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**FOUNDATION COURSE**

**PRINCIPLES  
AND PRACTICE  
OF ACCOUNTING**

**MODULE - 1 OF 2**



**BOARD OF STUDIES**  
**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (ICAI)**  
*(SET UP BY AN ACT OF PARLIAMENT)*  
NEW DELHI

## **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

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Edition : July, 2017

First Revised : April, 2018

Reprint Edition : June, 2018

Updated Edition : February, 2019

Revised Edition : October, 2020

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Department/  
Committee : Board of Studies

ISBN No. : 978-81-8441-871-2

Price (All Modules) : ₹ 500/-

Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.

Printed by : Friends Digital Color Print Shop, Delhi  
November/2020/P2748 (Revised)

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## BEFORE WE BEGIN ...

### SKILL REQUIREMENTS AT FOUNDATION LEVEL

The Board of Studies, ICAI has revised and updated the study material for **Foundation** (Entry Level Exam to the Chartered Accountancy Course). The contents have been designed and developed with an objective to synchronize the syllabus with the guidelines prescribed by **IAESB** (International Accounting Education Standards Board), **IFAC** (International Federation of Accountants), to instill and enhance the necessary pre-requisites for becoming a well-rounded, competent and globally competitive Accounting Professional.

The level of complexity of the study material is as per standards accorded by **IAESB** comprising an ideal mix of subjective and objective examination pattern to ensure discerning students get through and seek admission to the CA Course.

The paper of '**Principles and Practice of Accounting**' at Foundation level concentrates on conceptual understanding of fundamentals of accounting. The objective of this paper is to develop an understanding of the basic concepts and principles of Accounting and apply the same in preparing financial statements of non-corporate entities and simple problem solving.

This Study Material endeavouring towards accounting education, is committed to provide a framework for understanding accounting discipline and describing the fundamental accounting concepts and conventions of the basic accounting system. An attempt has been made to provide a solid foundation on which students can successfully build and enhance their studies.

### KNOW YOUR SYLLABUS AND STUDY MATERIAL

The Study Material of Principles and Practice of Accounting has been designed having regard to the needs of home study and distance learning students. The Study Material has been divided into ten chapters, each addressing to a special aspect of accounting. Chapters 1 to 5 lay emphasis on bookkeeping aspect of accounting whereas chapter 7 deals with preparation of financial statements of sole proprietors. Chapter 6 covers accounting for special transactions like consignment, bills of exchange, sale of goods on approval basis, and average due date which are useful for different business entities. Chapter 8 discusses accounting of partnership firms and chapter 9 deals with financial statements of Not-for-profit organizations. Chapter 10 explains basic concepts of company accounts.

The study material has been bifurcated into two modules (Module I: Chapters 1 to 6 and Module II: Chapters 7 to 10) for easy handling and convenience of students. It is important to read the Study Material thoroughly and practice the questions for understanding the coverage of syllabus.

### FRAMEWORK OF CHAPTERS – UNIFORM STRUCTURE COMPRISING OF SPECIFIC COMPONENTS

Efforts have been made to present each topic of the syllabus in a lucid manner. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the

students. Sincere efforts have been undertaken to review and update the study material so that it reflects the current position.

The content for each chapter/unit of the study Material has been structured in the following manner –

	<b>Components of each Chapter</b>	<b>About the component</b>
1	<b>Learning Outcomes</b>	Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.
2	<b>Chapter/Unit Overview</b>	As the name suggests, the flow chart/table/diagram given at the beginning of each chapter would give a broad outline of the contents covered in the chapter.
3	<b>Content of each unit/ chapter</b>	The concepts and provisions of each topic is explained in student-friendly manner with the aid of Examples/ Illustrations/ Diagrams/Flow charts. These value additions would help you develop conceptual clarity and get a good grasp of the topic. Diagrams and Flow charts would help you understand the concept/ application of topic in a better manner.
4	<b>Illustrations involving conceptual understanding</b>	Illustrations would help the students to understand the application of concepts. In effect, it would test understanding of concepts as well as ability to apply the concepts learnt in solving problems and addressing issues.
5	<b>Summary</b>	A summary of the chapter is given at the end to help you revise what you have learnt. It would especially facilitate quick revision of the chapter the day before the examination.
6	<b>Test Your Knowledge</b>	This section comprises of number of multiple choice questions, questions based on True and False statements, theoretical questions and practical questions which would help students to evaluate what they have understood after studying the chapter. The questions given in this section have also been supplemented with the answers to help the students in evaluating their solutions so that they can know where they have gone wrong.

