KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed University Established Under Section 3 of UGC Act 1956)

Coimbatore - 641021.

DEPARTMENT OF COMMERCE

Semester – I Subject Code- 17PAU101

CORE – FINANCIAL ACCOUNTING

PROGRAM OUTCOME

Financial Accounting represents the basic concepts underlying the Accounting Practices and Accounting framework with special reference to Sole Proprietorship. It also focuses on the various aspects of accounting concepts and conventions. This paper gives the accounting process of Journal, Ledger, Rectification of errors, Consignment and Join Venture.

PROGRAM LEARNING OUTCOME

- To make the students learn the basic concepts and conventions of accounting and basic Accounting framework
- To make the students to know about the preparation of final accounts
- To impart the knowledge of the students in procuring various accounting systems.

UNIT I

Fundamentals of Book Keeping - Accounting Concepts and Conventions - Journal - Ledger - - Trial balance - Subsidiary Books - Capital and Revenue.

UNIT II

Final Accounts of a Sole trader with adjustments - Errors and Rectification

UNIT III

Bill of Exchange - Accommodation of bills - Average Due Date - Account Current.

UNIT IV

Accounting for Consignments and Joint Ventures

UNIT V

Bank Reconciliation Statement - Accounting for Non-Trading Concerns - Receipts and Payments Account, Income and Expenditure Account and Balance Sheet - Accounts of Professionals. Accounting Standards (Theory Only) - AS1: Disclosure of Accounting Policy, AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, AS 10: Accounting for Fixed Asset, AS 27:

Financial Reporting of Interests in Joint Venture. AS 29: Provisions, Contingent Liability and Contingent Asset.

SUGGESTED READINGS:

TEXT BOOKS

1. Jain, S.P., & Narang. (2014). Financial Accounting. Ludhiana: Kalyani Publishers.

REFERENCES

1. Vinayakam, N., Maniam, P.L., & Nagarajan, K.L. (2012). Principles of Accountancy. New Delhi: S.Chand and Company Ltd.

2. ICAI Study material

3. Gupta, R.L., & Shukla, M.C. (2011), Principles of Accountancy. New Delhi: S. Chand and Company Ltd.

4. Grewal, T.S. (2012). Introduction to Accountancy. New Delhi: S. Chand and Company Ltd.

5. Gupta, R.L., & Gupta, V.K. (2014). Financial Accounting. New Delhi: Sultan Chand and Sons

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(Deemed to be University Established Under Section 3 of UGC Act 1956)

Coimbatore – 641 021.

LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME: EVANGELINE.J
SUBJECT NAME:FINANCIAL ACCOUNTING SUB.CODE:17PAU101
SEMESTER:I CLASS: I.B.COM(PA)

UNIT-1

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Book keeping fundamentals, objectives, limitations, and accounting concepts	T[5-8]
2.	1	System accounting and rules of the double entry system	T[20-30]
3.	1	Preparing journal entries problems based on journal entries	T[45-50]
4.	2	Preparing ledger and problems based on ledgers	T[51-56]
5.	2	Trial balance and problems based on trial balance	T[57-60]
6.	2	Problems on subsidiary books and capital revenues	T[57-60] T[61-74]
7.	2	Problems on subsidiary books and capital revenues	T[57-60] T[61-74]
8.	1	Recapitulation and discussion of important questions	
9.	1	Recapitulation and discussion of important questions	

10.	1	Recapitulation and discussion of important questions	
11.	1	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-I			15 Hours

UNIT-II

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Sole trader- Meaning and the format of final accounts	W1
2.	1	Trading accounts –Problems with the trading accounts and the adjustments	T[153-159]
3.	2	Profit and loss a/c, important points in profit and loss a/c, expenses in profit and loss a/c	T[159-1630
4.	2	Balance sheet – characteristics ,information, classification, grouping, and marshalling of assets and liabilities	T[165-168]
5.	2	Adjustments –format and problems based on adjustments	T[171-183]
6.	1	Preparation of Trading a/c,P&L a/c, B/S	T[171-183]
7.	2	Errors and rectification problems	T[187-200]
8.	1	Errors and rectification problems	T[187-200]
9.	1	Recapitulation and discussion of important questions	
10.	1	Recapitulation and discussion of important questions	
11.	1	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-II			15 Hours

UNIT-III

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Bills of exchange –meaning , essentials ,specimen ,acceptance and classification	T[118-121]
2.	2	Accounting treatment- To pledge bills recivables problems based on bills recivables	T[125]
3.	2	Accomodation bills, difference between trade bill and accommodation bill	T[133]
4.	2	Problems on accommodation bills and bills of exchange	T[134]
5.	2	Average due date , types of problems on average due date and introduction about account current	T[338-346] T[333]
6.	1	Problems on account current	T[335]
7.	1	Problems on average due date and account current	T[345-346]
8.	1	Problems on average due date and account current	T[345-346]
9.	1	Recapitulation and discussion of important questions	
10.	1	Recapitulation and discussion of important questions	
11.	1	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-III			15 Hours

UNIT IV

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Accounting for consignments and joint ventures- introduction , meaning , procedure, accounting treatment	T[289-293]
2.	2	Valuation of unsold consignment and problems based on consignments	T[294]
3.	2	Invoicing goods higher than cost and problems of invoicing goods and loss of goods	T[295-298]
4.	2	Problems on consignments	T[303-308]

5.	1	Meaning of joint ventures , characteristics, methods, of recording transactions	T[309-310]
6.	1	Journal entries of the consignments and problems based on it	T[318]
7.	2	Problems on joint ventures	T[319-323]
8.	1	Recapitulation and discussion of important questions	
9.	1	Recapitulation and discussion of important questions	
10.	1	Recapitulation and discussion of important questions	
11.	1	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-IV			15 Hours

UNIT V

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	2	Bank reconciliation statements- meaning, need , advantages, procedures ,problems on BRS	T[81-89]
2.	1	Accounting for non trading concerns - introduction	T[525]
3.	2	Receipts and payments ,income and expenditure and balance sheet problems based on that	T[530-535]
4.	2	Accounts of professionals- Accounting standards, introduction	T[197]
5.	1	AS1-Disclosure of accounting policies and AS5 net profits /losses prior period items change in accounting policies	T[1208-1211]
6.	1	AS10-Accounting for fixed assets	T[1214]
7.	1	AS27-Financial reporting of interests in joint ventures	T[1225]
8.	1	AS29-Provisions ,contingent liabilities and contigent assets	T[1226]
9.	1	Recapitulation and discussion of important questions	
10.	1	Recapitulation and discussion of important questions	
11.	1	Discussion of previous year End Semester Exam Questions	

12	1	Discussion of previous year End Semester Exam Questions	
Total no. of hours planned for unit-V			15 Hours

Text books : Jain SP, Narang (2015);Financial Accounting

References: R1 Vinayakam,N,P.L.,& Nagarajan K.L,Principles of Accountancy(2015)

R2 ICAI Study Material

R3 Gupta R.L.& Shukla,M.C, Principles of Accountancy(2014)

R4 Grewal T.S. Introduction to Accountancy(2014)

R5 GuptaR.L& Gupta.V.K.,Financial Accounting (2014)

Websites :www.icaiknowledgegateway.org

UNIT-I

SYLLABUS

Fundamentals of Book Keeping - Accounting Concepts and Conventions - Journal - Ledger - Trial balance - Subsidiary Books - Capital and Revenue.

Introduction

Accounting is a business language. We can use this language to communicate financial transactions and their results. Accounting is a comprehensive system to collect, analyze, and communicate financial information. The origin of accounting is as old as money. In early days, the number of transactions were very small, so every concerned person could keep the record of transactions during a specific period of time. Twenty-three centuries ago, an Indian scholar named Kautilya alias Chanakya introduced the accounting concepts in his book Arthashastra. In his book, he described the art of proper account keeping and methods of checking accounts. Gradually, the field of accounting has undergone remarkable changes in compliance with the changes happening in the business scenario of the world. A bookkeeper may record financial transactions according to certain accounting principles and standards and as prescribed by an accountant depending upon the size, nature, volume, and other constraints of a particular organization. With the help of accounting process, we can determine the profit or loss of the business on a specific date. It also helps us analyze the past performance and plan the future courses of action.

Definition of Accounting

The American Institute of Certified Public Accountant has defined Financial Accounting as: "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which in part at least of a financial character and interpreting the results thereof."

Objectives and Scope of Accounting

Accounting is done to keep systematic record of financial transactions. The primary objective of accounting is to help us collect financial data and to record it systematically to derive correct and useful results of financial statements. To ascertain profitability: With the help of accounting, we can evaluate the profits and losses incurred during a specific accounting period. With the help of a Trading and Profit & Loss Account, we can easily determine the profit or loss of a firm.

 To ascertain the financial position of the business: A balance sheet or a statement of affairs indicates the financial position of a company as on a particular date. A properly drawn balance sheet gives us an indication of the class and value of assets, the nature and value of liability, and also the capital position of the firm. With the help of that, we can easily ascertain the soundness of any business entity.

 To assist in decision-making: To take decisions for the future, one requires accurate financial statements. One of the main objectives of accounting is to take right decisions at right time. Thus, accounting gives you the platform to plan for the future with the help of past records.

 To fulfill compliance of Law: Business entities such as companies, trusts, and societies are being run and governed according to different legislative acts. Similarly, different taxation laws (direct indirect tax) are also applicable to every business house. Everyone has to keep and maintain different types of accounts and records as prescribed by corresponding laws of the land. Accounting helps in running a business in compliance with the law.

Accounting Process

Accounting cycle refers to the specific tasks involved in completing an accounting process. The length of an accounting cycle can be monthly, quarterly, half-yearly, or annually. It may vary from organization to organization but the process remains the same. The following chart shows the basic steps in an accounting cycle:

Accounting Concepts The most important concepts of accounting are as follows: Business Entity Concept Money Measurement Concept Going Concern Concept Cost Concept

Dual Aspects Concept Accounting Period Concept Matching Concept Accrual Concept Objective Evidence Concept The first two accounting concepts, namely, Business Entity Concept and Money Measurement Concept are the fundamental concepts of accounting. Let us go through each one of them briefly:

Business Entity Concept According to this concept, the business and the owner of the business are two different entities. In other words, I and my business are separate. For example, Mr A starts a new business in the name and style of M/s Independent Trading Company and introduced a capital of Rs 2,00,000 in cash. It means the cash balance of M/s Independent Trading Company will increase by a sum of Rs 2,00,000/-. At the same time, the liability of M/s Independent Trading Company in the form of capital will also increase. It means M/s Independent Trading Company is liable to pay Rs 2,00,000 to Mr A.

Money Measurement Concept According to this concept, "we can book only those transactions in our accounting record which can be measured in monetary terms."

Example Determine and book the value of stock of the following items:

Shirts	Rs 5,000/-
Pants	Rs 7,500/-
Coats	500 pieces
Jackets	1000 pieces
Value of Stock	

Here, if we want to book the value of stock in our accounting record, we need the value of coats and jackets in terms of money. Now if we conclude that the values of coats and jackets are Rs 2,000 and Rs 15,000 respectively, then we can easily book the value of stock as Rs 29,500 (as a result of 5000+7500+2000+15000) in our books. We need to keep quantitative records separately.

Going Concern Concept

Our accounting is based on the assumption that a business unit is a going concern. We record all the financial transaction of a business in keeping this point of view in our mind that a business unit is a going concern; not a gone concern. Otherwise, the banker will not provide loans, the supplier will not supply goods or services, the employees will not work properly, and the method of recording the transaction will change altogether. For example, a business unit makes investments in the form of fixed assets and we book only depreciation of the assets in our profit & loss account; not the difference of acquisition cost of assets less net realizable value of the assets. The reason is simple; we assume that we will use these assets and earn profit in the future while using them. Similarly, we treat deferred revenue expenditure and prepaid expenditure. The concept of going concern does not work in the following cases: If a unit is declared sick (unused or unusable unit). When a company is going to liquidate and a liquidator is appointed for the same. When a business unit is passing through severe financial crisis and going to wind up.

Cost Concept

It is a very important concept based on the Going Concern Concept. We book the value of assets on the cost basis, not on the net realizable value or market value of the assets based on the assumption that a business unit is a going concern. No doubt, we reduce the value of assets providing depreciation to assets, but we ignore the market value of the assets. The cost concept stops any kind of manipulation while taking into account the net realizable value or the market value. On the downside, this concept ignores the effect of inflation in the market, which can sometimes be very steep. Still, the cost concept is widely and universally accepted on the basis of which we do the accounting of a business unit.

Dual Aspect Concept

There must be a double entry to complete any financial transaction, means debit should be always equal to credit. Hence, every financial transaction has its dual aspect: we get some benefit, and we pay some benefit. For example, if we buy some stock, then it will have two effects: the value of stock will increase (get benefit for the same amount), and it will increase our liability in the form of creditors.

Accounting Period Concept

The life of a business unit is indefinite as per the going concern concept. To determine the profit or loss of a firm, and to ascertain its financial position, profit & loss accounts and balance sheets are prepared at regular intervals of time, usually at the end of each year. This one-year cycle is known as the accounting period. The purpose of having an accounting period is to take corrective measures keeping in view the past performances, to nullify the effect of seasonal changes, to pay taxes, etc. Based on this concept, revenue expenditure and capital expenditure are segregated. Revenues expenditure are debited to the profit & loss account to ascertain correct profit or loss during a particular accounting period. Capital expenditure comes in the category of those expenses, the benefit of which will be utilized in the next coming accounting periods as well. Accounting period helps us ascertain correct position of the firm at regular intervals of time, i.e., at the end of each accounting period.

Matching Concept

Matching concept is based on the accounting period concept. The expenditures of a firm for a particular accounting period are to be matched with the revenue of the same accounting period to ascertain accurate profit or loss of the firm for the same period. This practice of matching is widely accepted all over the world. Let us take an example to understand the Matching Concept clearly.

Accrual Concept

As stated above in the matching concept, the revenue generated in the accounting period is considered and the expenditure related to the accounting period is also considered. Based on the accrual concept of accounting, if we sell some items or we rendered some service, then that becomes our point of revenue generation irrespective of whether we received cash or not. The same concept is applicable in case of expenses. All the expenses paid in cash or payable are considered and the advance payment of expenses, if any, is deducted. Most of the professionals use cash basis of accounting. It means, the cash received in a particular accounting period and the expenses paid cash in the same accounting period is the basis of their accounting. For them, the income of their firm depends upon the collection of revenue in cash. Similar practice is followed for expenditures. It is convenient for them and on the same basis, they pay their Taxes.

Objective Evidence Concept

According to the Objective Evidence concept, every financial entry should be supported by some objective evidence. Purchase should be supported by purchase bills, sale with sale bills, cash payment of expenditure with cash memos, and payment to creditors with cash receipts and bank statements. Similarly, stock should be checked by physical verification and the value of it should be verified with purchase bills. In the absence of these, the accounting result will not be trustworthy, chances of manipulation in accounting records will be high, and no one will be able to rely on such financial statements.

Accounting Conventions

We will discuss the following accounting conventions in this section: Convention of Consistency Convention of Disclosure Convention of Materiality Conservation of Prudence

Convention of Consistency

To compare the results of different years, it is necessary that accounting rules, principles, conventions and accounting concepts for similar transactions are followed consistently and continuously. Reliability of financial statements may be lost, if frequent changes are observed in accounting treatment. For example, if a firm chooses cost or market price whichever is lower method for stock valuation and written down value method for depreciation to fixed assets, it should be followed consistently and continuously.

Consistency also states that if a change becomes necessary, the change and its effects on profit or loss and on the financial position of the company should be clearly mentioned.

Convention of Disclosure

The Companies Act, 1956, prescribed a format in which financial statements must be prepared. Every company that fall under this category has to follow this practice. Various provisions are made by the Companies Act to prepare these financial statements. The purpose of these provisions is to disclose all essential information so that the view of financial statements should be true and fair. However, the term 'disclosure' does not mean all information. It means disclosure of information that is significance to the users of these financial statements, such as investors, owner, and creditors.

Convention of Materiality

If the disclosure or non-disclosure of an information might influence the decision of the users of financial statements, then that information should be disclosed. For better understanding, please refer to General Instruction for preparation of Statement of Profit and Loss in revised scheduled VI to the Companies Act, 1956:

1. A company shall disclose by way of notes additional information regarding any item of income or expenditure which exceeds 1% of the revenue from operations or Rs 1,00,000 whichever is higher.

2. A Company shall disclose in Notes to Accounts, share in the company held by each shareholder holding more than 5% share specifying the number of share held.

Conservation or Prudence

It is a policy of playing safe. For future events, profits are not anticipated, but provisions for losses are provided as a policy of conservatism. Under this policy, provisions are made for doubtful debts as well as contingent liability; but we do not consider any anticipatory gain.

The prudence however does not permit creation of hidden reserve by understating the profits or by overstating the losses.

Classification of Accounts

It is necessary to know the classification of accounts and their treatment in double entry system of accounts. Broadly, the accounts are classified into three categories: Personal accounts Real accounts o Tangible accounts o Intangible accounts Nominal accounts Let us go through them each of them one by one.

Personal Accounts

Personal accounts may be further classified into three categories:

Natural Personal Account

An account related to any individual like David, George, Ram, or Shyam is called as a Natural Personal Account.

Artificial Personal Account

An account related to any artificial person like M/s ABC Ltd, M/s General Trading, M/s Reliance Industries, etc., is called as an Artificial Personal Account.

Representative Personal Account

Representative personal account represents a group of account. If there are a number of accounts of similar nature, it is better to group them like salary payable account, rent payable account, insurance prepaid account, interest receivable account, capital account and drawing account, etc.

Real Accounts

Every Business has some assets and every asset has an account. Thus, asset account is called a real account. There are two type of assets:

 Tangible assets are touchable assets such as plant, machinery, furniture, stock, cash, etc.

 Intangible assets are non-touchable assets such as goodwill, patent, copyrights, etc. Accounting treatment for both type of assets is same.

Nominal Accounts

Since this account does not represent any tangible asset, it is called nominal or fictitious account. All kinds of expense account, loss account, gain account or income accounts come under the category of nominal account. For example, rent account, salary account, electricity expenses account, interest income account, etc.

Accounting Systems

There are two systems of accounting followed:

- Single Entry System
- Double Entry System

Single Entry System

Single entry system is an incomplete system of accounting, followed by small businessmen, where the number of transactions is very less. In this system of accounting, only personal accounts are opened and maintained by a business owner. Sometimes subsidiary books are maintained and sometimes not. Since real and nominal accounts are not opened by the business owner, preparation of profit & loss account and balance sheet is not possible to ascertain the correct position of profit or loss or financial position of business entity.

Double Entry System

Double entry system of accounts is a scientific system of accounts followed all over the world without any dispute. It is an old system of accounting. It was developed by 'Luco Pacioli' of Italy in 1494. Under the double entry system of account, every entry has its dual aspects of debit and credit. It means, assets of the business always equal to liabilities of the business.

Assets = Liabilities

Journal

"The process of recording a transaction in a journal is called journalizing the transactions." --Meigs and Meigs and Johnson

Journal is a book that is maintained on a daily basis for recording all the financial entries of the day. Passing the entries is called journal entry. Journal entries are passed according to rules of debit and credit of double entry system.

Column 1: It represents the date of transaction.

Column 2: Line 1 (******) represents the name of account to be debited.

Line 2 (******) represents the name of account to be credited.

Line 3 for narration of transaction.

