



AFM — Accounting & Financial Management for Bankers

Complete Book | Table of Contents | 35 chapters + 8 sections

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CH-1

Definition, Scope and Accounting Standards including Ind AS

Topic 1 — Bookkeeping and Accounting

- **Language of business** — Accounting is called the language of business.
- **Bookkeeping** — It records business transactions in the **books of original entry** and in the **ledgers**.
- **Accountancy** — It is the wider concept that compiles accounts to show the **state of affairs** of the business.
- **Relationship** — Bookkeeping is the **basis** of accounting and is only a part of it.

Bookkeeping steps	Accountancy involves
1. Identifying financial transactions	1. Classification of transactions for recording
2. Measuring them in terms of money	2. Recording in books (this part is bookkeeping)
3. Recording in books of original entry	3. Summarising — trial balance from ledger, then P&L account and balance sheet
4. Classifying them in journals	4. Interpreting recorded data and financial statements

- **Systems** — Accounting also covers **designing bookkeeping systems**.
- **Controls** — It establishes **controls** to run those systems.
- **Analysis** — It **analyses** data and reviews financial reporting and performance.
- **Reporting** — It reports back to owners, shareholders, investors and others for decisions.
- Accounting work: recording expenses, preparing company-wide financial statements, analysing costs of operations, completing income-tax returns, and helping the owner understand the impact of financial decisions.

Features of accounting

- An **art** of recording, classifying and summarising transactions, presented as **Trial Balance, Profit and Loss Account** and **Balance Sheet**.
- Records transactions in terms of **money**.
- Records **only financial** transactions.
- **Interprets** the financial data.

Topic 2 — Kinds of Accounting

Kind	Focus
Stewardship	Oldest form — stewards managing property of wealthy owners rendered periodic accounts of their stewardship.
Financial	Records and categorises transactions and prepares financial statements as per GAAP ; used mainly by owners, creditors, regulators and tax authorities (external users).
Cost	Used mostly in manufacturing ; internal; records and analyses manufacturing costs — fixed (e.g. rent) and variable (e.g. shipping) — and how to manage them.
Management	Prepares and presents accounting and control information to help management in policy and decisions (routine and non-routine); shifts focus to future decisions.
Social Responsibility	Considers the social effects of business decisions in addition to economic effects.
Human Resource (HRA)	Managerial tool on adequacy of human resources; treats the workforce as an investment .
Inflation	Adjusts the value of assets (current and fixed) and profits for price-level changes ; overcomes limits of the historical-cost and stable-monetary-unit assumptions.

Topic 3 — Accounting Standards in India

- **Standard-setter** — Accounting Standards (AS) are formulated by the **Accounting Standards Board (ASB)**.
- **ASB set-up** — The **ICAI** constituted the ASB on **21 April 1977**.
- **Purpose** — The ASB formulates standards so that the ICAI Council may mandate them.
- **Companies** — For companies, standards apply when **notified by the Central Government** under the Companies Act, 2013.

Non-compliance disclosure — Section 129(5), Companies Act, 2013

- **Trigger** — Financial statements do not comply with accounting standards.
- **(a) Deviation** — The company must disclose the **deviation**.
- **(b) Reasons** — It must disclose the **reasons** for the deviation.
- **(c) Effect** — It must disclose the **financial effects**, if any.

Entity	Framework applied
Companies covered by Ind AS Rules	Ind AS (Companies (Indian Accounting Standards) Rules, 2015)
Other companies	Notified AS (Companies (Accounting Standards) Rules, 2021); Small and Medium-sized Companies (turnover up to ₹250 crore and borrowings up to ₹50 crore) get specified exemptions
Non-company entities	ICAI Accounting Standards, with ICAI classification criteria (Level I to IV) and permitted exemptions

Applicability is **not** a simple “turnover above ₹50 crore” rule. Size-based exemptions relax some requirements; they do not remove all standards.



