Financial Accounting

As per LU datesheet

B.B.A.LL.B. Sem I · BL-104 · Theory + numericals. Numericals come from accounting equation, final accounts with adjustments, depreciation (SLM/WDV with disposal), ratios and cash flow. New topic: **forensic accounting and frauds**. Always show working notes, formats and headings.

UNIT I – Basics

- ★ Meaning, branches, users
- ★ Concepts & conventions, GAAP
- · Ind AS, IFRS
- · Ethics

UNIT II – Recording

- ★ Capital vs revenue
- ★ Accounting equation
- · Journal, ledger
- ★ Trial balance, errors
- ★ Final accounts

Financial Accounting
mind map

UNIT III – Depreciation & Fraud

- ★ Depreciation causes
- ★ SLM vs WDV, disposal
- ★ Forensic accounting
- · Fraud triangle, red flags

UNIT IV – Analysis

- · Common-size, comparative, trend
- ★ Ratio analysis
- · Uses & limits
- ★ Cash flow statement

Exam date: As per LU datesheet	**Time:** As per LU datesheet	**Duration:** 3 hours	**Paper:** BL-104

Exam-hall strategy: Read the whole paper first → start with the question you know best → draw neat, labelled diagrams → box every final answer and formula → keep the last 5 minutes for checking.

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Most Important Repeated Questions

From the LUUPDATE B.B.A.LL.B. (Integrated) 5-Year Sem I Important Topics 2026 list — based on the new 2026-27 syllabus (Schedule III) and previous LU papers. ★★★ = must study, ★★ = high chance, ★ = if time permits. ESE: 10 questions, attempt any 5, 15 marks each, MM 75 (+ 25 internal = 100), 3 hours.

#	Tag	Question / Topic	Asked in
1	★★★	Accounting – meaning, objectives, functions, branches and users	Unit I Must study
2	★★★	Accounting concepts and conventions; GAAP	Unit I Must study
3	★★	Ind AS and IFRS – need and convergence	Unit I High chance
4	★	Ethical issues in accounting	Unit I If time permits
5	★★★	Capital vs revenue receipts and expenditure (with examples)	Unit II Must study
6	★★★	Accounting equation (numerical); journal and ledger	Unit II Must study
7	★★★	Trial balance – meaning, objectives, preparation; errors not disclosed	Unit II Must study
8	★★★	Final accounts with adjustments (numerical)	Unit II Must study
9	★★★	Depreciation – meaning, causes, objectives	Unit III Must study
10	★★★	SLM vs WDV methods; disposal of asset (numerical)	Unit III Must study
11	★★★	Forensic accounting – meaning and types of financial statement frauds	Unit III Must study
12	★★	Fraud triangle, red flags and investigation techniques	Unit III High chance
13	★★	Common-size and comparative statements; trend analysis	Unit IV High chance
14	★★★	Ratio analysis – liquidity, turnover, solvency, profitability ratios (numerical)	Unit IV Must study
15	★★	Uses and limitations of ratio analysis	Unit IV High chance
16	★★★	Cash flow statement – meaning, purpose, operating/investing/financing activities	Unit IV Must study

Also revise: Golden rules of debit-credit, suspense account, rectification of errors, marshalling of balance sheet, Ind AS 16 (PPE) and Ind AS 7 (cash flows), Satyam case (forensic accounting), Benford's law.

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Flowcharts & Diagrams — See It at a Glance

→ FLOWCHART: Golden Rules (Traditional)

Personal A/c: Dr the receiver, Cr the giver → Real A/c: Dr what comes in, Cr what goes out →

Nominal A/c: Dr expenses & losses, Cr incomes & gains

→ FLOWCHART: Modern (Accounting Equation) Rules

Assets ↑ Dr, ↓ Cr → Liabilities ↑ Cr, ↓ Dr → Capital ↑ Cr, ↓ Dr → Expenses ↑ Dr →

Revenue ↑ Cr

→ FLOWCHART: Cash Flow — Indirect Method

Net profit before tax → + Non-cash items (depreciation) → ± Non-operating items (profit on sale) →

