

New
Syllabus

Financial Accounting and Analysis

BBS 1st Year



Dr. Binod Shah

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BBS 1st Year

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PREFACE

Faculty of Management (FOM), Tribhuvan University has recently reconstructed the curriculum of four years Bachelor of Business Studies Programme. "Financial Accounting and Analysis" is one of the core courses of the programme. It gives us immense pleasure to place the first edition of the book entitled "Financial Accounting and Analysis". This book is intended to meet the needs of the students for a clear knowledge on theoretical and practical aspects of financial accounting. This book presents financial accounting in a manner that is suited for the new generation of managers and accountants who are required to combine accounting with analysis. This book provides in-depth knowledge and understanding of basic principles, concept and practices of financial accounting. This book aims to develop student's understanding on business transactions, record such transactions in an accounting system and enable them to prepare and analyze the basic financial statements.

Although the book has been written as per new syllabus of first year of four years BBS of Tribhuvan University, the book is equally useful for BBS, BBA and MBA programme of different universities. We hope that the book will be useful in getting insights on the principles, concepts and practices of financial accounting for those who have keen interest to enrich their knowledge in this discipline.

This book is organized in fifteen chapters. Each chapter of this book has been presented with large number of illustrations. Efforts have been made to present the subject matter vividly in order to make the subject matter much easier. This book has been prepared to facilitate the students for their better results in exam with the broad knowledge and practical field also.

We are confident that the students and teachers will find the book extremely useful and rewarding. Constructive and helpful suggestions for improvement of the book will be gratefully acknowledged.

Authors
Kartik, 2076

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We would very much appreciate and sincerely acknowledge the suggestions from academic colleagues and readers for improving the quality of this book. We will be happy to acknowledge the support of all the students, teachers and all those who may use this book.

Authors
Kartik, 2076

Syllabus

Nature of course: Core
LHs: 150

Full Marks: 100
Pass Marks: 35

Course Objectives

The main objective of this course is to provide in-depth knowledge and understanding of basic principles, concept and practices of financial accounting. This course also aims to develop students' understanding on business transactions, record such transactions in an accounting system and enable them to prepare and analyze the basic financial statements.

Course Description

This course contains conceptual and theoretical foundation of financial accounting; processing and recording business transactions; accrual accounting concept; adjusting entries, closing entries;; preparation of basic financial statements like income statement, statement of retained earnings, balance sheet, value added statement and cash flow statement; and their analysis.

Course Details

Unit 1: Basic Understanding of Financial Accounting **8 LHs**

Forms of business entities: sole proprietorship, partnership and corporate entities; Cyclical nature of business: financial cycle and operating cycle; Financial accounting : concept, features objectives and scope ; Book-keeping, accounting and accountancy; Nature of accounting; Qualitative features of accounting information; Users and uses of accounting information: internal users and external users; Limitations of financial accounting; Bases of accounting: cash and accrual bases of accounting; and Accounting and other disciplines.

Unit 2: Conceptual Framework of Accounting **8 LHs**

GAAP and its features; Basic accounting concepts: the business entity concept, the monetary concept, the going concern concept, the cost concept, the dual aspect concept, the accounting period concept, the realization concept, the accrual concept and the matching concept; Accounting concepts Vs. Accounting conventions; Basic accounting conventions: consistency, conservatism, materiality and full disclosure; Accounting standards: meaning, nature, need and significance of accounting standards; NAS, IAS, NFRS, IFRS; Classification of Accounting standards; Ethics in accounting.

