Participant Handbook

Sub-Sector: **Banking**

Occupation: **Accounts Executive (Accounts Payable and Receivable)**

Reference ID: **BSC/Q0901, Version 1.0**

NSQF Level 4

About this Book

This Participant Handbook is designed to enable training for the specific Qualification Pack (QP). Each National Occupational (NOS) is covered across Unit/s.

The Handbook includes assessments at the end of the sessions to enable the candidates assess their understanding of the course.

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UNIT 1.1: Glossary of the terms used in Accountancy

Unit Objectives

At the end of this unit, you will be able to:

1. Get accustomed to the terms generally used in accountancy

1.1 Glossary of the Terms used in Accountancy

- ✓ **Accounts Payable** - means the amount due to the trade creditors for purchase of materials, semi-finished and finished goods.

- ✓ **Accounts Receivables** - means the amount due from the trade debtors for sale of materials, semi-finished and finished goods.

- ✓ **Sector** – subject matter relating to Accounts Payables and Accounts Receivables.

- ✓ **Core and Professional skills** – means the core competencies required of an accounts professional for appropriate execution of tasks envisaged in the job roles of accounts payables and accounts receivables sector of accounting. E.g. inter-personal relations, ability to think analytically, persuasive communication, problem solving capability, knowledge of computer usage, understanding of the accounting principles, decision making capability, evaluation of accepted methodologies, management skills, etc.

- ✓ **Accounting -** Accounting means maintaining of accounts of transactions systematically as prescribed in the prevailing accounting standards vide the accounting principles and rules.

- ✓ **Event** - it is the occurrence of an intent of a person to enter into a business transaction. All events are not transactions as though it may contain valuable business information yet it may have non-monetary effect to record in the books of account.

- ✓ **Data entry** - it is the systematic entering of transaction information into software enabled accounting system or data-recording in a manual system according to the prescribed standards of the firm complying to the principles and rules of accounting.

- ✓ **Transaction** - it is following the event that results in a monetary benefit to one and monetary outflow to someone resulting in recording in financial statements of account. The exchange of goods or services measurable in terms of money which effects a person or a firm as to its business operation are called transactions.

- **System** - it is the computer software enabled programmes that facilitate recording of all transactions in the ledger to formulate the financial statements of account.

- **Purchases -** it is the amount of goods and services purchased from the supplier on execution of contract terms.

- **Sales** - it is the amount of goods and services sold to the customer on execution of contract terms.

- **Purchase Order** – means the document raised as an authorization to the supplier of a firm for purchase of goods and also as an authorization raised from the buyer of a firm for sale of goods (raw materials, semi-finished and finished).

- **Days Inventory Outstanding (DIO) -** means the number of days the inventory is held in stock n the stores prior to issue out to the production process.

- **Days Payables Outstanding (DPO) -** means the number of days the trade creditors remains outstanding for payment from the date of purchase of goods by the firm.

- **Days Receivables Outstanding (DRO)** - means the number of days the trade debtors remains outstanding for collection from the date of sale by the firm.

- **Operating cycle** - it the average period of time required for a business to make an initial outlay of cash to produce goods, sell the goods, and receive cash from customers in exchange for the goods.

- **Net Operating cycle -** it is the number of days it takes a company to generate economic earnings from the usage of the assets.

- **Cash conversion cycle** - it is the calculation of the cash flow of a firm for measuring the time it taken by the firm in converting its investment in inventory and other resource inputs into cash.

- **Flow** - it represents the process in calculating the number of days required to convert the inventory received in stores and making them ready for sale until the outstanding dues to the trade creditors and from the trade debtors are finally settled.
- **Working capital** - it is the capital of a firm, either permanent or temporary, which is required for the day-to-day business operations, that is represented by the net of the current assets minus the current liabilities.

- **Principles of accounting -** comprises the various accepted and standard concepts in relation to the conventions as practiced in accounting domain for finally reporting the financial statements of accounts. These principles refer to some of the standards practiced like business entity, going concern, monetary value, realization, dual, accrual, conservatism, consistency, disclosure, matching, and materiality.

