Skillshort

Self-Study Preparation Pack

CMA FOUNDATION

Paper 2: Fundamentals of Financial and Cost Accounting (FFCA)

Module-wise Detailed Notes

For December 2026 and June 2027 terms · ICMAI Syllabus 2022 · 4 modules

50 MCQs × 2 marks | 1 hour (Papers 1 + 2 in one 2-hour session) | No negative marking

Financial accounting 70% · Cost accounting 30%

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This subject pack has 6 parts

1 Chapter-wise notes
2 Important topics & weightage
3 Past papers: trends & links
4 Mock tests + solutions
5 Chapter practice questions
6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

How to use these notes

About half of the Paper 2 MCQs are **short numericals** – BRS balance, depreciation, consignment stock, joint venture, bills, missing figures and cost sheet items – and half are concept questions. Each module below gives the theory in tables plus solved one-step numericals in the MCQ style.

File	Use it for
01 Module Notes (this file)	Concepts, formats, formulas, solved examples
02 Important Topics & Weightage	Official weightage vs the June 2026 paper
03 Past Papers – Trend Analysis & Links	ICMAI question patterns and official links
04 Mock Tests 1–3 with Solutions	Three full 50-MCQ papers with working
05 Module-wise Practice Questions	MCQs module by module with working
06 Last-Week Plan & Exam Strategy	Revision plan, formula sheet, exam-hall plan

Paper at a glance

Item	Detail
Marks / questions	100 marks · 50 MCQs × 2 marks · **no negative marking** (Q51–100 of the morning OMR booklet)
Time	1 hour per paper; Papers 1 and 2 share the 10:00–12:00 session VERIFY
Weightage	Module 1 Accounting Fundamentals 30% · Module 2 Accounting for Special Transactions 15% · Module 3 Preparation of Final Accounts 25% · Module 4 Fundamentals of Cost Accounting 30%

Module 1: Accounting Fundamentals

1.1 Meaning, scope and the four frameworks of accounting

Accounting is the art of recording, classifying and summarising, in a significant manner and in terms of money, transactions and events which are, at least in part, of a financial character, and interpreting the results (AICPA definition). In modern terms, accounting is an **information system** that identifies, measures, records and communicates financial information to users for decision-making.

Functions (scope) of accounting

1. **Recording** – journal and subsidiary books (book-keeping).
2. **Classifying** – posting to ledger accounts.
3. **Summarising** – trial balance, Profit & Loss Account, Balance Sheet.
4. **Analysing and interpreting** – ratios, trends.
5. **Communicating** – reports to owners, lenders, government and others.
6. **Meeting legal requirements** – Companies Act, tax laws, GST.

Accounting cycle: Transaction → Source document (voucher) → Journal / subsidiary books → Ledger → Trial balance → Adjustments → Financial statements → Closing entries.

Book-keeping vs Accounting vs Accountancy	Meaning
Book-keeping	Recording and classifying – the routine, clerical part
Accounting	Book-keeping + summarising, analysing, interpreting, communicating
Accountancy	The body of knowledge (theory, standards, techniques) behind accounting

Sub-fields: financial accounting (external users), cost accounting (cost per unit, cost control), management accounting (internal decisions), social responsibility accounting, human resource accounting.

Limitations of accounting: records only monetary items; based on historical cost (ignores price-level changes); involves estimates and judgement (depreciation, provisions); can be manipulated (window dressing); does not show the real worth of the business.

Framework (ICMAI)	Meaning	Examples
Conceptual	Concepts, conventions and principles on which accounting rests	Entity, going concern, accrual, matching, prudence
Legal	Laws that govern accounting and reporting	Companies Act 2013 (Sec 128–138, Schedule III), Income-tax Act, GST, LLP Act
Institutional	Awareness of institutions and authorities whose pronouncements affect accounting	**RBI, SEBI, IRDAI, TRAI**, ICAI, ICMAI, NFRA, MCA
Regulatory	Standards and rules issued by regulators	Accounting Standards / Ind AS, Cost Accounting Standards, SEBI LODR

- **Forms of organisation:** sole proprietorship, partnership, LLP, company (private, public, OPC), co-operative society, Hindu Undivided Family, not-for-profit organisations (trusts, societies, Sec 8 companies).

1.2 Accounting principles, concepts and conventions

Concept	Meaning	Example
Business entity	Business is separate from the owner	Owner's personal electricity bill is drawings, not business expense
Money measurement	Only events that can be measured in money are recorded	Quarrel among managers is not recorded
Going concern	Business will continue for the foreseeable future	Fixed assets shown at cost less depreciation, not at sale value
Accounting period	Life of business divided into periods (usually 1 year, 1 April – 31 March)	Final accounts prepared yearly

Concept	Meaning	Example
Cost concept	Assets recorded at the price paid (historical cost)	Land bought for ₹10 lakh stays at ₹10 lakh even if market value rises
Dual aspect	Every transaction has two effects – debit and credit	Assets = Liabilities + Capital
Realisation / revenue recognition	Revenue is recognised when earned (goods delivered, service performed), not when cash is received	Credit sale in March is March's revenue
Matching	Expenses of a period are matched with the revenue of the same period	Outstanding wages added to wages of the year
Accrual	Record revenue and expense when they arise, not when cash moves	Rent due but unpaid is an expense
Objective evidence	Entries supported by vouchers and documents	Cash memo, invoice

- **Consistency:** the same method is followed year after year (e.g. same depreciation method) so results are comparable. A change is allowed only if required by law or a standard or for better presentation, and its effect must be disclosed.
- **Conservatism (prudence):** "anticipate no profit but provide for all possible losses". Closing stock at **cost or net realisable value, whichever is lower**; provision for doubtful debts.
- **Materiality:** items that would influence a user's decision must be disclosed; trivial items (e.g. a stapler) can be expensed.
- **Full disclosure:** all significant information must be disclosed in the financial statements or notes (contingent liabilities, accounting policies).

