PREMIUM STUDY EDITION

JAIIB — Junior Associate of the Indian Institute of Bankers

Accounting & Financial Management

Module A — Basic Accounting & Finance

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Accounting & Financial Management — Module A: Basic Accounting & Finance (Notes)

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Contents

Accounting & Financial Management — Module A: Basic Accounting & Finance

Page numbers refer to the numbers printed at the foot of each page.

UNIT 1 ★★★ EXAM WEIGHTAGE – HIGH-YIELD UNIT

Definition Scope and Accounting Standards

Welcome to a new subject — Accounting & Financial Management. This first unit is the foundation: what accounting is, why it exists, its history, and most importantly — Accounting Standards (AS), Indian Accounting Standards (Ind AS), US GAAP, IFRS and Transfer Pricing. In the exam, this area is tested through definitions, standard numbers/names, regulatory bodies, and threshold figures. It is a concept-heavy unit, so focus on understanding rather than rote learning.

✦ REMEMBER (Memory Aid)

The pillars of this unit: (1) Definition & features of accounting, (2) Historical phases, (3) New accounting systems, (4) Accounting Standards (AS 1–29) in India, (5) Ind AS, (6) US GAAP, (7) IFRS, (8) GAAP vs IFRS, (9) Transfer Pricing.

1.1 Introduction — What Accounting Is

Accounting is called the 'language of business' — its job is to communicate and report the results of business operations and the financial health of the enterprise.

❖ DEFINITION — Accounting (AICPA definition)

'Accounting is the art of recording, classifying and summarising, in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.' — American Institute of Certified Public Accountants (AICPA).

According to Kieso & Weygandt (building on the AICPA/APB), accounting is: (i) a service activity that provides quantitative financial information; (ii) an analytical discipline that defines, measures, classifies and summarises economic transactions; and (iii) an information system that collects and communicates economic information.

❖ DEFINITION — Bookkeeping vs Accountancy

Bookkeeping = recording business transactions in the books of original entry and ledgers (a narrow concept). Accountancy = a wider concept; it includes bookkeeping PLUS the compilation of accounts so that the state of affairs of the business is known. Accountancy > Bookkeeping.

Financial statements = balance sheet, profit & loss account, fund flow / cash flow statement, plus explanatory notes & schedules. Their objective is to give information about the enterprise's financial position, performance and changes. Users: government authorities (income tax, sales tax), shareholders, investors, directors, banks and financial institutions.

✦ REMEMBER (Memory Aid)

Accounting = the language of business; its grammar = Accounting Standards (AS). Financial statements should show a 'true and fair' view.

✓ QUICK CHECK

The Accounting Standards Board (ASB) was constituted by ICAI on:

(a) 1st April 2015 (b) 1st October 2018
(c) 21st April 1977 (d) 15th June 2001

Ans: (c) 21st April 1977 — ICAI constituted the ASB on 21st April 1977 to harmonise accounting policies

1.2 Nature & Purpose of Accounting

Accountancy involves four things: (1) systematic classification of business transactions, (2) recording in books (bookkeeping), (3) summarising — from ledger to trial balance, then balance sheet & P&L, (4) interpreting financial transactions. Features of Accounting 1 Accounting = the art of recording, classifying and summarising business transactions — output: (a) Trial Balance, (b) P&L Account, (c) Balance Sheet, (d) Cash Flow Statement.

2	It records transactions in money terms — things that cannot be expressed in money (e.g.
	a dispute between management and workers) are not recorded.
3	It records only transactions of a financial character — e.g. the cost of a computer is recorded, but not its efficiency/brand value.
4	It also interprets financial data — helping in future decisions (e.g. a bank studies the balance sheet before a credit decision).
Purposes & Objectives of Accountancy	

- To keep a systematic record — recording all transactions, assets and liabilities.
- To ascertain results of operations — profit/loss; trading & P&L account or income & expenditure account.
- To ascertain financial position — the balance sheet is the barometer of the business's health (just as a doctor judges health from the pulse).
- To facilitate rational decision-making — make-or-buy, selling price, maximum discount, etc.
- To satisfy the requirements of law — companies, societies and public trusts must maintain accounts under the Companies Act / Societies Act / Public Trust Act / Sales Tax Act / Income Tax Act.

