



CAAP — Certified Accounting & Audit Professional – Accounting

Complete Book | Table of Contents | 38 chapters + 9 sections

Module A — Fundamentals of Accounting

CH-1	Accounting An Introduction	3
CH-2	Accounting Process Manual Computerised	6
CH-3	Definitions	8
CH-4	Use of Journal, Types and Importance of Voucher in Computerised Accounting of Banking Transactions	10
CH-5	Bank Reconciliation Statement	13
CH-6	Depreciation Accounting	17
CH-7	Capital and Revenue Expenditure	20
CH-8	Banking Operations	23

Module B — Financial Statements of Banks & Taxation

CH-9	An Introduction to Financial Statements of Bank	26
CH-10	Advances	29
CH-11	Asset Classification Income Recognition and Provisioning	32
CH-12	Cash Balances with RBI and Other Banks Money at Call and Short Notice	35
CH-13	Fixed Assets and Other Assets	38
CH-14	Borrowings and Deposits	40
CH-15	Capital Reserves and Surplus	42
CH-16	Other Liabilities and Provisions	44
CH-17	Contingent Liabilities and Bills for Collection	46
CH-18	Investments	48
CH-19	Profit and Loss Account	51
CH-20	Disclosure Requirements in Financial Statements	54
CH-21	Consolidation of Financial Statements	57
CH-22	Consolidation of Branch Accounts	61
CH-23	Inter Office Transactions	63

Module C — Preparation of Financial Statements of Banks & Taxation

CH-24	Preparation of Final Accounts of Banks	66
CH-25	Preparation of Cash Flow and Funds Flow Statements	69
CH-26	Management Information System (MIS) and Financial Reporting	73
CH-27	Accounting in Computerized Environment	75
CH-28	Introduction to Direct Tax and Indirect Tax	79
CH-29	Preparing and Filing of Returns under Direct and Indirect Tax	83
CH-30	Tax Provisions Relating to Income Tax and GST	86
CH-31	Deferred Tax and Tax Planning	89

Module D — Accounting Standards (IND-AS)

CH-32	Scope, Statutory Provisions and Compliances	93
CH-33	Applicability of Ind AS to Banks, FIs & Corporates	100
CH-34	Scope of Consolidated Financial Statements (CFS)	103
CH-35	Consolidation Procedures and Accounting for Investment in Subsidiaries	105
CH-36	Standalone Financial Statements	109
CH-37	Jointly Controlled Entities and Associates in Separate Financial Statements	113
CH-38	Disclosures, Technical Issues and Challenges	117

Additional Resources

—	Case Studies — Module A: Fundamentals of Accounting	120
—	Case Studies — Module B: Financial Statements of Banks & Taxation	126
—	Case Studies — Module C: Preparation of Financial Statements of Banks & Taxation	137
—	Case Studies — Module D: Accounting Standards (IND-AS)	144
—	Mega Tests — Mega Test 1 — 100 Questions (Full Syllabus)	149
—	Mega Tests — Mega Test 2 — 100 Questions (Full Syllabus)	155
—	Mega Tests — Mega Test 3 — 100 Questions (Full Syllabus)	162
—	Mega Tests — Mega Test 4 — 100 Questions (Full Syllabus)	169



LEARNING
SESSIONS

CH-1

Accounting An Introduction

Topic 1 — Accounting as the Language of Business

- **Language of business** — Accounting is the **language of business**.
- **Communication** — It tells users the results of operations and the financial health of an organisation.
- **Medium** — This is done through **financial statements**, which aim to show a **true and fair view** of the entity's state of affairs.
- **Art** — It is the art of **recording, classifying, summarising and interpreting** monetary transactions.
- **AICPA** — The **American Institute of Certified Public Accountants (AICPA)** gives a classic definition of accounting.
- **Definition** — “the art of recording, classifying, and summarizing transactions and events, especially those of a financial nature, in terms of money, and interpreting the results thereof.”

Basis	Bookkeeping	Accountancy
Scope	Recording transactions in books of original entry and ledgers	Compiling accounts to understand the state of affairs of the business
Main activity	Recording only	Recording, classifying, summarising and interpreting
Relationship	The base of accounting; a part of it	Wider discipline that uses bookkeeping output
Output	Journals, subsidiary books, ledger balances	Trial balance, financial statements and their analysis

Remember this

- AICPA definition = **recording, classifying, summarising** (in money) + **interpreting**.

Topic 2 — Financial Statements and Their Objective

Financial statements provide information about the **financial position, performance** and **changes in financial position** of an enterprise that is useful to a wide range of users for economic decisions.

