JAIIB Paper 2- Accounting & Finance for Bankers

Module C- Final Account

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Unit -1 Balance Sheet Equation

Balance Sheet Equation

An Accounting Equation is also called the Balance Sheet Equation. We all know that we record all the business transactions using the Dual Aspect concept. This means that each debit has an equal credit and vice-versa.

- **Capital:** It means the amount which the owner of business has invested in the firm and can claim from the firm.
- **Liability:** It means the amount which the firm owes to outsiders. Long term liabilities are those liabilities which are payable after a long term. Current liabilities are those liabilities which are payable in near future (generally within one year).
- **Asset:** Assets are things of value owned. Fixed assets are those assets which are purchased for the purpose of operating the business but not for resale, e.g. Land,

building, Plant and Machinery, etc. Current assets are those assets which are kept for short term for converting into cash or for resale, e.g, unsold goods, debtors, cash, bank balance, etc.

Assets = Liabilities + Capital (Owner's Equity)

Liabilities = Assets- Capital or Capital = Assets – Liabilities

Example:

ABC starts the food truck. He puts ₹ 50,000 as a capital fund. He further loans ₹ 25,000 from a local credit vendor. Now, he has a total of ₹ 75,000, he then purchases a fully furnished truck for ₹ 45,000.

Below is the ABC balance sheet for December 2017.

Balance Sheet December 31, 2017			
Assets		**Liabilities**	
Cash	30,000	Loan from credit union	25,000
Food truck	45,000	Owner's equity	50,000
Total assets	**75,000**	**Total Liabilities and Owner's equity**	**75,000**

Unit 2- Preparation of Final Accounts

Preparation of Trial Balance

The first step in the preparation of final accounts is the preparation of trial balance. So it is absolutely essential that we prepare the trial balance perfectly, so our **final accounts do not contain any errors.** Let us learn more about the methods and procedures of preparation of trial balance.

Trial Balance

A trial balance is a bookkeeping worksheet-like account that **reflects all the credit and debit balances of all the ledger accounts.** Once we prepare this statement, we can prepare the final accounts of the company on the basis of this trial balance.

One other important use of the trial balance is that it can determine the arithmetic accuracy of the accounts. So if both columns of the trial balance tally, we can be reasonably assured of the accuracy of the accounts. It does not ensure that the accounts are free of all errors but it can at least establish mathematical accuracy.

Trial Balance (ABC Trading as at 30 June 2018)

General ledger A/C	Dr. Debit	Cr. Credit
Cash at bank	10000	
Inventory	40000	
Vehicles	30000	
Fixtures and Fitting	32000	
Accounts Receivable	15000	
Credit card Payment		12000
Account payable		15000
Bank Loan		50000
Sales		175,000
Purchases	60,000	
Advertising	5000	
Wages	65000	
Rent	15000	
Electricity	5000	
Owner Capital		25000
Total	277,000	277,000

Adjustment Entries

An accountant or a bookkeeper makes adjustment entries either before preparation of trial balance or after preparation of trial balance.

Usually, adjustment entries are made after preparation of trial balance. In a case when he makes the adjustment entries after preparation of trial balance, he needs to treat each of the adjustment twice while preparing trading and profit and loss account and balance sheet.

In case adjustment entries made before preparation of trial balance, such adjustment appears in the trial balance. Also, such adjustments appear only once in the preparation of final accounts.

Adjustment Entries Relating to Income and Expendure

Some of the expenses may have been incurred but not paid: For example- Salary for the month of March has been incurred during the month but will be paid in April. For this, adjusting entries, will be passed in the ledger by debit to charges (salary) account and credit to "Salary payable" account.

Some of the expenses may have been paid in advance but not incurred: If a payment has been made in advance i.e. it does not pertain to the accounting period in question, it is not treated as an expense, and the person who received the amount is treated as a debtor.

Some income may have accrued but not received: For example, interest accrued on a fixed deposit with the bank which will be paid by the bank on maturity along with the principal. For accounting the interest income, credit 'Interest income' 'account and debit' 'interest receivable' account.

Some incomes may have been received but not accrued: If an income has been received but not accrued, it should not be accounted for. For example, advance payment of rent by a tenant. This should not be taken into account. Therefore, rent account should be debited and 'Advance rent Received' account should be debited.

Preparation of Financial Statements from Trial Balance

If we have recorded all the transactions, their arithmetical accuracy has been checked by the trial balance and the required adjusting entries have been made, we should be able to find out the results of the operations during the accounting period (day year) and also know the financial position of the business at the close the year.

This is done through preparing the Profit and loss account and the Balance sheet (Both these are called the financial statements).

Entries Relating to Depreciation of Fixed Assets

Before we can start preparing the financial statements, it is important to pass entries for depreciation to include it in the records as an expense.