MEMORY TRICK **"C-C-M-F" – Consistency, Conservatism, Materiality, Full disclosure = the 4 conventions.**

REMEMBER **Financial accounts do not record non-financial events (e.g., a strike, the skill of employees) because of the money measurement concept.**

1.3 Capital and revenue transactions

Capital expenditure	Revenue expenditure	Deferred revenue expenditure
Benefit lasts more than one year	Benefit consumed within the year	Revenue in nature, but benefit spread over a few years
Acquires or improves a fixed asset or increases earning capacity	Maintains the earning capacity	Heavy advertisement campaign for a new product
Shown in the Balance Sheet	Debited to Trading/P&L A/c	Written off over 3–5 years (under AS, now mostly expensed immediately)
Purchase of machinery, installation, legal charges for buying land	Wages, rent, repairs, depreciation	–

Tricky items:

- Wages paid for installing a new machine → **capital** (added to machinery).
- Repairs to a second-hand machine bought, **before first use** → **capital**.
- Replacement of a worn-out part (normal repair) → revenue.
- Cost of extension of building → capital; white-washing → revenue (first white-washing of a new building → capital).
- Legal expenses for a suit to protect title of property → **capital**; legal expenses for recovery of debts → revenue.
- **Capital receipt** – capital introduced, loan taken, sale of fixed asset. **Revenue receipt** – sales, commission, interest received.

WORKED EXAMPLE **Classification**

Annual maintenance fee of computers – **revenue expenditure**. Freight and installation on a new machine – **capital** (part of cost). Heavy advertising for a new product whose benefit lasts 3–4 years – **deferred revenue expenditure**. Sale of an old machine – **capital receipt**.

1.4 Accounting cycle, equation and double entry

- **Accounting cycle:** identification of transactions → recording in the journal → posting to the ledger → trial balance → adjustment entries → adjusted trial balance → financial statements → closing entries.
- **Chart of accounts and codification:** a structured list of all ledger accounts with numeric codes (e.g., 1000 assets, 2000 liabilities, 3000 capital, 4000 income, 5000 expenses) – helps computerised accounting and consistent classification.

Assets = Liabilities + Capital (A = L + C). Capital = Assets − Liabilities. Every transaction keeps the equation balanced.

WORKED EXAMPLE Accounting equation

1. Ram starts business with cash ₹1,00,000 → Assets (cash) 1,00,000 = Capital 1,00,000.
2. Buys goods on credit ₹30,000 → Assets 1,30,000 (cash 1,00,000 + stock 30,000) = Liabilities 30,000 + Capital 1,00,000.
3. Sells goods costing ₹20,000 for ₹28,000 cash → cash 1,28,000 + stock 10,000 = 1,38,000; Liabilities 30,000 + Capital 1,08,000 (profit ₹8,000 added to capital).
4. Pays rent ₹2,000 → cash 1,26,000 + stock 10,000 = 1,36,000; Liabilities 30,000 + Capital 1,06,000.

Every transaction has two aspects of **equal amount** – one account is debited and another credited. Developed by Luca Pacioli (1494).

Traditional (English) approach	Rule	
Personal account (persons, firms, companies, banks; also representative personal – outstanding/prepaid)	Debit the **receiver**, credit the **giver**	
Real account (assets – cash, machinery, goods, goodwill)	Debit **what comes in**, credit **what goes out**	
Nominal account (expenses, losses, incomes, gains)	Debit all **expenses and losses**, credit all **incomes and gains**	
Modern (accounting equation) approach	Increase	Decrease
Assets	Debit	Credit
Expenses / losses	Debit	Credit
Liabilities	Credit	Debit
Capital	Credit	Debit
Revenue / gains	Credit	Debit

EXAM TIP **"DEAD CLIC" – Debit: Expenses, Assets, Drawings; Credit: Liabilities, Income, Capital (for increases).**

1.5 Journal, ledger and subsidiary books

Each transaction is first recorded in the **journal** in date order: Date | Particulars | L.F. | Debit ₹ | Credit ₹, followed by a **narration**.

WORKED EXAMPLE **Journal entries (selected)**

(1) Started business with cash ₹50,000 and furniture ₹20,000: Cash A/c Dr 50,000; Furniture A/c Dr 20,000; To Capital A/c 70,000.

(2) Goods sold to Mohan ₹12,000 at 10% trade discount, terms 2% cash discount if paid within 7 days: Mohan A/c Dr 10,800; To Sales A/c 10,800 (trade discount is never recorded).

(3) Mohan pays within 7 days: Cash A/c Dr 10,584; Discount Allowed A/c Dr 216; To Mohan A/c 10,800.

(4) Goods withdrawn by owner for personal use ₹3,000 (cost): Drawings A/c Dr 3,000; To Purchases A/c 3,000.

(5) Goods distributed as free samples ₹1,500: Advertisement A/c Dr 1,500; To Purchases A/c 1,500.

(6) Goods lost by fire ₹8,000, insurance claim admitted ₹6,000: Loss by Fire A/c Dr 2,000; Insurance Claim A/c Dr 6,000; To Purchases A/c 8,000.

(7) Bad debt recovered ₹900 (written off last year): Cash A/c Dr 900; To Bad Debts Recovered A/c 900.

REMEMBER **Trade discount is deducted on the invoice and not recorded; cash discount is recorded (discount allowed = expense, discount received = income).**

Subsidiary books (special journals): Cash book, Purchases book, Sales book, Purchases returns (returns outward) book, Sales returns (returns inward) book, Bills receivable book, Bills payable book, and the **Journal proper** (opening and closing entries, adjustments, rectification, credit purchase of assets).

- **Journal proper** is used for **opening, transfer, closing, adjustment and rectification** entries and for rare transactions. The ledger of incomes and expenses is the **nominal ledger**; debtors' accounts are in the **sales (debtors) ledger**, creditors' in the **purchase (creditors) ledger**; all other accounts in the **general ledger**.

Recording every transaction in one journal is slow. Transactions of the same nature are recorded in **subsidiary books**; totals are posted periodically.

Book	What is recorded	Posting
Purchases book	Only **credit purchases of goods** (meant for resale)	Each supplier credited; monthly total debited to Purchases A/c
Sales book	Only **credit sales of goods**	Each customer debited; total credited to Sales A/c
Purchases returns (returns outward) book	Goods returned to suppliers – supported by **debit notes**	Suppliers debited; total credited to Purchases Returns A/c
Sales returns (returns inward) book	Goods returned by customers – supported by **credit notes**	Customers credited; total debited to Sales Returns A/c
Bills receivable book	Bills received from debtors	Customers credited; total debited to B/R A/c
Bills payable book	Bills accepted in favour of creditors	Creditors debited; total credited to B/P A/c
Cash book	All cash (and bank) receipts and payments	Acts as both journal and ledger
Journal proper	Opening, closing, adjustment, rectification, transfer entries, credit purchase/sale of assets, entries not fitting elsewhere	Individual posting

Advantages of subsidiary books: division of work, saving of time, specialisation and efficiency, easy reference, better internal control and fewer errors, quick information (e.g., total credit sales).

Format of a purchases book (columns): Date | Name of supplier & particulars (items, qty × rate, less trade discount, add packing/GST) | Invoice no. | L.F. | Details ₹ | Amount ₹.