Component	What it shows
Balance Sheet	Assets, liabilities and equity at a date
Profit and Loss Account (Statement of Profit and Loss)	Income, expenses and profit or loss for a period
Cash Flow Statement	Cash inflows and outflows from operating, investing and financing activities; a fund-flow analysis is not a substitute for it in a required set of statements
Statement of Changes in Equity	Movement in share capital, reserves and retained earnings (required for companies where applicable)
Explanatory statements, notes and schedules	Accounting policies, breakup of items and other disclosures forming part of the statements

- **Section 2(40)** — Under the **Companies Act, 2013 [Section 2(40)]**, only some companies may omit the cash flow statement.
- **Who may omit** — A **One Person Company**, a **small company**, a **dormant company** and a **private company that is a start-up**.
- **Banks** — Banks prepare the balance sheet and profit and loss account in **Form A** and **Form B** of the **Third Schedule** to the **Banking Regulation Act, 1949**.

- **Extra disclosures** — Banks also give RBI-prescribed disclosures.

User	Main interest
Shareholders and investors	Return, risk and value of investment
Banks and financial institutions	Repayment capacity, security cover, liquidity
Government and tax authorities	Tax assessment, regulation, statistics
Directors and management	Performance, planning and control
Business associates (suppliers, customers)	Continuity and ability to pay

Topic 3 — Accounting Standards — The Grammar of Accounting

- **Grammar** — Like any language, accounting has **grammar**.
- **Rules** — These are rules on how events are recognised, measured, presented and disclosed.
- **Name** — These rules are called **Accounting Standards (AS)**.
- **Purpose** — They ensure **consistency, comparability and transparency** in financial reporting.
- **Legal force** — For companies, standards apply only when **notified by the Central Government** under **Section 133** of the Companies Act, 2013.
- **Two sets** — India has **Ind AS** (converged with IFRS) and **AS**.
- **Numbering** — The numbers of Ind AS and AS are not interchangeable.

Entity	Framework and threshold
Scheduled commercial banks	Ind AS not yet implemented . RBI's Expected Credit Loss (ECL) provisioning framework (aligned with Ind AS 109) applies from 1 April 2027 . It covers scheduled commercial banks other than RRBs, Small Finance Banks and Payments Banks
Insurers	Ind AS 117 (Insurance Contracts) notified; implementation as directed by IRDAI
Other companies	Notified AS under the Companies (Accounting Standards) Rules, 2021; a Small and Medium-sized Company (turnover up to ₹250 crore and borrowings up to ₹50 crore , unlisted, not a bank/FI/insurer) gets specified exemptions
Non-company entities (firms, LLPs, trusts, etc.)	ICAI AS with two classes: MSMEs (turnover up to ₹250 crore and borrowings up to ₹50 crore) and Large entities ; MSMEs with turnover up to ₹50 crore and borrowings up to ₹10 crore get further relaxations

- **See** — Ch 32 (p. 93) for standard setting by the ASB, notification in consultation with NFRA and the Section 129(5) disclosure; Ch 33 (p. 100) for the Ind AS roadmap by phase, the net-worth computation (standalone statements, revaluation reserves excluded), group extension and the once-adopted-always-applied rule.

Remember this

- Ind AS: listed (not SME-exchange only) or net worth $\geq$ **₹250 crore**. AS exemptions: turnover $\leq$ **₹250 crore** and borrowings $\leq$ **₹50 crore**.

Topic 4 — ICAI Conceptual Framework

- **Purpose** — A conceptual framework sets out the **objective** of financial reporting and the concepts behind standards.
- **Use** — It guides standard-setters and helps preparers where no standard applies.
- **Limit** — It does **not override** any specific standard.

Feature	Framework under AS	Conceptual Framework under Ind AS
Issued by	ICAI — Framework for the Preparation and Presentation of Financial Statements	ICAI — Conceptual Framework for Financial Reporting under Ind AS , aligned with the IASB 2018 framework

- **See** — Ch 3 (p. 8) for the definitions of asset and liability, the recognition tests and the measurement bases under both frameworks.

Qualitative characteristics (Ind AS framework)	Items
Fundamental	Relevance (including materiality) and faithful representation
Enhancing	Comparability, verifiability, timeliness, understandability
Underlying assumption	Going concern

Topic 5 — Nature and Purpose of Accounting

- **Records** — Every business entity, for profit or not, must keep **systematic records** of day-to-day events.
- **Why** — Records show its **profit or loss, assets and liabilities**.
- **How** — This is done through systematic books of account based on sound accounting principles.
- **Section 128** — Companies must keep books on the **accrual basis** and the **double-entry** system under **Section 128** of the Companies Act, 2013.