✓ QUICK CHECK

The Governmental Accounting Standards Board (GASB), created in 1984, addresses:

(a) State and local government reporting
(b) International standards
(c) Insurance accounting
(d) Banking standards

Ans: (a) State and local government reporting — GASB (1984) addresses state and local government reporting issues; its structure is like the FASB

1.3 Historical Perspectives — Phases of Accounting

The origin of accounting is as old as the use of money (it existed even under the barter system). The Arthashastra also discusses the critical role of accounting. The distinguishable phases of its evolution:

Phase	Key point
Stewardship Accounting	Wealthy people kept 'stewards' to manage their property; stewards periodically rendered accounts. The root of bookkeeping. Double-entry bookkeeping was started by merchants in Italy (15th century) and adopted across Europe in the 19th century.
Financial Accounting	Arrived with large-scale business + Joint Stock Companies. Shareholder liability is limited to the nominal value of shares. The Companies Act mandates information disclosure (annual income statement + balance sheet). Social purpose: channelling savings into profitable investments.
Cost Accounting	Industrial revolution (England). Costing techniques act as a guide for management — cost control, stock valuation, profit measurement and ascertaining unit cost.
Management Accounting	20th century (last 30–40 years). Forward-looking; includes cost accounting + budgeting. Relatively free of GAAP/standards. Aids decision-making. The focus shifts from recording to decision-making.
Social Responsibility	Considers the social effects of business decisions — threats to
Accounting	environment/ecology. Profit together with social well-being.
	First attempt by Hermanson in 1964. Human / intellectual capital

Phase	Key point
Human Resource Accounting	(knowledge economy, 1990s). Accounting for the economic value of
(HRA)	people; a managerial tool.
Inflation Accounting	Adjusts the value of assets/profits against price-level changes. Removes the limitations of the historical-cost and stable-monetary-unit assumptions.

✦ REMEMBER (Memory Aid)

Double-entry bookkeeping: Italy, 15th century, started by merchants. Luca de Borgo Pacioli (an Italian monk) wrote the section on Double Entry in his book ‘Summa’ in 1494 at Venice. India’s old indigenous method = ‘Nama’ (also called Mahajani / Marwari / Deshi).

✓ QUICK CHECK

The NFRA was constituted under which section of the Companies Act, 2013, effective from 1st October 2018?

(a) Section 143A (b) Section 129(5)
(c) Section 134(5) (d) Section 132

Ans: (d) Section 132 — NFRA was constituted under Section 132 of the Companies Act 2013, effective 1 October 2018

1.4 New Accounting Systems

❖ DEFINITION — Value Accounting

A product is the result of various individual contributions. Value accounting evaluates and captures these contributions (tangible or intangible), normally as a percentage. Example: five workers put tea leaves into the same basket — each one’s contribution is tracked so that the revenue share can be decided. DEFINITION — Fair Value Accounting It considers the current market value of certain assets/liabilities. Fair value of an asset = the estimated price to sell it under current market conditions. Fair value of a liability = the estimated amount to settle it. Methods: Market approach, Income approach, Cost approach. It is also called current value accounting. It does not yet enjoy wide acceptance (cost, delays, reliability doubts). NOTE (Important / Caution) CYP trap: Fair value accounting takes the current market value of BOTH assets AND liabilities (not just assets or just liabilities). It is also called current value accounting. It does NOT have wide acceptance.

✓ QUICK CHECK

Which accounting phase is forward-looking, includes budgeting, and is relatively free from legal/AS constraints?