± Changes in working capital → − Tax paid = CFO → + CFI + CFF = net change in cash

→ FLOWCHART: Ratio Analysis Steps

Choose purpose → Compute ratios → Compare (past, industry) → Interpret → Report with limitations

→ FLOWCHART: Accounting Process (Cycle)

Transaction + source document → Journal (book of original entry) → Ledger posting → Trial balance →

Adjustments → Final accounts: Trading, P&L, Balance Sheet

→ FLOWCHART: Forensic Investigation Steps

Tip-off / red flag → Plan & preserve evidence → Data analytics (Benford's law, ratios) →

Document review & interviews → Quantify loss → Report — expert testimony in court

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UNIT I – Accounting Concepts & Standards

Meaning, Nature & Scope ★★★

AICPA (1941): the art of recording, classifying and summarising in a significant manner, in terms of money, transactions and events of a financial character, and interpreting the results.

- **Nature:** art and science, service activity, information system, based on concepts and conventions
- **Language of business:** it communicates the results and position of a business to owners, investors, creditors, government and employees
- **Functions:** recording, classifying, summarising, analysing, interpreting, communicating
- **Branches:** financial, cost, management, tax, human resource, social responsibility, forensic, government accounting
- **Limitations:** ignores non-monetary facts, historical costs, estimates, window dressing possible

Concepts & Conventions ★★★

Concepts:

- **Business entity:** business separate from owner
- **Money measurement:** only monetary transactions recorded
- **Going concern:** business will continue in foreseeable future
- **Accounting period:** results measured for fixed periods
- **Cost concept:** assets recorded at cost
- **Dual aspect:** Assets = Liabilities + Capital
- **Realisation:** revenue recognised when earned
- **Accrual & matching:** expenses matched with revenue of the period

Conventions: consistency · full disclosure · materiality · conservatism (prudence: anticipate no profit, provide for all losses)

Principles, AS, Ind AS & IFRS ★★

- **GAAP:** generally accepted rules and practices of accounting
- **Accounting Standards (AS):** written policy documents issued by the ICAI's Accounting Standards Board to bring uniformity
- **IFRS:** International Financial Reporting Standards issued by the IASB (London), used in 140+ countries
- **Ind AS:** Indian standards converged with IFRS, notified by MCA in 2015; applied in phases from 2016-17 to listed and large companies (net worth ₹500 crore and above first)
- **Principles vs standards:** principles are broad, general guidelines; standards are specific, authoritative rules

Branches, Users & Ethics ★★

- **Branches:** financial, cost, management, tax, auditing, forensic, social/environmental, human resource accounting
- **Users:** internal — owners, managers, employees; external — investors, lenders/banks, creditors, government and tax authorities (GST, income tax), regulators (SEBI, RoC), customers, researchers, public
- **Ethical issues:** window dressing, creative accounting, earnings manipulation, revenue recognition fraud, hiding liabilities, conflict of interest, auditor independence, insider trading. Codes — ICAI Code of Ethics, Companies Act Sec 447 (fraud), SEBI LODR; Satyam (2009) as a lesson

UNIT II – Recording & Final Accounts

Capital vs Revenue ★★

Capital expenditure	Revenue expenditure
Benefit for many years	Benefit within the year
Acquires/improves fixed assets	Maintains business
Shown in balance sheet	Charged to P&L
Eg: machinery, installation	Eg: wages, repairs, rent

- **Capital receipt:** sale of fixed asset, loan, capital introduced · **Revenue receipt:** sales, commission, interest received
- **Deferred revenue expenditure:** revenue in nature but benefit spread over years (heavy advertisement)

Classification of Accounts ★★★

- **Personal:** natural (Ram), artificial (ABC Ltd., bank), representative (outstanding salary, prepaid rent)
- **Real:** tangible (cash, machinery, stock) and intangible (goodwill, patents)
- **Nominal:** expenses, losses, incomes, gains (rent, salary, commission)

Trial balance vs balance sheet: TB is a list of all ledger balances to check arithmetical accuracy (not a final statement, no format); B/S shows financial position (assets & liabilities only, legal format for companies).