Component of accountancy	Work involved
1. Systematic classification	Grouping transactions for recording in the books
2. Recording (bookkeeping)	Entering events and transactions in the books of account
3. Summarising	Preparing the trial balance from the ledger, then the balance sheet and profit and loss account
4. Interpreting	Drawing meaning from recorded data and financial statements

Example: Owner starts business with ₹50,000 cash: **Cash A/c Dr ₹50,000 / To Capital A/c ₹50,000** (asset and capital both rise). Furniture bought for cash ₹20,000: **Furniture A/c Dr / To Cash A/c ₹20,000** (asset form changes; total assets unchanged).

Topic 6 — Features of Accounting

Feature	Explanation
Recording, classifying and summarising	Transactions are handled in an orderly manner and presented through the Trial Balance, Profit and Loss Account, Balance Sheet and Cash Flow Statement
Money measurement	Transactions are expressed in money ; non-monetary events (e.g. staff morale) are not recorded
Financial nature	Only transactions of a financial character are recorded
Interpretation	Recorded data are interpreted for informed future decisions

Topic 7 — Objectives and Advantages of Accounting

Objectives of accountancy	Advantages of financial accounting
1. Keep a systematic record	(i) Provides information for decision-making
2. Ascertain the results of operations (profit or loss)	(ii) Serves users with limited authority or resources to obtain information
3. Ascertain the financial position	(iii) Useful information for investors and creditors
4. Facilitate rational decision-making	(iv) Helps predict, compare and evaluate earning power
5. Satisfy the requirements of law	(v) Helps judge management's ability
	(vi) Gives factual and interpretive information

Topic 8 — Historical Perspectives

Accounting evolved through phases, each widening its purpose from accountability to owners towards decision support and social reporting.

Phase	Focus
Stewardship accounting	Wealthy owners employed stewards to manage property; stewards rendered accounts periodically to the owners
Financial accounting	Arose with joint stock companies and large businesses; discloses information to shareholders through the income statement and balance sheet
Cost accounting	Ascertain costs for control , profitability assessment and efficiency; guides management action
Management accounting	Shifts focus from recording and analysing transactions to supplying information for decision-making and policy formulation ; gives managers the information needed to achieve organisational objectives
Social responsibility accounting	Considers both economic and social effects of business decisions; businesses are held accountable for their impact on social well-being , and traditional statements are too narrow to reflect this
Human resource accounting (HRA)	Reports the role of people in earning capacity and total assets; accounts for investment in people and their economic value
Inflation accounting	Adjusts assets and profits for price changes , correcting overstatement of profit caused by the historical cost and stable monetary unit assumptions

Topic 9 — New Accounting Systems

- **Value accounting** — It evaluates and captures each contributor's share in creating a product.
- **Percentage share** — It assigns a **percentage** to every contributor so each gets a fair share of future revenue.
- **Basis** — Shares are allocated **by the value each participant brings**.
- **Scope** — It tracks both **tangible and intangible** contributions.
- **Best fit** — It suits projects with many contributors.
- **Fair value accounting** — Also called **current value accounting**, it measures items at fair value.
- **Ind AS 113** — Fair value is the **price that would be received to sell an asset or paid to transfer a liability**.
- **Conditions** — The price is set in an **orderly transaction between market participants** at the **measurement date**.



- **Intention ignored** — The holder's intention to keep or dispose of the item is ignored.

Valuation approach	Basis	Fair value hierarchy input
Market approach	Prices of identical or comparable items	Level 1: quoted prices for identical items in active markets
Income approach	Discounted future cash flows or earnings	Level 2: observable inputs other than Level 1 prices
Cost approach	Current replacement cost	Level 3: unobservable inputs

Challenges of fair value accounting: **higher cost** of valuation, **delays**, and doubts about the **reliability** of estimates, especially for Level 3 inputs.