- ✓ **Rules of accounting -** it is application of the double entry system of accounting by ascertaining the types of accounts like personal account, real account and nominal account.

- ✓ **Journals** - it is an accounting record where all business transactions are entered as per the double entry rules of accounting with usage of appropriate accounting principles and their application.

- ✓ **Sales Journal** - sales journal records all specific transactions relating to sales carried out by a firm. The sales journal records all the sales of a firm on credit relating to inventory sales or other merchandise sales.

- ✓ **Purchase Journal** - purchase journal records all specific transactions relating to purchases carried out by a firm. The purchase journal records all the purchases of a firm on credit relating to inventory purchases or other merchandise purchases.

- ✓ **Day Sales Ledger** - it is a detailed itemized sales made to each and every customer of the firm, presented in date sequence, with adjustment for sales returns if any.

- ✓ **Day Purchase Ledger -** it is a detailed itemized purchases made from each and every supplier of the firm, presented in date sequence, with adjustment for purchase returns if any.

- ✓ **General ledger -** it is the complete record of financial transactions over the time period of the business, and it provides all accounts information that is finally being used for the preparation of financial statements of accounts. It signifying the investment in business and returns earned from the investment in the assets, liabilities, revenues and expenses of the firm for determining the profits and net worth of the firm.

- ✓ **Vouchers** - it is an internal accounts document with the intent of making a payment to an external entity, such as a vendor or service provider.
- ✓ **Journal Voucher** - it is a document for accounting record that authorizes the details of a transaction for record keeping and auditing purposes.

- ✓ **Direct tax** - as per Income Tax Act, 1961, it relates to income tax payable or chargeable on the revenues earned and includes tax deducted at source upon release of payment or collection of payment in the normal course of business.

- ✓ **Indirect tax** - as per the different tax laws applicable, it is the charge that is levied on a service provision or on supply or purchase of goods on the customer, recoverable from the customer and payable to the concerned govt, either state or central.

- ✓ **Delivery challan**- it is the document that confirms the physical delivery of goods and services as per contract terms.

- ✓ **Transaction trail** - it is an accounting audit trail which incorporates all documents, either hard copy or electronic evidence that shows the operational journey a transaction goes through from the day the transaction is recorded upon an event to the time the transaction makes it into the financial statements of account. It is part of internal control in a firm.

- ✓ **GRN** - it is the goods receipt note that is raised by the stores to keep control on inventory items received after proper certification and authorisation. Stores control account gets updated only upon posting of the GRN.

- ✓ **GDN** - it is the goods despatch note that is raised by the stores (and in some firms by the despatch section) which is responsible for releasing goods to customers. A copy of the GDN is retained by the stores (or by the despatch section as the case may be) and one copy is sent to financial accounts department to process invoice to the customer.

- ✓ **Control Account -** it is the account which contains aggregate periodical totals for transactions that are individually stored in subsidiary-level ledger accounts. Control accounts are summarized accounts receivable and accounts payable. It is so because the accounts receivables and accounts payables contain a large volume of transactions. The periodical balance in a control account should be matching with the total of the related subsidiary ledger in order to transfer to the trial balance for then making the financial statement of account.

- ✓ **Indian accounting standards -** this refers to the Ind AS which is developed/updated time and again by the accounting body of India (e.g. The Institute of Chartered Accountants of India) for compliance by all firms maintaining accounting in India. Various accounting standards (upon convergence to International Financial Reporting Standards under the aegis of the International Accounting Standards Board) are prescribed and adherences to such standards are made imperative.