Entries Relating to closing stocks

Every sales transaction results in reduction in available stocks and every purchase transaction increases the stocks available in the godown. However, the entries passed in the ledger, do not affect the stocks account:

Example-

Purchase of goods worth Rs 2000 results in the following postings in the ledger-

Dr. Purchase A/C Rs. 2000

Cr. Cash A/c Rs. 2000

Similarly, sales of goods for Rs. 500 result in the following posting in the ledger-

Dr. Cash A/c Rs. 5000

Cr. Sales A/c Rs 5000

As no entry is passed in the stocks account during the year, the balance in it remains the same as in the beginning of the year, i.e. the opening balance of the stock (this is a debit balance and is shown in the balance sheet of the last year as closing stock)

As we will see in our discussion in the **P/L account, the Profit= sales- (purchases+ opening stock-closing stock+ expenses)**

In the above formula, all items, except the closing stock, are available from the ledger. As the amount of the closing stock in not available from the ledger, we will have to actually verify the available stock at the close of the year and value it. This is called 'Inventory Valuation' and has its impact on the Profit of loss of the firm during that year.

Entries Relating to other items

Other adjustments pertain to provision for bad and doubtful debts, writing off part fictitious assets like preliminary expanses etc. provisioning for contingent events etc.

Preparation of Profit and loss account

Closing Entries

At the end of each accounting period, al; the income and expenses accounts should be closed by transferring the balance to the P & L account. The entries passed for this purpose are called Closing Entries.

Example: If the salary account is showing the debit balance of Rs 300000 a credit entry 'By transfer to P&L account will be posted in this account and debit entry will be posted to P & L account. Thus balance in the salary account will become Nill.

Trading Account

This is not a necessary step for preparation of the P & L account but many accountants prefer to prepare it. It forms part of the P & L account. A trading account takes into account only the direct costs associated with the materials in which the firm is dealing. The operating costs are not included. This means that we calculate the '**Cost of Goods Sold'** and subtract it from the Revenue to arrive at what is **called 'Gross Profit'**. It is important to note here that under 'Cost of Goods Sold', we calculate the cost of only those goods which are sold and not the cost of entire goods purchased. If we have only purchased the goods during a year and not sold anything, there will be no cost associated with selling of goods as the purchase resulted in only increasing the inventory (**Closing stock).**

Cost of Goods Sold= (purchases + opening stock)- closing stock + expenses

Preparation of Profit and Loss account

There are prescribed formats for preparing Profit and loss accounts for all the companies in India. Such form is either provided in the Companies Act 2013 or the Banking Regulation Act or some other Act for specific types of companies. However, for other business entities, there is no prescribed format, Traditionally, all the formats used put sales and other incomes on the credit side and all the expenses on the debit side and arrive at the profit figure. This is achieved by passing the closing entries in respect of all the earnings and expenses accounts in the General Ledger so that the balances in all the remaining accounts in the GL, form the balance sheet, discussed in the next paragraphs. A typical format of a P & L account may be as under if the practice of preparation a Trading account is followed:

Profit and Account of ……..

For the year ending …..2019…..

To salary	……….	By Gross profit carried over From Trading a/c	………………
To electricity charges	…………	Gross Loss	………………
To conveyance charges	……………..		
To depreciation			
To office charges	……………		
To other charges	…………..		
To Taxes			
Net Profit	…………..		

If the practice of preparing the Trading account is not followed, the format may look as under.

Profit and loss Account of …………

For the year ending …….2019……

To opening stock		…………..	By sales	………..	
To purchases	……….		Less returns	…………	…………
Less returns	……….		By closing stock		……….
To carriage inwards		…………	Gross loss		………
To cartage		………..			
To dock charges		…………			
To Wages		………..			
To duty		…………			
To Freight		………..			
To clearing charges		………..			
To salary		……….			
To electricity					
To telephone charges					
To conveyance charges					
To office charges		……….			
To other charges		……….			
To taxes					
Net Profit		…………			

Profit and loss Appropriation account

Net profit, as arrived at in the P&L A/c, is utilized by the company, **for providing dividend, dividend distribution tax, adjustments to income tax and transfer to reserves etc**. This is done through the profit and loss Appropriation account.

Profit and loss Appropriation account is different from profit and loss account and is normally **put before the net profit figure in the same statement**. The net profit is transferred to the credit side of profit and loss appropriation account. Profit and loss account shows only the net profit or net loss from operations of business while the profit and loss appropriation accounts shows all non- operational adjustment.

A typical format of this account is given below. The items included may vary from company to company.

Particulars	Amount	Particulars	Amount

To transfer to reserves	....	By last year's balance brought down	....
To debenture redemption reserve	....	By net profit of the year brought down	....
To additional income tax provision for earlier year	....	By excess income tax provision of earlier years	....
To interim dividend	....		
To dividend/ Proposed dividend	....		
To surplus carried over to the balance sheet	....		
Total	....	Total	....

Preparation of Balance Sheet

Below are the steps mentioned to prepare a balance sheet.