2. FINANCIAL ACCOUNTING

Financial Accounting

Column 3: Ledger Folio (L.F.) represents the page number of ledger account on which we post these entries. Column 4 : Amount(s) to be debited.

Column 5 : Amount(s) to be credited.

Notes: 1. If there are multiple transactions in a day, the total amount of all the transaction through a single journal entry may pass with total amount.

2. If debit or credit entry is same and the corresponding entry is different, we may post a combined entry for the same. It is called 'compound entry' regardless of how many debit or credit entries are contained in compound journal entry. For example,

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1	2	3	4	5
Xxxx	******************A/c Dr.	Xx	xx	

	******************A/c Dr. To ***********A/c (Narration******************)	Xx xx	xx	 xx xx x

Analysis and Treatment of Transactions

Let us go through the nature of transactions and their treatment in our books of accounts. The following accounting entries are commonly used in every business and they come under the category of routine journal entries.

S.No.	Nature of Transaction	Analysis and treatment
1.	Capital	Capital account is personal account. Whenever the owner introduces capital in the form of cash, goods or assets, the entry will be as hereunder: Cash/Goods/Asset A/c Dr. XX To Capital A/c XX (Being cash/goods/assets introduced as capital)
2.	Drawing Account	Drawing account is also a capital account. Whenever the owner of the business withdraws money for his personal use, it is called drawing. The balance of Drawing account is transferred to the capital account at the end of the accounting year. Drawing A/c Dr. XX To cash A/c XX (Being withdrawal of cash for personal use)
3.	Trade Discount	Trade discount is allowed by seller to buyer directly on their sales invoice. Buyer in this case are usually wholesellers, traders or manufacturers,

		who further sell this material to their customers or use the material in their manufacturing process. Rate of discount may vary from customer to customer. Treatment: No need to pass any journal entry in this case. The sale is booked on the net of trade discount. Similarly, if we get trade discount from our supplier, we book our purchase at the net of trade discount.
4.	Cash Discount	Cash discount is also allowed by seller to his buyer; still it does not come in the category of trade discount. Cash discount is a sort of scheme to inspire their debtors to release their due payment in time. For example, a seller may allow 5% cash discount, if he gets payment within a week against the time limit of 45 days. Treatment: If A allowed a discount of 5% to B, then In the books of A Cash A/c Dr. xx Discount A/c Dr. xx To B A/c xxxx (Being 5% discount allowed to B on payment of Rs........) In the books of B A A/c Dr. xxxx To Cash A/c xx To Discount A/c xx (Being payment of Rs........ made to A and getting a discount of 5%) Note: In the above case, discount is a loss to A and income to B.
5.	Bad Debts	Part of credit sale which is unrecovered from

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		debtors due to some reason like insolvency, dishonesty, etc. are called bad debts of the company. Bad debts are loss to the company. Treatment: (1) To book bad debts Bad Debts A/c Dr. xx To Debtor A/c xx (Being loss on account of bad debts) (2) To recover bad debts Cash A/c Dr. xx To bad debts recovery A/c xx (Being recovery of bad debts)
6.	Expenses on purchase of Goods	There are a few types of expenses incurred on the purchases of goods like inward freight, octroi, cartage, unloading charges, etc. Treatment: Inward freight/Cartage/Octroi A/c Dr. xx To Cash A/c xx (Being freight charges paid on purchase of goods)
7.	Expenses on Sale of Goods	Expenses are also incurred while selling products to customers such as freight outward, insurance charges, etc. Treatment: Freight outward/Insurance Expenses A/c. Dr. xx To Cash A/c xx (Being freight charges paid on sale of goods)
8.	Expenses on Purchase of Assets	Sometimes we need to pay expenses on the purchase of fixed assets like transportation

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		charges, installation charges, etc. Treatment: Expenses incurred on purchases of fixed asset are added in the value of fixed assets and could not be treated like expenses on purchases of goods: Fixed Asset A/c Dr. XX To Cash A/c XX (Expenses incurred on purchase of asset)
9.	Payment of Expenses	Treatment: Expenses A/c Dr. XX To Cash A/c XX (Being expenses incurred)
10.	Outstanding Expenses	Sometimes expenses remain outstanding at the end of the financial year, but due to the accrual basis of accounting, we need to book those expenses which are due for payment and to be paid in the next accounting year. For example, the salary due on the last day of the accounting year to be paid in the next year. Treatment: Salary A/c Dr. XX To salary outstanding A/c XX (Being salary for the month of ....due)
11.	Prepaid Expenses	Sometimes we pay expenses in advance such as insurance paid three months before the closing of the accounting year. Since insurance is usually paid for the whole year, in this case, the insurance for nine months is treated as prepaid insurance.

		Similarly, rent for the first month of next accounting year may be paid in advance. Treatment: Prepaid expenses A/c Dr. XX To Expenses/ Cash A/c XX (Being prepaid expenses for month paid) Note: Expenses account is replaced with the respective head of expense account.
12.	Income Received	Treatment: Cash/Debtor A/c Dr. XX To Income A/c XX (Being Income received in cash) Note: Income account will be replaced with the respective head of Income account
13.	Banking Transactions	(1) Cheque deposited in bank Cheque received from party is deposited in bank, Cheque direct deposit by party in our bank account, payment made by party through NEFT or RTGS, or cash directly deposited by party in our bank account. The entry remains same in all the above cases. Bank A/c Dr. XX To Debtor A/c XX (Being payment received from..... and deposited in bank) (2) Payment made to party through cheque Cheque issued to party or directly deposited in his bank account, or payment made through either by NEFT, RTGS, or cash directly deposited in his bank account. Entry remains same in all the above

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		cases except in the case of cash deposited in his bank account. Debtor A/c Dr. XX To Bank A/c XX (Being payment made through .....) If we deposit cash in his bank account, entry will be as follows: Debtor A/c Dr. XX To Cash A/c XX (Being payment made through .....) (3) Cash withdrawn for office Expenses Cash A/c Dr XX To Bank A/c XX (Being cash withdrawn from bank for office use) (4) Cash deposited with Bank Bank A/c Dr XX To Cash A/c XX (Being cash withdrawn from bank for office use) Note: The above entries No. 3 & 4 are called 'contra' entries. (5) Bank charge debited by bank Sometimes banks debit from our account against some charges for service provided by them. For example, cheque book issuing charges, demand draft issuing charges, Bank interest, etc. Bank commission/Charges A/c Dr. XX To Bank A/c XX (Bank charges/commission/interest debited by bank)

14.	Interest on Capital	Interest on capital, introduced by sole proprietor or partners of the firm: This entry is passed on the last date of the accounting year as follows: Interest on capital A/c Dr. XX To Capital A/c (Being interest @..... on capital provide)
15.	Payment on behalf of others	Some expenses may be on behalf of our debtors or creditors. Debtors/creditors A/c Dr. XX To Cash / Expenses A/c XX (Being expenses debited to party, paid on his behalf)
16.	Advance received against supply of goods/services	Sometimes the customers pay an advance amount for the supply of goods/services, which need to be adjusted later: Bank /Cash A/c Dr. XX To Advance from Customers A/c XX (Being advance received from xxxxxxxx)
17.	Advance paid against supply of goods/services	Advance against supply of goods A/c Dr. XX To Cash/Bank A/c XX (Being advance paid against supply of goods/services)

Posting in a Ledger

With the help of journal entries, we book each and every financial transaction of the organization chronically without considering how many times the same type of entry has been repeated in that particular accounting year or period. Journal entries in any organization may vary from hundreds to millions depending upon the size and structure of the organization. With the help of a journal, each of the transactions might be recorded; however, we can conclude nothing from a journal. Let us consider the following cases. Suppose we want to know:

- the total sale value or purchase value
- the total of any particular income or expenses
- the total of amount payable to any particular creditor or receivable from a debtor In such cases, it might be a tedious job for any bookkeeper or accountant. Hence, the next step is ledger accounts. The ledger helps us in summarizing journal entries of same nature at single place. For example, if we pass 100 times a journal entry for sale, we can create a sales account only once and post all the sales transaction in that ledger account datewise. Hence, an unlimited number of journal entries can be summarized in a few ledger accounts. Transferring journal entries into a ledger account is called 'posting'.

Nowadays, the handwritten books are being replaced by computerized accounts. The companies majorly use a six-column format to maintain ledger accounts of their customers. It looks as follows:

In the books of M/s. ABC Bank Ltd.						
Ledger account of M/s XYZ Ltd.						
Date	Particulars	LF	Debit Amount (Rs.)	Credit Amount (Rs.)	Balance	
					Dr. or Cr	Amount

Important Points Regarding Ledger

 Each side of a journal entry is posted in the same side of the ledger. It means the debit entry of a journal is posted in the debit side and vice-aversa.

 Balance c/d refers to the balance carried down and balance b/d refers to the balance brought down.

 After posting in ledger, balancing of ledger is done. In the column named Total, the figure comes on the basis of 'whichever is higher'. Means, if the total of debit side is Rs 10,000 and the total of credit is Rs 5,000, we write Rs 10,000 in the column named Total of both, the debit and the credit side.

 The difference of both sides (in this case, it is Rs 5,000) is written in the last row of the credit side as 'balance c/d'. This balance is called the debit balance of account or vice-a-versa.

 All expenses and assets represent debit balance.

 All the income and liabilities represent credit balance including capital account.

 Debit balance of personal account represents 'Amount Receivable'. This comes under the category of assets. For example debtors.

 Credit balance of personal accounts signifies 'Amount Payable'. This comes under liabilities side and represents that we need to pay this amount which is credited due to goods, service, loan, or advance received.

 Debit side of real account means stock in hand or any kind of assets. Credit balance of Real account is not possible.

 Debit balance of nominal account means expenses of organization.

 Credit balance of nominal accounts means income earned.

 Debit balance of cash book means cash in hand.

 Debit side of Bank book means balance at bank.

 Credit balance of Bank book indicates 'Bank Overdraft'.

 Debit and credit balances of nominal account (Expenses and income will be nil, because these balances get transferred to trading, and profit & loss account to arrive at profit and loss of the company.

 Balances of real and personal account appear in balance sheet of the company and to be carried forward to next accounting years.

Cash Book

Cash book is a record of all the transactions related to cash. Examples include: expenses paid in cash, revenue collected in cash, payments made to creditors, payments received from debtors, cash deposited in bank, withdrawn of cash for office use, etc. In double column cash book, a discount column is included on both debit and credit sides to record the discount allowed to customers and the discount received from creditors respectively. In triple column cash book, one more column of bank is included to record all the transactions relating to bank. Note: In modern accounting, simple cash book is the most popular way to record cash transactions. The double column cash book or three column cash book is practically for academic purpose. A separate bank book is used to record all the banking transactions as they are more than cash transactions. These days, cash is used just to meet petty and routine expenditures of an organization. In most of the organizations, the salaries of employees are paid by bank transfer. Note: Cash book always shows debit balance, cash in hand, and a part of current assets.

Single Column Cash Book

Cash book is just like a ledger account. There is no need to open a separate cash account in the ledger. The balance of cash book is directly posted to the trial balance. Since cash account is a real account, ruling is followed, i.e. what comes in – debit, and what goes out – credit. All the received cash is posted in the debit side and all payments and expenses are posted in the credit side of the cash book.

Double Column Cash Book

Here, we have an additional Discount column on each side of the cash book. The debit side column of discount represents the discount to debtors of the company and the credit side of discount column means the discount received from our suppliers or creditors while making payments. The total of discount column of debit side of cash book is posted in the ledger account of 'Discount Allowed to Customers' account as 'To Total As Per Cash Book'. Similarly, credit column of cash book is posted in ledger account of 'Discount Received' as 'By total of cash book'.

Triple Column Cash Book

When one more column of Bank is added in both sides of the double column cash book to post all banking transactions, it is called triple column cash book. All banking transactions are routed through this cash book and there is no need to open a separate bank account in ledger.

Petty Cash Book

In any organization, there may be many petty transactions incurring for which payments have to be done. Therefore, cash is kept with an employee, who deals with it and makes regular payments out of it. To make it simple and secure, mostly a constant balance is kept with that employee. Suppose cashier pays Rs 5,000 to Mr A, who will pay day-to-day organization expenses out of it. Suppose Mr A spend Rs 4,200 out of it in a day, the main cashier pays Rs 4,200, so his balance of petty cash book will be again Rs 5,000. It is very useful system of accounting, as it saves the time of the main cashier and provides better control. We will soon discuss about 'Analytical or Columnar Petty Cash Book' which is most commonly used in most of the organizations

Purchase Book

Purchase book is prepared to record all the credit purchases of an organization. Purchase book is not a purchase ledger.

Sale Book

The features of a sale book are same as a purchase book, except for the fact that it records all the credit sales.

Purchase Return Book

Sometimes goods are to be retuned back to the supplier, for various reasons. The most common reason being defective goods or poor quality goods. In this case, a debit note is issued.

Sale Return Book

The reason of Sale return is same as for purchase return. Sometimes customers return the goods if they don't meet the quality standards promised. In such cases, a credit note is issued to the customer.

Bills Receivables Book

Bills are raised by creditors to debtors. The debtors accept them and subsequently return them to the creditors. Bills accepted by debtors are called as 'Bills Receivables' in the books of creditors, and 'Bills Payable' in the books of debtors. We keep them in our record called 'Bills Receivable Books' and 'Bills Payable Book'.

Bills Payable Book

Bills payable issues to the supplier of goods or services for payment, and the record is maintained in this book.

Key Features of Subsidiary Books

There is a difference between a purchase book and a purchase ledger. A purchase book records only credit purchases and a purchase ledger records all the cash purchases in chronical order. The daily balance of purchase book is transferred to purchase ledger. Therefore, purchase ledger is a comprehensive account of all purchases. The same rule applies to sale book and sale ledgers.

1. It is quite clear that maintaining a subsidiary book is facilitation to journal entries, practically it is not possible to post each and every transaction through journal entries, especially in big organizations because it makes the records bulky and unpractical.

2. Maintenance of subsidiary books gives us more scientific, practical, specialized, controlled, and easy approach to work.

3. It provides us facility to divide the work among different departments like sale department, purchase department, cash department, bank department, etc. It makes each department more accountable and provides an easy way to audit and detect errors.

4. In modern days, the latest computer technology has set its base all over the world. More and more competent accounts professionals are offering their services. Accuracy, quick results, and compliance of law are the key factors of any organization. No one can ignore these factors in a competitive market.

Trial Balance

Trial balance is a summary of all the debit and credit balances of ledger accounts. The total of debit side and credit side of trial balance should be matched. Trial balance is prepared on the last day of the accounting cycle. Trial balance provides us a comprehensive list of balances. With the help of that, we can draw financial reports of an organization. For example, the trading account can be analyzed to ascertain the gross profit, the profit and loss account is analyzed to ascertain the profit or Loss of that particular accounting year, and finally, the balance sheet of the concern is prepared to conclude the financial position of the firm.

Financial Statements

Financial statements are prepared to ascertain the profit or loss of the business, and to know the financial position of the company. Trading, profit & Loss accounts ascertain the net profit for an accounting period and balance sheet reflects the position of the business. All the above has almost a fixed format, just put all the balances of ledger accounts into the format given below with the help of the trial balance. With that, we may derive desired results in the shape of financial equations.

KAHE

UNIT-II

SYLLABUS

Final Accounts of a Sole trader with adjustments - Errors and Rectification

Types of Adjustments in Final Accounts:

Closing Stock:

As the value of closing inventories is ascertained at the end of the accounting year, it appears as an adjustment. It should be credited to Trading a/c and shown in the asset side of the B/S.

The adjusting entry is:

Closing Stock a/c Dr.

To Trading a/c

Trading Account

		Rs.
	By Sales By Closing Stock	

Balance Sheet Cr

Liabilities	Rs.	Assets	Rs.
		Closing Stock	

Outstanding Expenses:

These are the expenses incurred within the accounting year but the payment has not been made. Outstanding or unpaid expenses should be added to the concerned expenses a/c in P&L a/c and will be shown as a current liability in the B/S.

For example, the Rent for the month of December 2002 Rs. 1,000 remain unpaid. The calendar year is the accounting year.

Adjusting Entry:

Rent account Dr. Rs.1000

To Outstanding Rent a/c Rs. 1,000

Profit and Loss Account

			Rs.	
To Rent Account	[11 months rent]	11,000		
Add: Outstanding	[December]	1,000	12,000	

Balance Sheet as on 31st December 2002

Liabilities	Rs.	Assets	
Outstanding Expenses: Rent	1,000		

Prepaid Expenses:

These are the expenses, which have been paid, but part of the amount paid extends to the next year. It is also called as 'Un-expired expenses'. Advance amount paid should be deducted from the concerned expenses and be shown as a Current Asset in the B/S.

For example, the insurance premium of Rs.2,400 a year was paid on 1st July 2002. The calendar year is the accounting year. Since one year's premium has been paid on 1st July, the premium for 6 months, i.e., half the amount relates to the current year and the other half relates to the next year.

Hence, Rs. 1,200 must be treated as prepaid and deducted from the premium paid and be shown as an asset in the B/S.

Adjusting Entry:

Prepaid Insurance a/c Dr. Rs. 1, 200

To Insurance Premium a/c Rs. 1, 200

Profit and Loss Account

	Rs.	Rs.	
To Insurance Premium a/c	2,400		
Less: Prepaid insurance	1,200	1,200	

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Prepaid Insurance	1,200

Accrued Income:

It is the income that has already been earned [i.e., the service has already been rendered] but the money has not been received. For example, Interest on investments accrued Rs. 1,200.

The interest for the current year is due at the close of the year. The amount may be actually received in the next year. At present it represents an income, which has become receivable or accrued. Hence it is credited to P&L a/c and being accounts receivable, shown as an asset in the B/S.

Adjusting Entry:

Accrued Interest a/c Dr. Rs. 1,200

To Interest a/c Rs. 1,200

Profit and Loss Account

	By Interest on investments	......	
	Add: Interest accrued	1,200	

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Interest accrued	1,200

Incomes Received in Advance:

These are incomes received during the current year, but part of the amount received relates to the next year. Such amount must be deducted from the total amount received in P&L a/c and shown on the liabilities side of the B/S as it represents an amount, which the business is obliged to return.

For example, a business concern has received apprentice premium for three years amounting to Rs.6, 000. In this amount Rs.2, 000 i.e., 1/3 of Rs.6, 000 is for current year and should be credited to P&L a/c as income. And the balance Rs.4, 000 represents a liability as the business is obliged to return.

Adjusting Entry:

Apprentice Premium a/c Dr. Rs. 4000

To Apprentice Premium received in advance Rs. 4000

Profit and Loss Account

		Rs.	Rs.
	By Apprentice Premium	6,000	
	Less: Received in advance	4,000	2,000

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Apprentice Premium received in advance	4,000		

Depreciation on Assets:

Depreciation means diminution or fall in value of an asset due to its constant use. It may also arise on account of wear and tear, lapse of time and obsolescence. It is a loss to the business.

It is usually calculated at a certain percentage on the value of asset and the amount so obtained is first shown on the debit side of the P&L a/c and then deducted from the original value of asset in the B/S.

For Example, a business has furniture of the value of Rs.50, 000 at the end of the year it is depreciated at 5%.