Topic 10 — Origins of Accounting Principles

Period	Development
Ancient civilisations	Greeks, Romans, Egyptians and Babylonians kept well-developed records and control systems; bookkeeping practices date back to ancient times
13th–15th centuries	Tremendous growth of commerce in Italy ; the modern system of bookkeeping was born. Luca Pacioli published a description of double-entry bookkeeping in 1494 — he described it, he did not invent it
15th century	Growing trade increased the use of Pacioli's work; merchants recognised the need to record transactions
16th–17th centuries	England and Holland tried to set rules for double entry and preparation of financial statements; independent ledger accounts developed
19th century	The industrial revolution shaped the form of accounting and reporting
20th century	World wars further shaped practices; forms developed then are still in use
India	Accounting was practised scientifically about twenty centuries ago. In King Chandragupta's regime, minister Kautilya wrote on it in the Arthashastra . The Nama method (also Mahajani , Marwari or Deshi) is still used

CAAP | Module A | CH-1 | MCQs

Q1. A branch clerk posts vouchers to ledgers, while the regional finance officer analyses the branch statements to judge its position. The officer's work is best described as: [Ref: Topic 1, p. 3]

- (a) Bookkeeping, since it uses ledgers
- (b) Accountancy, which includes interpretation
- (c) Stewardship accounting
- (d) Cost accounting

Q2. Which item is NOT recorded in the books of account? [Ref: Topic 6, p. 4]

- (a) Purchase of furniture on credit
- (b) Interest accrued on a deposit
- (c) Resignation of a highly skilled manager
- (d) Payment of rent by cheque

Q3. After posting all vouchers to the ledger, an accountant extracts a trial balance and then prepares the balance sheet and profit and loss account. Which component of accountancy is this? [Ref: Topic 5, p. 4]

- (a) Summarising
- (b) Systematic classification
- (c) Recording
- (d) Interpreting

Q4. An unlisted company has net worth of ₹320 crore. Under the Ind AS roadmap it must: [Ref: Topic 3, p. 3]

- (a) Apply Ind AS
- (b) Follow AS as only listed companies are covered
- (c) Choose AS or Ind AS each year
- (d) Apply Ind AS only if turnover exceeds ₹500 crore

Q5. A company's equity is listed only on an SME exchange and its net worth is ₹40 crore. It will follow: [Ref: Topic 3, p. 3]

- (a) Ind AS compulsorily
- (b) IFRS directly
- (c) US GAAP
- (d) Notified AS under the Companies (Accounting Standards) Rules, 2021

Q6. An unlisted company has turnover of ₹220 crore and borrowings of ₹60 crore during the preceding year. Under the AS Rules it: [Ref: Topic 3, p. 3]

- (a) Qualifies as a Small and Medium-sized Company
- (b) Does not qualify for SMC exemptions as borrowings exceed ₹50 crore
- (c) Must apply Ind AS
- (d) Is exempt from all standards

Q7. A partnership firm has turnover of ₹40 crore and borrowings of ₹8 crore. Under ICAI's classification for non-company entities it is: [Ref: Topic 3, p. 3]

- (a) A Large entity
- (b) Required to follow Ind AS
- (c) Outside all accounting standards
- (d) An MSME eligible for further relaxations

Q8. Which is an ENHANCING qualitative characteristic under the Ind AS Conceptual Framework? [Ref: Topic 4, p. 3]

- (a) Relevance
- (b) Comparability
- (c) Faithful representation
- (d) Going concern

Q9. A firm keeps books mainly so that it can file returns and meet statutory audit needs. Which objective of accountancy does this serve? [Ref: Topic 7, p. 4]

- (a) Ascertaining the financial position
- (b) Facilitating rational decision-making
- (c) Keeping a systematic record
- (d) Satisfying the requirements of law

Q10. Profits are overstated in a period of rising prices because depreciation is charged on old costs. Which approach addresses this? [Ref: Topic 8, p. 4]

- (a) Stewardship accounting
- (b) Value accounting
- (c) Inflation accounting
- (d) Social responsibility accounting

Q11. A bank values a listed bond using its closing price on a stock exchange where it trades actively. The input belongs to: [Ref: Topic 9, p. 4]

- (a) Level 1 of the fair value hierarchy
- (b) Level 2
- (c) Level 3
- (d) Historical cost

Q12. A valuer measures the fair value of an unlisted business by discounting its projected future cash flows. Which valuation approach is used? [Ref: Topic 9, p. 4]

- (a) Market approach
- (b) Cost approach
- (c) Income approach
- (d) Historical cost approach

Q13. A software product is built by five developers, and each is given a percentage share of future revenue based on contribution. This is: [Ref: Topic 9, p. 4]

- (a) Fair value accounting
- (b) Cost accounting
- (c) Value accounting
- (d) Stewardship accounting

Q14. Which private company may omit the cash flow statement under Section 2(40) of the Companies Act, 2013? [Ref: Topic 2, p. 3]

- (a) Any private company
- (b) A company with net worth below ₹250 crore
- (c) A subsidiary of a listed company
- (d) A private company that is a start-up