WORKED EXAMPLE **Purchases book**

2 Dec: from Gupta & Co.: 100 plates @ ₹150 = 15,000; 500 bowls @ ₹50 = 25,000; total 40,000; less trade discount 10% = 4,000 → 36,000; add packing ₹2 per plate + ₹1 per bowl = 200 + 500 = 700 → **₹36,700**.

8 Dec: from Ajanta & Co.: 200 boxes of spoons @ ₹50 = 10,000; 40 boxes of forks @ ₹250 = 10,000; total 20,000; less 8% = 1,600 → **₹18,400**.

Total of purchases book posted to Purchases A/c (Dr) = ₹55,100 (+ further entries). Cash purchases and purchase of assets (e.g., a computer for office) are **not** entered in the purchases book.

COMMON MISTAKE **Entering a credit purchase of furniture/machinery in the purchases book – it goes to the journal proper. Similarly, packing charges added on the invoice are part of the purchase amount.**

1.6 Cash book, petty cash book and bank reconciliation

The cash book is both a **book of original entry** and a **ledger account** (Cash A/c / Bank A/c). Debit = receipts, credit = payments.

Type	Columns	Note
Simple cash book	Cash only	Like a cash account
Two-column cash book	Cash + Bank (or Cash + Discount)	Contra entries marked "C"
Three-column cash book	Discount + Cash + Bank	Discount columns are **not balanced**; their totals go to Discount Allowed (Dr) and Discount Received (Cr)
Petty cash book	Small expenses; **imprest system** – petty cashier gets a fixed float, reimbursed periodically for the amount spent	Analytical columns: postage, stationery, travelling, sundries

Contra entry: a transaction affecting both cash and bank columns (cash deposited into bank, cash withdrawn from bank for office use) – recorded on both sides with "C" in L.F.; no ledger posting needed.

WORKED EXAMPLE **Three-column cash book items**

(1) Received a cheque from Raman ₹9,800 in full settlement of ₹10,000 and deposited the same day → Bank column Dr 9,800; Discount (Dr side) 200.

(2) Paid Shyam by cheque ₹4,900, discount received ₹100 → Bank column Cr 4,900; Discount (Cr side) 100.

(3) Withdrew ₹5,000 from bank for office use → Cash Dr 5,000 / Bank Cr 5,000 (contra "C").

(4) A cheque received earlier from Raman ₹9,800 is dishonoured → Bank Cr 9,800; Raman is debited ₹10,000 and the discount of ₹200 is cancelled (Discount Allowed credited).

EXAM TIP **Bank column can have a credit balance (overdraft); the cash column can never have a credit balance.**

- **Petty cash book** under the **imprest system**: the petty cashier gets a fixed float; at the end of the period he is reimbursed exactly the amount spent.

A business records its bank transactions in the **bank column of the cash book**; the bank records them in the customer's account and sends a **pass book / bank statement**. On a given date the two balances often differ. A **Bank Reconciliation Statement (BRS)** is a statement prepared to reconcile (explain) the difference and to check the accuracy of both records. It is **not an account** and no entry is posted from it.

Customer's cash book	Bank's pass book
Deposits are **debited** (bank owes us)	Deposits are **credited** (bank owes customer)
Favourable balance = **debit** balance	Favourable balance = **credit** balance

Customer's cash book	Bank's pass book
Overdraft = **credit** balance	Overdraft = **debit** balance

A. Timing differences

1. Cheques **issued but not yet presented** for payment.
2. Cheques **deposited but not yet collected / credited** by the bank.

B. Items recorded by the bank but not yet in the cash book (known only on receiving the statement)

3. Bank charges, interest on overdraft, commission → debited in pass book.
4. Interest on deposits, dividends collected by bank, direct deposits (NEFT/UPI) by customers → credited in pass book.
5. Direct payments by bank under standing instructions (insurance premium, EMI, electricity bill).
6. Cheques deposited but **dishonoured**.

C. Errors – in the cash book (wrong amount, wrong side, wrong totalling) or by the bank (wrong debit/credit to our account).

1. **Without amending the cash book:** start with either balance, add / subtract each item.
2. **Amended cash book method**: first correct the cash book for all items recorded only by the bank (B and cash-book errors); then prepare the BRS from the **amended balance** with only timing differences and bank errors.

Starting point: Cash book debit balance (favourable)	Effect
Cheques issued but not presented	**Add**
Interest / dividend credited by bank, direct deposits not in cash book	**Add**
Cheques deposited but not credited	**Less**
Bank charges, direct payments, dishonoured cheques not in cash book	**Less**
Result	Balance as per **pass book** (credit)

MEMORY TRICK **"Start → ask: did this item make the pass book balance higher than the cash book? If yes – add." Works for every item, every starting point.**

WORKED EXAMPLE **BRS one-step MCQ**

Cash book balance ₹10,800. Cheques deposited ₹7,800 but only ₹2,000 credited → **less ₹5,800**. Dividend ₹1,250 collected by bank entered in cash book as ₹1,520 → cash book over-stated by ₹270 → **less ₹270**. Pass book balance = 10,800 − 5,800 − 270 = **₹4,730**.

1.7 Trial balance

A **statement** (not an account) listing the debit and credit balances of all ledger accounts on a date, to check the **arithmetical accuracy** of posting.

Errors NOT revealed by a trial balance:

1. **Errors of omission** – a transaction completely omitted.
2. **Errors of commission** that affect both sides equally (e.g. wrong amount in the journal itself).
3. **Errors of principle** – capital vs revenue confusion (repair debited to Machinery A/c).
4. **Compensating errors** – one error cancels another.
5. Posting to the **wrong account on the correct side** (e.g. Ram's account instead of Rahim's).

Errors revealed: posting to the wrong side, wrong totalling or balancing, posting one side only, wrong amount in posting, omission of a balance from the trial balance.

COMMON MISTAKE **"Agreement of trial balance proves the accounts are correct" – wrong. It is only proof of arithmetical accuracy.**

1.8 Adjustment entries and rectification of errors

- **Adjustment entries** are passed at the **end** of the accounting period in the journal proper (outstanding and prepaid expenses, accrued and advance income, depreciation, bad debts, provisions, closing stock). They have no external source document.

Classification of errors:

- **Clerical errors:** errors of omission (complete or partial), commission (wrong amount, wrong account, wrong side, wrong totalling), compensating.
- **Errors of principle:** violation of accounting principles (capital ↔ revenue).