Adjusting Entry:

Depreciation a/c Dr. Rs. 2,500

To Furniture a/c Rs. 2,500

[5% on Rs.50, 000 = 2,500]

Profit and Loss Account

	Rs.	
To Depreciation a/c Furniture	2,500	

Balance Sheet

Liabilities	Rs.	Assets		Rs.
		Furniture	50,000	
		Less: Depreciation	2,500	47,500

Bad Debts:

Debts represent money due from debtors [i.e., uncollected portion of credit sales]. When debts become irrecoverable, it becomes bad debts and is treated as a loss. The amount of bad debts is debited to P&L a/c and is deducted from Sundry Debtors in the B/S.

For example, the ledger balance in respect of sundry debtors of a trader shows Rs.20, 000 and of this Rs. 1,000 is estimated to be irrecoverable.

Adjusting Entry:

Bad Debts a/c Dr. Rs. 1,000

To Sundry Debtors a/c Rs. 1,000

Provision for Bad and Doubtful Debts:

Every business has a lot of dealings by way of credit transactions. This gives rise to a sizable amount of book debts or debtors. But it is seldom that 100 percent of these debts will be recovered.

Hence, it becomes necessary to bring down the debtors balance to it true position. The usual practice is to calculate such doubtful debts at a certain percentage, based on past experience on debtors. It is called as Provision or Reserve for Doubtful Debts.

However, the provision for bad and doubtful debts is calculated on good debts i.e., after deducting bad debts not adjusted earlier.

Example:

The sundry debtors of a trader at the close of the year stood at Rs.21, 000. It is estimated that Rs. 1,000 is written off as bad debts and 5% provision is created for doubtful debts.

Adjusting Entries:

Bad Debts a/c Dr. Rs. 1,000

To Sundry Debtors a/c Rs. 1,000

Profit and Loss a/c Dr. Rs. 2,000

To Bad Debts a/c Rs. 1,000

To Provision for Doubtful Debts 1,000

Profit and Loss Account

	Rs.	
To Bad Debts	1,000	
To Reserve for Doubtful Debts	1,000	

If there is an old provision for doubtful debts, it should be adjusted [deducted] against the new provision.

Balance Sheet

Liabilities	Rs.	Assets		Rs.
		Sundry Debtors	21,000	
		Less: Bad Debts	1,000	
			20,000	
		Less: Provision for Doubtful Debts	1,000	19,000

Provision for Discount on Debtors:

Cash discounts are allowed to debtors in order to encourage them to make prompt payments. After providing for bad and doubtful debts, the balance of debtors represents debts due from sound parties.

They may try to pay their dues on time and avail themselves of the cash discounts permissible. Hence, this discount should be anticipated and provided for. It is, therefore, the usual practice in business is to provide for discount on debtors at certain percentage on good debts.

Example:

Suppose a trader has sundry debtors amounting to Rs.20, 000 and he estimates that after a provision of 5% for doubtful debts, a provision for discounts at 2% is desirable. Then, on the sound debts, i.e., Rs. 19,000 a provision of 2% is made as Reserve for Discount on Debtors.

Adjusting Entry:

Profit and Loss a/c Dr. Rs.380

To Reserve for Discount on Debtors a/c Rs.380

Profit and Loss Account

	Rs.	
To Bad Debts		
To Reserve for Doubtful Debts	1,000	
To Reserve for Discount on Debtors	380	

Balance Sheet

Liabilities	Rs.	Assets		Rs.
		Sundry Debtors	20,000	
		Less: Provision for Doubtful Debts	1,000	
			19,000	
		Less: Provision for Discounts on Debtors	380	18.670

Provision for Discount on Creditors:

Creditors represent the amount owed by the business to suppliers of goods on credit. Sound business concerns make it a practice to settle accounts with creditors in time to earn goodwill of the creditors and also the discount allowed by them.

In that case the liability in respect of sundry creditors can be reduced to the extent of discounts anticipated. Based on the past practice, a certain percentage on creditors balance is calculated as Provision for discounts and deducted from the creditors balance in the B/S and the same amount is credited as gain in the P&L a/c.

Example:

A trader had sundry creditors at Rs. 10,000 on 31st December 2002. It is desired to make a provision of 3% on this amount for discounts.

Adjusting Entry:

Reserve for Discounts on Creditors a/c Dr. Rs. 300

To Profit and Loss a/c Rs. 300

Profit and Loss Account

	Rs.		Rs.
		By Reserve for Discount on Creditors	300

Balance Sheet

Liabilities	Rs.			
Sundry Creditors	10,000			
Less: Reserve for Discounts	300	9,700		

Interest on Capital:

Often, interest at a normal rate is allowed on the capital of the proprietor employed in the business. This is necessary in order to assess the efficiency of the business. Otherwise the profits would include the interest and appear at a higher rate.

The interest so charged is a loss to the business and gain to the proprietor. So it is debited to the Profit and Loss a/c and added to the capital in the Balance Sheet.

Adjusting Entries:

Interest on Capital a/c Dr.

To Capital a/c

Profit and Loss a/c Dr.

To Interest on Capital a/c

Interest on Drawings:

Drawings are money withdrawn by the proprietor from his capital. Just as the business allows interest on capital, it charges interest on drawings. It is a gain to the business and a loss to the proprietor. So, it is credited to the Profit and Loss a/c and deducted from the capital in the Balance Sheet.

Profit and Loss Account

	Rs.		Rs.
To Interest on Capital		By Interest on Drawings	

Balance Sheet

Liabilities	Rs.		
Capital Add: Interest on Capital Less: Drawings Interest on Drawings			

RECTIFICATION OF ERROR

An accountant can commit errors while recording business transactions in books of accounts, in their posting or balancing the accounts and so on. These errors should be located and corrected as soon as possible so that accounts give true and fair results of the operations of the business enterprise. You have learnt that in case Trial Balance does not agree it means there are some accounting errors. There can be some errors which do not affect the Trial Balance i.e. trial balance still tallies. In this lesson you will learn about locating, classifying and analysing accounting errors and their rectification.

OBJECTIVES

- state the meaning of accounting error and method of location of the accounting error/errors;
- classify the accounting errors;
- explain the meaning and methods of rectification of errors;
- prepare suspense account.

MEANING OF ACCOUNTING ERROR AND THEIR LOCATION

In our life we make many mistakes. As soon as these are detected, he/she corrects them. In the similar manner, an accountant can also make mistakes or commit errors while recording and posting transactions. These are called 'Accounting Errors'. So accounting errors are the errors committed by persons responsible for recording and maintaining accounts of a business firm in the course of accounting process. These errors may be in the form of omitting the transactions to record, recording in wrong books, or wrong account or wrong totalling and so on.

Accounting errors can take the following forms:

- Omission of recording a business transaction in the Journal or Special purpose Books
- Not posting the recorded transactions in various books of accounts to the respective accounts in ledger
- Mistakes in totalling or in carrying forward the totals to the next page
- Mistake in recording amount wrongly, writing it in a wrong account or on the wrong side of the account. Again there may be two types of accounting errors

(i) That cause the disagreement of trial balance,

(ii) That do not affect the agreement of Trial Balance.

Locating Errors

It is obvious that if there are errors they must be located at the earliest. After locating the errors, they are to be rectified. In accounting also once it is established there are some accounting errors these need to be located and detected as early as possible. How to locate the errors? Steps to be taken to locate the accounting errors can be stated as follows:

(A) When the Trial Balance does not agree

(i) Check the columnar totals of Trial Balance

(ii) Check that the balances of all accounts (including cash and bank balances) in the ledger have been written and are written in the correct column of trial balance i.e. debit balance in the debit column and credit balance in the credit column.

(iii) Find the exact figure of difference with trial balance and see that:

(a) No account of a similar balance has been omitted to be shown in the Trial Balance or

(b) A balance amount which is half of the amount of difference amount but is written on the wrong side of the trial Balance.

(iv) Recheck the totals of Special Purpose Books.

(v) Check the balancing of the various accounts in the ledger.

(vi) If difference is still not traced, check each and every posting from the Journal and various Special Purpose Books, one by one in the ledger.

(B) When the Trial Balance agrees. You have already learnt that if the totals of the two amount columns of trial balance tally it is no conclusive proof of the accuracy of accounts. There may still be some accounting errors. These errors may not be immediately traced but may be detected at much later stage. These are rectified as and when detected. Following are the errors which don't affect the trial balance :

(i) Omission to record a transaction in a journal or in a Special Purpose Book. For example, goods purchased on credit but are not recorded in the Purchases Book at all.

(ii) Recording a wrong amount of an item in journal or in a Special Purpose Book. For example, sale of Rs. 2550 on credit entered in the Sales Book as Rs.5250.

(iii) Posting the correct amount on the correct side but in wrong account. For example, cash received from Jagannathan was credited to Vishvanathan.

(iv) An item of Capital Expenditure recorded as an item of Revenue Expenditure and vice-a-versa. For example, Repairs to Building was debited to Building A/c. Why does the trial balance still agree though there may be above stated errors? Reason is that in the above cases the debits and credits are affected simultaneously by the same amount.

CLASSIFICATION OF ACCOUNTING ERRORS

Various accounting errors can be classified as follows :

A. On the basis of their nature

(a) Errors of omission

(b) Errors of commission

(c) Errors of principle

B. On the basis of their impact on ledger accounts

(a) One sided errors

(b) Two sided errors.

A. On the basis of their nature

(a) Errors of omission

As a rule, a transaction is first recorded in books of accounts. However, accountant may not record it at all or record it partially. It is called an error of omission. For example, goods purchased on credit are not recorded in Purchases Book or discount allowed to a customer was not posted to Discount A/c in the ledger. In the first case it is a complete omission. Therefore, both debit and credit are affected by the same amount. Therefore, it does not affect the Trial Balance. The second example is the example of partial omission. It affects only one account i.e. Discount A/c. Therefore it affects Trial Balance.

(b) Errors of commission

When the transaction has been recorded but an error is committed in the process of recording, it is called an error of commission. Error of commission can be of the following types:

(i) Errors committed while recording a transaction in the Special Purpose books. It may be :

- Recording in the wrong book for example purchase of goods from Rakesh on credit is recorded in the Sales Book and not in the Purchases Book.
- Recording in the book correctly but wrong amount is written. For example, goods sold to Shalini of Rs.4200 was recorded in the Sales Book as Rs.2400 In the above two cases two accounts are affected by the same amount, debit of one and the credit of the other. Therefore, trial balance will not be affected.

(ii) Wrong totalling :

There may be a mistake in totalling Special Purpose Book or accounts. The totalled amounts may be less than the actual amount or more than the actual amount. First is a case of undercasting and the other of overcasting. For example, the total of Purchases Book is written as Rs.44800 while actual total is Rs. 44300, the total of Sales Day Book is written as Rs.52500 while it is Rs.52900. It is a case of an error affecting one account hence it affects trial balance.

(iii) Wrong balancing :

While closing the books of accounts at the end of the accounting period, the ledger accounts are balanced. Balance is calculated of the totals of the two sides of the account. It may be wrongly calculated. For example, the total of the debit column of Mohan’s A/c is Rs.8600 and that of credit column is Rs.6800. The balance calculated is as Rs.1600 while the actual balance is Rs.1800. It has affected one account only, therefore, the Trial Balance gets affected.

(iv) Wrong carry forward of balances or totals :

Totals or balances are carried forward to the next page. These may be carried forward incorrectly. For example, the total of one page of the Purchases Book. of Rs.35,600 is carried to next page as Rs.36500. Again the error affects one account only. Therefore, Trial Balance gets affected.

(v) Wrong Posting : Transactions from the journal or special purpose books are posted to the respective accounts in the ledger. Error may be committed while carrying out posting. It may take various forms such as, posting to wrong account, to the wrong side of the account or posted twice to the same account. For example goods purchased of Rs.5400 from Rajesh Mohanti was posted to the debit of Rajesh Mohanti or posted twice to his account or posted to the credit of Rakesh Mohanti. In the above examples, only one account is affected because of the error therefore, Trial Balance is also affected.

Compensating Errors Two or more errors when committed in such a way that there is increase or decrease in the debit side due to an error, also there is corresponding decrease or increase in the credit side due to another error by the same amount. Thus, the effect on the account is cancelled out. Such errors are called compensating errors. For example, Sohan's A/c is debited by Rs 2500 while it was to be debited by Rs 3500 and Mohan's A/c is debited by Rs 3500 while the same was to be debited by Rs 2500. Thus excess debit of Mohan's A/c by Rs.1000 is compensated by short credit of Sohan's A/c by Rs.1000. As the debit amount and the credit amount are equalised, such errors do not affect the agreement of Trial Balance, but the fact remains that there is still an error.

(c) Error of Principle

Items of income and expenditure are divided into capital and revenue categories. This is the basic principle of accounting that the capital income and capital expenditure should be recorded as capital item and revenue income and revenue expenditure should be recorded as revenue item. If transactions are recorded in violation of this principle, it is called error of principle i.e. the capital item has been recorded as revenue item and revenue item is recorded as capital item. For example, Rs. 5000 spent on the repairs of building is debited to Building A/c while it should have been debited to Repair to Building A/c. It is a case of error of principle because expenditure on repairs of building is a revenue expenditure, while it has been debited to Building A/c taking it as an item of capital expenditure. As both the sides i.e. credit as well as debit remain affected, the trial Balance also is not affected by such errors.

B. On the basis of impact on ledger accounts Errors may affect one side i.e. either debit or credit side of an account or its two sides i.e. both debit and credit thus errors may be divided as:

(a) One sided errors

(b) Two sided errors

(a) One sided errors Accounting errors that affect only one side of an account which may be either its debit side or credit side, is called one sided error. The reason of such error is that while posting a recorded transaction one account is correctly posted while the corresponding account is not correctly posted. For example, Sales Book is overcast by Rs.1000. In this case only Sales A/c is wrongly credited by excess amount of Rs.1000 while the corresponding account of the various debtors have been correctly debited. Another example of one sided error is Rs 2500 received from Ishita is wrongly debited to her account. In this case, only Ishita's account is affected, amount in the cash-book is correctly written. This type of mistake does affect the trial balance.

(b) Two sided errors The error that affects two separate accounts, debit side of the one and credit side of the other is called two sided error. Example of such error is purchase of machinery for Rs.1000 has been entered in the Purchases Book. In this case, Purchases A/c is wrongly debited while Machinery A/c has been omitted to be debited. So two accounts i.e. Purchases A/c and the Machinery A/c are affected

RECTIFICATION OF ACCOUNTING ERRORS

By that every business enterprise prepares its financial statements to provide information of profit earned or loss incurred by it during an accounting period and its financial position on the relevant date. This information will be most useful only if the information is accurate. How can the business concern achieve this objective if there are number of errors in the accounting? Your immediate response will be that errors in accounts should be detected at the earliest and be corrected before preparing the financial statements. It should be clear in your mind that the errors should never be rectified by erasing or overwriting because it will encourage manipulations and frauds in accounts. In accounting practice there are some definite methods to rectify the accounting errors. These are based on accounting practices and procedures. Rectification of errors using these methods is called rectification of accounting errors. So it is a process of rectification. It is generally done by passing an entry to nullify the effect of error.

Methods of rectification of accounting errors

Before preparing Trial Balance

(i) instant correction

(ii) correction in the affected account

After preparing Trial Balance Before preparing Trial Balance

(i) Instant correction If the error is detected immediately after making an accounting entry, it may be corrected by neatly crossing out the wrong entry and making the correct entry and the accountant should put his initials. For example, an amount of Rs. 3500 is written as Rs. 5300. This can be corrected as 3500.

(ii) Correction in the affected accounts. In case error is detected on a date later than the date on which the transaction was recorded but before the Trial Balance, the rectification will be made by making a correction in the affected account

RECTIFICATION OF ERRORS THROUGH SUSPENSE ACCOUNT

You have learnt that the Trial Balance prepared at the end of a period by the business concern must agree. It means the sum of its debit column and sum of credit column should agree. But if the totals do not agree the difference amount is written in a new account. This account is called Suspense Account. If the total of the debit side of the Trial Balance is more than the total of its credit side, the difference amount will be written in Suspense A/c on its credit side i.e. Suspense A/c is credited and vice-aversa. You have also learnt that the two sides of the Trial Balance do not agree because there is some error or errors in the accounts, which is reflected in the Suspense Account.

Thus, Suspense A/c is a summarised account of errors. Opening of a Suspense Account is a temporary arrangement. As soon as the error that has led to Suspense Account is rectified, this account will disappear. One point needs to be noted that Suspense A/c is the result of one sided errors. So one sided errors are corrected through Suspense A/c. Completing the double entry when an error is corrected by placing the correct amount on the debit of the proper account, the credit is placed in Suspense Account or vice-a-versa.

For example, Gopal's Account was debited short by Rs.100. The error will be rectified through Suspense A/ c by debiting Gopal A/c and crediting Suspense A/c by Rs.100.

Journal entry for the same is as follows :

Gopal Dr. 100

To Suspense A/c 100

(Gopal's A/c debited short is now corrected)

Similarly, while correcting as one sided error the proper account is credited with the correct amount, the debit is placed in the Suspense A/c. For example, Sales Book for December, 2006 is undercast by Rs. 500. The error will be rectified by debiting Suspense A/c and crediting Sales A/c.

Journal Entry for the same will be as follows :

Suspense A/c Dr 500

To Sales A/c 500 (Sales Book undercast is rectified)

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UNIT-III

SYLLABUS

Bill of exchange - Accommodation of bills - Average Due Date - Account Current.

BILLS OF EXCHANGE:

A bills of exchange is non-intrest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a pre determined future date.

Bills of exchange is similar to chequesand promissory notes.They can be drawn by individuals or banks and aare generally transferable by endorsements.The difference between promissory note and bill of exchange is that the product is transferable and can bind one party to pay a third part that was not involved in its creation.If these bills are issued by a bank,they can be referred to as bank drafts.If they are issued by individuals, they can be referred to as trade drafts.

PROMISSORY NOTE

A promissory note is afinancial instrument that contains a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money , either on demand or at a specified future date.

A promissory note typically contains all the terms pertaining to the indebtness,such as the principal amount, interest rate, maturity date,date and place of issuance, and issuer's signature

BANK DRAFT:

a bank draft is a payment on behalf of a payer that is guarnteed by issuing bank. A draft ensures tha payee a secure form of payment .During a payer's reconciliation of his bank account, he notices a decrease in the account balance because of the money withdrawn from the account.

PROBLEMS ON BILLS OF EXCHANGE:

1.A receives three promissory notes from B, dated 1st January, 2012 for 3 months. One bill is for Rs 3,000, the second is for Rs 4,000 and the third is for Rs 5,000. The second bill is immediately

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endorsed in favour of C and on 4th January, 2012 the third bill is discounted with the bank for Rs 4,700. Pass the entries in A's journal assuming (i) the bills are met on maturity and (ii) they are dishonoured.