Q15. Regarding Luca Pacioli's role in double-entry bookkeeping, which statement is correct? [Ref: Topic 10, p. 5]

- (a) He invented the double-entry system
- (b) He published a description of an existing double-entry system
- (c) He wrote the Arthashastra
- (d) He developed the Nama method

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	a	7	d	10	c	13	c
2	c	5	d	8	b	11	a	14	d
3	a	6	b	9	d	12	c	15	b

CH-2

Accounting Process Manual Computerised

Topic 1 — From Manual to Computerised Accounting

- **Past** — Accounting was historically a **manual** process using paper books and documents.
- **Shift** — With computers, even **small businesses** have moved to **computerised accounting**.
- **Priority today** — Organisations now prefer computer-based accounting over traditional bookkeeping.

Topic 2 — The Accounting Process

The accounting process (accounting cycle) is the sequence of steps from a source document to the opening balances of the next year.

Step	What is done	Key point
1. Identify and analyse transactions	Examine source documents (invoices, vouchers, receipts) and analyse each transaction	Continuous throughout the accounting period
2. Record in the journal	Pass journal entries under the double-entry system	Debit and credit balances remain equal
3. Post to the ledger	Transfer debits and credits to ledger accounts	Ledger = collection of all accounts
4. Prepare trial balance	Summarise ledger balances; debits should equal credits	Usually at the end of the accounting period ; agreement does not prove all entries are correct
5. Pass adjustment entries	Journalise adjustments, then post them to the ledger and trial balance	At the end of each period ; gives accurate revenue, expenses, assets and liabilities
6. Adjusted trial balance	Re-list balances after adjustments	Platform for financial statements
7. Prepare financial statements	From the (adjusted) trial balance: income and expenditure / P&L account, cash flow statement, balance sheet, etc.	Reflects the financial health of the firm
8. Post-closing (closing) entries	Transfer revenue and expenditure accounts to Trading and P&L account	Income and expenditure balances become NIL ; net profit or loss goes to owner's equity / capital

Step	What is done	Key point
9. Post-closing trial balance	List balances of assets, liabilities and capital	Carried forward as opening balances of the next year

Remember this

- Order: **Identify** → **Journal** → **Ledger** → **Trial balance** → **Adjust** → **Adjusted TB** → **Statements** → **Closing entries** → **Post-closing TB**.

Topic 3 — Adjustment and Closing Entries

- **Adjustment entries** — Passed at the end of each period so income and expenses fall in the right period (accrual).
- **Closing entries** — These then empty the nominal accounts.
- **Illustration** — Entries below are for a firm with year-end **31 March**.

Purpose	Debit (₹)	Credit (₹)
Salary for March outstanding	Salary A/c 40,000	Outstanding Salary A/c 40,000
Interest earned on deposit, not yet received	Accrued Interest A/c 12,000	Interest Income A/c 12,000
Insurance paid for next year included in expenses	Prepaid Insurance A/c 9,000	Insurance A/c 9,000
Depreciation on furniture	Depreciation A/c 15,000	Furniture A/c 15,000
Close income accounts	Interest Income A/c and other income A/cs	Profit and Loss A/c
Close expense accounts	Profit and Loss A/c	Salary, Depreciation and other expense A/cs
Transfer net profit	Profit and Loss A/c 1,20,000	Capital A/c 1,20,000

Closing capital, where profit, fresh capital and drawings are the movements:

$$\text{Closing Capital} = \text{Opening Capital} + \text{Net Profit} + \text{Additional Capital} - \text{Drawings}$$

Example: Opening capital ₹5,00,000, net profit ₹1,20,000, additional capital ₹50,000, drawings ₹30,000. Closing capital = 5,00,000 + 1,20,000 + 50,000 - 30,000 = ₹6,40,000, which appears in the post-closing trial balance.

Topic 4 — Manual Accounting System

- **Meaning** — A manual accounting system is **maintained by hand**.
- **Users** — It is used mainly by **small businesses** with simple needs.
- **Accuracy** — It depends on the **proficiency** of the person keeping the records.

Advantages	Disadvantages
Cost-effective for small businesses	Prone to human error
Easy to use	Takes longer to generate reports and to record transactions
Instant access to physical records	Suited mainly to small businesses; not suited to a large volume of transactions ; slower to record transactions
No dependency on technology	Records exposed to perils such as fire and water ; disaster recovery plans harder to implement

Topic 5 — Computerised Accounting System (CAS)

A computerised accounting system (CAS) keeps accounts using a computerised system. It removes the need for large **store rooms** for ledgers and records.