(a) Stewardship Accounting (b) Management Accounting
(c) Cost Accounting (d) Financial Accounting

Ans: (b) Management Accounting — Management accounting is forward-looking, includes cost accounting + budgeting, and is relatively free of GAAP/legal constraints

1.5 Origins of Accounting Principles

The Greeks, Romans, Egyptians and Babylonians had well-developed records. In the 13th–14th century, Italy saw a tremendous development of commerce — the birthplace of modern bookkeeping. In 1494 at Venice, Luca de Borgo Pacioli (an Italian monk) published the book ‘Summa’, which contained a section on Double Entry bookkeeping. In the 16th–17th century, England and Holland saw attempts to frame rules for double entry and financial statements. The 19th-century industrial revolution and the two 20th-century world wars brought accounting to its present form. In India, about 20 centuries ago, during the regime of Chandragupta, Kautilya wrote the ‘Arthashastra’. India’s **old indigenous method = ‘Nama’ (Mahajani / Marwari / Deshi).**

✓ QUICK CHECK

Unlisted companies must follow Ind AS if their net worth is:

(a) Rs.250 crore or more (b) Rs.100 crore or more

(c) Rs.50 crore or more (d) Rs.500 crore or more

Ans: (a) Rs.250 crore or more — Unlisted companies with net worth Rs.250 crore or more must follow Ind AS

1.6 Accounting Standards (AS) in India — Definition & Scope

❖ DEFINITION — Accounting Standards (AS)

The rules and criteria for recording events in the accounts (like the grammar of a language). Issued by the apex accountancy body so that there is uniformity in the preparation of financial statements.

To harmonise accounting policies and practices, ICAI (the Institute of Chartered Accountants of India) constituted the Accounting Standards Board (ASB) on 21st April 1977. The ASB's job is to formulate accounting standards so that the ICAI Council can mandate them. Procedure for Formulating a Standard 1 The ASB determines the broad areas where standards are needed, and the priority.

2	Study groups + dialogue with government / industry / organisations.
3	An exposure draft is prepared and issued to members and the public for comments.
4	After considering the comments, the ASB finalises the exposure draft and submits it to the ICAI Council.
5	The ICAI Council considers the final draft (modifying it after consulting the ASB if
	needed) and issues the standard.

⚠ NOTE (Important / Caution)

If a mandatory AS is not followed, ICAI-member auditors must qualify the audit report, otherwise it is professional misconduct. Both SEBI and the Companies Act 2013 require this. Section 134(5) places the responsibility on the Board of Directors to comply with mandatory AS. Section 129(5): if the financial statements do not comply with AS, the company must disclose the deviation + reasons + financial effects. DEFINITION — NACAS & NFRA The National Advisory Committee on Accounting Standards (NACAS) was set up on 15th June 2001 to advise the Central Government. It has now been replaced by the National Financial Reporting Authority (NFRA) — under Section 132 of the Companies Act 2013, effective 1st October 2018. NFRA = an independent audit regulator; ICAI = a self-regulatory professional body. ICAI now examines recommendations in consultation with NFRA. NOTE (Important / Caution) Drift-prone dates/sections: ASB constituted 21 April 1977; NACAS 15 June 2001; NFRA Section 132, effective 1 Oct 2018; Companies Act sections 129(5) & 134(5).

Accounting Standards List (AS 1 – AS 29) ICAI has so far issued 29 mandatory and 3 non-mandatory standards (AS 6 & AS 8 have been withdrawn/merged). Key AS:

AS	Title	AS	Title
AS 1	Disclosure of Accounting Policies	AS 16	Borrowing Costs
AS 2	Valuation of Inventories	AS 17	Segment Reporting
AS 3	Cash Flow Statements	AS 18	Related Party Disclosures
AS 4	Contingencies & Events after BS Date	AS 19	Leases
AS 5	Net P/L, Prior Period & Acctg Policies	AS 20	Earnings Per Share
AS 7	Construction Contracts	AS 21	Consolidated Financial Statements
AS 9	Revenue Recognition	AS 22	Accounting for Taxes on Income

AS	Title	AS	Title
AS 10	Property, Plant & Equipment	AS 23	Investments in Associates (CFS)
AS 11	Effects of Changes in Forex Rates	AS 24	Discontinuing Operations
AS 12	Accounting for Government Grants	AS 25	Interim Financial Reporting
AS 13	Accounting for Investments	AS 26	Intangible Assets
AS 14	Accounting for Amalgamations	AS 27	Financial Reporting of Joint Ventures
AS 15	Employee Benefits	AS 28	Impairment of Assets