Solution:

Journal

Date	Particulars		L.F.	Dr. ₹	Dr. ₹
2012 Jan. 1	Bill Receivable Account To *B* There promissory notes for ₹ 3,000, ₹ 4,000 and ₹ 5,000 received from *B*.	... Dr.		12,000	12,000
Jan. 1	*C*. To Bills Receivable Account The bill for ₹ 4,000 received from *B*, now endorsed in favour of *C*.	... Dr.		4,000	4,000
Jan. 4	Bank Discount Account To Bills Receivable Account The bill for ₹ 5,000 discounted with the bank for ₹ 4,700 *i.e.*, at a discount of ₹ 300.	... Dr. ... Dr.		4,700 300	5,000
(*i*) April 4	On maturity, supposing the bills are met: Cash Account/Bank To Bills Receivable Account Cash/cheque received in respect of the bill for ₹ 3,000 held till maturity.	... Dr.		3,000	3,000
(*ii*) April 4	On maturity, supposing the bills are dishonoured: *B* To Bills Receivable Account The bill for ₹ 3,000 dishonoured by *B*	... Dr.		3,000	3,000
April 4	*B* To *C* Dishonour of *B*'s promissory note for ₹ 4,000 which was endorsed in favour of *C*	... Dr.		4,000	4,000
April 4	*B* To Bank Dishonour of *B*'s promissory note for ₹ 5,000 which was discounted with bank.	... Dr.		5,000	5,000

2.B owes C a sum of Rs 6,000. On 1st April, 2011 he gives a promissory note for the amount for 3 months to C who gets it discounted with his bankers for Rs 5,760. On the due date the bill is dishonoured, the bank paying Rs 15 as noting charges. B then pays Rs 2,000 in cash and accepts a bill of exchange drawn on him for the balance together with Rs 100 as interest. This bill of exchange is for 2 months and on the due date the bill is again dishonoured, C paying Rs 15 for noting charges draft the journal entries to be passed in C's books.

Solution:

Journal

Date		Particulars		L.F.	Dr. ₹	Cr. ₹
2011 April	1	To Bills Receivable Account ...	Dr.		6,000	
		To *B*				6,000
		B' promissory note received in settlement of his account.				
April	1	Bank ...	Dr.		5,760	
		Discount Account ...	Dr.		240	
		To Bills Receivable Account				6,000
		B's promissory note discounted for ₹ 5,760.				
July	4	*B* ...	Dr.		6,015	
		To Bank				6,015
		The promissory note dishonoured by *B;* the amount of the bill and the noting charges recoverable from *B* and payable to Bank.				
July	4	Cash Account ...	Dr.		2,000	
		To *B*				2,000
		The amount received from *B*.				
July	4	*B* ...	Dr.		100	
		To Interest Account				
		Interest due from *B* for the second bill.				100
July	4	Bills Receivable Account ...	Dr.		4,115	
		To *B*				4,115
		B's acceptance for 2 months in settlement of amount due.				
Sept.	7	*B* ...	Dr.		4,115	
		To Bills Receivable Account				4,115
		The dishonour by *B* of his acceptance.				
Sept.	7	*B* ...	Dr.		15	
		To Cash Account				15
		Payment of noting charges, recoverable from *B*.				

3.X draws on Y a bill of exchange for Rs 15,000 on 1st April, 2011 for 3 months. Y accepts the bill and sends it to X who gets it discounted for Rs 14,400. X immediately remits Rs 4,800 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for Rs 21,000 for three months which is discounted by Y for Rs 20,055. Y sends Rs 3,370 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y. Also show X's account in T's books.

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Solution:

BOOKS OF X
Journal

				Dr.	Cr.
2011				₹	₹
April	1	Bills Receivable Account ... Dr.		15,000	
		To *Y*			15,000
		Acceptance received from *Y*.			
"	"	Bank ... Dr.		14,400	
		Discount Account ... Dr.		600	
		To Bills Receivable Account			15,000
		The amount received—and discount—on the discounting of *Y*'s acceptance.			
"	"	*Y* ... Dr.		5,000	
		To Bank			4,800
		To Discount Account			200
		The amount remitted to *Y* and the proportionate share of discount debited to him.			
July	4	*Y* ... Dr.		21,000	
		To Bills Payable Account			21,000
		The acceptance sent to *Y*.			
"	"	Bank ... Dr.		3,370	
		Discount Account ... Dr.		630*	
		To *Y*			4,000
		The amount received from *Y* on his discounting our acceptance and the discount debitable to us.			
	?	Bills Payable Account ... Dr.		21,000	
		To *Y*			21.000
		The bill due having had to be dishonoured due to bankruptcy.			
	?	*Y* ... Dr.		14,000	
		To Bank			7,000
		To Deficiency Account			7,000
		The amount due to *Y* discharged by payment of fifty paise in the rupee.			

* The discount to be borne by *X* is arrived at as follows:

₹	10,000	due by him but not remitted to *Y*, plus
₹	3,370	received by him from *Y*.
₹	13,370	Total.
₹	13,370	is 2/3 of ₹ 20,055 and hence *X* should bear 2/3 of the discount.

BOOKS OF Y
Journal

				Dr.	Cr.
2011				₹	₹
April	1	*X* ... Dr.		15,000	
		To Bills Payable Account			15,000
		The acceptance sent to *X*.			

				₹	₹
April	1	Bank ... Dr.		4,800	
		Discount Account ... Dr.		200	
		To *X*			5,000
		The amount received from *X* on the discounting of the acceptance and the discount due.			
July	4	Bills Receivable Account ... Dr.		21,000	
		To *X*			21,000
		The acceptance received from *X*.			
"	"	Bank ... Dr.		20,055	
		Discount Account ... Dr.		945	
		To Bills Receivable Account			21,000
		X's acceptance discounted for ₹ 20,055			
"	"	Bills Payable Account ... Dr.		15,000	
		To Bank			15,000
		Our acceptance due this day met.			
"	"	*X* ... Dr.		4,000	
		To Bank			3,370
		To Discount Account			630
		The amount received and the discount debited to *X*.			
?	?	*X* ... Dr.		21,000	
		To Bank			21,000
		X's acceptance which was discounted dishonoured due to *X*'s bankruptcy.			
?	?	Bank ... Dr.		7,000	
		Bad Debts Account ... Dr.		7,000	
		To *X*			14,000
		The amount received from *X* and the balance being written off as debt.			

Ledger

Dr. **X** *Cr.*

2011			₹	2011			₹
April	1	To Bills Payable Account	15,000	April	1	By Bank	4,800
July	4	To Bank	3,370	"	1	By Discount Account	200
"	"	To Discount Account	630	July	4	By Bills Receivable A/c	21,000
?	?	To Bank (Dishonour of bill)	21,000	?	?	By Bank	7,000
				?	?	By Bad Debts Account	7,000
			40,000				40,000

4.On 1st January, 2011, X drew and Y accepted a bill of exchange at three months for Rs 16,000. On 4th January, 2011, X got the bill discounted at 12% per annum and remitted half of the proceeds to Y. On 1st February, 2011, Y drew and X accepted a bill at four months for Rs

12,000. On 4th February, 2011, Y got the bill discounted at 12% per annum and remitted half of the proceeds to X. They both agreed to share the discount equally.

On maturity, X met his acceptance but Y dishonoured his acceptance and X had to pay for it. X drew and Y accepted a new bill at three months for the original bill plus interest at 16% per annum for three months. On 1st July, 2011, Y became insolvent. On 21st September, 2011, a final dividend of 50 paise in a rupee was received from Y's estate.

Solution :

Dr. **Bills Receivable Account** Cr.

2011			₹	2011			₹
Jan.	1	To Y	16,000	Jan.	4	By Bank	15,520
Apr.	4	To Y	16,640	" "		By Discount	480
				July	1	By Y	16,640
			32,640				32,640

Dr. **Y** Cr.

2011			₹	2011			₹
Jan.	4	To Bank	7,760	Jan.	1	By Bills Receivable Account	16,000
,,	,,	To Discount Account	240	Feb.	4	By Bank	5,760
Feb.	1	To Bills Payable Account	12,000	,,	,,	By Discount Account	240
April	4	To Bank	16,000	Apr.	4	By Bills Receivable Account	16,640
,,	,,	To Interest Account	640	Sept.	21	By Bank	7,320
July	1	To Bills Receivable Account	16,640	,,	,,	By Bad Debts Account	7,320
			53,280				53,280

ACCOMMODATION BILLS

Bills are accepted and endorsed for the benefit received. Generally, an acceptance is made to settle a trade debt, which is due to the Drawer by the Drawee and such a Bill is called Trade Bill. Moreover, in such a Bill, we come across the words "for value received".

This means, Bills are accepted and endorsed for value (benefit) received. Thus, it is clear that bill of exchange is usually used in the businesses for discharging of mutual indebtedness arising from genuine trading activities.

Meaning of Accommodation Bill:

As contrasted with the Trade Bill, Accommodation Bills are drawn and accepted with no consideration passed or received. The Bill, which is drawn just to oblige a friend, who is in need of money, of course without any trading activities, with sole intention of raising funds required for ready cash is known as Accommodation Bill.

The accommodating party, i.e., the drawee accepts the Bill drawn by the accommodated party (drawer). That is the Drawer of the accommodation bill can be called accommodated party and drawee can be called accommodating party. After the Bill is accepted, the drawer discounts it with a bank and obtains the cash.

Methods of Dealing with Accommodation Bill:

There are three common methods of dealing with accommodation Bills and they are:

(a) When one party accepts a Bill to accommodate the drawer only:

When a party, who is in urgent need of cash, approaches a business friend to raise funds through a bill of exchange. In such situation, the party, who needs cash, draws a Bill which is accepted by his friend, without any valuable consideration. The drawer can discount the Bill with a bank and the proceeds are used by him alone. At the time of maturity, the drawer pays the amount to the Acceptor, who honours the Bill.

1.Mr. A accepted a bill for Rs 20,000 drawn by B to enable the latter to raise funds at three months on 1st October 2004. The bill was duly discounted by B at their Bank at 6% per annum. On the due date B remitted the amount to the acceptor and the Bill was duly met. Pass journal entries in the books of both the parties.

SOLUTION

	B's Journal	Rs	Rs	A's Journal	Rs	Rs
2004 Oct. 1	Bills Receivable Account Dr. To A Account (Being Bill drawn on A for 3 months)	20,000	20,000	B Account Dr. To Bills Payable Account (Being acceptance of Bill drawn by B)	20,000	20,000
Oct. 2	Cash Account Dr. Discount on Bills Account Dr. To Bills Receivable (Being Bill discounted at 6% p.a.)	19,700 300	20,000	NO ENTRY		
2005 Jan. 4	A Account Dr. To Cash Account (Being amount paid to A to meet the Bill on the due date)	20,000	20,000	Cash Account Dr. To B Account (Being cash received from B to honour the Bill)	20,000	20,000
Jan. 4	NO ENTRY			Bills Payable Account Dr. To Cash Account (Being bill honoured on maturity)	20,000	20,000

Discount: 20,000 x 6/100 x 3/12 = Rs 300

(b) Where a Bill is drawn for mutual benefit of both the parties:

Sometimes an accommodation Bill is drawn and accepted for mutual benefit of the Drawer and Drawee. The Drawer draws a Bill and Drawee accepts it. The same Bill is discounted by the Drawer and an agreed portion of the proceeds is remitted to the Acceptor.

The discounting charge is also shared by both the parties in the same proportion in which the collection proceeds of the Bill were shared. Before the due date, the Drawer pays his share to the Acceptor, who meets the Bill by adding his share of money.

2.Mr. Ram draws a Bill for Rs 15,000 on Mr. Gopal on 1st January payable three months after the date at Canada Bank, Ernakulum. The Bill after acceptance is discounted by Ram at 6% p.a. and he remits 1/3 of the proceeds to Gopal. On the due date, Ram sends the necessary amount to Gopal who meets the Bill.

Record these transactions in the journal of both the parties.

(c) Where the two parties, each drawing a Bill:

There are two parties to a Bill-the Drawer and the Drawee. Both these parties draw each a Bill of equal amount or different amount on the other. Both the parties are in need of money. For instance, Mr. A draws a Bill on Mr. B for Rs 1,000 and Mr. B draws a Bill on Mr. A for Rs 1,000. Both A and B discount their Bills with a Bank to meet their financial needs. They bear charges of their respective Bills. Both the parties honour their acceptances on the due date.

SOLUTION

	Ram's Journal			Gopal's Journal		
		Rs	*Rs*		*Rs*	*Rs*
Jan. 1	Bills Receivable Account Dr.	15,000		Ram Account Dr.	15,000	
	To Gopal Account		15,000	To Bills Payable Account		15,000
	(Being acceptance received from Gopal)			(Being Ram's bill accepted)		
"	Cash Account Dr.	14,775		NO ENTRY		
	Discount on Bills Account Dr.	225				
	To Bills Receivable Account		15,000			
	(Being Bill discounted at 6% p.a.)					
"	Gopal Account Dr.	5,000		Cash Account Dr.	4,925	
	To Discount on Bills Account		75	Discount on Bills Account Dr.	75	
	To Cash Account		4,925	To Ram Account		5,000
	(Being 1/3 of proceeds and 1/3 of discount charges transferred)			(Being 1/3 of proceeds and 1/3 of discount charges transferred)		
April 4	Gopal Account Dr.	10,000		Cash Account Dr.	10,000	
	To Cash Account		10,000	To Ram Account		10,000
	(2/3 of the Bill sent to Gopal, who met the Bill)			(Being 2/3 contribution received from Ram)		
"	NO ENTRY			Bills Payable Account Dr.	15,000	
				To Cash Account		15,000
				(Being Bill paid on maturity)		

(Two Bills of equal value)

3.Mr. A drew a Bill on B on November 1st, 2004 for an amount Rs 4,000 payable three months after that date. On the very same date Mr. A accepted a Bill for Rs 4,000 drawn by B for a period of three months. Both the parties discounted their Bills at 12% p.a. On the due date both the Bills were honoured. Make journal entries in the books of both the parties.

SOLUTION

Date	A's Journal	Rs	Rs.	B's Journal	Rs	Rs
2004 Nov. 1	Bills Receivable A/c Dr. To B A/c (Being acceptance of B received)	4,000	4,000	A A/c Dr. To Bills Payable A/c (Being acceptance given to A)	4,000	4,000
"	B A/c Dr. To Bills Payable A/c (Being acceptance given to B)	4,000	4,000	Bill Receivable A/c Dr. To A A/c (Being acceptance received from A)	4,000	4,000
"	Cash A/c Dr. Discount on Bills A/c To Bills Receivable A/c (Being discounting of Bill at 12% p.a.)	3,880 120	4,00	NO ENTRY		
"	NO ENTRY			Cash A/c Dr. Discount on Bills A/c Dr. To Bills Receivable A/c (Being discounting of Bill at 12% p.a.)	3,880 120	4,000
Feb. 4	Bills Payable A/c Dr. To Cash A/c (Being the Bill is met)	4,000	4,00	NO ENTRY		
"	NO ENTRY			Bills Payable A/c Dr. To Cash A/c (Being the bill is met)	4,000	4,000

AVERAGE DUE DATE

Average Due Date is the date on which several debts due on different dates can be paid by a single payment without any loss of interest either to debtor or creditor. Average Due Date or Equated Due Date is the arithmetic average of several due dates.

When a person owes various amounts on different dates to another person, it may be desired to discharge the debts on a single date by a lump sum payment without any loss of interest to either party.

Such an equated date of payment is called the Average Due Date. The application of the average due date comes into use in settlement of accounts, such as, Bill transactions, payment of credit transactions, calculation of interest on drawings by partners etc.

Calculation of Average Due Date:

Procedure for calculation of Average Due Date varies according to the type of the problem involved, viz.

1. Lending in installments but repayment in one lump sum.

2. Lending in lump sum but repayment in installments.

First Method:

Procedure for calculation of Average Due Date, when lending in installments but repayment in one lump sum, is as follows:

1. Take any convenient date (preferably the first due date) as the Starting Point or Zero Date or Start Date or Focal Date or Base Date.

2. Count the number of days of each transaction from the base date.

3. Multiply the amount of each transaction with the number of days thus calculated.

4. Add all the products so obtained.

5. Add the amount of all transactions.

6. Divide the total products by total amount (of all items)

7. The result of (6) is the number of days by which average due date is away from the Base Date:

1.Ms. Komal had accepted the under-mentioned Bills payable to Suman:

Date of Acceptance	Term	Amount Rs
15th Sept. 2004	2 months	200
10th Oct. 2004	2 months	400
30th Nov. 2004	3 months	500
10th Dec. 2004	3 months	600
30th Jan. 2005	2 months	300

Komal desires to pay the aggregate amount of all these Bills on such a date as would involve no profit or loss to either of them and Suman agrees. Find out the date of this proposed payment.

Solution:

1. Three days of grace are added in all the Bills whether they are in months or days.

2. If the amount of a Bill is payable in installments then in the period of each installment, days of grace are added.

	Nov.	Dec.	Jan.	Feb.	Mar	April	Total
18th Nov. to 18th Nov. 2004	0	–	–	–	–	–	0
18th Nov. to 13th Dec. 2004	12	13	–	–	–	–	25
18th Nov. to 3rd Mar. 2005	12	31	31	28	3	–	105
18th Nov. to 13th Mar. 2005	12	31	31	28	13	–	115
18th Nov. to 2nd April 2005	12	31	31	28	31	2	135

Calculation of Average Due Date (Base Date: 18th Nov. 2004)

Due Date	Amount Rs	No. of Days from 18th Nov. 2004	Products (2 × 3)
18th Nov. 2004	200	0	0
13th Dec. 2004	400	25	10,000
3rd March 2005	500	105	52,500
13th March 2005	600	115	69,000
2nd April 2005	300	135	40,500
	2,000		1,72,000

$$\text{Average Due Date} = \text{Base Date} \pm \frac{\text{Total of Products}}{\text{Total of Amounts}}$$

$$= \text{18th Nov. 2004} + \frac{1,72,000}{2,000}$$

= 18th Nov. 2004 + 86 days

= 12th February 2005

Due Dates of Bills:

15th Sept. 2004 + 2 Months + 3 days = 18th Nov. 2004

10th Oct. 2004 + 2 Months + 3 days = 13th Dec. 2004

30th Nov. 2004 + 3 Months + 3 days = 3rd March 2005

10th Dec. 2004 + 3 Months + 3 days = 13th March 2005

30th Jan. 2005 + 2 Months + 3 days = 2nd April 2005

Note:

It should be noted that it is not necessary that one should always take the first due date as the base date for the calculation of Average Due Date. We can take any date as base date. Though any due date can be selected as a base, the earliest or first due date as starting point is most preferable and to avoid minus figures.

2.Kumar, a partner in a firm has drawn the following amounts for the half year ended 30th June 2004:

Jan. 8	Rs 440	April 10	Rs 480
Feb. 12	Rs 400	May 6	Rs 400
Mar. 15	Rs 500	June 8	Rs 400

Interest is charged at 10% p.a. Ascertain average due date and the amount of interest.

(*B.Com., Madurai, Mysore, Madras*)

SOLUTION:

Calculation of Average Due Date

Due Date	Amount Rs	No. of Days from 8th Jan. 2004	Products
8th Jan. 2004	440	0	0
12th Feb. 2004	400	35	14,000
15th Mar. 2004	500	67	33,500
10th April 2004	480	93	44,640
6th May 2004	400	119	47,600
8th June 2004	400	152	60,800
	2,620		2,00,540

$$\text{Average Due Date} = \text{8th Jan.} + \frac{2,00,540}{2,620} = \text{76.5 days or 77 days}$$

= 8th Jan. 2004 + 77 days

= 25th March 2004

The date of settlement is 30th June 2004. Thus interest is to be calculated from 25th March 2004 to 30th June 2004, *i.e.* for 97 days (March 6 days + April 30 + May 31 and June 30 days = 97 days) at 10% p.a.

$$\text{Interest} = \frac{2,620 \times 97 \times 10}{366 \times 100} = \text{Rs } 69.44$$

No. of days:

J		F		M		A		M		J	
23	+	12		–		–		–		–	35
23	+	29	+	15	+	+	+				67
23	+	29	+	31	+	10		–		–	93
23	+	29	+	31	+	30	+	6		–	119
23	+	29	+	31	+	30	+	31	+	8	152

Second Method:

Procedure for calculation of Average Due Date when lending in lump sum but repayment in installments, is as follows:

1. The basic day is the lending date. Calculate the number of days (or months or years) from the date of lending to the date of each payment.

