



## PREFACE

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**“Live as if you were to die tomorrow. LEARN as if you were to LIVE FOREVER”**  
- Mahatma Gandhi

*We have been propelled to write this book by a large number of our students who often complained that though there were many large and bulky books in the market, none of them presented the accounting concepts and practices in a simple reader-friendly manner that would provide comprehensive knowledge without unnecessarily adding reams of paper. We intend to provide the readers with an in-depth understanding of the fundamentals of accounting carefully woven with the yarn of corporate experiences. The main objective of this book is to help you learn and understand the tenets encompassing preparation, use and analysis of financial statements supplemented with real life examples and scenarios in a concise, simple and comprehensive manner.*

*Investors and other stakeholders of an enterprise rely heavily on the information provided in financial statements to understand and evaluate its performance. For right understanding of financial statements, it would be important to first learn how they are prepared in light of the accounting standards issued by the regulatory bodies. This book serves the purpose by ensuring that readers imbibe the fundamental accounting principles and develop a comprehensive understanding of the same.*

*The book will be useful both for students and practitioners as it covers the course of PGDM/MBA taught in most leading business schools in the country. The level of discussion as well as illustrations and exercises covered in each chapter is well attuned to the professional courses such as Chartered Accountancy in India (ICAI) and UK's Association of Chartered Certified Accountants (ACCA). Further the book chapters have been aligned with the course content as prescribed by majority of Indian universities for their Commerce/Accountancy courses.*

*The book is divided into 13 chapters. Chapter 1 introduces the readers to the need for accounting and briefly explains the difference between financial accounting*

*and management accounting. It further focuses on the purpose of preparing profit and loss account and balance sheet and discusses the need for auditing of financial accounts. Chapter 2 introduces the main accounting concepts and conventions.*

*The chapter further focuses on distinction between accrual and cash accounting systems and identifies the qualitative characteristics of financial statements.*

*Chapter 3 discusses the accounting equation and double-entry accounting principles for recording transactions involving assets, liabilities, capital, expenses and revenues. It further identifies the steps in the accounting cycle and explains how to analyse transactions for journalizing and ledger posting.*

*Chapter 4 introduces the readers to trial balance and its preparation including the adjustment entries required for various items. Chapter 5 discusses the main cost-formulae for valuation of inventory. It further focuses on main methods for calculation of depreciation including its accounting treatment. Chapter 6 discusses the general disclosures in an annual report in terms of requirements of various bodies and highlights the structure and format of an annual report. This chapter helps readers understand the objectives of Management Discussion and Analysis section and significance of Director's report and Auditor's report. The objective of this chapter is to enable readers understand the progress or health of the state of affairs of a company through its yearly document the "Annual Report".*

*Chapter 7 discusses the need for financial ratios analysis and covers various types of ratios such as liquidity ratios, profitability ratios and capital structure ratios and their use in carrying out inter-firm and inter-period comparison of performance. Chapter 8 discusses the important yet simple techniques of horizontal, common-size and trend analysis which are used as an integral part of financial ratios analysis. Chapter 9 introduces the readers to cash flow statement, its importance and uses. The chapter further explains the methods of computing activity-wise cash flows along with their analysis and interpretation.*

*Chapter 10 and Chapter 11 discuss the meaning of parent-subsidiary relationship and objectives of consolidated financial statements. These chapters would help readers understand the basic principles of preparing the consolidated statements and enumerate differences between the treatment of pre-acquisition and post-acquisition profits for consolidation. Chapter 12 introduces the readers to consolidation of vertical and mixed groups along with consolidation of piecemeal acquisitions and associates. Finally Chapter 13 discusses the need for uniformity and transparency in reporting standards and the roadmap for implementation of Indian Accounting Standards (Ind AS) to achieve convergence with IFRS (International Accounting Standards). The chapter further lists out the major differences between the Indian GAAP (current Indian accounting standards), converged Indian accounting standards (Ind AS) and IFRS.*

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