AS	Title	AS	Title
AS 29	Provisions, Contingent Liab. & Assets		

Some Important AS — Key Points

- AS 1 (Disclosure of Accounting Policies): significant policies disclosed in one place. Fundamental assumptions — going concern, consistency, accrual — if followed, no specific disclosure; if not, disclose.
- AS 2 (Inventories): inventory = lower of cost or net realisable value. FIFO or Weighted Average permitted. Not applicable to: WIP (construction/services), shares/debentures held as stock-in-trade, livestock/agri/forest/mineral.
- AS 3 (Cash Flow): cash flows under 3 heads — operating, investing, financing. Cash equivalent = short maturity (say 3 months).
- AS 4: contingencies + events after the balance sheet date.
- AS 9 (Revenue Recognition): sale of goods, services, interest/royalties/dividends. Does NOT deal with revenue from construction/hire-purchase/lease/government grants/insurance.
- AS 10 (PPE): tangible items, use > 12 months. Cost or revaluation model. Depreciation methods: SLM, WDV, Units of Production.
- AS 22 (Taxes on Income): timing differences (which reverse) vs permanent differences (which do not reverse). Deferred tax = the tax effect of timing differences.
- AS 28 (Impairment): mandatory for enterprises with turnover > Rs.50 crore / listed enterprises. Recoverable amount = higher of net selling price and value-in-use.

⚠ NOTE (Important / Caution)

The AS 28 turnover threshold is Rs.50 crore. AS 22: current tax vs deferred tax (timing differences). These come up in the exam.

✓ QUICK CHECK

Under which section of the Companies Act 2013 must a Board of Directors comply with mandatory accounting standards?

(a) Section 34AB (b) Section 134(5)
(c) Section 129(5) (d) Section 132

Ans: (b) Section 134(5) — Section 134(5) places on the Board of Directors the responsibility to comply with mandatory accounting standards

1.7 Indian Accounting Standards (Ind AS)

❖ DEFINITION — Ind AS

The converged form of IFRS — to make the financial position of Indian companies comparable with global companies. Same names/numbers as IFRS, but with some additions/deletions for the Indian economic & legal environment. ICAI recommends, MCA notifies. A total of 41 standards have been notified (2 superseded/withdrawn). In case of conflict, the provisions of the Act prevail.

India currently has two sets of Accounting Standards: (1) ICAI's AS, and (2) MCA-notified Ind AS. Two MCA notifications: 16 Feb 2015 (Companies (Ind AS) Rules 2015) specified who will follow Ind AS; 23 June 2021 specified the companies that follow ICAI AS. Who Will Follow Ind AS

- Equity/debt securities listed or in the process of listing (in India or abroad).
- Unlisted companies with net worth Rs.250 crore or more.
- Holding/subsidiary/JV/associate companies of (a) & (b) above.

❖ DEFINITION — SMC (Small & Medium Sized Company) — exemption

An SMC is a company whose: (i) equity/debt securities are not listed, (ii) which is not a bank/FI/insurance company, (iii) turnover (excluding other income) does not exceed Rs.250 crore (immediately preceding year), (iv) borrowings (including public deposits) do not exceed Rs.50 crore, and (v) which is not a holding/subsidiary of such a non-SMC company. NOTE (Important / Caution) Ind AS net-worth threshold Rs.250 crore; SMC turnover Rs.250 cr, borrowings Rs.50 cr. Notifications: 16 Feb 2015, 23 June 2021. Drift-prone.

Ind AS for Banks — Status MCA roadmap (18 Jan 2016): scheduled commercial banks, insurers, NBFCs. For banks/insurance, RBI/IRDA will notify. RBI (11 Feb 2016) asked banks to comply with Ind AS, then on 5 April 2018 deferred it by one year (an amendment to the third schedule of the Banking Regulation Act 1949 was needed), and finally on 22 March 2019 deferred it till further notice.