2. Find out the total number of days/months/years as calculated above.

3. Divide the total as calculated by number of installments to repay the loan.

4. Add the result (obtained above) to the date of loan to get Average Due Date.

Formulae:

$$\text{Average Due Date} = \text{Date of Loan} + \frac{\text{Total of number of days/months/years calculated from the date of loan to the repayment of instalments}}{\text{Number of instalments}}$$

(Repayable in Equal Installments)

1.Mr. A had lent Rs 5,000 to B on 1st Jan. 2002. Loan is repayable in 5 half-yearly installments commencing from 1st Jan. 2003 Interest is charged at 12%. Calculate Average Due Date.

Solution:

Instalments	Due Dates	Months since Jan. 1st 2002
1st	Jan. 1 2003	12 months
2nd	July 1 2003	18 months
3rd	Jan. 1 2004	24 months
4th	July 1 2004	30 months
5th	Jan. 1 2005	36 months
		120 months

Average Due Date = 1st Jan. 2002 + 120/5
= 1st Jan. 2002 + 24 months
= 1st Jan. 2004

Interest @ 12% p.a. Rs 5,000 × $\frac{12}{100} \times \frac{24}{12}$ = Rs 1,200

2.From the following:

Rs 15,000 let on Ist January 2000 is repayable as below:

Rs 1,000 on Ist January 2001

Rs 3,000 on Ist January 2003

Rs 5,000 on Ist January 2004

Rs 6,000 on Ist January 2005

Determine the Average Due Date for settling all the above instalments by single payment and compute interest at 6% p.a. (*B.Com., Madurai*)

SOLUTION:

Due Date	Amount Rs	No. of months from 1.1.2000	Products
1st Jan. 2001	1,000	12 months	12,000
1st Jan. 2003	3,000	36 months	1,08,000
1st Jan. 2004	5,000	48 months	2,40,000
1st Jan. 2005	6,000	60 months	3,60,000
	15,000		7,20,000

Average Due Date = 1st Jan. 2000 + 7,20,000/15,000
= 1st Jan. 2000 + 48 months
= 1st Jan. 2000 + 4 years
= 1st January 2004

Interest for four years = $\frac{15,000 \times 4 \times 6}{100}$ = Rs 3,600

3.Mr Kapoor had the following Bills Receivable and Bills Payable against Mr Ramanathan.

Calculate the Average Due Date when the payment can be made or received without any loss of interest to either party.

Bills Receivable			*Bills Payable*		
Date	Amount	Tenure (months)	Date	Amount	Tenure (months)
1.5.2005	2,000	4	10.5.2005	1,000	2
12.6.2005	1,500	2	29.5.2005	3,000	4
15.6.2005	3,000	3	6.6.2005	2,000	2
7.7.2005	1,000	2	17.6.2005	1,500	3
10.7.2005	2,500	1	30.6.2005	500	1

Gazetted Holidays intervening in the period:

15th Aug. 2005

2nd October 2005

18th September 2005 (Emergency Holiday)

SOLUTION:

Calculation of Average Due Date

Bills Receivable					*Bills Payable*				
Date	Due Date	Amount	No. of Days (from July 13)	Product	Date	Due Date	Amount	No. of Days (from) July 13)	Product
		Rs					Rs		
1.5.2005	4.9.2005	2,000	53	1,06,000	10.5.2005	13.7.2005	1,000	0	–
12.6.2005	14.8.2005	1,500	32	48,000	29.5.2005	1.10.2005	3,000	80	2,40,000
15.6.2005	19.9.2005	3,000	68	2,04,000	6.6.2005	9.8.2005	2,000	27	54,000
7.7.2005	10.9.2005	1,000	59	59,000	17.6.2005	20.9.2005	1,500	69	1,03,500
10.7.2005	13.8.2005	2,500	31	77,500	30.6.2005	2.8.2005	500	20	10,000
		10,000		4,94,500			8,000		4,07,500

$$\text{No. of Days} = \frac{\text{Difference in Products}}{\text{Difference in Amounts}} = \frac{4{,}94{,}500 - 4{,}07{,}500}{10{,}000 - 8{,}000} = \frac{87{,}000}{2{,}000} = 44 \text{ days}$$

Average Due Date = Starting Date + No. of Days

= 13th July 2005 + 44 days = 26th August 2005

Note: When the due date of a bill after adding three days of grace falls on a public holiday, then due date will be on the working day preceding the public holiday.

When due date of a bill after adding three days of grace falls on such a day which has been suddenly declared a public holiday, then its due date will be on the succeeding working day after the emergency holiday.

4.Ram drew upon Vijayan several bills of exchange due for payment on different dates as under:

Date of the Bill	Amount Rs.	Tenure of the Bill
1st June	1,200	3 Months
19th June	1,600	2 Months

10th July	2,000	3 Months
27th July	1,500	3 Months
7th Aug.	1,800	1 Month
15th Aug.	2,400	2 Months

Find out Average Due Date on which payment may be made in one single amount. (*B. Com. MS*)

Solution.

Computation of Average Due Date

Due Date (1)	Amount Rs. (2)	No. of days from Base Date : 22n Aug. (3)	Product Rs. (4) (2 × 3)
4th Sept.	1,200	13	15,600
22nd Aug.	1,600	0	0
13th Oct.	2,000	52	1,04,000
30th Oct.	1,500	69	1,03,500
10th Sept.	1,800	19	34,200
18th Oct.	2,400	57	1,36,800
Total	10,500		3,94,100

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total of Amounts}}$$

$$= \text{22nd Aug.} + \frac{3,94,100}{10,500} = \text{22nd Aug.} + 38 \text{ days}$$

Average Due Date = **29th September.**

UNIT-IV

SYLLABUS

Accounting for Consignments and Joint Ventures.

CONSIGNMENT

Consignment is an arrangement in which goods are left in the possession of another party to sell. Typically, the consignor receives a percentage of the revenue from the sale (sometimes a very large percentage). Consignment deals are made on a variety of products, such as artwork, clothing and accessories, and books.

A person wishing to sell an item on consignment delivers the item to a consignment shop or a third party to do the selling on his behalf. Before the third party takes possession of the good, an agreement must be reached as to the revenue split when the good is sold. Most consignment shops have standard fee schedules that indicate the percentage of the sales price that is paid to the shop and the percentage paid to the seller. However, many consignment shops are willing to negotiate, particularly for larger-ticket items, such as artwork, that offer greater revenue potential. Depending on the consignment shop and the item being sold, the seller may concede 25 to 60% of the sales price in consignment fees.

PROBLEMS ON CONSIGNMENTS

1.Raja Mills Ltd. of Ahmedabad sent 100 pieces shirting to Fancy Stores, Delhi, on consignment basis. The consignees are entitled to receive 5 per cent commission plus expenses. The cost to Raja Mills Ltd. is Rs 600 per piece.

Fancy Stores, Delhi, pay the following expenses:

Railway Freight, etc. Rs 1,000

Godown Rent and Insurance Rs 1,500

Raja Mills Ltd., draw on the consignees a draft for Rs 30,000 which is duly accepted. It is discounted for Rs 28,650. Later Fancy Stores, Delhi, report that the entire consignment has been sold for Rs 78,000. Show journal entries and the important ledger accounts in the books of the consignor.

Solution :

Journal

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
?	Consignment to Delhi Account To Goods Sent on Consignment Account 100 pieces shirting consigned to Fancy Stores, Delhi, to be sold on our behalf.	... Dr.		60,000	60,000
?	Bills Receivable Account To Fancy Stores, Delhi The bill of exchange received from Fancy Stores, Delhi.	... Dr.		30,000	30,000
?	Bank Discount Account To Bills Receivable Account The bill discounted for ₹ 28,650	... Dr. ... Dr.		28,650 1,350	30,000
?	Fancy Stores, Delhi To Consignment to Delhi Account Gross proceeds of sales by the consignee.	... Dr.		78,000	78,000
?	Consignment to Delhi Account To Fancy Stores, Delhi Expenses incurred by Fancy Stores, Delhi, in connection with the consignment.	... Dr.		2,500	2,500
?	Consignment to Delhi Account To Fancy Stores, Delhi Commission due to Fancy Stores, Delhi, being 5 per cent of ₹ 78,000.	... Dr.		3,900	3,900
?	Consignment to Delhi Account To Profit and Loss Account Transfer of the profit on consignment.	... Dr.		11,600	11,600
End of year.	Goods Sent on Consignment Account To Trading Account Transfer of Goods Sent on Consignment Account to Trading Account.	... Dr.		60,000	60,000

LEDGER ACCOUNT

Dr. Consignment (to Delhi) Account Cr.

Date	Particulars		₹	Date	Particulars		₹
?	To Goods Sent on Consignment Account		60,000	?	By Fancy Stores, Delhi (sale proceeds)		78,000
	To Fancy Stores, Delhi (expenses)		2,500				
	To Fancy Stores, Delhi (commission)		3,900				
	To Profit & Loss A/c—transfer of profit		11,600				
			78,000				78,000

Dr. Fancy Stores, Delhi Cr.

Date	Particulars		₹	Date	Particulars		₹
?	To Consignment A/c (sale proceeds)		78,000	?	By Bills Receivable A/c		30,000
					By Consignment A/c (expenses)		2,500
					By Consignment A/c (commission)		3,900
					By Balance c/d.		41,600
			78,000				78,000
	To Balance b/d		41,600				

Dr. **Goods Sent on Consignment Account** Cr.

			₹			₹
End of year.	To Trading Account—transfer		60,000		By Consignment A/c.	60,000

In the Books of Consignee:

Journal

			Dr. ₹	Cr. ₹
?	Raja Mills Ltd. ... Dr. To Bills Payable Account The bill of exchange accepted and sent to Raja Mills Ltd.		30,000	30,000
?	Raja Mills Ltd. ... Dr. To Cash Account / Bank The amount spent on the consignment received.		2,500	2,500
?	Cash Account / Bank ... Dr. To Raja Mills Ltd. Sale proceeds of the goods received on consignment. *Contd...*		78,000	78,000

KAHE

			Dr.	Cr.
			₹	₹
?	Raja Mills Ltd. ... Dr. To Commission Account 5 per cent commission due on gross sale proceeds.		3,900	3,900
On maturity	Bills Payable Account ... Dr. To Bank Payment of the bill due.		30,000	30,000

The ledger accounts will be as follows:—

Raja Mills Ltd., Ahmedabad

Dr.		₹			Cr. ₹
?	To Bills Payable Account	30,000	?	By Cash A/c (sale proceeds)	78,000
?	To Cash A/c (expenses)	2,500			
?	To Commission A/c	3,900			
?	To Balance c/d	41,600			
		78,000			78,000
				By Balance b/d	41,600

Bills Payable Account

		₹			₹
On maturity	To Bank	30,000	?	By Raja Mills Ltd., Ahmedabad	30,000

Commission Account

		₹			₹
End of Year	To Profit and Loss A/c—transfer	3,900	?	By Raja Mills Ltd.	3,900

Cash Book (relevant portions only)

		Cash ₹	Bank ₹			Cash ₹	Bank ₹
To Raja Mills Ltd. (sale proceeds)		78,000		By Raja Mills Ltd. (expenses)		2,500	
				By Bills Payable A/c (payment on maturity)			30,000

2.1,000 toys consigned by Roy & Co. of Calcutta to T. Nu of Rangoon at an invoice cost of Rs 150 each. Roy & Co. paid freight Rs 10,000 and insurance Rs 1,500. During the voyage 100 toys were totally damaged by fire and had to be thrown overboard. T. Nu took delivery of the remaining toys and paid Rs 14,400 as customs duty.

T. Nu sent a bank draft to Roy & Co. for Rs 50,000 as advance payment and later sent an account sales showing that 800 toys had been sold at Rs 220 each. Expenses incurred by T. Nu on godown rent and advertisement, etc., amounted to Rs 2,000 T. Nu was entitled to commission of 5 per cent. One of the credit customers could not pay for 5 toys. Prepare the Consignment

Account, T. Nu's account and Profit and Loss Account in the books of Roy & Co., assuming that nothing has been recovered from the insurers due to a defect in the policy. T. Nu settled his account immediately.

Solution :

Dr. **Consignment to Rangoon Account** *Cr.*

		₹	₹			₹
?	To Goods Sent on Consignment Account		1,50,000	?	By T. Nu (Sales)	1,76,000
	To Cash Account:				By Abnormal Loss A/c/ Profit & Loss A/c (loss by fire) (1)	16,150
	Freight	10,000			By Stock on Consignment Account (2)	17,750
	Insurance	1,500	11,500			
	To T. Nu: Customs Duty		14,400			
	Sundry Expenses		2,000			
	Commission		8,800			
	Bad Debt (5 × ₹ 220)		1,100			
	To Profit & Loss A/c (profit)		22,100			
			2,09,900			2,09,900

KAHE

Dr. **T. Nu** Cr.

		₹			₹	₹
?	To Consignment to Rangoon A/c	1,76,000	?	By Bank (bank draft as advance)		50,000
	To Balance c/d (amount of advance relating to 100 toys)	5,000		By Consignment A/c:		
				Customs duty	14,400	
				Sunday Expenses	2,000	
				Bad Debt	1,100	17,500
				By Consignment A/c (commission)		8,800
				By Bank		1,04,700
		1,81,000				1,81,000
				By Balance b/d		5,000

Dr. **Profit and Loss Account** Cr.

		₹			₹
	To Abnormal Loss A/c or Consignment to Rangoon A/c, (loss by fire) (3)	16,150		By Consignment to Rangoon Account (3)	23,200

If Abnormal Loss Account is opened, it will appear as follows:—

Dr. **Abnormal Loss Account** Cr.

		₹			₹
?	To Consignment to Rangoon Account (loss by fire)	16,150	At the end of the year	By Profit & Loss Account–transfer	16,150

Notes: (1) The value of the abnormal loss has been calculated as follows:

	₹
100 toys @ ₹ 150 each	15,000
Add: $\frac{100}{1000}$ of freight and insurance	1,150
	16,150

(2) The value of closing stock has been calculated as follows:

100 toys @ ₹ 150 each	15,000
$\frac{100}{1000}$ of freight and insurance	1,150
$\frac{100}{900}$ of customs duty	1,600
	17,750

(3) The profit shown by the Profit and Loss Account is ₹ 23,200—₹ 16,150 or ₹ 7,050. Had the abnormal loss not been taken into account, the credit of ₹ 16,150 to the Consignment Account and debit to the Profit and Loss Account would have been omitted. In that case, the Consignment Account itself would have shown a profit of ₹ 7,050.

3.The Swastik Oil Mills, Mumbai consigned 5,000 kg. of castor oil to Dass of Kolkata on 1st January, 2012. The cost of the oil was Rs 460 per kg. The Swastik Oil Mills paid Rs 2,00,000 for packing, freight and insurance. During transit 125 kg. were accidentally destroyed for which the insurers paid, directly to the consignors, Rs 45,000 in full settlement of the claim.

Dass took delivery of the consignment on the 10th January. On 31st March, 2012 Dass reported that 3,750 kg. were sold at Rs 600, the expenses being on godown rent Rs 30,000, on advertisement Rs 40,000 and on salesmen's salaries Rs 64,000. Dass is entitled to a commission of 3 per cent plus 1½ per cent del credere. A party which had bought 500 kg. was able to pay only 80% of the amount due from it.

Dass reported a loss of 50 kg, due to leakage. Assuming that Dass paid the amount due by bank draft, show the accounts in the books of both the parties. Books of accounts are closed by the parties on 31st March.

Solution:

BOOK OF SWASTIK OIL MILLS, BOMBAY

Consignment to Kolkata Account

Dr. Cr.

2012		₹	₹	2012		₹
Jan. 1	To Goods Sent on Consignment Account		23,00,000	Jan. 10	By Abnormal Loss (1)	62,500
Jan 1	To Bank—Package, freight and insurance		2,00,000	Mar. 31	By Dass—Sale proceeds	22,50,000
Mar. 31	To Dass:	₹		" "	By Stock on Consignment Account (2)	5,43,070
	Godown rent	30,000				
	Advertisement	40,000				
	Salesmen's salaries	64,000	1,34,000			
" "	To Dass: Comission—					
	Ordinary 3%	67,500				
	Del credere 1½%	33,750	1,01,250			
" "	To Profit & Loss A/c —transfer of profit on consignment		1,20,320			
			28,55,570			28,55,570

Goods Sent on Consignment Account

Dr. Cr.

2012		₹	2012		₹
Mar. 31	To Purchases Account—transfer	23,00,000	Jan. 1	By Consignment to Calcutta Account	23,00,000

Dr. Abnormal Loss Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Jan. 10	To Consignment to Calcutta Account	6,250	2012 Mar. 31	By Insurance Co./Bank	45,000
				By Profit and Loss Account –transfer	17,500
		62,500			62,500

Dr. Stock on Consignment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Consignment to Kolkata Account	5,43,070	2012 Mar. 31	By Balance c/d	5,43,070
Apr. 1	To Balance b/d	5,43,070			

Dr. Dass, Kolkata Cr.

Date	Particulars	₹	Date	Particulars	₹	₹
2012 Mar. 31	To Consignment to Kolkata Account —Sale Proceeds	22,50,000	2012 Mar. 31	By Consignment to Kolkata Account—		
				Godown rent	30,000	
				Advertisement	40,000	
				Salesmen's salaries	64,000	1,34,000
				By Consignment to Kolkata Account— Commission:		
				Ordinary @ 3%	67,500	
				Del credere @ 1½%	33,750	1,01,250
				By Bank—Draft in settlement		20,14,750
		22,50,000				22,50,000

Dr. Profit and Loss Account (relevant portion) Cr.

	Particulars	₹		Particulars	₹
	To Abnormal Loss Account	17,500		By Consignment to Kolkata Account (profit on consignment)	120,320

Notes: (1) Abnormal Loss has been calculated as follows:—

	₹
Cost of 5,000 kg. @ ₹ 460	23,00,000
Packing, Freight and Insurance	2,00,000
Total cost of 5,000 kg.	25,00,000

Hence, cost of 125 kg. = ₹ 25,00,000 × $\frac{125}{5,000}$ = ₹ 62,500

Cost of goods involved in abnormal loss = ₹ 62,500

Cost of remaining 4,875 kg. = ₹ 25,00,000 – ₹ 62,500 = ₹ 24,37,500

(2) The value of closing stock has been calculated as follows:—

Quantity that reached Kolkata = 5,000 kg. – 125 kg. = 4,875 kg.

Quantity lost by normal leakage = 50 kg.

Quantity available for sale = 4,875 kg. – 50 kg. = 4,825 kg.

JOINT VENTURE ACCOUNTS

A joint venture is a business arrangement in whichteo or more parties agree to pool their resources for the purpose of accomplishing a specified task. This task can be a new project or any other business activity. In a joint venture ,each participant is responsible for profits,losses and cost associated with it.

However, the venture is its own entity, separate and apart from participants' other business interests.

Although they are partnership in the colloquial sense of he word, Joint ventures can take on legal structure. Corporations, partnerships, limited liability companies and other business entities can all be used to for Joint Ventures.