Rectification before preparing the trial balance:

- One-sided errors → corrected by a note/entry in the affected account (no journal).
- Two-sided errors → journal entry.

Rectification after the trial balance (when the difference has been put in a Suspense A/c):

- Every error is rectified by a journal entry; the one-sided part goes to **Suspense A/c**.

Rectification in the next accounting year: errors affecting nominal accounts are rectified through **Profit and Loss Adjustment A/c** (prior-period item).

WORKED EXAMPLE Rectification with Suspense A/c

The trial balance does not agree; the debit side is short by ₹540, so Suspense A/c is **debited** ₹540 to make it agree. Errors found later:

(a) Sales book overcast by ₹500 → Sales A/c Dr 500; To Suspense 500.

(b) Purchase of furniture ₹2,000 entered in Purchases book → Furniture A/c Dr 2,000; To Purchases A/c 2,000 (no suspense – both sides affected).

(c) Credit sale to Amit ₹820 posted to Amit's account as ₹280 → Amit A/c Dr 540; To Suspense 540.

(d) Discount received ₹100 not posted to Discount A/c → Suspense Dr 100; To Discount Received 100.

(e) Return inward ₹200 from Bimal posted to the debit of Bimal's account → Suspense Dr 400; To Bimal 400.

Suspense A/c: Dr – balance b/d 540, Discount received 100, Bimal 400 = 1,040. Cr – Sales 500, Amit 540 = 1,040. Suspense closes to **nil** ✔ – all errors found.

EXAM TIP **For each error, write "what was done" and "what should have been done", then the rectifying entry is just the difference. This avoids confusion with sides.**

WORKED EXAMPLE Effect of an error

Goods returned by a customer ₹14,000 were wrongly recorded in the **sales day book**. Sales are increased by ₹14,000 instead of being reduced by ₹14,000, so net sales are overstated by ₹28,000 → **gross profit increases** (by ₹28,000).

1.9 Depreciation (SLM and WDV)

Depreciation is the **systematic allocation of the depreciable amount of an asset over its useful life**. Depreciable amount = Cost – Residual value.

Causes: wear and tear by use, passage of time, obsolescence (new technology), depletion (mines, oil wells), accidents.

Objectives: matching cost with revenue, showing the true value of assets, providing funds for replacement, correct tax computation.

Point	Straight-line method (SLM)	Written-down value method (WDV)
Base	Original cost (depreciable amount)	Book value at the start of each year
Annual charge	Same every year	Decreases every year

Point	Straight-line method (SLM)	Written-down value method (WDV)
Asset value	Can become zero	Never becomes zero
Suitable for	Assets with uniform use – furniture, leasehold	Assets with higher repairs later – plant, vehicles
Tax	–	Income-tax Act uses WDV on block of assets

SLM formula: Depreciation = (Cost – Residual value) ÷ Useful life. **Rate** = Annual depreciation ÷ Cost × 100.

WDV rate formula: r = 1 – (Residual value ÷ Cost)^(1/n).

Units of production method: Depreciation per unit = (Cost – Residual value) ÷ Total estimated units; charge = units produced × rate.

Sum-of-years'-digits: charge for a year = Depreciable amount × remaining life ÷ sum of years' digits.

WORKED EXAMPLE SLM and WDV compared

Machine bought 1 April 2023 for ₹1,00,000 + installation ₹10,000. Residual value ₹10,000, life 5 years. WDV rate 20%.

SLM: (1,10,000 – 10,000)/5 = **₹20,000 every year**.

WDV: Year 1 = 1,10,000 × 20% = 22,000 (book value 88,000); Year 2 = 17,600 (70,400); Year 3 = 14,080 (56,320).

WORKED EXAMPLE Sale of an asset and profit/loss

Machine cost ₹60,000 on 1 April 2023, SLM 10% p.a. Sold on 30 September 2025 for ₹42,000. Books closed 31 March.

Depreciation 2023-24: 6,000; 2024-25: 6,000; 2025-26 (6 months): 3,000. Total 15,000.

Book value on sale = 60,000 – 15,000 = 45,000. Sale ₹42,000 → **loss on sale ₹3,000** (debited to P&L).

Two ways of recording depreciation:

1. Charging to the asset account (Depreciation A/c Dr; To Asset A/c).
2. Creating a **provision for depreciation / accumulated depreciation** account (Depreciation A/c Dr; To Provision for Depreciation A/c) – the asset stays at original cost.

REMEMBER Change in method of depreciation is a **change in accounting estimate** under AS 10 – applied **prospectively** (from the current year), not retrospectively.

FORMULA Depreciation

SLM annual depreciation = (Cost – Residual value) ÷ Useful life. **Cost** includes purchase price, freight, installation and other directly attributable costs – **not** annual insurance or repairs.

WDV depreciation = Opening book value × rate; WDV rate = 1 – (Residual ÷ Cost)^(1/n).

WORKED EXAMPLE **Machine ₹8,90,000 + freight ₹17,000 + installation ₹30,000 = cost ₹9,37,000; residual ₹40,000; life 5 years → (9,37,000 - 40,000) ÷ 5 = ₹1,79,400 a year. Annual insurance is a revenue expense.**

1.10 Bad debts and provision for doubtful debts

- **Bad debts** – irrecoverable amounts written off to P&L. **Provision for doubtful debts** – created on debtors **after deducting bad debts** (and further bad debts). **Provision for discount on debtors** – calculated on debtors **after deducting bad debts and provision for doubtful debts**.

WORKED EXAMPLE **Debtors ₹1,00,000; further bad debts ₹5,000; provision for doubtful debts 5%; provision for discount 2%. PDD = 5% × 95,000 = ₹4,750. PDisc = 2% × (95,000 - 4,750) = ₹1,805.**

- **Bad debts recovered** – credited to P&L (not to the debtor's account). Old provision is adjusted against new bad debts and new provision in the **Provision for Doubtful Debts A/c**.

Module 2: Accounting for Special Transactions

2.1 Consignment

A **consignment** is an arrangement where a **consignor** (owner) sends goods to a **consignee** (agent) who sells them on behalf of the consignor for a **commission**. Ownership remains with the consignor until sale – it is **not a sale**.

Point	Consignment	Sale
Ownership	Remains with consignor	Passes to buyer
Relationship	Principal and agent	Seller and buyer
Risk	Consignor's	Buyer's (after sale)
Unsold goods	Can be returned	Cannot be returned (normally)
Document	**Proforma invoice** and **account sales**	Invoice

Types of commission:

- **Ordinary commission** – on total sales.
- **Del credere commission** – extra commission to the consignee for bearing the risk of **bad debts** on credit sales (so bad debts are borne by the consignee).
- **Over-riding commission** – extra commission for selling above a fixed price or for promoting a new product.