Accounting Equation, Journal & Ledger ★★★

Assets = Liabilities + Capital (dual aspect concept). Every transaction affects at least two items; equation always balances. Capital = Assets – Liabilities; profit increases capital, drawings and losses reduce it.

- **Journal** — chronological record: date, particulars (Dr/Cr), L.F., amount; narration
- **Ledger** — classified record by accounts; posting from journal; balancing
- **Subsidiary books:** cash book, purchase, sales, returns books, bills books, journal proper

Trial Balance & Errors Not Disclosed ★★★

Trial balance — statement of debit and credit balances of all ledger accounts on a date to check arithmetical accuracy. **Objectives:** check accuracy, basis for final accounts, summary of ledger, locate errors. Methods — balance method (most common), total method. **Errors not disclosed** (TB still agrees): (1) errors of **omission** (complete), (2) errors of **principle** (capital vs revenue — machinery debited to purchases), (3) **compensating** errors, (4) wrong account of same side (commission), (5) wrong amount in journal, (6) complete reversal of entry. Disclosed errors → suspense account and rectification.

Final Accounts of a Sole Trader ★★

- **Trading A/c** → gross profit (sales – cost of goods sold; direct expenses: wages, carriage inwards, freight)
- **Profit & Loss A/c** → net profit (GP – indirect expenses + other incomes)
- **Balance Sheet** → assets = capital + liabilities (marshalling: liquidity or permanence order)

Common adjustments (two effects each):

Adjustment	P&L / Trading	Balance Sheet
Closing stock	Cr Trading	Asset
Outstanding expense	Add to expense	Liability
Prepaid expense	Deduct	Asset
Accrued income	Add to income	Asset
Depreciation	Debit P&L	Deduct from asset
Bad debts & provision	Debit P&L	Deduct from debtors
Interest on capital / drawings	Dr / Cr P&L	Add / deduct capital

Business income = increase in net worth during the period (+ drawings – fresh capital); measured on accrual basis; revenue recognised when earned (Ind AS 115: transfer of control).

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UNIT III – Depreciation & Forensic Accounting

Depreciation ★★

Meaning: permanent, gradual and continuous fall in the value of a fixed asset due to use, time and obsolescence.

SLM: Depreciation = (Cost − Scrap value) ÷ Useful life

Rate (SLM) = Annual depreciation ÷ Cost × 100

- **WDV method:** fixed % on the reducing book value each year
- **SLM vs WDV:** SLM equal charge, simple, suits assets with even use; WDV higher charge in early years, accepted by income tax
- **Causes:** wear and tear, efflux of time, obsolescence, depletion, accidents

SLM vs WDV; Disposal ★★★

SLM (fixed instalment)	WDV (reducing balance)
On original cost	On book value (reducing)
Same amount each year	Decreasing amount
Can become zero	Never becomes zero
Suits low-repair assets (lease, patents)	Suits machinery, vehicles; accepted by Income-tax Act
(Cost − scrap) ÷ life	Rate × opening WDV

Disposal: charge depreciation up to date of sale → book value = cost − accumulated depreciation → sale price − book value = profit/(loss) on sale, transferred to P&L. Ind AS 16 — review useful life and method.

Forensic Accounting & Financial Statement Frauds ★★★

Forensic accounting — use of accounting, auditing and investigative skills to examine financial records for use in legal proceedings ("accounting fit for court"). Components: **investigative accounting** (fraud detection), **litigation support** (damages, expert witness), dispute resolution.

- **Types of financial statement fraud:** fictitious revenue (fake sales/invoices — Satyam), improper timing of revenue/expenses, concealed liabilities and expenses, improper asset valuation (inflated inventory, receivables), improper disclosures, related-party transactions, round-tripping; also asset misappropriation and corruption (ACFE fraud tree)
- **Fraud triangle** (Donald Cressey): **pressure/motivation** (targets, debt, bonus, share price), **opportunity** (weak internal control, override by management), **rationalisation** ("I'll repay it", "everyone does it"); fraud diamond adds **capability**
- **Red flags/indicators:** profits rising while cash flow falls, unusual year-end transactions, rapid growth vs industry, frequent auditor changes, complex structures, missing documents, lavish lifestyle of employees, unreconciled accounts, related-party deals
- **Investigation techniques:** ratio and trend analysis, data analytics and **Benford's law**, document examination, bank and cash tracing, interviews, surprise checks, computer forensics (e-mails, metadata), reconciliation of third-party confirmations
- **Indian law:** Companies Act 2013 — Sec 447 (fraud punishment), Sec 143(12) (auditor reporting), SFIO (Sec 211); PMLA 2002; cases — Satyam (2009), Kingfisher, PNB–Nirav Modi (2018), IL&FS (2018)