PROBLEMS ON JOINT VENTURES

1.Adarji and Bomanji were partners in a joint venture sharing profits and losses in the proportion of four-fifths and one-fifth respectively. Adarji supplies goods to the value of Rs 50,000 and incurs expenses amounting to Rs 5,400. Bomanji supplies goods to the value of Rs 14,000 and his expenses amount to Rs 800. Bomanji sells goods on behalf of the joint venture and realises Rs 92,000. Bomanji is entitled to a commission of 5 per cent on sales. Bomanji settles his account by bank draft. Give the journal entries and the necessary accounts in the books of Adarji and only the important ledger accounts in the books of Bomanji.

BOOKS OF ADARJI
Journal

			Dr. ₹	Cr. ₹
	Joint Venture Account ... Dr.		55,400	
	To Trading Account			50,000
	To Bank			5,400
	Goods sent to Bomanji—to be sold by him on joint account—and expenses incurred.			
	Joint Venture Account ... Dr.		14,800	
	To Bomanji			14,800
	The value of goods supplied and expenses incurred by Bomanji on joint Account.			
	Bomanji ... Dr.		92,000	
	To Joint Venture Account			92,000
	Sales proceeds on joint account received by Bomanji.			

			Dr. ₹	Cr. ₹
	Joint Venture Account ... Dr. To Bomanji The commission due to Bomanji on the joint venture sales at the rate of 5%.		4,600	4,600
	Joint Venture Account ... Dr. To Bomanji To Profit and Loss Account The profit of ₹ 17,200 divided as to 1/5th to Bomanji and 4/5ths to self—transferred to Profit and Loss Account.		17,200	3,440 13,760
	Bank ... Dr. To Bomanji The draft received from Bomanji in settlement.		69,160	69,160

LEDGER ACCOUNTS

Joint Venture Account

Dr.		₹		Cr.	₹
	To Trading Account (goods)	50,000		By Bomanji (sales)	92,000
	To Bank (expenses)	5,400			
	To Bomanji :				
	Goods	14,000			
	Expenses	800			
	To Bomanji (commission)	4,600			
	To Bomanji (1/5th profit)	3,440			
	To Profit & Loss A/c (4/5ths profit)	13,760			
		92,000			92,000

Bomanji

Dr.		₹		Cr.	₹
	To Joint Venture Account (sales)	92,000		By Joint Venture Account :	
				Goods	14,000
				Expenses	800
				By Joint Venture Account :	
				Commision	4,600
				Profit	3,440
				By Bank (bank draft in settlement)	69,160
		92,000			92,000

BOMANJI'S LEDGER

Dr. **Joint Venture Account** Cr.

		₹			₹
	To Trading Account (goods)	14,000		By Bank (sales)	92,000
	To Bank (expenses)	800			
	To Adarji : Goods 50,000, Expenses 5,400	55,400			
	To Commission Account	4,600			
	To Adarji (4/5ths profit)	13,760			
	To Profit & Loss A/c (1/5th profit)	3,440			
		92,000			92,000

Dr. **Adarji** Cr.

		₹		₹
	To Bank (bank draft in settlement)	69,160	By Joint Venture Account :	
			Goods	50,000
			Expenses	5,400
			By Joint Venture Account (profit)	13,760
		69,160		69,160

Alternative method:

An alternative to the above method is to make out the Joint Venture Account on memoradum basis, just to find out the profit or loss made but not as part of ledger. The goods sent or expenses incurred on joint venture are debited to the account of the other party. The account may be styled as '………………….. in Joint Venture Account.' No entry is passed for goods supplied or expenses incurred on joint venture by the other party. That account is debited with one's share of the profit made on the joint venture (ascertained by the Memoradum Joint Venture Account), crediting the Profit and Loss Account. The other party will be credited with one's share of loss, if any.

The party receiving the sales proceeds on joint venture must credit the other party with the full amount.

Dr. **Memorandum Joint Venture Account** Cr.

	₹		₹
To Adarji (goods)	50,000	By Bomanji (sale proceeds)	92,000
To Adarji (expenses)	5,400		
To Bomanji (goods)	14,000		
To Bomanji (expenses)	800		
To Bomanji (commission)	4,600		
To Adarji (4/5ths profit)	13,760		
To Bomanji (1/5th profit)	3,440		
	92,000		92,000

Dr. **Bomanji in Joint Venture Account** Cr.

	₹		₹
To Trading Account (goods)	50,000	By Bank (bank draft in settlement)	69,160
To Bank (expenses)	5,400		
To (Profit & Loss Account 4/5ths share of profit on joint venture)	13,760		
	69,160		69,160

In the books of Bomanji, the account will appear as follows :—

Dr. **Adarji in Joint Venture Account** Cr.

	₹		₹
To Trading A/c (goods)	14,000	By Bank (sale proceeds)	92,000
To Bank (expenses)	800		
To Commission A/c	4,600		
To Profit & Loss Account (1/5 share of profit on joint venture)	3,440		
To Bank (bank draft in settlement)	69,160		
	92,000		92,000

2.Arun and Varun entered into a joint venture to purchase, recondition and sell secondhand cars. Arun purchased for cash 50 cars at an average price of Rs 70,000 during the period from 1st October, 2011 to 31st March, 2012.

Varun, during the same period reconditioned the cars by spending the following amounts:

	₹
Spare parts used	1,80,000
Painting	2,00,000
Air-conditioning of 5 cars	3,00,000
Testing charges	20,000
Insurance	60,000
Labour charges	10,40,000

Arun and Varun sold the cars, the details of which are as under :

	Sold by	
	Arun	Varun
A.C. cars	2	2
Non-A.C. cars	18	23

A.C. cars were sold for Rs 3,50,000 each while non-A.C. cars were sold as follows:

(i) 18 cars @ Rs 2,50,000 each by Arun,

(ii) 18 cars @ Rs 2,20,000 each and 5 cars @ Rs 2,10,000 each by Varun.

During testing one non-A.C. car met with a major accident and the insurance company paid the actual cost as amount of the claim; Varun receiving the amount.

Prepare Memorandum Joint Venture Account and Varun in Joint Venture Account in the books of Arun.

Solution :

In the books of Arun

Memorandum Joint Venture Account

Dr.	₹		Cr. ₹
To Arun –purchase of cars, W.N. (*i*)	35,00,000	By Arun – sale of cars, W.N. (*ii*)	52,00,000
To Varun		By Varun – sale of cars, W.N. (*ii*)	57,10,000
– spare parts	1,80,000	By Varun – insurance claim, W.N. (*i*)	1,00,000
– painting	2,00,000	By Closing Stock, W.N. (*iii*)	4,60,000
– airconditioning	3,00,000		
– testing	20,000		
– insurance	60,000		
– labour charges	10,40,000		
To Arun – 50% of profit	30,85,000		
To Varun – 50% of profit	30,85,000		
	1,14,70,000		1,14,70,000

Varun in Joint Venture Account

Dr.	₹		Cr. ₹
To Bank-purchase of cars	35,00,000	By Bank–sale of cars	52,00,000
To Profit and Loss Account – share of profit	30,85,000	By Balance *c/d*	13,85,000
	65,85,000		65,85,000
To Balance b/d	13,85,000		

Working Notes :

(*i*) *Calculation of insurance claim :*

	₹	₹
Purchase price of 100 cars = ₹ 70,000 × 50		35,00,000
Add : Amount spent on reconditioning other than amount spent on air-conditioning :		
Spare parts used	1,80,000	
Painting	2,00,000	
Testing charges	20,000	
Insurance	60,000	
Labour charges	10,40,000	15,00,000
Cost of 50 cars		50,00,000

Cost of one non-A.C. car = ₹ 50,00,000 / 50 = ₹ 1,00,000

Hence, amount of the claim recovered from insurance company = ₹ 1,00,000

(*ii*) Sale by Arun :

	₹
2 A.C. cars = 2 × ₹ 3,50,000	7,00,000
18 Non-A.C. cars = 18 × ₹ 2,50,000	45,00,000
	52,00,000

Sale by Varun :

2 A.C. cars = 2 × ₹ 3,50,000	7,00,000
18 Non-A.C. cars = 18 × ₹ 2,20,000	39,60,000
5 Non-A.C. cars = 5 × ₹ 2,10,000	10,50,000
	57,10,000

(iii)	*Calculation of closing stock* :	₹
	Cost of one non-A.C. car as calculated as per working note (i) = ₹ 1,00,000.	
	Cost of 3 non-A.C. cars in stock = 3 × ₹ 1,00,000	3,00,000
	Cost of airconditioning one car = ₹ 3,00,000 / 5 = ₹ 60,000	
	Cost of one A.C. car in stock = ₹ 1,00,000 + ₹ 60,000	1,60,000
	Value of closing stock	4,60,000

The distinction between joint venture and consignment may be made as follows:

Joint Venture:

(i) The parties to a joint venture are called co-venturers.

(ii) Joint venture is the result of a partnership contract for a limited purpose among the co-venturers.

(iii) Being a partner, each co-venturer is the principal as well as the agent of all the other co-venturers. Thus, a co-venturer sells goods on his own behalf as well as on behalf of all the other co-venturers. Provisions of partnership act apply.

(iv) All the co-venturers bear the risk.

(v) A co-venturer has an implied authority to buy and sell goods and to receive and make payments.

(vi) The co-venturers share the profits and losses of the joint venture in the ratio agreed upon by them.

(vii) Funds are provided usually by all the co-venturers.

Consignment:

(i) The parties to a consignment are called consignor and consignee.

(ii) In consignment, there is a contract of agency between the consignor and the consignee.

(iii) The consignee is the principal and consignee is the agent. The consignee sells goods on behalf of the consignor. Provisions of contract act relating to agency apply.

(iv) Only the consignor bears the risk.

(v) A consignee has no implied authority. He is to work as per specific instructions given by the consignor.

(vi) The entire profit or loss on consignment belongs to the consignor. The consignee gets his commission on sales and has nothing to do with profit or loss on consignment.

(vii) Funds are provided solely by the consignor. Being only an agent, the consignee is not required to provide any funds though sometimes he may make an advance against future sales.

The main differences between joint venture and consignment are as under:

1. Nature

Joint venture: It is a temporary partnership business without a firm name.

Consignment: It is an extension of business by principal through agent.

2. Parties

Joint venture: The parties involving in joint venture are known as co-ventures.

Consignment: Consignor and consignee are involving parties in the consignment.

3. Relation

Joint venture: The relation between co-ventures is just like the partners in partnership firm.

Consignment: The relation between the consignor and consignee is 'principal and agent'.

4. Sharing Profit

Joint venture: The profits ans losses of joint venture are shared among the co-ventures in their agreed proportion.

Consignment: The profits and losses are not shared between the consignor and consignee. Consignee gets only the commission.

5. Rights

Joint venture: The co-ventures in a joint venture have equal rights.

Consignment: In consignment, the consignor enjoys principal's right whereas consignee enjoys the right of agent.

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6. Exchange Of Information

Joint venture: The co-ventures exchange the required information among them regularly.

Consignment: The consignee prepares an account sale which contains a details of business activities carried on and is being sent to the consignor.

7. Ownership

Joint Venture: All the co-ventures are the owners of the joint venture.

Consignment: The consignor is the owner of the business.

8. Method Of Maintaining Accounts

Joint venture: There are different methods of maintaining accounts in joint venture.As per agreement the co-ventures maintain their account.

Consignment: In consignment, there is only one method of maintaining account.

9. Basis Of Account

Joint venture: Cash basis of accounting is applicable in joint venture.

Consignment: Actual basis is adopted in consignment.

10. Continuity

Joint venture: As soon as the particular venture is completed, the joint venture is terminated.

Consignment: The continuity of business exists according to the willingness of both consignor and consignee.

UNIT-V

SYLLABUS

Bank Reconciliation Statement - Accounting for Non-Trading Concerns - Receipts and Payments Account, Income and Expenditure Account and Balance Sheet - Accounts of Professionals. Accounting Standards (Theory Only) - AS1: Disclosure of Accounting Policy, AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, AS 10: Accounting for Fixed Asset, AS 27: Financial Reporting of Interests in Joint Venture. AS 29: Provisions, Contingent Liability and Contingent Asset.

BANK RECONCILIATION STATEMENT:

When the customer finds the balances shown by the Cashbook and Bank Passbook different, he will prepare a statement in order to reconcile these two balances. Such a statement is called as Bank Reconciliation Statement.

The main purpose of such a statement is to explain the causes of difference between these two balances and find out whether any errors have been committed in the cashbook or passbook and rectify them immediately.

This statement is prepared usually at the end of a period on a particular date in order to confirm that the cashbook balance is correct.

Guidelines for Preparing the Bank Reconciliation Statement:

1. Usually the heading is given as follows: Bank Reconciliation Statement as on – particular date.

2. The starting point shall be either ‘Balance as shown by the Cashbook’ or ‘Balance as shown by the Passbook’. The ordinary bank balance in the cashbook is debit balance and in the passbook it is credit balance.

On the other hand, the overdraft balance in the cashbook is the credit balance and in the passbook it is the debit balance.

3. The various causes for the disagreement between the two balances should be ascertained by comparing the entries made in these two books during the concerned period.

4. The effect of the particular cause on the balance shown by the other book should be studied in terms of increase or decrease in the balance.

5. If the result is increase in balance shown by the other book (say, passbook balance), then the amount of such increase should be added to the starting balance (say, cashbook balance).

On the other hand, if the result is decrease in passbook balance, then the amount of such decrease should be deducted from the cashbook balance. Thus by adjusting all 'increase' and 'decrease' items to the starting balance, the balance as shown by the other book will be arrived at.

When the balances shown by the cashbook and passbook agree as per Bank Reconciliation Statement, then it will be construed that there are only differences but no errors in the entries made in these two books.

1.From the following particulars, prepare a Bank Reconciliation Statement showing the balance as per Passbook as on 31st March 2002. As on that date the cashbook of Mr.Raman showed a bank balance of Rs.8850.
On verifying the passbook, the following facts were ascertained:

(a) Cheques deposited into bank before 31st March 2002, but n(b) Cheques issued but not presented for payment before 31st March 2002 amounted to Rs.2500.

(c) The bank has charged Rs.150 as bank charges and credited Rs.350 as interest.

(d) The bank has given a wrong debit for Rs.450.

(e) A customer has paid directly into bank account a sum of Rs.590 on 30tk March 2002, which has not been into the cashbook.

(f) A cheque for Rs.275 sent for collection and returned unpaid has not been entered in the cashbook.

Bank Reconciliation Statement of Mr. Raman as on 31st March 2002

		Rs.	Rs.
	Bank Balance as per Cashbook		8,850
Add:	1. Cheques issued but not presented for payment	2,500	
	2. Interest credited in the passbook only	350	
	3. Amount directly paid into bank but not entered in the cashbook	590	3,440
			12,290
Less:	4. Cheques deposited into bank but not credited in the Passbook	1,850	
	5. Bank charges debited in the passbook only	150	
	6. Wrong debit given by the bank	450	
	7. Cheques dishonoured entered in the passbook but not in the cashbook	275	2,725
	Bank Balance as Passbook		9,565

Cause – item 1 entered in the cashbook only; effect – the bank balance as per cashbook is less. Hence, it is added to cashbook balance to arrive at passbook balance.

Cause – item 2 entered in the passbook only, effect – passbook balance is more. Hence, it is added to arrive at passbook balance.

Cause – item 3 entered in the passbook only, effect – passbook balance is more. Hence, it is added to arrive at the passbook balance.

Cause – item 4 entered in the cashbook only, effect – cashbook balance is more. Hence, it is deducted from the cashbook balance to arrive at the passbook balance.

Cause – item 5entered in the passbook only, effect – the passbook balance is less. Hence, it is deducted to arrive at the passbook balance.

Cause – item 6 entered in the passbook only, effect – the passbook balance is less. Hence, it is deducted to arrive at the passbook balance.

Cause – item 7 entered in the passbook only, effect – the passbook balance is less. Hence, it is deducted to arrive at the passbook balance.

Except item no.6, which is an error, all other items are causes for the difference, which may occur in the normal course.

2.Assist Mr. Raja in ascertaining his cashbook balance as on 30th June 2002 for No. I Account from the following information:

(a) His passbook No. I Account showed a balance of Rs. 10,500.

(b) Cheques issued on 25th June were for Rs.3, 800; out of which Rs. 1,200 only had been presented for payment before 30th June.

(c) Rs.6, 200 paid into bank on 27th June was wrongly credited to another account.

(d) A bills receivable for Rs.800 was collected by the bank on 28th June, but no corresponding entry was made in the cashbook.

(e) A payment of Rs.500 from another account had been wrongly debited by the bank to this account.

(f) A credit of Rs.400 relating to some other account appeared in the passbook.

(g) The bank has recovered an insurance claim of Rs.2, 500 and incurred Rs.150 as charges and commission. The entries for these were made only in the passbook.

(h) The bank has credited interest Rs.400 and debited Rs.90 as bank charges.

Solution:

Bank Reconciliation Statement of Account No. I as on 30th June 2002

	Rs.	Rs.
Bank balance as per Passbook		10,500
Add: Cash paid in but wrongly credited to another account	6,200	

	Wrong debit given to No. I account by the bank	500	
	Charges and commission on insurance claim debited In the passbook only	150	
	Interest credited in passbook only	400	7,250
			17,750
Less:	Cheques issued but not presented for payment (Rs.3,800 - 1,200)	2,600	
	B/R collected by the bank not entered in cashbook	800	
	Insurance claim credited in passbook only	2,500	
	Wrong credit given by the bank to No. I account	400	
	Bank charges debited in the passbook only	90	6,390
	Bank balance as Cashbook		11,360

Hint:

If the effect of causes for difference between cashbook and passbook balance is ‘increase’ in passbook balance or ‘decrease’ in cashbook balance, then such items have been added to Passbook balance to arrive at the Cashbook balance.

If the effect of causes for difference between these two balances results in ‘decrease’ in passbook balance or ‘increase’ in cash book balance, then such items have been deducted from the Passbook balance to arrive at the Cashbook balance.

THE FINAL ACCOUNTS OF NON-TRADING CONCERNS

The Final Accounts of non-trading concerns consists of:

1. Receipts and Payments Account

2. Income and Expenditure Account, and

3. Balance Sheet.

1. RECEIPTS AND PAYMENTS ACCOUNT:

It is a Real Account. It is a consolidated summary of Cash Book. It is prepared at the end of the accounting period. All cash receipts are recorded on the debit side and all cash payments are recorded on the credit side.

Cash Book consisting of entries of receipts and payments in a chronological order while the Receipts and payments is a summary of total cash receipts and cash payments.

It starts with opening balance of Cash and Bank and ends with closing balance of Cash and Bank. It does not take into account outstanding amounts of receipts and payments. Receipts and Payments may be of Capital or Revenue nature; they may relate to the current or previous year or subsequent year; so long as they are actually received or paid, they must appear in this account.

Features

1. It starts with opening balance and ends with closing balance

2. It is the summary of cash and bank transactions.

3. Actual cash transactions are entered.

4. It includes capital as well as revenue items.

5. It follows cash system of accounting

6. It shows cash position and excludes all non-cash items.

7. It is a real account.

8. It does not take any income/expense outstanding at the beginning or at the end.

2.INCOME AND EXPENDITURE ACCOUNT:

It is a Nominal Account. It is in the form of Profit and Loss Account. It is concerned with only revenue items—expenses and incomes. It records all losses and expenses on its debit side and all incomes and gains on its credit side.

Of the incomes and expenses of revenue nature, only the portion pertaining to the current year is shown in the Income and Expenditure Account i.e. amount relating to the previous year or future year are excluded. Again, the incomes and expenses of current year, whether received or not, must be shown.