AS	Subject	AS	Subject
1	Disclosure of Accounting Policies	17	Segment Reporting
2	Valuation of Inventories	18	Related Party Disclosures
3	Cash Flow Statements	19	Leases
4	Contingencies and Events after Balance Sheet Date	20	Earnings Per Share
5	Net Profit/Loss, Prior Period Items, Changes in Accounting Policies	21	Consolidated Financial Statements
7	Construction Contracts	22	Accounting for Taxes on Income
9	Revenue Recognition	23	Investments in Associates in CFS
10	Property, Plant and Equipment	24	Discontinuing Operations
11	Effects of Changes in Foreign Exchange Rates	25	Interim Financial Reporting
12	Government Grants	26	Intangible Assets
13	Accounting for Investments	27	Interests in Joint Ventures
14	Accounting for Amalgamations	28	Impairment of Assets
15	Employee Benefits	29	Provisions, Contingent Liabilities and Contingent Assets
16	Borrowing Costs		

Remember this

- **AS 6** (Depreciation) is withdrawn — depreciation is covered in **AS 10**. AS 8 (R&D) is also withdrawn and covered by AS 26.

Topic 4 — Generally Accepted Accounting Principles (GAAP)

- **Meaning** — **GAAP** are the basic accounting principles and guidelines of a jurisdiction.
- **Framework** — They form the framework for detailed rules, standards and industry practices.
- **India** — Statements follow ICAI standards and the applicable law.
- **Unwritten principles** — Basic principles may not be written into standards, but are **assumed to be universally followed**.
- GAAP encompasses: basic principles/guidelines; accounting standards issued by the premier accounting body; industry-specific practices for unusual scenarios.

Objectives of financial reporting

- Useful to present and potential investors, creditors and other users for rational **investment and credit decisions**.
- Helpful in assessing the **amounts, timing and uncertainty** of prospective cash receipts.
- Information on **economic resources**, claims to them, and changes in them.

Principle	Rule
Business Entity	Business is separate from its owner; vital for sole proprietors — business and personal transactions are kept apart.
Monetary Unit	Only transactions expressible in money (e.g. Rupees) are recorded.

Principle	Rule
Accounting Period	Accounts are completed for a fixed period — usually a financial year or calendar year; each transaction belongs to its period's statements.
Historical Cost	Assets are recorded at the cash or equivalent actually paid on the transaction date; market value ignored unless law or a standard requires.
Going Concern	Business will continue for an indefinite period; if liquidation is near, assets and liabilities are restated at realisable/payable amounts.
Full Disclosure	All relevant information is disclosed — through narration at transaction level and notes to accounts at statement level.
Consistency	A chosen procedure is followed in later periods so results are comparable.
Materiality	Another principle may be disregarded if the effect does not affect users' decisions; immaterial errors may be ignored.
Conservatism	Provide for all anticipated losses; do not record gains until earned — e.g. provision for bad debts, but no entry for rise in realisable value.

- **See** — Ch 2 (p. 5) for the matching concept and the accrual basis (cash vs accrual) of accounting.

Topic 5 — Setting GAAP in the United States

- **Scope** — US GAAP is the US framework; it is not the Indian Ind AS framework.
- **SEC** — The Securities and Exchange Commission was created after the Great Depression.
- **Role of SEC** — It does **not set GAAP itself**.
- **Private bodies** — It encouraged private standard-setters (AICPA, later FASB).

Body	Role
AICPA — American Institute of Certified Public Accountants	Appointed the Committee on Accounting Procedure (CAP) in 1939. Created the Accounting Principles Board (APB) in 1959. The APB issued 31 opinions and was dissolved in 1973. Later set up the Accounting Standards Executive Committee (AcSEC) .
AcSEC publications	Audit and Accounting Guides (industry practices, e.g. casinos, colleges, airlines) and Statements of Position (guidance until FASB/GASB set standards).
FASB structure	Three bodies replaced the APB: Financial Accounting Foundation (FAF) , Financial Accounting Standards Advisory Council (FASAC) and Financial Accounting Standards Board (FASB) .
GASB — Governmental Accounting Standards Board	Created in 1984 for state and local government reporting; structure similar to FASB.

Topic 6 — Transfer Pricing and Arm's Length Price

- **Meaning** — **Transfer pricing** is the pricing of goods and services **between divisions or group entities**.
- **Context** — It arises in multi-divisional organisations, especially **cross-border**.
- **Profit centres** — Divisions responsible for their own profit and Return on Invested Capital use a transfer price with each other.