Compose a trial balance- It is a regular report included in any accounting programme. If it is a manual mode, then create a trial balance by transferring every general ledger account's ending balance to a spreadsheet.

Arrange the trial balance- It is important to arrange the initial trial balance to assure that the balance sheet similar to the relevant accounting structure. While using adjusting entries to adjust the trial balance all the entry should be completely recorded so the auditors can understand why it was made.

Discard all expense and revenue accounts- The trial balance includes expenses, revenue, losses, gains, liabilities, equity, and assets. Delete all from the trial balance except equity, liabilities, and assets. However, the deleted accounts are used to create an income statement.

Calculate the remaining accounts- In this stage, sum up all the trial balance account used to create a balance sheet. The typical line items used in the balance sheet are:

- Cash
- Accounts receivable
- Inventory

- Fixed assets
- Other assets
- Accounts payable
- Accrued liabilities
- Debt
- Other liabilities
- Common stock
- Retained earnings

Validate the balance sheet- The total for all assets recorded in the balance sheet should be similar to the liabilities and stockholders' equity accounts.

Present in the required balance sheet format

Liabilities	**Amount**	**Asset**	**Amount**
Capital	……………..	Fixed Asset-land, Bldg	…………
Loan Taken	……………	Current Assets	…………
Current Liabilities	……………	Cash/Bank B/s	…………
Outstanding Expenses	……………..	Accounts Receivable (Debtors)	…………
Bank Overdraft	………….	Bills Receivable	……….
Account Payable (Creditors)	…………..	Inventories (stock)	……….
	XYZ		**XYZ**

Unit 3- Ratio Analysis: Advantages and Limitations of Ratio Analysis and Calculation

Accounting Ratios

Accounting ratio is the comparison of two or more financial data which are used for analyzing the financial statements of companies. It is an effective tool used by the **shareholders, creditors and all kinds of stakeholders to understand the profitability, strength** and **financial status of companies.**

Classification of Ratios

Accounting ratios can be classified on the following basis:

Traditional Classification

The traditional classification has been on the basis of the financial statements, to which the determinants of a ratio belong. On this basis, the ratios could be classified as:

- Profit and loss account ratios, i.e, ratios calculated on the basis of the profit and loss account only.
- Balance sheet ratios, i.e, ratios calculated on the basis of the figures of balance sheet only.
- Composite ratios or inter-statement ratios, i.e, ratios based on figures of profit and loss account as well as the balance sheet.

Functional classification

Traditional basis of classification, as given above, has been found to be too crude and unsuitable because, analysis of balance sheet and income statement cannot be done in isolation. They have to be studied together in order to determine the profitability and solvency of the business. According to the order that ratios serve as a tool for financial analysis, they are now classified as:

- Profitability ratios,
- Turnover or activity ratios, and
- Financial or solvency ratios

Financial ratios two categories:

- **Short term Solvency Ratios** are the ratios that disclose the financial position or solvency of the firm in the short period. Some accountants prefer to call them simply as 'Liquidity Ratios'.
- **Long term Solvency Ratios** are the ratios that disclose the financial position or solvency of the firm in the long period. Some accountants prefer to call them simply as 'Solvency Ratios'.

Uses of Accounting Ratios

- **Simply financial Statements:** Ratios simplify the comprehension of financial statement. Ratios tell the whole story of changes in the financial condition of the business.

- **Facilitate inter-firm comparison**: Ratios provide data for inter-firm comparison. Ratios highlight the factors associated with successful and unsuccessful firms. They also reveal strong firms and weak firm, overvalued and under- valued firms.
- **Facilitate intra-firm Comparison:** Ratios also make possible comparison of the performance of the different divisions of the firm. The ratios are helpful in deciding about their efficiency or otherwise in the past and likely performance in the future.
- **Help in planning:** Ratios help in planning and forecasting. Over a period of time, a firm or industry develops certain norms that may indicate future success or failure.

Limitations of Accounting Ratios

- The firm can make some year-end changes to their financial statements, to improve their ratios. Then the ratios end up being nothing but window dressing.
- Ratios ignore the price level changes due to inflation. Many ratios are calculated using historical costs, and they overlook the changes in price level between the periods. This does not reflect the correct financial situation.
- Accounting ratios completely ignore the qualitative aspects of the firm. They only take into consideration the monetary aspects (quantitative)
- There are no standard definitions of the ratios. So firms may be using different formulas for the ratios. One such example is Current Ratio, where some firms take into consideration all current liabilities but others ignore bank overdrafts from current liabilities while calculating current ratio
- And finally, accounting ratios do not resolve any financial problems of the company. They are a means to the end, not the actual solution.

Calculation and Interpretation of various Ratios

Profitability Ratios

Overall Profitability Ratio

It is also called as the '**Return on Investment**'. It indicates the percentage of return on the total capital employed in the business. It is calculated on the basis of the **following formula:**

$$\frac{Operating\ Profit}{Capital\ Employed} \times 100$$

Capital Employee: Different meanings by different accountants.