Value of unsold stock = **Cost price of goods + proportionate non-recurring expenses incurred up to the consignee's godown** (consignor's freight, insurance, loading, unloading and the consignee's freight/octroi/landing charges). **Recurring expenses** (godown rent, selling expenses, insurance of godown) are **not** added.

WORKED EXAMPLE Consignment account

Mr A of Kolkata consigned 1,000 units at cost ₹100 each to B of Patna. A paid freight ₹5,000. B paid unloading and octroi ₹3,000 and godown rent ₹2,000. B sold 800 units at ₹150 each. Commission 5% on sales + 2% del credere.

Non-recurring expenses = 5,000 + 3,000 = 8,000. Value of unsold stock (200 units) = 200 × 100 + 8,000 × 200/1,000 = 20,000 + 1,600 = **₹21,600**.

Commission = 1,20,000 × 7% = 8,400.

Consignment A/c: Dr – Goods sent on consignment 1,00,000; Cash (freight) 5,000; B (unloading, octroi and godown rent) 5,000; B (commission) 8,400 → total 1,18,400. Cr – B (sales) 1,20,000; Stock on consignment 21,600 → total 1,41,600.

Profit on consignment = 1,41,600 − 1,18,400 = ₹23,200 (transferred to P&L A/c).

Check: sales 1,20,000 − cost of 800 units 80,000 − non-recurring expenses on sold units (8,000 × 800/1,000) 6,400 − godown rent 2,000 − commission 8,400 = **₹23,200** ✔.

Sometimes goods are sent at a price **above cost** (invoice price) to keep the cost secret from the consignee. The **loading** (excess of invoice price over cost) must be removed through a **Stock Reserve / Consignment Stock Reserve** entry:

- On goods sent: Consignment A/c Dr; To Goods Sent on Consignment A/c (at invoice price) – then Goods Sent on Consignment A/c Dr; To Consignment A/c (loading).
- On unsold stock: Consignment A/c Dr (loading on closing stock) and carry stock in the balance sheet at cost.

FORMULA **Loading on invoice price = Invoice price × Loading% on cost ÷ (100 + Loading% on cost). Example: invoiced at cost + 25%, invoice value ₹1,25,000 → loading = 1,25,000 × 25/125 = ₹25,000.**

Loss caused by accident, theft or fire. Value it like unsold stock (cost + proportionate non-recurring expenses up to that point) and credit Consignment A/c; debit Insurance Claim (amount admitted) and P&L (balance). **Normal loss** (evaporation, drying) is not separately recorded – it is spread over the good units by increasing the cost per unit of remaining stock.

WORKED EXAMPLE **Stock on consignment at cost and at invoice price**

1,000 statues at cost ₹800, invoice price ₹1,000; consignor's freight ₹10,000; 900 sold; consignee's selling expenses ₹9,000 (non-recurring for stock). Closing stock 100 units: at **cost** = 100 × (800 + 10) = ₹81,000; at **invoice price** = 100 × 1,000 + 100 × 10 = **₹1,01,000** (stock reserve 20,000 eliminated). Selling expenses are **not** added to stock.

REMEMBER **Del credere commission** is paid to the consignee for bearing the risk of bad debts – then the consignee maintains the **consignment debtors account** and bad debts are his loss.

2.2 Joint venture

- A **joint venture** is a temporary partnership of two or more persons (co-venturers) for a specific purpose, without a firm name; it ends when the venture is complete. The **Indian Partnership Act** applies in general.

Method	Accounts opened
Separate set of books	**Joint Venture A/c, Joint Bank A/c and Co-venturers' Personal A/cs**
Each co-venturer keeps records of all transactions	Joint Venture with B A/c (in A's books) and vice versa
Each co-venturer records only his own transactions	**Memorandum Joint Venture A/c** + Joint Venture with co-venturer A/c

WORKED EXAMPLE **Goods taken over by a co-venturer**

A purchased goods ₹85,000. B sold goods costing ₹80,000 for ₹1,00,000 (profit 25% on cost). Unsold goods at cost = ₹5,000 taken over by A at the same profit % → 5,000 × 1.25 = **₹6,250**.

2.3 Bills of exchange (excluding accommodation bills and insolvency)

Bill of exchange (Section 5, Negotiable Instruments Act, 1881): an instrument in writing containing an **unconditional order**, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer.

Promissory note (Section 4): an instrument in writing (not a bank note or currency note) containing an **unconditional undertaking**, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer.

Point	Bill of exchange	Promissory note
Nature	Order to pay	Promise to pay
Parties	Three – drawer, drawee (acceptor), payee	Two – maker, payee
Acceptance	Needed	Not needed
Drawn by	Creditor	Debtor
Noting / protest on dishonour	Required for foreign bills	Not required

Parties: Drawer (creditor who draws), Drawee (debtor who accepts – then called acceptor), Payee (who receives payment – may be the drawer or a third party), Endorser / endorsee.

- **Term** = period after which payment is due (e.g., 3 months after date).
- **Days of grace: 3 days** are added to the nominal due date (except bills payable on demand / at sight).
- If the due date falls on a **public holiday**, the bill is due on the **preceding** business day; if an emergency holiday is declared under the NI Act, the next working day VERIFY.

WORKED EXAMPLE **Due date**

Bill dated 1 January 2026, payable 3 months after date → nominal due date 1 April 2026 + 3 days of grace = **4 April 2026**. A bill dated 31 January for one month → 28 February (last day of the month) + 3 = **3 March**.

1. **Retain** till maturity and present for payment.
2. **Discount** with the bank (bank deducts discount = Bill amount × rate × unexpired period).

3. **Endorse** to a creditor.
4. **Send to bank for collection.**

Event	Drawer's books (B/R)	Drawee's books (B/P)
Bill accepted	B/R Dr; To Drawee	Drawer Dr; To B/P
Discounted	Bank Dr, Discount Dr; To B/R	–
Endorsed to creditor X	X Dr; To B/R	–
Sent for collection	Bills for Collection Dr; To B/R	–
Honoured (retained)	Bank Dr; To B/R	B/P Dr; To Bank
Dishonoured (retained)	Drawee Dr; To B/R; Drawee Dr; To Bank (noting charges)	B/P Dr; To Drawer; Noting charges Dr; To Drawer
Dishonoured (discounted)	Drawee Dr; To Bank (amount + noting)	same as above
Dishonoured (endorsed)	Drawee Dr; To X (amount + noting)	same as above
Retired under rebate	Bank Dr, Rebate Dr; To B/R	B/P Dr; To Bank, To Rebate
Renewal	Cancel old: Drawee Dr; To B/R; interest: Drawee Dr; To Interest; new: B/R Dr; To Drawee	Mirror
Insolvency of acceptor	Drawee Dr; To B/R …; later Bank (dividend) + Bad debts Dr; To Drawee	Drawer Dr; To Deficiency / Capital (on settlement)

WORKED EXAMPLE **Discounting, dishonour and renewal**

Amit drew a bill on Bina for ₹40,000 for 3 months on 1 January 2026; Bina accepted. Amit discounted it at 12% p.a. On maturity it was dishonoured; noting charges ₹200. Bina paid ₹10,200 in cash and accepted a new bill for the balance with interest at 12% p.a. for 2 months.