❖ DEFINITION — Expected Credit Loss (ECL) — 3-Stage Model (Ind AS 109)

Ind AS 109 replaces the incurred-loss model with the ECL model. Stage 1: 12-Month ECL (credit risk has not increased significantly). Stage 2: Lifetime ECL — Not Credit Impaired (credit risk increased significantly but not impaired). Stage 3: Lifetime ECL — Credit Impaired. Financial assets: amortised cost / FVOCI / FVTPL categories. Transition impact goes to Equity (Reserves & Surplus).

The Ind AS list follows IFRS-style numbering: Ind AS 101–116 (IFRS-equivalents) plus Ind AS 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 40, 41 (IAS-equivalents).

✓ QUICK CHECK

The most apt definition of Accounting ('the art of recording, classifying and summarising...') is given by:

(a) IASB
(b) SEC
(c) ICAI
(d) AICPA (American Institute of Certified Public Accountants)

Ans: (d) AICPA (American Institute of Certified Public Accountants) — This classic definition was given by the AICPA (American Institute of Certified Public Accountants)

1.8 US GAAP (Generally Accepted Accounting Principles of USA)

❖ DEFINITION — US GAAP

The accounting rules/standards for preparing the financial statements of publicly traded (and many private) companies in the USA. Adopted by the SEC. Purpose: transparency and consistency in financial reporting. GAAP does NOT give a definite assurance that statements are free from errors/omissions. GAAP is not written into law and is not mandatory for all businesses (but the SEC requires it for publicly traded companies).

Fundamental Qualities (Useful Financial Statements)

- Relevant — predictive value + feedback value, available on time.
- Reliable — verifiable, neutral (bias-free), representational faithfulness.
- Comparable — can be compared across different enterprises.
- Consistent — same methods period-to-period; changes explained.

Bodies that Set GAAP Body Role Securities & Exchange Commission — formed after the Great Depression. Encourages SEC private standard-setting; does NOT set GAAP itself. American Institute of CPAs — created the CAP in 1939 (51 ARBs, 1939–59), then the AICPA APB in 1959 (31 opinions), dissolved in 1973. Now AcSEC: Audit & Accounting Guides, Statements of Position, Practice Bulletins. Financial Accounting Standards Board — replaced the APB (on the Wheat Committee's recommendation). FAF + FASAC + FASB structure. The authoritative source of GAAP. FASB Codification effective Sept 15, 2009. The EITF (1984) deals with new/unusual transactions. Governmental Accounting Standards Board — formed in 1984; state & local government GASB reporting. House of GAAP — categories by authority, from (a) most authoritative [FASB Standards/Interpretations, APB Opinions, AICPA ARBs] to (d) least authoritative [FASB Implementation Guides Q&A, widely recognised industry practices].

✓ QUICK CHECK

Accounting is often called the:

(a) Language of business (b) Theory of finance
(c) Science of money (d) Art of taxation

Ans: (a) Language of business — Accounting is called the 'language of business' — its job is to communicate business results and financial health

1.9 Overview of IFRS

❖ DEFINITION — IFRS (International Financial Reporting Standards)

A common global language for recording business affairs — so that company accounts are understandable & comparable across international boundaries. Important for international trade/ownership. It is progressively replacing national standards.

IFRS was earlier called IAS (International Accounting Standards) — issued by the IASC between 1973–2001. On 1 April 2001, the IASB took over responsibility from the IASC; the old standards are still called IAS, and the new ones are IFRS. To date: 41 IAS and 17 IFRS.

❖ DEFINITION — IFRS Foundation & IASB

IASB = the independent standard-setting body of the IFRS Foundation. The IFRS Foundation = an independent, not-for-profit private-sector organisation that works in the public interest. Trustees safeguard the IASB's independence; they are accountable to a Monitoring Board (public authorities).

The IFRS Interpretations Committee (IFRIC) = the IASB's interpretative body; it gives authoritative guidance (IFRICs) on widespread accounting issues. 100+ countries have adopted IFRS (though some are yet to implement it fully).

✦ REMEMBER (Memory Aid)

IFRS was earlier IAS. The IASB took charge from the IASC on 1 April 2001. 41 IAS + 17 IFRS. The IFRS Foundation = not-for-profit, public interest. Ind AS = the converged form of IFRS.