- Sum total of all assets whether fixed or current.

- Sum total of fixed assets
- Sum total of long term funds employed in the business i.e, Share+ Capital + Reserves and Surplus + Long term loans –(Non business assets+ fictitious assets)

Operating Profit: Means profit before 'Interest and Tax'. The term 'Interest' means interest means 'Interest on long term borrowings. Interest on short- term borrowings will be deducted for computing operating profit.

Earnings per share (EPS)

EPS tells about the earning per equity share. It can be computed as follows:

Earning per share=Net profit after tax and Pref. dividend**/** Number of equity shares

Price Earning (P/E) Ratio

The ratio indicates the number of times the earning per share is covered by its market price. This is calculated according to the following formula:

Market price per equity share/ Earning per share

Gross Profit Ratios

The ratio expresses the relationship between the gross profit and the net sales.

$$\frac{Gross\ Profit}{Net\ Sales} \times 100$$

Net Profit Ratio

This ratio indicates net margin earned on a sale of Rs. 100. It is calculated as follows:

$$\frac{\text{Net Operating Profit}}{Net\ Sales} \times 100$$

Solvency Ratios

A company is considered to be solvent or financially sound if it is in a position to carry on its business smoothly and meet all obligations, both long-term as well as short-term, without strain. The following are the important ratios for measuring the long-term solvency of a firm.

Long –term Solvency Ratios: In order to determine the long term solvency of a business, the following ratios will be useful:

(i)Fixed Asset Ratio: The ratio is expressed as follows:

Fixed assets/ Long-term funds

- **The ratio should not be more than 1. If it is less than 1**, it shows that a part of the working capital has been financed through long-term funds. This is desirable to some extent because a part of working capital, termed as 'Core Working capital' is more or less of a fixed nature. **The ideal ratio is 0.67.**
- **Fixed assets include 'net fixed assets'** (i.e, original cost- depreciation to date) and trade investments including share in subsidiaries. Long term funds include share capital, reserves and long term loans.

(ii)Debt Equity Ratio: The debt-equity ratio is calculated to ascertain the soundness of the long-term financial policies of the company. It is also known as the 'External- Internal' equity ratio. It may be calculated as follows:

Debt-equity ratio= External equities/ Internal equities

Short term Solvency Ratios

The following ratios will be useful for determining the short-term solvency of a business.

Current Ratio: This ratio is an indicator of the firm's commitment to meet its short-term liabilities.

Current Assets/ Current liabilities

Liquidity Ratio: This ratio is also termed as 'acid test ratio' or 'quick ratio'. This ratio is ascertained by comparing the liquid assets (i.e, assets which are immediately convertible into cash without much loss) to current liabilities. Prepaid expenses and stock are not taken as liquid assets. The ratio may be expressed as:

Liquid assets/ Current liabilities

Turnover Ratios

Stock turnover Ratio: This ratio indicates whether the investment in inventories is efficiently used or not. It, therefore, explains whether investment in inventories is within proper limits or not.

Cost of goods sold during the year/ Average inventory

Debtors 'Turnover Ratio (Debtors Velocity): Debtors are an important constituent of current assets and therefore, the quality of debtors, to a great extent, determines a firm's liquidity. Two ratios are used by financial analysis to judge this. They are:

(i)Debtors, turnover ratio, and

(ii) Debt collection period ratio.

Debtor's turnover ratio is calculated as under:

Credit sales/ Average accounts receivable

Debt collection period Ratio: The ratio indicates the extent to which the debts have been collected in the time. It gives the average debt collection period. The ratio is very helpful to the lenders because it explains to them whether their borrowers are collecting money within a reasonable time. An increase in the period will result in greater blockage of funds in debtors. The ratio may be calculated by any of the following methods:

(i)Months (or days) in a year/ Debtors turnover

(ii)

$$\frac{\text{Months (or days) in a year}}{\text{Credit sales for the year}} \times \text{Average accounts receivable}$$

(iii) Account receivable/ Average monthly or daily credit sales

Different Users and Their Use of Ratios

(i)Accounting ratios used by a long-term creditor:

(a)Fixed charges cover= Income before interest and tax/ Interest charges

(b)Debt service coverage ratio= Cash profit available for debt service/ Interest + Principal payment instalment

(ii)Accounting ratios used by a bank granting a short-term loan:

(a)Quick ratio= Quick assets/ Current liabilities

(b)Current ratio= Current assets/ Current liabilities

(iii) Accounting ratios used by shareholders:

(a)Earnings per share= Profit available for equity shareholders/ No. of equity shares

(b)Dividend yield ratio= Dividend per share/ Market price per share

Unit 4- Final Accounts of Banking Companies

Introduction

A banking company means and includes any company which carries on the business or which transacts business of banking in India. A banking company is generally governed by the provisions of the **Companies Act, 2013 and specifically by the Banking Regulation Act. The Banking Regulation Act of 1949 came into force on 16th March, 1949** as a result of the long –felt need to regulate the banking business in India and protect the interests of number of depositors.