- **Effect** — The transfer price decides how total profit is split.
- **Example:** Goods sold by a parent company to its foreign subsidiary, or by the production division to the marketing division.
- Factors influencing transfer prices: performance measurement, accounting system capability, import quotas, customs duties, VAT, taxes on profits, and simple lack of attention.
- **Arm's length price (ALP)** — The price at which two **unrelated and non-desperate** parties would agree to a transaction.
- **Methods** — ALP methods follow **OECD** Guidelines.
- **Indian law** — Indian tax law also permits any other method prescribed by the rules.

Method	Group	How price is found
Comparable Uncontrolled Price (CUP)	Traditional	Compares controlled price with price in a comparable uncontrolled transaction.
Cost Plus (CP)	Traditional	Seller's cost + appropriate mark-up (based on comparable companies); used for finished goods.
Resale Price (RP)	Traditional	Resale price – appropriate gross margin.
Profit Split (PS)	Non-traditional	Used when businesses are too integrated ; combined profit split by contribution.
Transactional Net Margin (TNMM)	Non-traditional	Unified version of RP and CP; relatively accurate and easy; most widely used.

Topic 7 — International Financial Reporting Standards (IFRS)

- **Purpose** — **IFRS** are a common global accounting language.
- **Benefit** — Accounts become understandable and comparable across borders.
- **IAS** — Standards issued by the **IASC** (1973–2001) are called **IAS**.
- **IASB** — From **1 April 2001** the **IASB** took over and adopted existing IAS (still called IAS).
- **IFRS** — New standards issued by the IASB are called **IFRS**.

Objectives of the IFRS Foundation

- Develop a single set of high-quality, understandable, enforceable, globally accepted IFRSs.
- Promote use and rigorous application of those standards.
- Take account of the needs of **emerging economies** and **SMEs**.
- Promote and facilitate adoption of IFRSs.

Topic 8 — Ind AS — Meaning, Applicability and Convergence

- **Meaning** — **Ind AS** are Indian Accounting Standards converged with **IFRS**.
- **Development** — ICAI develops and recommends them.
- **Legal force** — They apply when **notified by the Central Government** (MCA) under the Companies Act.
- **Distinct sets** — Ind AS and AS are separate; their numbers are not interchangeable.

Entity	Ind AS applicability
Listed companies and unlisted with net worth ≥ ₹250 crore	Mandatory (with holding, subsidiary, JV and associate companies); companies with net worth ≥ ₹500 crore were in the first phase
NBFCs	Net worth ≥ ₹250 crore (larger ones ≥ ₹500 crore first); listed NBFCs too
Scheduled Commercial Banks	Ind AS not yet implemented ; RBI's Ind AS 109-aligned Expected Credit Loss provisioning applies from 1 April 2027
Insurers	Ind AS 117 (Insurance Contracts) notified; implementation subject to IRDAI direction
Others	Voluntary adoption allowed; once adopted, cannot revert

AS	Ind AS	Subject
AS 1	Ind AS 1	Disclosure of accounting policies (AS) vs Presentation of financial statements (Ind AS)
AS 10	Ind AS 16	Property, Plant and Equipment

- **Convergence** brings Indian standards close to IFRS while keeping some **carve-outs**; Ind AS compliance does not automatically mean unreserved IFRS compliance.
- **Recognition** asks whether an item enters the accounts; **measurement** asks at what amount. Ind AS uses historical cost and **fair value** as each standard specifies — not fair value for every asset.
- A **first-time adopter** (Ind AS 101) prepares an **opening Ind AS balance sheet** and explains transition adjustments to profit, equity and cash flows.
- Notes explain material accounting policies, estimates, judgements and risks.

Remember this

- Ind AS thresholds: ₹500 crore (first phase) and ₹250 crore net worth; listed companies covered regardless of size (SME-exchange listed excluded).

AFM | Module A | CH-1 | MCQs

Q1. A firm's accountant posts vouchers to journals and ledgers, while the CFO analyses the statements to judge the firm's position. The CFO's work is best described as: [Ref: Topic 1, p. 2]

- Accountancy, which is wider and includes interpretation
- Bookkeeping, since it uses ledgers
- Cost accounting, since it is internal
- Stewardship accounting

Q2. A manufacturer wants to separate its fixed costs such as rent from variable costs such as shipping to control production costs. Which kind of accounting serves this? [Ref: Topic 2, p. 2]

- Stewardship accounting
- Social responsibility accounting
- Cost accounting
- Inflation accounting