✓ QUICK CHECK

Which AS deals with 'Property, Plant and Equipment'?

(a) AS 2 (b) AS 22
(c) AS 10 (d) AS 13

Ans: (c) AS 10 — AS 10 = Property, Plant and Equipment (PPE). Depreciation methods: SLM, WDV, Units of Production

1.10 Difference Between US GAAP and IFRS

GAAP = used in the US; IFRS = used in 167 jurisdictions. GAAP is rules-based, IFRS is principles-based. GAAP has separate objectives for business + non-business entities; IFRS has one objective for all.

Area	US GAAP	IFRS
	Considering the framework in the	
Purpose of	absence of a standard is NOT an	Considering the framework IS an
framework	express requirement	express requirement
Going concern	Assumption not well-developed	Accrual + going concern given prominence
Definition of asset	Future economic benefit	A resource from which future economic benefit will flow
Fixed assets	Cost model (historical value less depreciation)	Cost model + revaluation model (fair value)
Inventory	LIFO, FIFO or weighted-average	FIFO or weighted-average (no LIFO)
valuation		

Area	US GAAP	IFRS
Intangibles	Acquired intangibles (R&D, advertising) recognised at fair value	Only when future economic benefit + reliable measurement

⚠ NOTE (Important / Caution)

The most memorable difference: LIFO is allowed only under US GAAP, NOT under IFRS. GAAP = rules-based, IFRS = principles-based.

✓ QUICK CHECK

Which of the following events would be recorded in the books of account?

(a) The efficiency of a newly bought computer
(b) The cost price of a computer purchased
(c) The brand reputation of the company
(d) A quarrel between management and workers

Ans: (b) The cost price of a computer purchased — Accounting records only transactions expressible in money and of a financial character — the computer's cost is recorded, not its efficiency/brand

1.11 Transfer Pricing

❖ DEFINITION — Transfer Pricing

The pricing of goods/services within a multidivisional organisation (especially cross-border). When divisions transact with each other, the transfer price determines costs. It affects how total profit is divided among the parts of the company — so governments frame transfer-pricing regulations to stop taxation revenue from going abroad. DEFINITION — Arm's Length Price The price at which two unrelated and non-desperate parties would agree to a transaction. Most countries enforce tax laws on the arm's-length principle (based on the OECD Transfer Pricing Guidelines).

Transfer Pricing Methods

- Traditional — CUP (Comparable Uncontrolled Price): compare the controlled transaction with a comparable uncontrolled transaction. Conceptually the easiest.
- Traditional — Cost Plus (CP): for finished goods; add an appropriate mark-up to the seller's cost.
- Traditional — Resale Price (RP): the reverse of CP — subtract an appropriate gross margin from the sale price (working backward from the next stage of the supply chain).
- Non-traditional — Profit Split (PS): for integrated businesses; split at the level of ultimate profit contribution.
- Non-traditional — TNMM (Transactional Net Margin Method): a unified version of RP + CP; examines the net profit margin. Gaining recognition (accurate, easy).

❖ DEFINITION — Transfer Price Mechanism (TPM) in Banking

In banks, the TPM is used to evaluate the performance of branches. In the banking context, the transfer price = the interest charged on funds transferred from a surplus-funds branch to a deficit-funds branch. The rate varies bank-to-bank but must fit the definition of an arm's-length price.

⋆ KEY TAKEAWAYS

- Accounting = collecting, recording, evaluating & communicating past events; the language of business. Remember the AICPA definition.
- Phases: Stewardship → Financial → Cost → Management → Social Responsibility → HRA → Inflation accounting.
- AS = the rules of an apex body for uniformity (India: ICAI's ASB, 21 April 1977). ICAI has issued 29 mandatory + 3 non-mandatory.
- Regulators: ASB (ICAI), NACAS (2001) → NFRA (Sec 132, 1 Oct 2018).
- Ind AS = the converged form of IFRS; net-worth threshold Rs.250 cr; 41 notified. For banks, Ind AS is deferred since 22 March 2019.
- US GAAP (FASB/SEC/GASB, rules-based) vs IFRS (IASB, principles-based, 167 jurisdictions). LIFO only under GAAP.
- Transfer Pricing — arm's-length price (OECD); in banking, the TPM evaluates branch performance.