UNIT IV – Financial Statement Analysis

Comparative, Common-size & Trend ★★

- **Comparative statements:** two or more years side by side with absolute and % change
- **Common-size:** each item as % of a base — total assets (B/S) or revenue (P&L) — compare firms of different sizes
- **Trend analysis:** base year = 100, later years as index — shows direction over time

Ratio Analysis ★★★

Type	Ratio	Formula (ideal)
Liquidity	Current	CA/CL (2 : 1)
	Quick	(CA – stock – prepaid)/ CL (1 : 1)
Solvency	Debt-equity	Long-term debt/equity (≤ 2 : 1)
	Interest coverage	EBIT/interest
Profitability	GP, NP ratio	GP/sales, NP/sales × 100
	ROCE / ROE	EBIT/capital employed; PAT/equity
Turnover	Inventory turnover	COGS/average stock
	Debtors turnover	Credit sales/avg debtors; collection period 365/ DTR

Significance: simplifies data, comparison, trend, decision-making. **Limitations:** historical data, window dressing, different accounting policies, ignores qualitative factors, no single standard.

Cash Flow Statement (Ind AS 7 / AS 3) ★★★

- **Operating activities** (main revenue activities) — indirect method starts from net profit before tax, adds non-cash and non-operating expenses (depreciation, loss on sale), deducts non-operating incomes (profit on sale, dividends received), adjusts working capital changes (increase in current assets –, increase in current liabilities +), less tax paid
- **Investing activities:** purchase/sale of fixed assets and investments, interest and dividends received
- **Financing activities:** issue/redemption of shares and debentures, loans, interest and dividends paid
- Net change = CFO + CFI + CFF = closing – opening cash and cash equivalents
- **Uses:** liquidity, ability to pay dividends and debts, quality of earnings; cash flow ≠ profit

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Solved Numericals (verified)

Example 1 — Accounting Equation

Ram starts business with cash ₹1,00,000 → buys goods on credit ₹30,000 → buys furniture for cash ₹20,000 → sells goods costing ₹10,000 for ₹15,000 cash → pays creditor ₹12,000.

Assets	₹	Liabilities + Capital	₹
Cash (1,00,000 − 20,000 + 15,000 − 12,000)	83,000	Creditors (30,000 − 12,000)	18,000
Stock (30,000 − 10,000)	20,000	Capital (1,00,000 + 5,000 profit)	1,05,000
Furniture	20,000		
Total	**1,23,000**	**Total**	**1,23,000**

Example 2 — Final Accounts with Adjustments

Opening stock 20,000; purchases 1,20,000; wages 10,000; sales 2,00,000; salaries 24,000; rent 12,000; debtors 50,000; furniture 40,000. **Adjustments:** closing stock 30,000; outstanding salary 2,000; prepaid rent 1,000; depreciation on furniture 10%; provision for doubtful debts 5% on debtors.

Gross profit = 2,00,000 − (20,000 + 1,20,000 + 10,000 − 30,000)	80,000
Less salaries (24,000 + 2,000)	(26,000)
Less rent (12,000 − 1,000)	(11,000)
Less depreciation (10% of 40,000)	(4,000)
Less provision for doubtful debts (5% of 50,000)	(2,500)
Net profit	**36,500**

Balance sheet: closing stock 30,000, prepaid rent 1,000 and furniture 36,000 are shown as assets; debtors are shown net at 47,500; outstanding salary 2,000 is a liability.

Example 3 — WDV with Disposal

Machine bought 1-4-2023 for ₹2,00,000; depreciation 10% WDV; sold 30-9-2025 for ₹1,40,000.