We hope that these student-friendly features in the Study Material makes your learning process more enjoyable, enriches your knowledge and sharpens your application skills.

**Happy Reading and Best Wishes!**

## **PAPER – 1 : PRINCIPLES AND PRACTICE OF ACCOUNTING**

**(One paper – Three hours – 100 Marks)**

### **OBJECTIVE:**

**To develop an understanding of the basic concepts and principles of Accounting and apply the same in preparing financial statements and simple problem solving.**

### **CONTENTS:**

#### **1. Theoretical Framework**

- (i) Meaning and Scope of accounting
- (ii) Accounting Concepts, Principles and Conventions
- (iii) Accounting terminology - Glossary
- (iv) Capital and revenue expenditure, Capital and revenue receipts, Contingent assets and contingent liabilities
- (v) Accounting Policies
- (vi) Accounting as a Measurement Discipline – Valuation Principles, Accounting Estimates.
- (vii) Accounting Standards – Concepts and Objectives.
- (viii) Indian Accounting Standards – Concepts and Objectives.

#### **2. Accounting Process**

- (i) Books of Accounts
- (ii) Preparation of Trial Balance
- (iii) Rectification of Errors.

#### **3. Bank Reconciliation Statement**

Introduction, reasons, preparation of bank reconciliation statement.

#### **4. Inventories**

Cost of inventory, Net realizable value, Basis and technique of inventory valuation and record keeping.

#### **5. Concept and Accounting of Depreciation**

Concepts, Methods of computation and accounting treatment of depreciation, Change in depreciation methods.

#### **6. Accounting for Special Transactions**

- (i) Bills of exchange and promissory notes  
Meaning of Bills of Exchange and Promissory Notes and their Accounting Treatment;  
Accommodation bills.

- (ii) Sale of goods on approval or return basis

Meaning of goods sent on approval or return basis and accounting treatment.

- (iii) Consignments

Meaning and Features of consignment business, Difference between sale and consignment, Accounting treatments for consignment transactions and events in the books of consignor and consignee.

- (iv) Average due Date

Meaning, Calculation of average due date in various situations.

- (v) Account Current

Meaning of Account Current, Methods of preparing Account Current.

## **7. Final Accounts of Sole Proprietors**

Elements of financial statements, Closing Adjustment Entries, Trading Account, Profit and Loss Account and Balance Sheet of Manufacturing and Non-manufacturing entities.

## **8. Partnership Accounts**

- (i) Final Accounts of Partnership Firms

- (ii) Admission, Retirement and Death of a Partner including Treatment of Goodwill

- (iii) Introduction to LLPs and Distinction of LLPs from Partnership.

## **9. Financial Statements of Not-for-Profit Organizations**

Significance of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet, Difference between Profit and Loss Account and Income and Expenditure Account. Preparation of Receipt and Payment Account, Income and Expenditure Account and Balance Sheet.

## **10. Introduction to Company Accounts**

- (i) Definition of shares and debentures

- (ii) Issue of shares and debentures, forfeiture of shares, re-issue of forfeited shares

- (iii) Statement of Profit and Loss and Balance Sheet as per Schedule III to the Companies Act, 2013.

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- CHAPTER 8 : Partnership Accounts
- CHAPTER 9 : Financial Statements of Not-For-Profit Organizations
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