Key terms: Accounting, Financial Statement, Accounting Standards

Practice Questions

Q1. Under fair value accounting, which approach is NOT used to derive fair value? [Easy]
(a) Market approach
(b) Income approach
(c) Barter approach
(d) Cost approach

Q2. Which statement is NOT correct about US GAAP? [Moderate]
(a) These are a collection of commonly-followed accounting rules and standards
(b) The main purpose of GAAP is transparency and consistency
(c) These provide definite assurance that financial statements are free from errors or intended omissions
(d) These have been adopted by the U.S. SEC

Q3. Under AS 22, differences between taxable income and accounting income that reverse in subsequent periods are called: [Moderate]
(a) Timing differences
(b) Material differences
(c) Notional differences
(d) Permanent differences

Q4. How many mandatory accounting standards has ICAI issued (as per the text)? [Moderate]
(a) Twenty-nine mandatory and three non-mandatory
(b) Ten
(c) Seventeen
(d) Forty-one

Q5. Under US GAAP, fixed assets are valued using the cost model, while IFRS additionally allows the: [Moderate]
(a) Discount model
(b) LIFO model
(c) Barter model
(d) Revaluation model (fair value)

Q6. A key difference: GAAP is rules-based while IFRS is: [Moderate]
(a) Principles-based
(b) Cash-based
(c) Tax-based
(d) Also rules-based

Q7. The old Indian method of accounting is also called: [Moderate]
(a) Nama (Mahajani/Marwari/Deshi)
(b) Stewardship
(c) Summa
(d) Arthashastra

Q8. Double entry bookkeeping was first developed by merchants of which country? [Moderate]
(a) Greece
(b) England
(c) Italy
(d) India

Q9. As per AS 3, cash flows are classified into which three activities? [Moderate]
(a) Current, Non-current, Deferred
(b) Operating, Investing, Financing
(c) Direct, Indirect, Mixed
(d) Trading, Capital, Revenue

Q10. AS 2 (Valuation of Inventories) requires inventories to be valued at: [Moderate]
(a) Market price always
(b) Lower of cost or net realisable value
(c) Net realisable value only
(d) Cost only

Q11. Under Ind AS 109, the impairment model that replaces the incurred-loss model is the: [Hard]
(a) Fair value model
(b) Mark-to-market model
(c) Expected Credit Loss (ECL) model
(d) Historical cost model

Q12. The National Advisory Committee on Accounting Standards (NACAS) has been replaced by: [Hard]
(a) SEBI
(b) ASB
(c) National Financial Reporting Authority (NFRA)
(d) FASB

Q13. In the ECL 3-stage model, Stage 1 requires recognition of: [Hard]
(a) 12-Month ECL
(b) Full carrying value
(c) Zero ECL
(d) Lifetime ECL

Q14. In banking, the Transfer Price Mechanism (TPM) refers to the interest charged by: [Hard]
(a) RBI to commercial banks
(b) The deficit branch to the surplus branch
(c) The surplus funds branch to the deficit funds branch
(d) The customer to the bank

Q15. Which transfer pricing method compares a controlled transaction to a comparable uncontrolled transaction and is conceptually the easiest? [Hard]
(a) Cost Plus (CP)
(b) Comparable Uncontrolled Price (CUP)
(c) Transactional Net Margin Method (TNMM)
(d) Resale Price (RP)

Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	C	2	C	3	A	4	A	5	D	6	A	7	A	8	C
9	B	10	B	11	C	12	C	13	A	14	C	15	B		

Answers & Explanations

Q1. Ans: (c) Barter approach
Why: The approaches to derive fair value are: Market, Income, Cost. There is no 'Barter approach'
(a) — Market approach is valid
(b) — Income approach is valid
(d) — Cost approach is valid