Functions of a Bank

Banking has been defined by Section 5 of the Banking Regulation Act and means: accepting of deposits of money from the public, for purpose of lending or investment and the deposit are repayable on demand or otherwise by cheque, draft, order etc.

Requirements of Banking Companies as to Accounts and Audit

Preparation of financial Statements and Accounting Data -Companies Act 2013, Section 29

- Form A- Balance sheet
- Form B- Profit & Loss Account
- The Govt. has notified that account of the banking companies shall be closed on 31^{st} March every year as against 31^{st} December earlier.

Signatures – Financial statements of banking companies incorporated in India should be signed by the manager or principal officer of the banking company- Companies Act 2013, Section 29

Audit (Section 30)

Submission of Accounts (Section 31 and 32): Three copies of the balance sheet and profit and loss account prepared under Section 29 together with auditor's report under section 30 must be submitted to the **RBI within 3 months from the end of the period to which they refer**. However, it can be extended up to a further period of 3 months by RBI (Section 31).

Section 32 of the Act requires a banking company (but not other types of banks)to furnish 3 copies of its annual accounts and auditor's report there on the Registrar of Companies at the same time when it furnished these documents to the RBI.

Publication of Accounts: Rule 15 of the Banking Regulating (Companies) Rules, 1949. Publication of accounts- **within 6 months**

Features of Accounting Systems of Banks

Bankers' Book: **According to Section 2 (3) of the Bankers' Books Evidence Act**, 'Bankers Books' included ledgers, day book, cash book, account books and all other books used in the ordinary business of a bank. Generally the following books are maintained by bank to keep up to date records of its customers.

Cash Book: All cash receipt and payments are recorded in the receiving cashier's cash book and paying cashier's cash book.

Ledger Book: Maintained Current Account Ledger, FD accounts Ledger, RD accounts Ledger, Loan Ledger etc

Other Book: Clearing Register, Securities Register, Draft Register, Bills for collection Register, Safe deposit vault Register, Dishonored cheques Register

Balance sheet-Form A

- **Schedule 1:** Capital
- **Schedule 2:** Reserves & surplus
- **Schedule 3:** Deposits
- **Schedule 4:** Borrowings
- **Schedule 5:** Other Liabilities & Provisions
- **Schedule 6:** Cash & Bank Bal. RBI
- **Schedule 7:** Balances with Banks & Money at call and Short Notice
- **Schedule 8:** Investments
- **Schedule 9:** Advances
- **Schedule 10:** Fixed Assets
- **Schedule 11:** Other Assets
- **Schedule 12:** Contingent Liabilities
  - (i) Claims against bank not acknowledged as debts
  - (ii) Liability for partly paid shares
  - (iii) Liability on account of outstanding forward exchange contracts
  - (iv) Acceptances ,endorsement & other obligations
  - (v) Other items for which bank is contingently liable.

Profit & loss account-form B

Income Interest Earned Other Income	Schedule.13 Schedule.14

Expenditure Interest Expended Operating Expenses Provision for contingencies	Schedule.15 Schedule.16
Profit /Loss	
Appropriations Transfer to Reserves Proposed dividend Balance carried to Balance sheet	
Significant Accounting Policies	Schedule.17
Notes forming part of Accounts	Schedule.18

Other Income

- Profit on exchange transactions
- Profit on sale of investments
- Profit on revaluation of investments
- Profit on sale of fixed assets
- Letting of locker (income from locker charges)
- Misc. income -Godown rent

Important points

- Govt. securities shown at book value and diff. between MV and BV is given in the notes
- If some fixed assets are w/o on revaluation of assets/reduction of capital every B/S after wards should. show the revised figure for next 5 yrs. With the date & amt. revised
- Other fixed assets includes vehicles, furniture and fixtures. Lockers and safe deposit vaults are included in furniture
- 20% to reserve fund before declaring dividend
- Gold is treated as investment
- Silver is treated as other assets
- Income from performing assets is recognized on accrual basis while in r/o non-performing assets it is on cash basis
- In r/o NPA, if income is already recognized, then make provision

ASSET CLASSIFICATION

Asset Classification

- Performing and
- non performing (remain out of order)

Income Recognition

- Performing-accrual basis
- Non performing-cash basis

Asset Classification

- Std-0.40% (revised from 0.25%)
- Sub-Std.-Unsecured – 25%, Secured - 15%
- Doubtful – Unsecured - 100%, Secured - upto 1year-25%, 1 to 3yrs-40%, more than 3 years - 100%
- Loss assets-100%

SLR & NON SLR DEPOSITS

Held to maturity	Available for sale	Held for trading
Investment should not exceed 25% of total investment	Freedom available	Freedom available
-no marked to market. Profit on sale treated as cap. Reserve	-Marked to market -profit on sale of investment. taken to P&L a/c	Marked to market To be sold within 90 days

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Unit 5- Company Accounts-1

Company

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. It is created by law and effected by law. It is a legal person just as much as much as an individual but with no physical existence.