2023-24 dep 20,000 → WDV	1,80,000
2024-25 dep 18,000 → WDV	1,62,000
2025-26 dep (6 months) 8,100 → book value	1,53,900
Loss on sale = 1,53,900 − 1,40,000	**13,900**

Example 1 — SLM Depreciation

Machine ₹1,10,000 · installation ₹10,000 · scrap ₹20,000 · life 5 years

Depreciation = (1,20,000 − 20,000) ÷ 5 = **₹20,000 p.a.** · rate = 20,000 ÷ 1,20,000 × 100 = **16.67%**

Example 2 — Ratios

CA ₹2,00,000; CL ₹1,00,000; stock ₹60,000; debt ₹3 L; equity ₹5 L; sales ₹10 L; GP ₹2.5 L; NP ₹1 L; COGS ₹7.5 L; avg stock ₹1.5 L.

· Current 2 : 1 · Quick 1.4 : 1 · D/E 0.6

· GP 25% · NP 10% · Inventory turnover 5 times

Example 3 — Cash from Operations

NPBT ₹1,00,000; depreciation 20,000; debtors ↑ 15,000; creditors ↑ 10,000; stock ↓ 5,000; tax paid 25,000:

CFO = 1,00,000 + 20,000 − 15,000 + 10,000 + 5,000 − 25,000 = ₹95,000

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Practice Set with Answers

Cover the answer column, try each question yourself, then check.

#	Question	Answer
1	Classify: outstanding salary?	Representative personal account.
2	Rule for real account?	Dr what comes in, Cr what goes out.
3	Is trial balance a final statement?	No — it checks arithmetical accuracy.
4	Cash vs accrual — companies must use?	Accrual basis.
5	India's converged IFRS?	Ind AS.
6	WDV depreciation is charged on?	Opening book value.
7	Format for company accounts?	Schedule III, Companies Act 2013.
8	Accounting equation?	Assets = Liabilities + Capital.
9	Error not disclosed by TB (example)?	Error of principle / omission / compensating.
10	Fraud triangle elements?	Pressure, opportunity, rationalisation (Cressey).
11	Forensic accounting means?	Accounting investigation fit for use in court.
12	WDV depreciation never becomes?	Zero.
13	Ind AS for cash flows?	Ind AS 7.

Common Mistakes to Avoid

- No working notes in numericals
- Adjustment shown in only one place (needs two effects)
- Confusing SLM and WDV base
- Calling every error disclosed by trial balance
- Forensic answer without fraud triangle and red flags
- Ratios without formula and interpretation

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Answer Plans — What to Write for Each Question

Q. Accounting & users
Definition → objectives → functions → branches → users table.

Q. Concepts / GAAP / Ind AS
Concepts list with examples → conventions → GAAP → Ind AS vs IFRS.

Q. Capital vs revenue
Definitions → table → examples → deferred revenue.

Q. Trial balance
Meaning → objectives → methods → errors not disclosed.

Q. Final accounts
Trading → P&L → balance sheet with adjustments shown twice.

Q. Depreciation
Meaning → causes → objectives → SLM vs WDV → disposal numerical.

Q. Forensic accounting
Meaning → types of fraud → triangle → red flags → techniques → Indian law.

Q. Ratios / cash flow
Formulas by group → interpretation → limitations; CFO, CFI, CFF format.

Last-Minute Formula Sheet

Equation	Assets = Liabilities + Capital
Rules	Personal: receiver/giver · Real: comes in/goes out · Nominal: expenses/incomes
Depreciation	SLM (Cost − Scrap)/Life · WDV rate × opening WDV
Ratios	CR = CA/CL · QR = (CA − stock)/CL · D/E · GP%, NP% · ITR = COGS/avg stock
Cash flow	CFO (indirect) + CFI + CFF = change in cash · Ind AS 7

Before you enter the exam hall: revise the mind map, the flowcharts and the formula sheet once more. Read the paper fully, draw labelled diagrams, box your answers, and keep 5 minutes for checking. **You have prepared well. All the best!** Team LUUPDATE

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