Q3. Adjusting asset values and profits for changes in the general price level addresses the limitation of which assumptions? [Ref: Topic 2, p. 2]

- Going concern and accrual
- Business entity and materiality
- Matching and consistency
- Historical cost and stable monetary unit



Q4. A company's financial statements do not comply with a notified accounting standard. Under Section 129(5) of the Companies Act, 2013, it must disclose all EXCEPT: [Ref: Topic 3, p. 2]

- (a) The names of the directors who approved it
- (b) The reasons for the deviation
- (c) The financial effect of the deviation
- (d) The deviation

Q5. An unlisted company has turnover of ₹200 crore and borrowings of ₹40 crore and is not covered by Ind AS. Under the Companies (Accounting Standards) Rules, 2021 it is: [Ref: Topic 3, p. 2]

- (a) Required to follow Ind AS
- (b) Exempt from all accounting standards
- (c) A Small and Medium-sized Company eligible for specified exemptions
- (d) Required to follow US GAAP

Q6. A trader records his household grocery bill in the shop's books. Which principle is violated? [Ref: Topic 4, p. 3]

- (a) Going concern
- (b) Monetary unit
- (c) Materiality
- (d) Business entity

Q7. A bank creates a provision for doubtful debts but does not record an expected rise in the market value of its land. This reflects: [Ref: Topic 4, p. 3]

- (a) Conservatism
- (b) Consistency
- (c) Matching
- (d) Accounting period

Q8. A firm due for closure next month restates its assets at realisable values. This is because which assumption no longer holds? [Ref: Topic 4, p. 3]

- (a) Going concern
- (b) Accrual
- (c) Consistency
- (d) Conservatism

Q9. Which body in the US was dissolved after issuing 31 opinions and was replaced by the FASB structure? [Ref: Topic 5, p. 3]

- (a) Committee on Accounting Procedure
- (b) Accounting Principles Board
- (c) GASB
- (d) Accounting Standards Executive Committee

Q10. Two group companies are so integrated in a joint R&D project that their contributions cannot be valued separately. The most suitable transfer pricing method is: [Ref: Topic 6, p. 3]

- (a) Comparable Uncontrolled Price
- (b) Resale Price
- (c) Cost Plus
- (d) Profit Split

Q11. A distributor buys from its parent and resells to outsiders without adding value. The arm's length price is best found by: [Ref: Topic 6, p. 3]

- (a) Resale Price method — resale price less an appropriate gross margin
- (b) Cost Plus method
- (c) Profit Split method
- (d) Comparable Uncontrolled Price on unrelated services

Q12. Standards adopted by the IASB from its predecessor IASC are referred to as: [Ref: Topic 7, p. 4]

- (a) IFRS
- (b) Ind AS
- (c) IAS
- (d) GAAS

Q13. An unlisted company has net worth of ₹300 crore. Under the Ind AS roadmap it: [Ref: Topic 8, p. 4]

- (a) Must apply Ind AS as net worth is ₹250 crore or more
- (b) Is outside Ind AS as only listed firms are covered
- (c) Applies Ind AS only if turnover exceeds ₹50 crore
- (d) May choose AS or Ind AS each year

Q14. Regarding Indian scheduled commercial banks and Ind AS, which is correct? [Ref: Topic 8, p. 4]

- (a) Banks fully moved to Ind AS from 1 April 2018
- (b) Ind AS is not yet implemented, but ECL provisioning aligned to Ind AS 109 applies from 1 April 2027
- (c) Banks follow US GAAP
- (d) Banks follow IFRS directly

Q15. A first-time adopter of Ind AS must prepare: [Ref: Topic 8, p. 4]

- (a) Only a cash flow statement
- (b) Accounts under IFRS without carve-outs
- (c) Restated accounts for the last ten years
- (d) An opening Ind AS balance sheet and explain transition adjustments

Answer key

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

CH-2

Basic Accountancy Procedures

Topic 1 — Accounting Concepts — Recording and Reporting Stage

Basic accounting rules are based on **experience, reason, usage and necessity**. They fall under two broad heads.

At the Recording stage	At the Reporting stage
Cost concept	Going concern concept
Money measurement concept	Matching concept
Business entity concept	Accounting period concept
Realisation concept	Conservatism
Dual aspect concept	Full disclosure
Historical records concept	Materiality
	Consistency