- ✓ **Various Acts** - in this section , various laws have been referred to for compliance by the firm like Companies Act, 2013 that deals with the business laws; Income Tax Act, 1961 that deals with the income taxation; Central Sales Tax Act, 1956 that deals with central government indirect taxation on business transactions; State Sales Tax Act that deals with the state government's indirect taxation on business transaction; Service Tax Act, 1994 that deals with the indirect taxation on services provided in a business transaction; Custom & Excise Duty, 1944 (&Amendments) that deals with the cess levied on goods upon import into the country and upon release of finished goods from the place of production i.e. factory; VAT, 2005 that deals with a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.

Notes

UNIT 1.2: Introduction to the sector

Unit Objectives

At the end of this unit, you will be able to:

1. Have an idea of the objective of the Financial Accounting
2. Know the importance of accounting
3. Know the advantages of accounting
4. Know the limitation of accounting
5. Learn the accounting methods of Accounts Payables
6. Learn the accounting methods of accounting Accounts Receivables

1.2.1 About Financial Accounting

Meaning of Financial Accounting- The basic purpose of accounting is to provide the information required for sound economic decision making. It involves preparation of financial reports which reflects a firm's performance to external parties such as creditors, investors and tax authorities.

1.2.2 Objectives of the Financial Accounting

Both the internal and external parties of the organization can understand the business performance of the firm. Thus the primary objectives of financial accounting can be stated as:

- ✓ **Maintenance of Records of Business –** Maintenance of record should be done first before making any payment. This is because, if there is an error, it can be traced from the records and corrected accordingly. Sometimes even the most intelligent personnel cannot accurately recollect what he might have come across in the daily operations. So if proper and complete records of all business transactions are maintained it will make his task easier. Also these records can be used by different personnel for different decision-making purposes.

- ✓ **Calculation of Profit or Loss -** Generating profit is the sole purpose of any business. The information related to the profits are available from the profit and loss statement. Profit is calculated by taking out expenses from the associated revenues. Profit helps in judging the performance of the organization.

- ✓ **Processing of Financial Position** - A balance sheet reflects the exact financial position of an organization. It is a statement of assets and liabilities. It gives an idea of the assets owned by an organization and depicts the liabilities against the assets. The balance of assets minus the external liabilities shows the capital.

- ✓ **Provide Information to the Parties** - Generation of information helps to facilitate the dissemination of information among different user groups. Therefore, communication of information is the essential function of accounting. Accounting information is communicated in the form of statements, reports, graphs and charts to the internal and external users who require them in different decision situations.

1.2.3 Importance of Accounting

Accounting is basically the universal language of business and figure. Its importance is huge which has been elaborated below;

- ✓ **Helps in taking business decision** – All business decisions are based on sound analysis of financial statements. It includes information on profitability, liquidity, efficiency etc. Without proper maintenance of accounts it would be very difficult to meet the objectives of any business.

- ✓ **Acts as a vehicle of record keeping** – Data is gathered from several sources and communicated to the end users for proper decision making. Hence maintaining proper records is highly essential.

- ✓ **Helps in the discovery and prevention of fraud** – frauds can be discovered only when there is proper internal control. And this control is possible by keeping proper track of the events. Accounting helps in effective tracking.

- ✓ **Aids in getting funds and loans** – Approval of loans is possible only on presentation of the company's financial state of affairs. Accounting with the help of its accepted formats aids in measuring the risk of any business.

- ✓ **Builds a reputation** – Credit scores generally reflects the financial status of any business. The financial reports of an organization help calculate the credit score.

1.2.4 Advantages of Accounting

Accounting has the following advantages:

- ✓ Provides financial information regarding the business
- ✓ Provides required assistance to the management
- ✓ Helps in comparing the financial results
- ✓ Helps in comparing financial results;
  - ❖ comparison of its own results of different years
  - ❖ comparison of financial results with other firms in the same industry
- ✓ Helps in proper decision making
- ✓ Accounting information is highly useful as an evidence in legal matters
- ✓ Helps in valuation of the business

1.2.5 Limitations of Accounting

- ✓ Accounting ignores non-monetary transactions
- ✓ Upholding internal accounting procedures by which the company may follow its own rules to substantiate
- ✓ Accounting information is sometimes based on estimates which can be biased
- ✓ Creation of accounts by window dressing can lead to faulty results (accounting information can be easily manipulated and thus can not be considered as the true test of performance)

1.2.6 Accounting of Accounts Payables

- ✓ Learn the accounting methods of Accounts Payables - by understanding the process that the particular business follows keeping in mind the accounting principles by giving due stress on audit trail.