- Unit 3: Accounting Process** **23 LHs**
Accounting events of business: concept and types; Source documents: concept, types and role in recording transactions; Accounting equation for analyzing the transactions; Debit and credit and their rules; Recording process of accounting events: journal, sub-division of journal, ledger, and trial balance.
- Unit 4: Accrual Basis of Accounting** **10 LHs**
Accrual versus cash basis of accounting; Adjusting entries: concept and types of adjusting entries; Adjusted trial balance; Closing entries: concept and types of closing entries.
- Unit 5: Accounting for Inventories and Cost of Goods Sold** **8 LHs**
Concept, nature and cost of inventory; Cost of goods sold model; Inventory valuation and income measurement: periodic and perpetual system; Methods of inventory valuation in periodic and perpetual system; Inventory estimation: retail inventory method and gross profit method; Effect of inventory valuation on cost of goods sold and its disclosure; Analyzing the management of inventory: inventory turnover ratio and number of days' sales in inventory.
- Unit 6: Accounting for Cash and Internal Control** **6 LHs**
Concept and nature of cash ; Internal control and principles of internal control activities; Cash receipts and disbursement control; Preparation of bank reconciliation statement; adjusting entries; petty cash fund; Effect of cash in balance sheet; Internal control procedures.
- Unit 7: Accounting for Receivables** **6 LHs**
Concept, nature and types of receivables; Recognition and valuation of accounts receivables: presentation of accounts receivable in balance sheet, Recognition and valuation of notes receivables; Balance sheet presentation of notes receivable; Analyzing the management of accounts receivable: Accounts receivable turnover ratio and days' sales outstanding.
- Unit 8: Accounting for Current Liabilities and Contingencies** **6 LHs**
Concept and nature of current liabilities; types of current liabilities: Accounts payable, notes payable, tax payable, other accrued liabilities (accrued expenses and unearned income) and current maturities of long-term debt; Recognition and valuation of accounts payable and notes payable; Balance sheet presentation of accounts and notes payable; Concept of contingent liabilities; Accounting entries of product warranty and guarantees; Analyzing the management of current liabilities.
- Unit 9: Accounting for Long-Lived Assets** **10 LHs**
Concept, features and types of long lived assets; Acquisition cost of tangible long lived assets; Depreciation of tangible long lived assets: Straight-line method, diminishing balance method, unit of activity method and depreciation fund method; Choice of depreciation method; Disposal of long lived assets; Impact of depreciation on profit measurement; Capital versus Revenue expenditure; Effect of long lived assets in balance sheet; Analyzing the management of long lived assets.

Unit 10: Accounting for Long Term Liabilities**8 LHs**

Concept of long term liabilities; Concept, features and types of debentures or bonds ; Accounting entries for issuance and retirement of debentures or bonds; Balance sheet presentation of debentures or bonds;

Concept and types of leases: Acquisition of capital lease; depreciation of leased asset; amortization of lease obligation; balance sheet presentation of lease obligation; analyzing the management of long-term debt.

Unit 11: Accounting for Shareholders' Equity**7 LHs**

Concept of shareholder's equity; Components of shareholders equity: Common share, preference share, additional paid-in capital, and retained earnings; Balance sheet presentation of shareholder's equity; Accounting entries for issuance of share; Accounting entries for treasury share or stock; Accounting entries for cash and stock dividend, stock split and its effect on shareholder's equity; Analyzing the management of shareholders' equity.

Unit 12: Basic Financial Statements**20 LHs**

Financial statements-means of communicating accounting information: concept, purpose, types and relationship;

Income statement: concept and types of income statement, components of an income statement, preparation of single step and multi step income statement;

Statement of retained earnings: concept, components and preparation of retained earnings statement;

Statement of financial position or balance-sheet: concept, purpose, components and preparation of classified statement of financial position or balance sheet;

Statement of changes in owners' equity: concept, components and preparation of statement of changes in owners' equity.

(Disclosure required for financial statements as per Nepal Company Act and NFRS).

Unit 13: Cash Flow Statement**12 LHs**

Meaning, objectives and importance of cash flow statement; Contents of cash flow statement; preparation of cash flow statement using trail balance of a year; Preparation of cash flow statement using balance-sheets of two dates under direct and indirect method.

Unit 14: Value Added Statement**6 LHs**

Value added: concept and its application; Value added statement: concept, contents and advantages; Preparation of value added statement showing value added generated and applied.

Unit 15: Analysis of Financial Statement**12 LHs**

Meaning, objectives, need and importance of financial statement analysis;

Types of financial statement analysis: Horizontal and vertical analysis, comparative and common size statement analysis and their application.