Discount = 40,000 × 12% × 3/12 = ₹1,200. Interest on renewal = 30,000 × 12% × 2/12 = ₹600. New bill = **₹30,600**.

Amit's journal: (1) B/R Dr 40,000; To Bina 40,000. (2) Bank Dr 38,800; Discount on Bills Dr 1,200; To B/R 40,000. (3) Bina Dr 40,200; To Bank 40,200. (4) Cash Dr 10,200; To Bina 10,200. (5) Bina Dr 600; To Interest 600. (6) B/R Dr 30,600; To Bina 30,600.

Bina's account in Amit's books: Dr 40,000 + 40,200 + 600 = 80,800; Cr 40,000 + 10,200 + 30,600 = 80,800 ✔.

WORKED EXAMPLE **Renewal of a bill**

Bill ₹2,00,000 for 3 months; at maturity renewed for 2 months with interest 9% p.a. added → interest = 2,00,000 × 9% × 2/12 = ₹3,000 → new bill **₹2,03,000**.

NOTE **On dishonour of an endorsed bill, the drawee debits Bills Payable and credits the drawer's account (he still owes the drawer); the drawer credits the endorsee.**

Module 3: Preparation of Final Accounts

3.1 Financial statements of a sole proprietor – commercial organisation

At the end of the year, a trader prepares (1) **Manufacturing A/c** (if he manufactures), (2) **Trading A/c** to find **gross profit**, (3) **Profit & Loss A/c** to find **net profit**, and (4) **Balance Sheet** to show the financial position on the last date.

Debit side	Credit side
Opening stock	Sales less returns inward
Purchases less returns outward	Closing stock
Direct expenses – carriage inward, freight, wages, customs duty, dock charges, octroi, gas, fuel and power (for a trader)	Gross loss (if any)
Gross profit (transferred to P&L A/c)	

FORMULA **Gross profit = Net sales - Cost of goods sold. COGS = Opening stock + Net purchases + Direct expenses - Closing stock.**

- **Debit:** office and administration expenses (salaries, rent, rates and taxes, printing, postage, telephone, audit fees), selling and distribution expenses (carriage outward, advertisement, commission, bad debts, discount allowed, salesmen's salary), financial expenses (interest on loan, bank charges), depreciation, losses (loss by fire, loss on sale of assets).
- **Credit:** gross profit, discount received, commission received, rent received, interest received, bad debts recovered, profit on sale of assets.
- Balance = **net profit** (added to capital) or **net loss**.

Liabilities	Assets	
Capital (opening + net profit + additional capital – drawings)	Goodwill, land and building, plant and machinery, furniture (fixed assets less depreciation)	
Long-term loans	Investments	
Creditors, bills payable, outstanding expenses, income received in advance, bank overdraft	Closing stock, debtors less provision, bills receivable, prepaid expenses, accrued income, cash at bank, cash in hand	
Adjustment	Effect 1	Effect 2
Closing stock (given outside TB)	Credit Trading A/c	Asset side of Balance Sheet
Outstanding expenses	Add to the expense (Dr side of Trading/P&L)	Liability side
Prepaid expenses	Deduct from the expense	Asset side
Accrued income	Add to the income (Cr P&L)	Asset side
Income received in advance	Deduct from the income	Liability side
Depreciation	Debit P&L	Deduct from the asset
Bad debts (further)	Debit P&L	Deduct from debtors
Provision for doubtful debts	P&L: new bad debts + new provision – old provision	Deduct new provision from debtors (after further bad debts)
Provision for discount on debtors	Debit P&L	Deduct from debtors (after bad debts and doubtful debts provision)
Interest on capital	Debit P&L	Add to capital
Interest on drawings	Credit P&L	Deduct from capital
Goods taken by owner	Deduct from purchases	Add to drawings
Goods lost by fire (insured)	Credit Trading A/c with the full loss; debit P&L with the uninsured part	Insurance claim receivable – asset side

Liabilities	Assets	
Manager's commission on net profit	Debit P&L	Outstanding liability

FORMULA Manager's commission

On net profit **before** charging commission = NP × rate / 100.

On net profit **after** charging commission = NP before commission × rate / (100 + rate).

Example: NP before commission ₹1,10,000, 10% after charging → 1,10,000 × 10/110 = **₹10,000**.

WORKED EXAMPLE Bad debts and provision for doubtful debts

Debtors in trial balance ₹52,000. Bad debts in TB ₹1,500. Old provision for doubtful debts ₹2,600. Adjustments: further bad debts ₹2,000; maintain provision at 5% on debtors; provision for discount 2%.

Debtors after further bad debts = 52,000 − 2,000 = 50,000. New PDD = 5% × 50,000 = 2,500. Provision for discount = 2% × (50,000 − 2,500) = 950.

P&L debit: bad debts 1,500 + 2,000 + new PDD 2,500 − old PDD 2,600 = **₹3,400**; provision for discount **₹950**.

Balance Sheet debtors: 52,000 − 2,000 − 2,500 − 950 = **₹46,550**.

WORKED EXAMPLE Short final accounts with adjustments

Trial balance of Sri Sen as on 31 March 2026 (₹): Capital 2,00,000 (Cr); Drawings 24,000; Opening stock 40,000; Purchases 3,10,000; Sales 4,60,000; Returns inward 10,000; Wages 30,000; Carriage inward 6,000; Salaries 36,000; Rent 18,000; Debtors 60,000; Creditors 45,000; Furniture 50,000; Cash 1,21,000 (total each side ₹7,05,000).

Adjustments: closing stock ₹55,000; outstanding salary ₹4,000; prepaid rent ₹3,000; depreciation on furniture 10%; goods ₹5,000 taken by the owner.