1.2.7 Accounting of Accounts Receivables

- ✓ Learn the accounting methods of Accounts Receivables - by process that the particular business follows keeping in mind the accounting principles by giving due stress on audit trail.

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Assessment

Instructions:

- Answer all questions.
- DO NOT discuss with any one during the assessment.
- Tick/encircle the right answer

Time allotted: 15 mins **Total Marks: 10**

A. **Tick the correct option:**

1. The objective of financial accounting is to:
   a) Record transactions as per accounting standards
   b) Give a true and fair view of events
   c) Provide a basis for decision making in business
   d) Provide information of events
   e) All the above

2. The importance of accounting lies in:
   a) Assessing the growth trajectory of the business
   b) Not understanding the value of data provided in financial statements of account
   c) Just not taking business decisions
   d) Accounts creation
   e) None of the above

3. The merits of financial accounting are to evaluate the following statements except:
   a) Evaluate business decisions on the strength of the financial statements of account
   b) Evaluate the compliance of business to various applicable regulations
   c) Evaluate the business performance through comparative periodical financial statements of accounts
   d) Evaluate the non-monetary events

4. Financial accounting has the following characteristics in the following statements except:

a) Helps in critical analysis of the financial disclosures only
b) Makes the line manager understand the reason for shortfall in performance appraisals of the finance department staff
c) Underline only the deviations from regulatory compliances
d) Makes the intra-firm and inter-firm business performance comparison more difficult
e) All the above

5. Financial accounting may limit the financial essentials to:
    a) Monetary values of transactions, ignoring the non-monetary events
    b) Accounting procedures as adopted by the company, thereby limiting the fair inter-firm comparison
    c) Financial data representation without taking cognizance of any attempt to window dressing of the events
    d) All the above

6. Accounts Payables represents the following statements:
    a) Assess the deviations if any from the standards set by the company for the days' payables outstanding
    b) Understand the working capital requirement to settle payables in time
    c) Effectively manage accounts payables through cash flow and a key indicator of overall operational effectiveness.
    d) All the above

7. Critical management of accounts payables substantiates the following statements:
    a. Adopts best practices of timeliness and accuracy of financial reporting for identifying overdue balances
    b. Assess the working capital requirement to efficiently and effectively run the operations of business
    c. Repose confidence in suppliers of the company's financial performance and credentials
    d. Ensure compliance to contracts as executed between the company and the suppliers
    e. All the above

8. Critical analysis of accounts receivables substantiates the following statements:
    a) Adopts best practices of timeliness and accuracy of financial reporting for identifying overdue balances
    b) Assess the working capital requirement to efficiently and effectively run the operations of business
    c) Ensure compliance to contracts as executed between the company and the customers
    d) Understand the importance of overdue balances that may ultimately impair the company's performing assets to severe financial losses
    e) All the above

9. Identify which statement is true:
   a) Financial statements of account can never be falsified
   b) Reporting on Accounts Payables can never be falsified
   c) Financial accounting considers only on monetary transactions and ignores non-monetary events
   d) Reviewing the days' sales outstanding is the only way to understand the working capital requirement

10. Which of the following statements is false:
    a) Financial decisions relating to business performance take cue from the presented financial statements of accounts
    b) Created accounts can mislead decision making process by business stakeholders
    c) Financial statements of accounts can never be falsified if financial data relating to transactions are recorded
    d) Critical analysis of financial statements of accounts can give a fair picture of business performance

END OF TEST

Answers

1. e
2. a
3. d
4. e
5. d
6. d
7. e
8. e
9. c
10. c