confirmation or examine subsequent receipts. To test **completeness** of payables, the auditor may inspect payments after year-end and unmatched goods receipt notes. Testing only recorded invoices may be insufficient to detect omitted liabilities.

Assertion example: A ledger shows machinery of Rs 30 lakh. Physical inspection can support existence but does not by itself prove ownership or correct valuation. Purchase documents, title records, depreciation calculations and impairment assessment address different assertions. One document rarely proves everything.

C.iv | Ledger Scrutiny: A Practical Account-by-Account Method

Start by identifying what could go wrong

Ledger scrutiny means reviewing accounts and transactions for errors, omissions, unusual patterns, weak controls and possible misstatements. It is more than checking whether debit and credit totals match. A finance manager or auditor asks: Does the account belong to this business? Is the amount supported? Is it recorded in the correct period? Is it classified properly? Are there unusual or related-party transactions? Is the balance recoverable or payable? These questions apply differently to cash, receivables, payables, fixed assets, expenses and statutory accounts.

Cash and bank ledger scrutiny

Compare opening balance to prior closing balance. Trace receipts and payments to bank statements. Review bank reconciliations, unmatched credits, stale cheques, negative balances and unusual manual journals. Test large round-sum payments, transactions just below approval limits and payments to new bank accounts. A cash-book balance agreeing with the bank statement is useful but does not prove every receipt and payment was authorised.

Illustrative exception: A bank payment of Rs 4,95,000 was split into three payments of Rs 1,65,000 on the same day to the same vendor. If approval authority changes above Rs 2 lakh, the pattern deserves review. Splitting alone does not prove fraud, but it is a risk indicator requiring supporting evidence and business explanation.

Receivables ledger scrutiny

Reconcile the customer sub-ledger to the control account. Review ageing, long-outstanding items, negative balances, credit notes, disputed bills and collections after year-end. Match rates to contracts and occupancy to invoices. Investigate whether old balances require expected credit loss allowances. A customer confirmation supports the recorded balance but does not by itself prove the customer can pay.

Example: A customer balance of Rs 8 lakh includes Rs 3 lakh older than one year. Management says the customer will pay soon, but no subsequent receipt or correspondence exists. The reviewer should examine recovery evidence, dispute status, legal steps and ECL assumptions. The answer is not automatically to write off the entire Rs 3 lakh, nor to ignore the ageing.

Payables and expense ledger scrutiny

Search for duplicate invoices by vendor, invoice number, amount and date. Compare purchase orders, goods receipts, service certificates and approvals. Review debit balances in vendor accounts, old credit balances and unmatched receipts. Test expenses near year-end to identify cut-off errors. A low reported payable balance may look favourable but can be misleading if received goods or services were not accrued.

27 | Twenty-Five Practical Cases: Accounting, Taxation and Audit

How to use these cases

Each case is written in the style of an applied finance examination. Read the facts first, identify the accounting or statutory question, write a short solution, and only then check the explanation. The figures are illustrative. For tax examples, assumed rates are clearly labelled; always use the applicable law and notification in a real transaction. The objective is to practise the reasoning process rather than memorise a single numerical answer.

Case 1: Storage income earned but not invoiced

Facts: A warehouse provides storage throughout March. The contract rate gives March service value of Rs 1,80,000. The invoice is generated on 7 April, and the customer pays on 20 April. The company closes accounts on 31 March. Ignore GST for this illustration.

Step 1 - Identify the event: The service has been performed by 31 March. The April invoice and receipt are later administrative and settlement events. **Step 2 - Apply accrual:** March accounts must reflect the earned service income, subject to the applicable revenue recognition conditions. **Step 3 - Post the entry:** Accrued Revenue/Contract Asset or Receivable Dr 1,80,000; To Storage Revenue 1,80,000, using the correct classification for the right to consideration. On invoicing, reclassify if necessary; on receipt, debit Bank and credit the receivable. **Exam trap:** Recording income only when cash is received understates March revenue and overstates April revenue.

Case 2: Advance receipt for a future contract

Facts: A customer pays Rs 6,00,000 on 1 January for six months of evenly provided storage service, January through June. The company reports results on 31 March. Ignore GST.