Section 20 of the Companies Act, 2013, defines a company as A company incorporated under this act, or under any previous company law.

Features of a Joint stock Company

- Incorporated association
- Artificial person
- Perpetual succession
- Common seal
- Limited liability
- Separation of management from ownership
- Transferability of shares
- Separate legal status
- Large membership
- Minimum paid up capital: It is Rs 1 lakh Private LTD. Company and 5 lakhs for a Public LTD company.

Types of companies

On the basis of incorporation	On the basis of ownership	On the basis of liability
Chartered company	Private company	Company limited by shares
Statutory company	Public company	Company Ltd. by guarantee
Registered company	Government company	Company with unlimited liability
Foreign company	Holding company	

Partnership Vs Limited Liability Partnership (LLP)

BASIS FOR COMPARISON	PARTNERSHIP	LIMITED LIABILITY PARTNERSHIP (LLP)
Meaning	Partnership refers to an arrangement wherein two or more person agree to carry on a business and share profits & losses mutually.	Limited Liability Partnership is a form of business operation which combines the features of a partnership and a body corporate.

Governed By	Indian Partnership Act, 1932	Limited Liability Partnership Act, 2008
Registration	Optional	Mandatory
Charter document	Partnership deed	LLP Agreement
Liability	Unlimited	Limited to capital contribution, except in case of fraud.
Contractual capacity	It cannot enter into contract in its name.	It can sue and be sued in its name.
Legal Status	Partners are collectively known as firm, so there is no separate legal entity.	It has a separate legal status.
Name of firm	Any name	Name containing LLP as suffix
Maximum partners	100 partners	No limit
Property	Cannot be held in the name of firm.	Can be held in the name of the LLP.
Perpetual Succession	No	Yes
Audit of accounts	Not mandatory	Mandatory, only if turnover and capital contribution overreaches 40 lakhs and 25 lakhs respectively.
Relationship	Partners are agents of firm and other partners as well.	Partners are agents of LLP only.

Classes of Share Capital

Share capital of a company limited by shares can be two kinds

- Equity share
- Preference share

Equity share capital means that part of share capital which is not preference share capital. Preference shares can be further classified as under:

- Cumulative
- Redeemable
- Participating

Share capital can be classified in a different way as to:

- Authorised capital
- Issued capital
- Subscribed Capital
- Called up capital
- Paid-up capital

Issue of Shares

ISSUE OF SHARE AT PAR

• Bank • Share application	Debited …………	………….. credited
• Share application • share capital	Debited ………….	……… Credited
Over subscription • share application • share capital • bank (refund) • share allotment	Debited ……… ………… …………	………. Credited Credited Credited

SHARE ALLOTMENT/SHARE CALL

• Share allotment a/c • Share capital a/c	Debited ……………	……… Credited
• Bank a/c • Share allotment a/c	Debited …………	………… Credited
• Share call a/c	Debited ………….	………… Credited

• Share capital a/c		
• Bank a/c • Share call a/c	Debited …………	……… Credited
• Calls in arrears a/c • Share allotment a/c • Share call a/c	Debited ………… …………….	………… Credited Credited

Issue of shares at premium

• Share application/ allotment a/c • Share capital A/c • Share premium A/c	Debited ……………. …………….	……………. Credited Credited

Issue of shares at discount

• Share allotment A/c • Discount on issue of shares A/c • Share capital A/c	Debited Debited ……………	………….. ………… Credited

Forfeiture of shares

• Share capital A/c • Call in arrears A/c • Forfeited shares A/c	Debited ………. ………	……… Credited Credited

Re-issue of shares

• Bank A/c • Forfeited shares A/c • Share capital A/c • Capital reserve A/c	Debited Debited ………. ……….	………. ………. Credited Credited

Issue of Bonus shares

• Capital Redemption Reserve A/c • Share premium A/c • Capital reserve A/c • Gen Reserve A/c • Profit & Loss A/c • Bonus to shareholders A/c	Debited Debited Debited Debited Debited ………..	………. ………. ……… ……… ………. credited
• Bonus to shareholders A/c • Equity share capital A/c	Debited …………	………… credited

Non- Voting Shares

Section 43 of the Companies Act 2013, Provided that share capital of the company shall consist of the following:

- Equity shares with voting rights
- Equity shares with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed; and
- Preference share capital

The demand for non-voting equity shares has been made by several sections of the industry basically on the ground that they do exist in many other countries and also provide a measure to the management to tap a class of investors who are interested in higher dividend against absence of voting rights.