Trading A/c: Dr – Opening stock 40,000; Purchases 3,10,000 − 5,000 = 3,05,000; Wages 30,000; Carriage 6,000; GP 1,24,000 (balancing). Cr – Net sales 4,50,000; Closing stock 55,000. Total 5,05,000.

P&L A/c: GP 1,24,000 − Salaries 40,000 − Rent 15,000 − Depreciation 5,000 = **Net profit ₹64,000**.

Balance sheet: Capital 2,00,000 + 64,000 − Drawings (24,000 + 5,000) = 2,35,000; Creditors 45,000; Outstanding salary 4,000 → total **₹2,84,000**. Assets: Furniture 45,000; Closing stock 55,000; Debtors 60,000; Prepaid rent 3,000; Cash 1,21,000 → total **₹2,84,000**. ✔

COMMON MISTAKE **Items inside the trial balance appear once in final accounts; adjustments given outside appear twice (two effects). If closing stock is inside the trial balance (adjusted purchases), it goes only to the Balance Sheet.**

FORMULA Final-accounts one-liners

Gross profit = Sales − Cost of goods sold. **Mark-up on cost** = profit on sales ÷ (100 − profit on sales): 20% on sales = 25% on cost; 25% on sales = 33⅓% on cost.

Profit = Closing capital − Opening capital + Drawings − Additional capital. E.g., 8,00,000 − 6,00,000 + 60,000 − 1,00,000 = **₹1,60,000**.

Closing creditors = Opening + Credit purchases − Cash paid − Discount received − Returns outward.

Interest received and discount received → credit side of P&L. Gross loss → debit side of P&L. Goods returns in the credit column of the trial balance = **purchase returns**.

- **Marshalling** of the balance sheet: **order of liquidity** (most liquid first) or **order of permanence** (fixed assets first); mixed order is also used. Trademarks and goodwill are **intangible assets**; bills receivable and laptops held for sale (stock-in-trade) are **current assets**.

3.2 Not-for-profit organisations

Point	Receipts & Payments A/c	Income & Expenditure A/c
Nature	**Real account** – summary of cash book	**Nominal account** – like P&L
Items	All receipts and payments – capital and revenue, of any period	Only **revenue** items of the **current year**
Basis	Cash basis	Accrual basis
Opening balance	Starts with opening cash/bank balance	No opening balance
Closing balance	Closing cash/bank balance	**Surplus** (excess of income) or **deficit**
Sides	Debit – receipts; credit – payments	Debit – expenditure; credit – income

Item	Treatment
Subscriptions	Revenue income of the year – adjust for outstanding and advance
Entrance / admission fees	Usually revenue income (small, recurring); may be capitalised if the rules say so
Life membership fees	**Capital receipt** – added to capital fund (or a Life Membership Fund)
General donation (small)	Revenue income
Specific donation (e.g. for building)	**Capital receipt** – Building Fund on liability side
Legacy (by will)	Capital receipt – added to capital fund
Sale of old newspapers / sports material	Revenue income
Sale of fixed asset	Not income; profit/loss on sale goes to I&E A/c
Endowment fund	Capital – liabilities side; income from its investments goes to the fund or I&E as per terms
Prize fund / match fund	Specific fund – expenses on the purpose are deducted from the fund; excess expense goes to I&E

WORKED EXAMPLE **Subscriptions for the year 2025-26**

Subscriptions received during the year ₹60,000 (including ₹4,000 for 2024-25 and ₹3,000 for 2026-27). Outstanding for 2025-26 on 31 March 2026: ₹5,000. Outstanding on 31 March 2025 was ₹6,000 (of which ₹4,000 received; ₹2,000 written off this year).

Income for 2025-26 = 60,000 − 4,000 − 3,000 + 5,000 = **₹58,000**.

(₹2,000 of the old dues is written off – debit I&E A/c as a loss or reduce from the capital fund, as the question requires.)

EXAM TIP **When the opening capital fund is not given, prepare an opening balance sheet – capital fund = opening assets - opening liabilities.**

WORKED EXAMPLE **Entrance fees ₹40,00,000, 40% to be capitalised → R&P shows the full ₹40,00,000 receipt; I&E is credited with ₹24,00,000; ₹16,00,000 is added to the capital fund. Honorarium to artists for an annual function – recorded in R&P (if paid) and I&E (revenue expense).**

Module 4: Fundamentals of Cost Accounting

Cost is the amount of expenditure (actual or notional) incurred on, or attributable to, a given thing. CIMA defines it as the amount of expenditure incurred on a specified thing or activity.

- **Costing** is the technique and process of ascertaining costs.
- **Cost accounting** is the process of accounting for costs from the point at which expenditure is incurred to the establishment of its final relationship with cost centres and cost units. It includes classification, recording, allocation and presentation of costs, and the control of costs.
- **Cost accountancy** is the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It also covers presenting information for managerial decisions.

Objectives of cost accounting

1. Ascertainment of cost per unit, per job, per process or per service.
2. Fixation of selling price (cost-plus pricing, tenders, quotations).
3. Cost control (standard costing, budgetary control) and cost reduction.
4. Providing information for managerial decisions (make or buy, shut down, pricing in recession).
5. Measuring efficiency and preparing reports for management.
6. Identifying profitable and unprofitable products or activities.

Scope (branches)

Costing (ascertainment), cost accounting (recording), cost control, cost audit, cost reduction, and cost reporting to management.

Basis	Financial accounting	Cost accounting
Purpose	True and fair view to outsiders	Ascertain and control cost; help management
Legal requirement	Compulsory for companies	Compulsory only for specified industries (cost records under Section 148)
Coverage	Entire business as a whole	Product, job, process, department
Stock valuation	Lower of cost and NRV	At cost
Period	Usually one year	Weekly, monthly, as needed
Nature of figures	Actual (historical)	Actual and estimated / standard
Users	Shareholders, creditors, government	Internal management

4.3 Cost accounting for business decisions

- Cost accounting helps management in **pricing, make-or-buy, cost control and reduction, budgeting, profit planning, tenders and quotations, choosing products and processes**. Its main purpose is to **provide information to management for decision making**.
- **Cost Accounting Standards Board (CASB)** of ICMAI issues **Cost Accounting Standards (CAS)**: CAS-1 classification of cost · CAS-2 capacity determination · **CAS-3 production and operation overheads** · CAS-4 cost of production for captive consumption · CAS-6 material cost · CAS-7 employee cost · CAS-8 cost of utilities · CAS-11 administrative overheads · CAS-15 selling and distribution overheads VERIFY.
- **Uniform costing** – the same costing principles and procedures adopted by several units of the same industry by mutual agreement.