Step 1: On receipt, recognise Bank Dr 6,00,000 and Contract Liability Cr 6,00,000. **Step 2:** Three of the six months have been performed by 31 March. Earned revenue = $6,00,000 \times 3/6 = \text{Rs } 3,00,000$. **Step 3:** Recognise Contract Liability Dr 3,00,000; To Revenue 3,00,000. **Result:** Contract liability at 31 March = Rs 3,00,000. The company's cash is Rs 6 lakh higher, but profit is not automatically Rs 6 lakh higher. **Exam trap:** A cash receipt and an income statement item are not interchangeable.

Case 3: Machinery cost and depreciation

Facts: A company buys a pallet-handling machine for Rs 12,00,000, pays qualifying installation charges Rs 60,000 and spends Rs 40,000 on training employees. The machine's residual value is Rs 1,00,000 and useful life ten years. Assume training does not qualify as asset cost and no other costs apply.

Step 1: Capitalised cost = $12,00,000 + 60,000 = \text{Rs } 12,60,000$. Training Rs 40,000 is expensed under the stated assumptions. **Step 2:** Depreciable amount = $12,60,000 - 1,00,000 = \text{Rs } 11,60,000$. **Step 3:** Annual straight-line depreciation = Rs 1,16,000. **Step 4:** Entry is Depreciation Expense Dr 1,16,000; To Accumulated Depreciation 1,16,000. **Exam trap:** Do not capitalise every payment made around the purchase date; identify which costs are directly attributable under the relevant standard.

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Exam-Style Problems

Problem 1: Accounting equation

A business has assets Rs 18 lakh and liabilities Rs 7 lakh. **Required:** Find equity. **Solution:** Equity = Assets - Liabilities = **Rs 11 lakh**. If a new loan of Rs 3 lakh is received, assets and liabilities each rise by Rs 3 lakh; equity remains Rs 11 lakh.

Problem 2: Accrual revenue

A warehouse receives Rs 1,20,000 for four months of services beginning 1 February. Year-end is 31 March. **Solution:** Two months earned: $1,20,000 \times 2/4 = \text{Rs } 60,000$ revenue. Remaining **Rs 60,000 contract liability**, assuming an even service pattern.

Problem 3: Prepaid insurance

Annual insurance Rs 48,000 begins 1 October. Accounts close 31 March. **Solution:** Six months expense = **Rs 24,000**; six months prepaid = **Rs 24,000**.

Problem 4: Depreciation

PPE cost Rs 9,20,000; residual Rs 20,000; useful life six years. **Solution:** Straight-line annual depreciation = $(9,20,000 - 20,000) / 6 = \text{Rs } 1,50,000$.

Problem 5: Inventory lower of cost and NRV

Cost of a commodity Rs 5,00,000; estimated selling price Rs 4,80,000; selling costs Rs 20,000. **Solution:** NRV = $4,80,000 - 20,000 = \text{Rs } 4,60,000$. Carry inventory at **Rs 4,60,000** under the lower-of-cost-and-NRV rule, assuming the relevant inventory is owned by the entity.

Problem 6: BRS

Adjusted cash book Rs 2,00,000 debit; unpresented cheques Rs 35,000; uncleared deposits Rs 22,000. **Solution:** Bank statement balance = $2,00,000 + 35,000 - 22,000 = \text{Rs } 2,13,000$ credit.

Problem 7: Cash from operations

Profit before tax Rs 3,00,000; depreciation Rs 60,000; increase in debtors Rs 30,000; increase in creditors Rs 20,000; tax paid Rs 40,000. **Solution:** Operating cash = $3,00,000 + 60,000 - 30,000 + 20,000 - 40,000 = \text{Rs } 3,10,000$, assuming no other adjustments.

Problem 8: Loan EMI split

Opening loan Rs 6,00,000; annual interest 10%; monthly instalment Rs 18,000. **Solution:** Monthly interest = $6,00,000 \times 10\% / 12 = \text{Rs } 5,000$. Principal repaid = $18,000 - 5,000 = \text{Rs } 13,000$. Closing loan = **Rs 5,87,000**, ignoring fees.

Problem 9: Payroll net pay

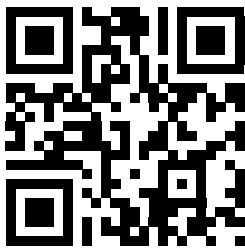
Gross payroll Rs 7,50,000; employee deductions Rs 1,20,000. **Solution:** Net salary payable = **Rs 6,30,000**. Employer contributions, if any, are separate additional expenses.

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