Ratio analysis: concept, uses, importance and limitations of ratio analysis; Types, computations and interpretations of: liquidity (current ratio and quick ratio), capital structure (debt-equity ratio, debt to total capital ratio, interest coverage ratio and debt coverage ratio), efficiency (stock turnover ratio, receivable turnover ratio including collection period, payable turnover ratio including payable period, fixed assets turnover ratio, total assets turnover ratio, capital employed turnover ratio), profitability (gross profit ratio, net profit ratio, operating ratio, return on equity, return on total assets and return on common shareholders equity) and earning evaluation ratios (EPS, DPS and price earning ratio) for evaluating the financial performance of the business.

Suggesting Readings

- Accounting Standards Board, (2003). Nepal Accounting Standards. Kathmandu: ASB.
- Greunung & Keen, (2000). International Accounting Standards. A Practical Guide, USA: World Bank
- Narayanaswamy. R. *Financial Accounting: A Managerial Perspective (Fourth Edition)*. New Delhi: PHI Learning Private Limited.
- NFRS (2014). Nepal Accounting Standards. Kathmandu: ASB.
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Table of Contents

Chapter 1: Basic Understanding of Financial Accounting

Forms of Business Entities.....	1
Sole Proprietorships	1
Partnerships.....	2
Companies/Corporations	3
Characteristics of a Private Limited Company	3
Advantages of Private Limited Companies	4
Disadvantages of Private Limited Companies	4
Characteristic of Public Limited Companies	4
Advantages of Public Limited Companies	4
Disadvantages of Public Limited Companies	5
Other Types of Business Organizations	5
Cyclical Nature of Business	6
Financial Accounting	7
Features of Financial Accounting.....	7
Objectives of Financial Accounting	8
Scope of Financial Accounting	9
Book keeping.....	11
Accounting	10
Accountancy	12
Users and Uses of Accounting Information	14
Limitations of Financial Accounting.....	16
Basis of Accounting.....	16
Accounting and Other Disciplines.....	18
■ Theoretical Questions	20

Chapter 2: Conceptual Framework of Accounting

Need of Conceptual Framework of Accounting.....	22
Levels of Conceptual Framework	22
Generally Accepted Accounting Principles (GAAPs).....	23
Basic Accounting Concepts and Principles.....	24
Accounting Conventions	25
Accounting Standards.....	27
Nature of Accounting Standards.....	28
Need and Significance for Accounting Standards.....	29
Classification of Accounting Standards	30

Accounting Standards in Practice	31
International Accounting Standards-IAS and IFRS.....	31
Local Accounting Standards- NAS and NFRS	32
Ethics in Accounting	34
Code of Ethics in Accounting	34
Ethical Dilemmas in Accounting.....	35
■ Theoretical Questions	36

Chapter 3 : Accounting Process

Business Transactions and Events.....	37
Source Documents: The Evidential Documents.....	38
Types of Source Documents.....	38
Importance of Source Documents	40
Entry	40
The Accounting Equation.....	41
Relationship among the Components of Equation.....	42
Analysis of Financial Transactions' Effects on Accounting Equation.....	44
The Account and Rules of Debit and Credit.....	51
Normal Balance.....	53
Journal-The Book of Original Entry	55
Sub-division of Journal	56
Journalizing Procedures	56
Explanation of the Contain of General Journal Format	57
Nature of Journal Entries.....	58
Simple Journal Entry	58
Compound Journal Entry	58
Posting.....	59
Balancing and Closing of Ledger Accounts.....	66
The Trial Balance: A Tool for Checking Arithmetical Accuracy	71
■ More Illustration	73
■ Theoretical Questions	84
■ Practical Problems	84

Chapter 4 : Accrual Basis of Accounting

Accrual Basis Versus Cash Basis	91
Adjusting Entries	62
Types of Adjusting Entries	93
Effect of Omitting Adjustments	96
Adjusted Trial Balance.....	97

Closing Process	99
Recording Closing Entries.....	99
■ More Illustration.....	102
■ Theoretical Questions	106
■ Practical Problems	106