There are some conditions for issue of non-voting equity share follow:

- Issue of non-voting equity shares shall be authorized by the Articles of Association of the company and approved by the shareholders at their general body meeting by passing a special resolution.
- Special resolution must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.
- Such shareholders are entitled to all rights and bonus shares but do not enjoy voting rights.
- Only 25% of the paid-up capital of the company can be issued as equity shares without voting rights.
- Only a public company limited by shares can issue non-voting equity shares.
- Non company will be permitted to convert shares with voting rights into shares without voting rights.

Unit 6- Company Accounts II

Form of Balance Sheet

As given in part 1 of Schedule III of the Companies Act, the prescribed form of Balance sheet is given:

Part 1- Balance sheet

Name of the Company ……………………………

Balance sheet as at …………………… (Rupees in …………….)

Particulars	Note No.	Figure at the end of current reporting period	Figure at the end of previous reporting period
1	**2**	**3**	**4**
(1)Equity and Liabilities			
(i)Shareholder's funds			
(a)Share capital			
(b)Reserves and surplus			
(c)Money received against share warrants			
(ii)Share application money pendingallotment			
(iii)Non-current liabilities			
(a)Long-term borrowings			
(b)Deferred tax liabilities (Net)			
(c)Other long term Liabilities			
(d)Long –term provisions			
(iv)Current liabilities			
(a)Short term borrowings			
(b)Trade payables			

(c)Other current liabilities (d)Short term provisions **Total** **(2)Assets** **Non-current assets** **(i)Fixed assets** (a)Tangible assets (b)Intangible assets (c)Capital work-in progress (d)Intangible assets under development **(ii)Non-current investments** **(iii)Deferred tax assets (net)** **(iv)Long-term loans and advances** **(v)Other non-current assets** **Current assets** (i)Current investments (ii)Inventories (iii)CASH and cash equivalents (iv)Short-term loans and advances (v)Other current assets			
Total			

Part 2- Statement of Profit and Loss

Name of the Company ……………….

Profit and loss statement for the year ended …………….. (Rupees in……….)

Particulars	Note No.	Figure at the end of current reporting period	Figure at the end of previous reporting period
1	2	3	4
(i)Revenue from operations			
(ii)Other income			
(iii)Total Revenue (I +II)			
(iv)Expenses:			
Cost of materials consumed			
Purchases of stock-in-Trade			
Changes in inventories of finished goods			
Work-in-process and Stock-in-trade			
Employee benefits expense			
Finance costs			
Depreciation and amortization expense			
Others Expenses			
Total expenses			
(v)Profit before exceptional and extraordinary items and tax (III-IV)			
(vi)Exceptional items			

(vii)Profit before extraordinary items and tax (V-VI) **(viii)Extraordinary items** **(ix)Profit before tax (VII-VIII)** **(x)Tax Expense:** (1)Current tax (2)Deferred tax **(xi)Profit (loss) for the period from continuing operations (VII-VIII)** **(xii)Profit/(loss)from discontinuing operations** **(xiii)Tax expense of discontinuing operations** **(xiv)Profit/ (loss) from Discontinuing operations (after tax) (XII-XIII)** **(xv)Profit (loss) for the period** **(XI+XIV)** **(xvi)Earning per equity share:** (1)Basic (2)Diluted			

Unit 7- Accounting in Computerised Environment

Computerised Accounting

An accounting system is one that performs the following functions:

- It captures business transactions in the form of accounting entries.
- The accounting entries are then used to prepare financial statements.

- The financial statements are prepared based on accounting standards.
- Various financial reports are prepared from the data available in the financial statements.

Features of Computerized Accounting

- Speed
- Accuracy
- Various informative reports can be generated
- Economy
- A Computerised system may be a single stand Along unit or a Multiple User, ie, LAN, WAN etc.

Terms used in Computerized Accounting

- Data
- Record
- Data file or file
- System

Advantages of Computerized Accounting

- Accurate, High speed and low cost or operation
- Availability of various reports from the same accounting data
- Error- free accounting
- Automatic completion of all records by feeding only one entry into the computer
- Multiple set of Printouts available

Disadvantages of Computerized Accounting

- Requirement of special Programme and Professional
- Qualified staff required for Operations
- Costly computer peripherals and stationery
- Regular back-up is required as Data may be lost for various reasons

- Computer viruses

Functions performed by computerized accounting software available in the market

- Tally versions such as 4, 4.5, 5, 5.4, 6.3, 7.2 and 8.2
- Ex, accounting software
- Bank 2000 for accounting needs for banks
- B@NKS-24-core banking solution
- A.U.D.I.T.O.R and A.U.D.I.T.I.M.E cash basis software for professionals and their accounts
- MEFCOMP accounting software for professional
- Quick FA

Core Banking Components

Core Banking is delivered as a set of integrated core banking components that are then tailored to fit the institution's individual business requirements. These components can be easily re-configured as business requirement change, protecting the orginisation's strategic investment and maintaining a unified business approach.