Q2. Ans: (c) These provide definite assurance that financial statements are free from errors or intended omissions
Why: CYP2 answer: GAAP does NOT give a definite assurance that statements are free from errors/omissions — that statement is wrong
(a) — This is correct
(b) — This is correct (transparency + consistency)
(d) — This is correct (adopted by the SEC)

Q3. Ans: (a) Timing differences
Why: Timing differences reverse (deferred tax is their tax effect). Permanent differences do NOT reverse
(b) — 'Material differences' is a different concept
(c) — 'Notional differences' is not a term
(d) — Permanent differences do not reverse

Q4. Ans: (a) Twenty-nine mandatory and three non-mandatory
Why: ICAI has issued 29 mandatory and 3 non-mandatory accounting standards
(b) — 10 is wrong
(c) — 17 = the number of IFRS
(d) — 41 = the Ind AS notified count

Q5. Ans: (d) Revaluation model (fair value)
Why: IFRS allows the revaluation model (fair value, less subsequent depreciation/impairment); GAAP allows only the cost model
(a) — No 'discount model'
(b) — LIFO is for inventory, not a fixed-asset model
(c) — No 'barter model'

Q6. Ans: (a) Principles-based
Why: GAAP is rules-based, IFRS is principles-based. IFRS is used in 167 jurisdictions
(b) — Not cash-based
(c) — Not tax-based
(d) — IFRS is not rules-based

Q7. Ans: (a) Nama (Mahajani/Marwari/Deshi)
Why: India's old indigenous method is the 'Nama' method, also called Mahajani / Marwari / Deshi
(b) — Stewardship is a phase
(c) — 'Summa' is Pacioli's book
(d) — The Arthashastra is Kautilya's book

Q8. Ans: (c) Italy
Why: Double entry bookkeeping was started by merchants in Italy (15th century); it was adopted across Europe in the 19th century
(a) — Greece had old records, but double entry was Italy
(b) — England came later
(d) — India's method was 'Nama'

Q9. Ans: (b) Operating, Investing, Financing
Why: AS 3 classifies cash flows under 3 heads: Operating, Investing, Financing
(a) — That is a balance-sheet classification
(c) — Direct/Indirect = reporting methods
(d) — Trading/capital/revenue is different

Q10. Ans: (b) Lower of cost or net realisable value
Why: AS 2: inventory is valued at the lower of cost or net realisable value. FIFO or Weighted Average is permitted
(a) — Not always market price
(c) — Not only NRV
(d) — Not only cost

Q11. Ans: (c) Expected Credit Loss (ECL) model
Why: Ind AS 109 replaces the incurred-loss model with the Expected Credit Loss (ECL) 3-stage model
(a) — Fair value is a different concept
(b) — Not mark-to-market
(d) — Not historical cost

Q12. Ans: (c) National Financial Reporting Authority (NFRA)
Why: NACAS (set up 15 June 2001) has been replaced by NFRA — under Section 132 of the Companies Act 2013, effective 1 Oct 2018
(a) — SEBI is the securities regulator
(b) — ASB is a board of ICAI
(d) — FASB is a US body

Q13. Ans: (a) 12-Month ECL
Why: Stage 1: 12-Month ECL (when credit risk has not increased significantly). Stages 2 & 3: Lifetime ECL
(b) — Not full carrying value
(c) — Not zero ECL
(d) — Lifetime ECL is for Stage 2/3

Q14. Ans: (c) The surplus funds branch to the deficit funds branch
Why: In the banking context, transfer price = the interest charged on funds transferred from a surplus-funds branch to a deficit-funds branch — used to evaluate branch performance
(a) — RBI-to-bank repo/interest is different
(b) — It is the other way round — from surplus to deficit
(d) — Not customer-to-bank

Q15. Ans: (b) Comparable Uncontrolled Price (CUP)
Why: CUP (Comparable Uncontrolled Price) compares a controlled transaction with a comparable uncontrolled transaction — conceptually the easiest
(a) — CP adds a mark-up to cost
(c) — TNMM examines the net margin
(d) — RP subtracts a margin from the sale price

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