Chapter 5 : Accounting for Inventories and Cost of Goods Sold

Meaning and Nature of Inventory	113
Determining inventory items.....	114
Costs included in inventory	114
Cost of Goods Sold and gross income	116
Inventory System.....	118
Perpetual Inventory System.....	118
Inventory valuation methods under periodic Inventory system	118
First in First-Out (FIFO) Method	119
Last-In First - Out (LIFO) Method	119
Weighted Average Method.....	120
Specific identification method	121
Inventory valuation methods under perpetual inventory system..	122
First-In First-Out (FIFO) Method	122
Last-In First-Out (LIFO) Method.....	123
Weighted Average Cost method	124
Choice of Inventory Method	125
Inventory Valuation & Income Measurement.....	125
Inventory Valuation Under Variable and Full costing	126
Methods of inventory estimation	128
Retail Inventory method.....	128
Gross Profit or Gross Margin Method.....	130
Valuation at Lower of cost or market (LCM)	131
Inventory Errors.....	133
Disclosure of Inventory in financial statements	135
Effect of inventory valuation method	136
■ More Illustrations	141
■ Theoretical Questions	155
■ Practical Problems	155

Chapter 6 : Accounting for Cash and Internal Control

Cash & Cash Equivalent.....	163
Cash Management.....	164
Internal Control	164

Objectives of Internal control	165
Principles of Internal Control Activities	165
Internal Control Procedures	167
Management Control of Cash.....	168
Control Over Cash Receipts.....	168
Over the counter Receipts	168
Mail Receipts	169
Control Over Cash Payments	170
Petty Cash Fund	171
Effect of Cash in Balance Sheet	172
Bank Account: Internal Control Device for Cash	173
The company's Cash Book.....	173
Bank Statement	174
Bank Reconciliation	175
Items of Bank Reconciliation	176
Entries from Bank Reconciliation	177
■ Theoretical Questions	190
■ Practical Problems	191

Chapter 7 : Accounting for Receivables

Concept and Types of Receivables.....	201
Recognition of Accounts receivables	202
Valuation of accounts Receivables.....	205
Uncollectible Accounts receivables.....	205
Direct-write-off method.....	206
Allowance method	207
Recording estimated bad debt expenses	208
Recording the write -off uncollectible accounts	208
Recording the recovery of uncollectible accounts	209
Approaches of Estimating Uncollectible.....	210
Aging of Account Receivable.....	214
Presentation of Account Receivable in Financial Statement	216
Analyzing the Management of Account Receivables.....	217
Notes Receivable.....	219
Types of Notes Receivable	219
Computing Maturity Date and Period	219
Computing Interest	220
Accounting for notes receivable	220
■ More Illustrations	223
■ Theoretical Questions	236
■ Practical Problems	236

Chapter 8 : Accounting for Current Liabilities and Contingencies

Concept and Nature of Current Liabilities	245
Account Payable	246
Notes Payable.....	248
Interest-Bearing Notes	248
Non-Interest bearing notes.....	250
Tax Payable.....	251
Current Portion of long term liabilities	252
Other Accrued liabilities.....	252
Unearned Revenues	253
Contingent liabilities	253
Balance Sheet Presentation of Current Liabilities	254
Analyzing the Management of Current Liabilities.....	255
■ More Illustrations	257
■ Theoretical Questions	265
■ Practical Problems	265

Chapter 9 : Accounting for Long-Lived Assets

Meaning of Long-lived assets	271
Features of Long-Lived Assets:	271
Types of Long-Lived Assets:.....	272
Tangible Long-Lived Assets	272
Intangible Long-lived Asset	273
Acquisition cost of operating assets.....	273
Group purchase	275
Capitalization process.....	276
Depreciation	278
Factors in computing depreciation expenses	279
Methods of Calculating Depreciation.....	279
Units of Activity Method/Units of Production Method	281
Comparison of Depreciation Method.....	287
Special problems in Depreciation Accounting.....	288
Revising Estimated Useful life and Residual Value	289
Disposal of Fixed Assets	290
Selling fixed Assets	290
Exchanging Fixed Assets	292
Impact of Depreciation on Profit Measurement:	293
Concepts of capital & revenue expenditure	293
Disclosure in Financial Statements	295
Analyzing the Management of Long Lived Assets	296