In other words, incomes and expenses have to be adjusted for both out-standing and pre-payments. All non-cash items, Depreciation, Bad Debts, Provision for Doubtful Debts etc. are taken into account.

The difference between the debit side and the credit side is either surplus or deficit for the year concerned and the difference will be transferred to the Capital Fund (also called General Fund or Accumulated Fund) appearing in Balance Sheet.

Features

1. It is prepared in lieu of Profit and Loss Account.

2. It is a nominal account.

3. It is based on mercantile system of accounting.

4. There is no opening balance.

5. It ends with Surplus or Deficit.

6. It excludes all capital income and capital expenses.

7. It includes only revenue items.

8. It records all expenses whether paid or not, and all incomes whether received or not.

Distinction between Receipts and Payments Account and Income and Expenditure Account

Receipts and Payment Account	*Income and Expenditure Account*
1. It is a Real Account	1. It is a Nominal Account
2. It starts with opening balance.	2. It does not start with opening balance.
3. It ends with closing balance either cash in hand or at bank.	3. It ends with a surplus (excess of income over expenditure) or deficit (excess of expenditure over incomes)
4. It is similar to Cash Book.	4. It is similar to Profit and Loss Account.
5. Receipts are shown on the debit side and payments are shown on the credit side.	5. Expenses or losses are shown on the debit side and incomes and gains are shown on the credit side.
6. It contains both Capital and Revenue items.	6. It contains only Revenue items.
7. It includes receipts and payments whether they relate to any period past, previous and subsequent.	7. It includes only revenue items of the current year only.
8. No adjustments are made for outstanding or prepaid incomes and expenses	8. It takes into account the outstanding expenses and incomes.
9. Generally, it is not followed by Balance Sheet.	9. It is followed by Balance Sheet.
10. This is based on Cash system of accounting.	10. This is based on mercantile system.

3. BALANCE SHEET:

Balance Sheet in case of non-trading concern is prepared in the usual manner and consists of all liabilities and assets on the date on which it is prepared. The excess of assets over liabilities is termed Capital Fund or General Fund.

Again, The Capital Fund are accumulated with Capital Receipts, Receipts that are capitalized and further increased by surplus or decreased by deficit, during the year. At the inception of a non-trading concern, there will be no formal Capital Fund and in such case, the Surplus, if any, earned during the year constitute the Capital Fund at the end of the year.

1.The Calcutta Cricket Club gives you the following information:

Dr. **Income and Expenditure Account for 2004** Cr.

	Rs			Rs
To Remuneration to Coach	4,500	By Donation and Subscriptions		25,500
To Wages	5,000	By Bar Room: Receipts:	3,000	
To Rent	2,500	Payments:	2,500	500
To Printing and Stationery	2,600	By Interest on Saving A/c		500
To Repairs	4,500	By Proceeds of Club:		
To Honorarium to Secretary	6,000	Night:	8,800	
To Depreciation on Equipment	4,700	Expenses:	4,000	4,800
To Surplus	1,500			
	31,300			31,300

Balance Sheet as on 31st Dec. 2004

31.12.2003	*Liabilities*		*31.12.2004*	*31.12.2003*	*Assets*	*31.12.2004*
Rs			*Rs*	*Rs*		*Rs*
	Expenses Unpaid:			1,000	Cas in hand	500
1,000	Printing and Stationery		800	3,000	Cash at Bank	1,000
	Wages		2,000	20,300	Savings Bank	21,100
4,000	Honorarium to Secretary		6,000	1,500	Subscriptions Outstanding	1,000
800	Subscriptions received in Advance		300	8,000	Equipment	17,500
28,000	Capital Fund	28,000				
	Entrance Fees	2,500				
	Surplus	1,500	32,000			
33,800			41,100	33,800		41,100

Prepare the Receipts and Payments Account of the Club for 2004. (*M.Com., Kolkata*)

Solution:

In the Books of Kolkata Cricket Club
Receipts and Payments Accounts
For the year ended 31st Dec. 2004

Dr.	Rs		Rs Cr.
To Balance b/d:		By Remuneration to Coach	4,500
Cash in hand	1,000	By Wages[4]	3,000
Cash at Bank:		By Rent	2,500
Current Account	3,000	By Printing and Stationery[2]	2,800
Savings Account	20,300	By Repairs	4,500
To Donations and Subscriptions[1]	25,500	By Honorarium to Secretary[3]	4,000
To Bar Room Receipts	3,000	By Bar Room Expenses	2,500
To Interest on Savings A/c	500	By Night Club Expenses	4,000
To Proceeds of Night Club	8,800	By Equipment[5]	14,200
To Entrance Fees	2,500	By Balance c/d:	
		Cash	500
		Cash at Bank:	
		Current Account	1,000
		Savings Account	21,100
	64,600		64,600

Workings:

		Rs.
1.	*Donations and Subscriptions received in 2004*	
	As per Income and Expenditure Account:	*25,500*
	Add: Outstanding on 31st Dec. 2003	*1,500*
		27,000
	Add: Received in advance for 2005	*300*
		27,300
	Less: Outstanding on 31st Dec. 2004	*1,000*
		26,300
	Less: Received in advance during 2003	*800*
		25,500

2.	*Printing and Stationery paid in 2004*	
	As per Income and Expenditure	*Rs 2,600*
	Less: Outstanding on 31st Dec. 2004	*800*
		1,800
	Add: Outstanding on 31st Dec. 2003	*1,000*
		2,800
3.	*Honorarium to Secretary paid in 2004*	
	As per Income and Expenditure	*Rs 6,000*
	Add: Outstanding on 31st Dec. 2003	*4,000*
		10,000
	Less: Outstanding on 31st Dec. 2004	*6,000*
		4,000
4.	*Wages paid in 2004*	
	As per Income and Expenditure	*Rs 5,000*
	Less: Outstanding on 31st Dec. 2004	*2,000*
		3,000
5.	*Purchase of Equipment in 2004*	
	Equipment on 31st Dec. 2004	*17,500*
	Add: Depreciation charged	*4,700*
		22,200
	Less: Opening Balance	*8,000*
		14,200

ACCOUNTING STANDARD (AS)1

DISCLOSURE OF ACCOUNTING POLICIES

Introduction

1. This statement deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements.

2. The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss. The accounting policies followed vary from enterprise to enterprise. Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated.

3. The disclosure of some of the accounting policies followed in the preparation and presentation of the financial statements is required by law in some cases.

4. The Institute of Chartered Accountants of India has, in Statements issued by it, recommended the disclosure of certain accounting policies, e.g., translation policies in respect of foreign currency items.

5. In recent years, a few enterprises in India have adopted the practice of including in their annual reports to shareholders a separate statement of accounting policies followed in preparing and presenting the financial statements.

6. In general, however, accounting policies are not at present regularly and fully disclosed in all financial statements. Many enterprises include in the Notes on the Accounts, descriptions of some of the significant accounting policies. But the nature and degree of disclosure vary considerably between the corporate and the non-corporate sectors and between units in the same sector.

7. Even among the few enterprises that presently include in their annual reports a separate statement of accounting policies, considerable variation exists. The statement of accounting policies forms part of accounts in some cases while in others it is given as supplementary information.

8. The purpose of this Statement is to promote better understanding of financial statements by establishing through an accounting standard the disclosure of significant accounting policies and the manner in which accountingpoliciesaredisclosedinthefinancialstatements.Suchdisclosure would also facilitate a more meaningful comparison between financial statements of different enterprises.

Explanation

Fundamental Accounting Assumptions

9. Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. Disclosure is necessary if they are not followed.

10. The following have been generally accepted as fundamental accounting assumptions:—

a. Going Concern

The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

b. Consistency

It is assumed that accounting policies are consistent from one period toanother.

c. Accrual

Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. (The considerations affecting the process of matching costs with revenues under the accrual assumption are not dealt with in this Statement.)

Nature of Accounting Policies

11. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

12. There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The choice of the appropriate accounting principles and the methods of applying those principles in the specific circumstances of each enterprise calls for considerable judgement by the management of the enterprise.

13. The various statements of the Institute of Chartered Accountants of India combined with the efforts of government and other regulatory agencies and progressive managements have reduced in recent years the number of acceptable alternatives particularly in the case of corporate enterprises. While continuing efforts in this regard in future are likely to reduce the number still further, the availability of alternative accounting principles and methods of applying those

principles is not likely to be eliminated altogether in view of the differing circumstances faced by the enterprises.

Areas in Which Differing Accounting Policies are Encountered

The following are examples of the areas in which different accounting policies may be adopted by different enterprises.

• Methods of depreciation, depletion and amortisation

• Treatment of expenditure during construction

• Conversion or translation of foreign currency items

• Valuation of inventories

• Treatment of goodwill

• Valuation of investments

• Treatment of retirement benefits

• Recognition of profit on long-term contracts

• Valuation of fixed assets

• Treatment of contingent liabilities.

ACCOUNTING STANDARD (AS) 5

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

Objective

The objective of this Standard is to prescribe the classification and disclosure of certain items in the statement of profit and loss so that all enterprises prepare and present such a statement on a uniform basis. This enhances the comparability of the financial statements of an enterprise over

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time and with the financial statements of other enterprises. Accordingly, this Standard requires the classification and disclosure of extraordinary and prior period items, and the disclosure of certain items within profit or loss from ordinary activities. It also specifies the accounting treatment for changes in accounting estimates and the disclosures to be made in the financial statements regarding changes in accounting policies.

Scope

1. This Standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the statement of profit and loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

2. This Standard deals with, among other matters, the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other Accounting Standards.

3. This Standard does not deal with the tax implications of extraordinary items, prior period items, changes in accounting estimates, and changes in accounting policies for which appropriate adjustments will have to be made depending on the circumstances.

Definitions

The following terms are used in this Standard with the meanings specified:

Ordinary activities are an y activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

Extraordinary items are income o r expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

Net Profit or Loss for the Period

All items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.

Normally, all items of income and expense which are recognised in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates.

The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the statement of profit and loss:

(a) profit or loss from ordinary activities; and

(b) extraordinary items.

Extraordinary Items

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

Virtually all items of income and expense included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise. Therefore,only on rare occasions does an event or transaction give rise to an extraordinary item.

Whether an event or transaction is clearly distinct from the ordinary activities of the enterprise is determined by the nature of the event or transaction in relation to the business ordinarily carried on by the enterprise rather than by the frequency with which such events are expected to occur.

Therefore, an event or transaction may be extraordinary for one enterprise but not so for another enterprise because of the differences between their respective ordinary activities. For example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from an earthquake do not qualify as an extraordinary item for an insurance enterprise that insures against such risks.

Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

– attachment of property of the enterprise; or

– an earthquake.

Profit or Loss from Ordinary Activities

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. 13. Although the items of income and expense are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is sometimes made

Circumstances which may give rise to the separate disclosure of items of income and expense in accordance include:

(a) the write-down of inventories to net realisable value as well as the reversal of such write-downs;

(b) a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;

(c) disposals of items of fixed assets;

(d) disposals of long-term investments;

(e) legislative changes having retrospective application;

(f) litigation settlements; and (g) other reversals of provisions.

Prior Period Items

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

The term 'prior period items', as defined in this Standard, refers only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight.

Prior period items are generally infrequent in nature and can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, income or expense recognised on the outcome of a contingency which previously could not be estimated reliably does not constitute a prior period item.

Prior period items are normally included in the determination of net profit or loss for the current period. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

Changes in Accounting Estimates

As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

An estimate may have to be revise d if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments. The revision of the estimate, by its nature, does not bring the adjustment within the definitions of an extraordinary item or a prior period item.

Sometimes, it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate. In such cases, the change is treated as a change in an accounting estimate, with appropriate disclosure.

The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

(a) the period of the change, if the change affects the period only; or

(b) the period of the change and future periods, if the change affects both.

A change in an accounting estimate may affect the current period only or both the current period and future periods. For example, a change in the estimate of the amount of bad debts is recognised immediately and therefore affects only the current period. However, a change in the estimated useful life of a depreciable asset affects the depreciation in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods, is recognised in future periods.

The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate which was previously included in the profit or loss from ordinary activities is included in that component of net profit or loss. The effect of a change in an accounting estimate that was previously included as an extraordinary item is reported as an extraordinary item.

The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

Changes in Accounting Policies

Users need to be able to compare the financial statements of an enterprise over a period of time in order to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are normally adopted for similar events or transactions in each period.

A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

The following are not changes in accounting policies:

(a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement; and

(b) the adoption o f a new accounting policy for events or transactions which did not occur previously or that were immaterial.

Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should

A change in accounting policy consequent upon the adoption of an Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, contained in that Accounting Standard. However, disclosures required by of this Standard should be made unless the transitional provisions of any other Accounting Standard require alternative disclosures in this regard.

ACCOUNTING STANDARD (AS) 10

ACCOUNTING FOR FIXED ASSETS

Introduction

1. Financial statements disclose certain information relating to fixed assets. In many enterprises these assets are grouped into various categories, such as land, buildings, plant and machinery, vehicles, furniture and fittings, goodwill, patents, trade marks and designs. This standard deals with accounting for such fixed assets except

2. This standard does not deal with the specialized aspects of accounting for fixed assets that arise under a comprehensive system reflecting the effects of changing prices but applies to financial statements prepared on historical cost basis.

3. This standard does not deal with accounting for the following items to which special considerations apply:

(i) forests, plantations and similar regenerative natural resources;

(ii) wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources;

(iii) expenditure on real estate development; and

(iv) livestock.

Expenditure on individual items of fixed assets used to develop or maintain the activities covered in (i) to (iv) above, but separable from those activities, are to be accounted for in accordance with this Standard.

4. This standard does not cover the allocation of the depreciable amount of fixed assets to future periods since this subject is dealt with in Accounting Standard 6 on 'Depreciation Accounting'.

5. This standard does not deal with the treatment of government grants and subsidies, and assets under leasing rights. It makes only a brief reference to the capitalisation of borrowing costs and to assets acquired in an amalgamation or merger. These subjects require more extensive consideration than can be given within this Standard.

Definitions

6.The following terms are used in this Standard with the meanings specified:

6.l Fixed asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

6.2 Fair market value is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

6.3 Gross book value of a fixed asset is its historical cost or other amount substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value.

Explanation

7. Fixed assets often comprise a significant portion of the total assets of an enterprise, and therefore are important in the presentation of financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a material effect on an enterprise's reported results of operations.

Identification of Fixed Assets

8.1 The definition in paragraph 6.1 gives criteria for determining whether items are to be classified as fixed assets.Judgementis required in applying the criteria to specific circumstances or specific types of enterprises. It may be appropriate to aggregate individually insignificant items, and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as fixed asset, because the amount of the expenditure is not material.

8.2 Stand-by equipment and servicing equipment are normally capitalised. Machinery spares are usually charged to the profit and loss statement as and when consumed. However, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular, it may be appropriate to allocate the total cost on a systematic basis over a period not exceeding the useful life of the principal item.

8.3 In certain circumstances, the accounting for an item of fixed asset may be improved if the total expenditure thereon is allocated to its component parts, provided they are in practice separable, and estimates are made of the useful lives of these components. For example, rather than treat an aircraft and its engines as one unit, it may be better to treat the engines as a separate unit if it is likely that their useful life is shorter than that of the aircraft as a whole.

ACCOUNTING STANDARD (AS) 29

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Objective

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. The objective of this Standard is also to lay down appropriate accounting for contingent assets.

Scope

1. This Standard should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, except: (a) those resulting from financial instruments1 that are carried at fair value; (b) those resulting from executory contracts, except where the contract is onerous;

Explanation :

(i) An 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Thus, for a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

(ii) If an enterprise has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision as per this Statement.

The application of the above explanation is illustrated in Illustration 10 of Illustration C attached to the Standard.

(c) those arising in insurance enterprises from contracts with policy- holders; and

(d) those covered by another Accounting Standard.

2. This Standard applies to financial instruments (including guarantees) that are not carried at fair value.

3. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

4. This Standard applies to provisions, contingent liabilities and contingent assets of insurance enterprises other than those arising from contracts with policy-holders.

5. Where another Accounting Standard deals with a specific type of provision, contingent liability or contingent asset, an enterprise applies that Standard instead of this Standard. For example, certain types of provisions are also addressed in Accounting Standards on:

(a) construction contracts

(b) taxes on income (Accounting for Taxes on Income);

(c) leases (AS19,Leases).However,asAS19contains no specific requirements to deal with operating leases that have become onerous, this Statement applies to such cases; and

(d) retirement benefits(seeAS15,AccountingforRetirementBenefits in the Financial Statements of Employers).

6. Some amounts treated as provisions may relate to the recognition of revenue, for example where an enterprise gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. AS 9, Revenue Recognition, identifies the circumstances in which revenue is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of AS 9.

7. This Standard defines provisions as liabilities which can be measured only by using a substantial degree of estimation. The term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

8. Other Accounting Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

9. This Standard applies to provisions for restructuring (including discontinuing operations). Where a restructuring meets the definition of a discontinuing operation, additional disclosures are required by AS 24, Discontinuing Operations.

Definitions

10. The following terms are used in this Standard with the meanings specified:

10.1 A provision is a liability which can be measured only by using a substantial degree of estimation.

10.2 A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

10.3 An obligating event is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

10.4 A contingent liabilityis:

(a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made.

10.5 A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise.

10.6 Present obligation-an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

10.7 Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

10.8 A restructuring is a programme that is planned and controlled by management, and materially changes either:

(a) the scope of a business undertaken by an enterprise;or

(b) the manner in which that business is conducted.

11. An obligation is a duty or responsibility to act or performing a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. Obligations also arise from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner.

12. Provisions can be distinguished from other liabilities such as trade payables and accruals because in the measurement of provisions substantial degree of estimation is involved with regard to the future expenditure required in settlement. By contrast:

(a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and

(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Although it is sometimes necessary to estimate the amount of accruals, the degree of estimation is generally much less than that for provisions.

13. In this Standard, the term 'contingent' isused for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence.

UNIT 1

1.Elaborate the accounting principles with suitable examples?

2.Journalize the following transaction and post them into proper Ledger of Shanaa & Co.:

May - 2016	Rs.
1 Mr. B Commenced business with cash	10,000
4 Purchased goods from Mr. V	6,750
7. Cash Purchases	3,000
10. Cash Sales	4,000
13 Purchased goods from Mr. V	2,000
16 Sold goods to Rahul	5,000
18 Paid cash to Mr. V	2,850
19 Sold goods to Rahul	500
24 Paid Mr .V	2,400
26 Received cash from Rahul	1,850
28.Paid salary	1,250

3.Compare single entry with double entry system of book keeping.

4.Post the following transaction in the Ledger and prepare a trial balance.