Core Bank components include

- Core Bank financial institution infrastructure
- Core Bank customer management and customer overview
- Core Bank Account Administration
- Core Bank Payments
- Core Bank Management Information

Advantages of Core Banking

- Makes the internal staff more competent.
- Minimises human intervention thereby limiting errors.
- Helps prevent frauds and thefts with real-time banking facilities.
- Reduces operational costs.
- Aids in studying changing customer demands.
- Facilitates decision making through reporting and analytics.

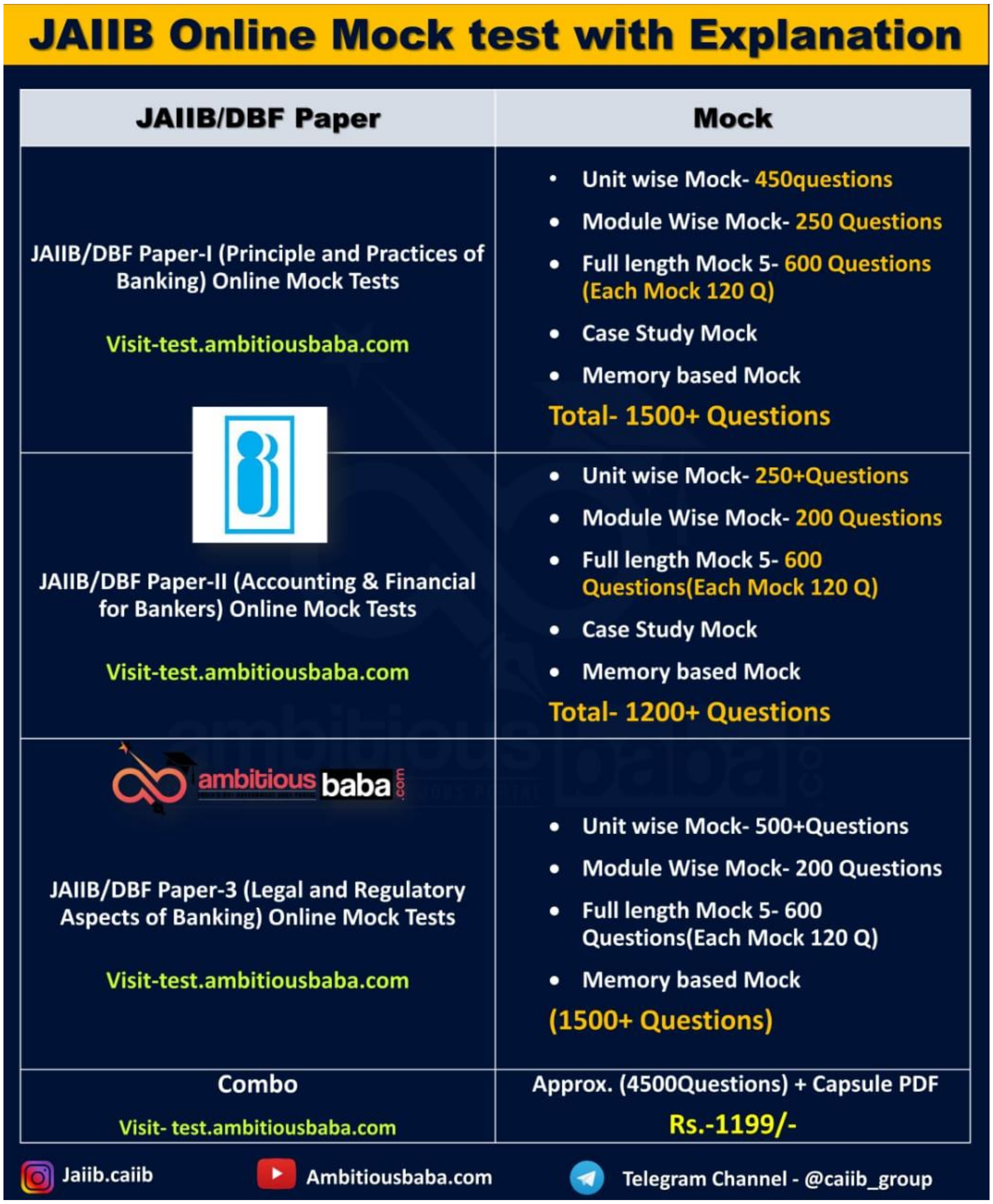
Information Security

Information Security is basically the practice of preventing unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of information. Information can be physical or electrical one.

Information system Security

Information systems security provides essential information for managing the security of an organization where information technology is an important factor. It is mainly for all the staff, who are the first-line support, responsible for the daily, efficient operation of security policies, procedures, standards and practices. ***It cover***

- Access control systems and methodologies
- Computer operations security
- E-mail and internet access
- Application and systems developments
- Cryptography
- Law, investigations and ethics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