■ More Illustrations	297
■ Theoretical Questions	304
■ Practical Problems	304

Chapter 10: Accounting for Long Term Liabilities

Long Term Liabilities	311
Bonds Payable	311
Factors affecting Bond Price.....	312
Types of bonds	314
Advantages of bonds	314
Disadvantages of bonds.....	315
Accounting for bonds Payable.....	315
Bonds Issued at Face Amount	315
Bond Issued at Discount	316
Amortizing a Bond Discount	317
Bonds Issued at Premium.....	319
Amortizing Bond Premium.....	320
Balance Sheet Presentation of Bonds	324
Lease	324
Operating Leases	325
Capital Leases.....	325
Balance sheet Presentation of lease arrangement	326
Analyzing the Management of Long term Liabilities	328
■ More Illustrations	331
■ Theoretical Questions	337
■ Practical Problems	337

Chapter 11: Accounting for Shareholders' Equity

Corporate Form of Organization.....	345
Characteristics of Corporation.....	345
Formation of a Corporation	346
Stockholder Rights	347
Equity as a Source of Financing.....	347
Basics of Capital Stock	348
Shareholder's Equity/Stockholder's Equity	349
Common Stock.....	350
Issuing Par Value Stock	350
Issuing par value stock at premium :	351
Issuing par value stock at discount:	352
Issuing No-Par Value Stock	352

Issuing stated Value Stock.....	353
Issuing Stock for Non – Cash Assets	353
Preferred Stock	354
Treasury Share or Stock.....	356
Purchasing Treasury Stock.....	357
Balance Sheet Presentation of Shareholder's Equity	358
Dividends.....	359
Dividend Preference of Preferred Stock.....	361
Stock Dividends/Bonus shares/share dividends.....	362
Stock Split	365
Analyzing the Management of Shareholder's Equity	366
■ More Illustrations	368
■ Theoretical Questions	374
■ Practical Problems	374

Chapter 12: Basic Financial Statements

Meaning and Concept of Financial Statements	383
Purpose/Objectives of Financial Statement	383
Income Statement	385
Statement of Retained Earnings	388
Balance Sheet.....	390
Statement of Cash Flows	395
Changes in Owners' Equity.....	396
Interrelationships Among Financial Statements	397
Disclosure Required for Financial Statements	398
■ More Illustrations	402
■ Theoretical Questions	412
■ Practical Problems	412

Chapter 13: Cash Flow Statement

Meaning of Cash Flow Statement	421
Purposes of Cash Flow Statement	421
Importance of Cash Flow Statement	422
Preparation of Cash Flow Statement	422
Cash from Operating Activities	423
Cash from Investing Activities	427
Cash From Financing Activities	428
Preparation of Cash Flow Statement using a trail balance of a year	435
Interpretation of Cash flow statement	437

■ More Illustrations	451
■ Theoretical Questions	482
■ Practical Problems	482

Chapter 14: Value Added Statement

Meaning and Concept of Value Added	499
Application of Value Added.....	500
Value Added Statement	501
Advantages of Value Added Statement	501
Methods (approaches) of value added statement	502
■ Theoretical Questions	518
■ Practical Problems	518

Chapter 15: Analysis of Financial Statement

Financial Statement Analysis	525
Components of Financial Statements	526
Objective of Financial Statement Analysis	527
Importance of Financial Statement Analysis	527
Limitations of Financial Statement Analysis	527
User of Financial Statement Analysis	528
Tools of Financial Statement Analysis	528
Horizontal Analysis	529
Comparative Statements	529
Comparative Balance Sheets statement.....	529
Comparative Income Statements	530
Trend analysis	530
Vertical Analysis	530
Common Size statement	531
Common size balance sheet	531
Common size income statement	531
Ratio Analysis	532
■ More Illustration.....	546
■ Theoretical Questions	580
■ Practical Problems	580
■ APPENDIX	591
■ BIBLIOGRAPHY	599



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