Term	Meaning	Examples
Cost unit	Unit of product or service in relation to which cost is ascertained	Per tonne (steel), per 1,000 bricks, per kWh (power), per passenger-km (transport), per patient-day (hospital), per room-day (hotel)
Cost centre	Location, person or item of equipment for which costs are collected	Machine shop, assembly department, canteen

Term	Meaning	Examples
Production cost centre	Directly makes the product	Cutting, welding, finishing
Service cost centre	Renders service to production centres	Stores, maintenance, power house
Personal / impersonal	Person / location or machine	Sales manager / machine no. 5
Profit centre	Segment responsible for both revenue and cost	A branch or division
Investment centre	Responsible for profit and capital invested	A subsidiary or strategic business unit

REMEMBER Cost units

Cement, steel – **metric tonne**; power – kWh; transport – passenger-km / tonne-km (**composite units**); hotels – **room-day** (composite); hospitals – patient-day; professional firms – chargeable hour. **Operating (production) cost centres** – machine shop, welding shop, assembly shop. **Cost driver** – the factor that causes a cost (machine hours, number of set-ups, orders).

Basis	Classification
Nature / element	Material, labour (employee cost), expenses
Traceability	Direct cost, indirect cost (overheads)
Function	Production (manufacturing), administration, selling, distribution, research and development
Behaviour (variability)	Fixed, variable, semi-variable (mixed), step cost
Controllability	Controllable, uncontrollable
Normality	Normal, abnormal
Time	Historical, pre-determined (estimated, standard)
Decision making	Marginal, differential, opportunity, sunk, relevant, imputed, out-of-pocket, replacement

Elements of cost

Element	Direct	Indirect
Material	Raw material in the product (wood in furniture)	Lubricants, cotton waste, small nails
Labour	Wages of workers directly working on product	Supervisor's salary, idle-time wages
Expenses	Royalty on production, hire of special machine, excise-type product costs	Factory rent, depreciation, power

Behaviour of cost with output

Cost	Total cost when output rises	Cost per unit when output rises
Fixed	Remains same	Falls
Variable	Rises proportionately	Remains same
Semi-variable	Rises, but not proportionately	Falls

Decision-making costs

- **Opportunity cost:** benefit lost by not choosing the next best alternative (rent forgone on own building used for business).
- **Sunk cost:** already incurred and cannot be recovered; **irrelevant** for decisions.
- **Imputed (notional) cost:** not paid in cash but considered for decisions, e.g. interest on own capital, rent of owned premises.
- **Differential cost:** change in total cost between two alternatives.
- **Out-of-pocket cost:** requires current cash payment.
- **Replacement cost:** cost to replace an asset at current prices.

EXAM TIP Splitting a semi-variable cost (high-low method)

Variable cost per unit = Change in cost ÷ Change in output. Fixed cost = Total cost − Variable cost.

Example: At 10,000 units, power ₹56,000; at 14,000 units, ₹72,000. VC = 16,000 ÷ 4,000 = ₹4 per unit; fixed = 56,000 − 40,000 = ₹16,000.

Methods (by nature of output)	Used in
Job costing	Printing press, repair shops, furniture to order
Batch costing	Medicines, biscuits, toys
Contract costing	Construction, shipbuilding
Process costing	Chemicals, textiles, oil refining, sugar
Unit / output / single costing	Bricks, cement, mining
Operating / service costing	Transport, hotels, hospitals, power
Multiple costing	Cars, cycles, TVs (many components)

Techniques: marginal costing, standard costing, budgetary control, uniform costing, absorption costing, activity-based costing (ABC), target costing, life-cycle costing.

NOTE Method by industry

Toys, biscuits, medicines – **batch costing**; construction, printing – job/contract costing; chemicals, oil refining – process costing; transport, hotels – operating (service) costing.

A **cost sheet** is a statement that shows the various components of total cost of a product, classified and arranged in a logical order, along with cost per unit, for a given period.

Format of cost sheet

Item	Total ₹	Per unit ₹
Opening stock of raw material		
Add: Purchases of raw material (net of GST input credit, with carriage inward)		
Less: Closing stock of raw material		
Direct material consumed		
Add: Direct wages		
Add: Direct expenses		
Prime cost		
Add: Factory overheads		
Add: Opening WIP; Less: Closing WIP		
Less: Sale of scrap		
Works (factory) cost		
Add: Quality control, R&D (production), primary packing, administration overheads related to production		
Cost of production		
Add: Opening stock of finished goods; Less: Closing stock of finished goods		
Cost of goods sold		
Add: Selling and distribution overheads		
Cost of sales (total cost)		
Profit		
Sales		

Items excluded from cost accounts

Purely financial items are not part of cost: interest on loans (unless the CAS says otherwise for specific purposes), dividends, income tax, donations, loss on sale of fixed assets, goodwill written off, preliminary expenses written off, transfer fees received, profit on sale of investments, rent received, discount on issue of shares.

WORKED EXAMPLE **Cost sheet**

Opening RM ₹40,000; purchases ₹3,20,000; carriage inward ₹10,000; closing RM ₹50,000; direct wages ₹1,80,000; direct expenses ₹20,000; factory overheads ₹90,000; opening WIP ₹25,000; closing WIP ₹35,000; scrap sold ₹5,000; office overheads ₹60,000; opening FG ₹30,000 (1,000 units); closing FG (2,000 units at cost of current production); selling overheads ₹45,000. Units produced 20,000; sold 19,000 at ₹40.

Material consumed = 40,000 + 3,20,000 + 10,000 − 50,000 = ₹3,20,000.

Prime cost = 3,20,000 + 1,80,000 + 20,000 = ₹5,20,000.

Works cost = 5,20,000 + 90,000 + 25,000 − 35,000 − 5,000 = ₹5,95,000.

Cost of production = 5,95,000 + 60,000 = ₹6,55,000 → ₹32.75 per unit.

Closing FG = 2,000 × 32.75 = ₹65,500. COGS = 30,000 + 6,55,000 − 65,500 = ₹6,19,500.

Cost of sales = 6,19,500 + 45,000 = ₹6,64,500. Sales = 19,000 × 40 = ₹7,60,000. Profit = ₹95,500.

FORMULA **Cost-sheet one-liners**

Raw material consumed = Opening + Purchases − Closing (e.g., 3,000 + 28,000 − 4,500 = ₹26,500). Loose tools – **factory overhead** (part of works cost). Free samples and gifts – **selling and distribution overhead**. Financing cost (interest) is **not** part of cost of sales. COGS = Cost of sales − selling & distribution overheads.