March 2016	Rs.
1 Mr. A - Started business with cash	2,0,000
2 Deposited into bank	5,000
3 Purchased Machinery	4,500
4 Sold goods to Mr. M	6,500
5 Salary Paid	1,5 00
6 Received cash from Mr. M	6,500
8 Purchased goods for Mr. N	2,050
10 Retuned goods to Mr. N	500

5.Write out the following transactions in the Triple column cash book of Sitaram:

2013

Jan. 1 Sitaram commences his business with cash Rs. 30000
Jan 2 He pays into bank current account Rs. 20000
Jan. 3 He receive cheque from kulwant rai on account Rs. 1000
Jan. 7 He pays kulwant rai's cheque into bank Rs. 1000
Jan. 10 He pays Radha Sharan by Cheque Rs. 1980 and receive discount Rs. 20
Jan. 11 He receive cheque from Wasim Rs. 970 and allow him discount Rs. 30
Jan. 15 He makes sales for cash Rs. 2000
Jan. 22 He pays jajoo traders in cash RS. 2000 and receives discount Rs. 100
Jan. 29 He withdraws from bank for office use Rs. 500

Jan. 30 He purchases furniture by cheque Rs. 1200

6. “Every debit has got a credit and vice versa” – Discuss
7.Prepare Trail balance from the following information as on 31st March 2016

Particulars	Rs.
Cash in hand	2,400
Capital	2,00,000
Purchases	2,40,000
Bills Payable	44,000
Stock (Opening)	70,000
Sundry Debtors	1,00,000
Sundry Creditors	48,000
Wages	32,000
Plant and Machinery	1,20,000
Furniture	30,000
Sales	4,00,400
Bad Debts Reserve	2,000
Bills Receivable	40,000
Rent and Taxes	20,000
Salaries	40,000

8.Record the following transactions in Mani’s Columnar Cash Book :
2061 January

1. Balance of Cash Rs. 50: Bank 3,800.
2. Received from Raman Rs. 900 and allowed him discount Rs. 50.
3. Sold goods for cashRs.5,000 and paid half the amount into bank.
4. Paid salaries Rs. 2500 in cash.
5. Recovered from the manager Rs. 200 being excess travelling allowance drawn by him.
6. Settled a debt of Rs. 1,200 by cheque receiving a discount of 5%.

9.Enter the following transactions in a double column cash book/two column cash book.

2005		Rs
March 1	Cash in hand	80,000
March 1	Bank Balance	120,000
March 3	Received a cheque from Osman	24,000
March 4	Deposited Osman's cheque with bank	--
March 8	Withdrawn from bank for business use	20,000
March 10	Goods sold for cash	30,000
March 15	Goods bought for cash	80,000
March 20	Paid Rahim by cheque	26,000
March 30	Deposited into bank	16,000
March 31	Paid salary in cash	10,000

10.Explain with examples the rules for debiting and crediting.

UNIT 2

1.From the following Trial balance, prepare Trading and Profit and Loss Account and the Balance sheet as on that date for the year ending 31.3.2017

Particulars	Debit (Rs.)	Credit (Rs,)
Stock	15,000	
Purchase	13,000	
Sales		30,000
Carriage Inwards	200	-
Salaries	5,000	-
Printing and Stationery	800	-
Drawings	1,700	-
Sundry Creditors	-	2,000
Sundry Debtors	18,000	-
Furniture	1,000	-
Capital	-	25,000
Telephone	750	
Interest Paid	550	
Machinery	3500	
Cash	500	

Loan		3,000
Total	**60,000**	**60,000**

Adjustments:

a. Stock on March 2017 was Rs. 12,000

b. Salaries outstanding Rs. 4,800

c. Telephone Rent paid in advance is Rs. 320

2.State the type of error involved in the following and explain how you rectify them:

a) A sale of goods to Kannan for Rs 960 has been entered as Rs. 690 in the sales book.

b) A Purchase of Typewriter for Rs. 1,200 has been entered in the Purchase book.

c) A discount of Rs. 50 allowed to Senthil has not been entered in the Cash book.

d) The total of Sales ReturnsAccount is short by Rs. 50.

e) Goods sold to Pasupathi for Rs. 250 has been debited to Rasapathi's Account.

f) A bill receivable of Rs. 500 received from Joseph was passed through the bills payable book

3. From the following Trial Balance of Gurdeep Singh as at 31st December, 2007, prepare Trading and Profit and Loss Account and Balance Sheet:

Dr. Balances	Rs.	Cr. Balances	Rs.
Opening Stock	15,500	Capital	60,000
Land and Building	35,000	Loan from Mrs. Gurdeep	30,000
Machinery	50,000	Singh @9%	9,600
Furniture & Fixtures	5,000	Sundry Creditors	2,100
Purchases	1,06,000	Purchase Returns	2,07,300
Salaries	11,000	Sales	1,200
General Expenses	2,500	Discount	
Rent	3,000		
Postage and Telegrams	1,400		
Stationery	1,300		
Wages	26,000		
Freight on Purchases	2,800		
Carriage on Sales	4,000		
Repairs	4,500		
Sundry Debtors	30,000		
Bad Debts	600		

Cash in Hand	100		
Cash at Bank	6,400		
Sales Returns	5,100		
	3,10,200		**3,10,200**

The following further information was given:

(a) Wages for December, 2007 amounting to Rs. 2,100 have not yet been paid.

(b) A provision for doubtful debts @5% on debtors is necessary.

(c) The value of stock on hand on 31st Dec, 2007 was Rs. 14,900.

4.A bookkeeper having failed to tally the Trial balance on 31st May 2002 opened a Suspense a/c and transferred the difference of Rs.1709 to the credit of Suspense a/c the following errors were later discovered:

a. Sales book was under cast by Rs.2000.
b. Purchase of machinery for Rs.3000 was passed through the purchases book.
c. Goods sold to Vijaya for Rs.45 was posted to her account as Rs.54.
d. Purchase returns book was over cast by Rs.200.
e. The total of sales book was carried forward from page 5 to 6 as Rs.1222 instead of Rs.1122.
f.

5.The following is the Trial Balance of Mr. Gyan on 30th June, 2007 :

Dr. Balances	Rs.	Rs.
Cash in Hand	540	
Cash at bank	2,630	
Purchases Account	40,675	
Sales Account		98,780
Returns Inward Account	680	

Returns Outward Account		500
Wages Account	10,480	
Fuel & Power Account	4,730	
Carriage on Sales Account	3,200	
Carriage on Purchase Account	2,040	
Stock Account (1st July, 2007)	5,760	
Building Account	30,000	
Freehold Land Account	10,000	
Machinery Account	20,000	
Patent Account	7,500	
Salaries Account	15,000	
General Exps. Account	3,000	
Insurance Account	600	
Drawings Account	5,245	
Capital Account		71,000
Sundry Debtors Account	14,500	
Sundry Creditors Account		6,300
TOTAL	**1,76,580**	**1,76,580**

Taking into account the following adjustments, Prepare Trading Account and Profit and Loss Account and the Balance Sheet:

(a) Stock on hand on 30th June, 2007 is Rs. 6,800.

(b) Machinery is to be depreciated at the rate of 10% and patents at the rate of 20%.

(c) Salaries for the month of June 2007 amounting to Rs. 1,500 were unpaid.

6.Rectify the following accounting errors through Suspense Account by making journal entries :

1. Purchase of goods from Mohit for Rs2500 was entered in the Sales Book, however Mohit's Account was correctly credited.
2. Cash received from Anil a debtor Rs3200 was correctly entered in the Cash Book but was omitted to be posted to his account.
3. Sales Book was overcast by Rs1500.
4. Cash of Rs4000 paid to Hanif was credited to Rafique A/c as Rs1400.
5. The total of Purchase Returns Book of Rs3150 was carried forward as Rs1530. 6. Namita was paid cash Rs6500 but Sumita was debited by Rs6000.

7. The following are the balance exacted from the books of Vishakan as on 31.12.2016. Prepare Trading, Profit and Loss account and Balance sheet for the year ending 31.12.2016.

Trial balance as on 31.12.2014

Debit Balances	**Rs.**	**Credit Balances**	**Rs.**
Drawings	14, 000	Capital	50, 000
Cash at bank	1, 700	Sales	16, 000
Cash in hand	6, 500	Sundry creditors	4, 500
Wages	1, 000		
Purchases	2, 000		
Stock 1.1.2014	6, 000		
Buildings	30, 000		
Sundry debtors	4, 400		
Bills receivable	2, 900		
Rent	450		
Commission	250		
General expenses	800		
Furniture	500		
Total	**70, 500**	**Total**	**70,500**

The following adjustments are to be made:

a) Stock on 31.12.2014 was Rs. 4, 000
b) Interest on capital at 6% to be provided
c) Wages yet to be paid Rs. 100
d) Rent prepaid Rs. 50

8.Rectify the following errors:

1. A sale of goods to value of Rs 600 to Raju has been debited to Raghavan.
2. A purchase of goods form Mohan amounting to Rs 2,500 has been wrongly entered in sales book.
3. A purchase of goods from Manoharan amounting to Rs. 1,500 has been debited to his account.

4. A payment of Rs. 600 in respect of salary paid to the manager has been debited to his personnel Account.
5. The Purchases Book was cast Rs. 100 excess.

9. The following trial balance is extracted from the books of a merchant on 31st December 2007:

PARTICULARS	DR. Rs.	Cr. Rs.
Furniture and Fittings	640	
Motor Vehicles	6,250	
Buildings	7,500	
Capital Account		12,500
Bad Debts	125	
Provision for Bad Debts		200
Sundry Debtors and Creditors	3,800	2,500
Stock on January 1, 2007	3,460	
Purchases and Sales	5,475	15,450
Bank Overdraft		2,850
Sales and Purchases Returns	200	125
Advertising	450	
Interest Account	118	
Commission		375
Cash	650	
Taxes and Insurance	1,250	
General Expenses	782	
Salaries	3,300	
	34,000	34,000

The following adjustments are to be made:

(a) Stock in Hand on 31st December, 2007 was Rs. 3,250.

(b) Depreciate Building @5%, Furniture and Fitting @ 10% and Motor Vehicle @ 20%.

(c) Salaries Rs. 300 and Taxes Rs. 120 are outstanding.

Prepare a Trading and Profit and Loss Account for the year ending 31st December, 2007 and a Balance Sheet as on that date.

10.Pass journal entries to rectify the following errors assuming the existence of suspense account:

(i) Goods bought from Vijay amounting to 27,500 were posted to the credit of his account as Rs 25,700.

(ii) Sales book was overcast by Rs 10,000.

(iii) While carrying forward the total of one page of the purchases book to the next page, the amount of Rs 64,750 was written as Rs 61,750.

(iv) Purchases returns to Goenka Brothers Rs 15,500 were not recorded in purchases returns book but the account of Goenka Brothers was duly debited for the amount.

(v) Drawings of goods costing Rs 1,500 were not recorded in the books of account. Also prepare Suspense Account starting it with a debit balance of Rs 1,600. Have you any comments to offer on Suspense Account?

UNIT 3

1.On 1st March, 2016, Arasu sold goods to Rasi for Rs. 78,500 and drew a bill on Rasi for 4 months. Rasi accepted the bill for Rs. 78,500 and returned it to Arasu who discounted it on 3rd March, 2016 with his bank at 12% p.a. Rasi met his acceptance on the due date. Pass Journal entries in the books of both the parties.

2.X borrows from Y Rs 5,00,000 on 1st January 2016 repayable in15 equal annual installments commencing form 1st January 2017.Find the average due date and calculate interest at 18% per annum which Y will charge from X.

3.On 1st April, 2011 G owed H a sum of Rs 7,000 which had been written off by H as bad debt. But on 4th April, 2011 G purchased goods from H for Rs 8,000 and gave two promissory notes-one at two months for Rs 10,000 and the other at three months for Rs 5,000. On 7th April, 2011 H got the bill for Rs 10,000 discounted with the bank for Rs 9,800 and endorsed the second bill in favour of his creditor M. On the due date, H met the first bill.

However, G could not honour the second bill and approached H for its renewal for two months agreeing to add interest at the rate of 15% per annum to the amount of the bill. H agreed on the condition that G provided collateral security whereupon G endorsed two of his bills receivable in favour of H; one bill was for Rs 3,000 due on 4th August, 2011 and the other was for Rs 2,500 due-on 11th September, 2011.

H received the payment for the bill for Rs 3,000 but the renewed bill and the bill for Rs 2,500 were dishonoured on the due dates. On 13th September, 2011 G became insolvent. On 10th December, 2011 H received a first and final dividend of 40 paise in the rupee from G’s estate. Pass journal entries for all the above mentioned transactions.

4.Balan draws a three months bill on Sekhar for Rs 4,000 on April 2004. Sekhar accepts the Bill and sends it to Balan, who gets it discounted with his bank for Rs 3,940. Balan immediately remits Rs 985 to Sekhar On the due date, Balan being unable to remit the amount due, accepts a Bill for Rs 4,500 for three months which , discounted by Sekhar for Rs 4,440. Sekhar sends Rs 330 to Balan. Before the maturity of the second bill Balan becomes insolvent and his estates paying 40 paise in the rupee.

Give journal entries in the books of Balan and Sekhar. Also, show the ledger accounts.

5.Journalise the following transactions in the books of J. Jaggi:

(a) Our acceptance to M. Madan for Rs 3,000 retired before due date, rebate allowed Rs 45.

(b) K. Kaku’s acceptance for Rs 4,000 renewed for a further period of 3 months, interest charged at 15 per cent.

(c) Our acceptance to P. Swamy for Rs 8,000 renewed for 3 months on the condition that Rs 2,000 is paid in cash immediately and the remaining balance to carry interest at 18 per cent.

(d) D. Dutt’s promissory note for Rs 7,000 which we had endorsed in favour of P. Mukeijee dishonoured. P. Mukerjee paid Rs 10 as noting charges. We pay P. Mukerjee by cheque and accept from D. Dutt another bill for the amount due plus interest, Rs 315.

(e) Our promissory note in favour of A. Alam for Rs 2,500 returned unpaid due to lack of instructions to the bank. A. Alam claims Rs 2,510 which we pay by cheque.

(f) Our promissory note for Rs 5,000 in favour of Patel settled by sending him Tanna’s acceptance for Rs 5,000.

6.On 1st January 2004, A draws a Bill on B at four months for Rs 1,000 and B draws on A for similar amount and term. Both the Bills are accepted and discounted at 6% p a. A meets his own acceptance at maturity, but B’s acceptance is dishonoured. B then accepts a new Bill at three months for the amount due by him plus interest at 8% p.a. which is duly met at maturity. Journalise the above transactions in the books of A and B.

7.Arul sends his promissory note for 3 months to Anbu for Rs. 1,200 on May 2, 2015. Anbu gets it discounted with his bankers at 6% per annum. On the due date the bill is dishonored, the banker paying Rs. 10 as noting charges. Anbu agrees to accept Rs. 250 in cash (Rs. 50 for noting charge and interest) and another promissory note for Rs. 1,000 for 2 Months. On the due date Arul approaches Anbu again and asks for renewal of the bill for a further period of 3 months. Anbu agrees to the request provided Arul pays Rs.60 as interest in cash. The last bill was met at maturity.

Draft Journal Entries in the books of Anbu and Arul.

8.Mr. N owes Mr. D Rs. 1,40 on Januar1, 2015. Following further transaction take place between them.

January 16, Mr. N buys goods Rs. 1,400

February 2, Mr. N received cash Rs. 1,100

March 5, Mr. N buys goods Rs. 800

Mr. N pays the whole amount on 31st March, 2015 together with interest at 5% per annum. Calculate interest.

9..The following bills were accepted on 1st January, 2012 for 4 months:

(i) By B, Rs 10,000 and by C, Rs 15,000 in favour of A.

(ii) By A, Rs 20,000 and by C, Rs 5,000 in favour of B.

(iii) By A, Rs 10,000 and by B, Rs 20,000 in favour of C.

All bills were discounted on 4th January at 18% p.a., and the proceeds were shared by the three parties equally. On the due date C became insolvent and, later, a dividend of 30% was received from his estate.

Pass journal entries and prepare ledger accounts in the books of A.

10.X draws a Bill for Rs 1,500 and Y accepts the same for the mutual accommodation of both of them to the extent of X-2/3 andY-1/3. X discounts the same for Rs 1,410 and remits 1/3rdofthe proceeds to Y. Before the due date, Y draws another Bill for Rs 2,100 on X, in order to provide funds to meet the first Bill.

The second Bill is discounted for Rs 2,040 with the help of which the first Bill is met and Rs 360 is remitted to X. Before the due date of the second Bill X becomes insolvent and Y receives a dividend of 50 paise in the Rupee in full satisfaction. Pass necessary entries in the books of X and Y.

UNIT 4

1. On1st August 2016, Daljit of Delhi consigned 200 “Hi-Fi Sony” radio sets to Basavappa of Bangalore. White the cost of each set was Rs. 300, Daljit invoiced them at Rs. 350 per set. Daljit incurred Rs. 2,000 on freight and insurance on goods consigned.

   On 20th December, 2016 Basavappa sent account salesto Daljit stating that 135 setshave been soldat Rs. 410 per set and 43 sets have been soldat Rs. 360 per set. 2 sets have been sold for Rs.100 perset under instructions from the consignor. Basavappa also incurred Rs. 500 on godown rent and Rs 2,000 towards salaries to salesman. He is also entitled to a commission of 5 % on gross sales including del credited commission of 2%. Show the relevant ledger accounts in the books of both the Parties.

2.Daksha and Nakul entered into a joint venture and agreed to divide the profit as to Daksha 60% and Nakul 40%. Daksha and Nakul contributed Rs. 6,00,000 and Rs. 4,00,000 respectively for carrying on transactions relating to the venture. They opened a joint bank account with the above contributions. They purchased three old state buses for Rs. 12,00,000. Daksha and Nakul personally paid Rs. 45,000 and Rs. 30,000 respectively for repairs and renewals. They purchased a few tyres and tubes costing Rs. 54,000. Two buses were sold for Rs. 8,70,000 and the third one was taken by Nakul at cost price. Pass necessary journal entries and prepare joint venture account, Joint bank account and close the accounts of the venture.

3.H. Ltd. forwarded on 1st December, 2011, 50 pressure cookers to Kale of Mumbai to be sold on behalf of H. Ltd. The cost of one pressure cooker was Rs 1,200 but the invoice price was Rs 1,600. H. Ltd. incurred Rs 2,000 on freight and insurance. Kale received the consignment on 14th December, 2011 and accepted a 3 months’ draft drawn upon him by H. Ltd. for Rs 40,000. Kale paid Rs 1,050 as rent and Rs 250 as insurance and by 31st March had disposed of 40 pressure cookers at Rs 1,640 each. Kale is entitled to a commission of 5 per cent on sales including a del credere commission of 1%. Kale sold 10 pressure cookers son credit and was not able to recover sale proceeds of one pressure cooker because of insolvency of the debtor.

You are required to:

(i) Prepare all the ledger accounts in the books of H Ltd; and

(ii) Pass journal entries for all the transactions relating of consignment.

4. Adarji and Bomanji were partners in a joint venture sharing profits and losses in the proportion of four-fifths and one-fifth respectively. Adarji supplies goods to the value of Rs 50,000 and incurs expenses amounting to Rs 5,400. Bomanji supplies goods to the value of Rs 14,000 and his expenses amount to Rs 800. Bomanji sells goods on behalf of the joint venture and realises Rs 92,000. Bomanji is entitled to a commission of 5 per cent on sales. Bomanji settles his account by bank draft. Give the journal entries and the necessary accounts in the books of Adarji and only the important ledger accounts in the books of Bomanji.

5Explain the nature of consignment and distinguish between sale and consignment?

6.Koshi and Joshi were partners in a joint venture sharing profits and losses in the proportion of three – fifths and two – fifths respectively. Koshi supplies goods to the value of Rs. 10,000 and incurs on freight Rs. 500. Joshi also supplied goods to the value of Rs. 8,000 and incurs Rs. 400 towards freight and other incidental charges. Joshi sells the entire stock of goods on behalf of the joint venture for Rs. 25,000. Joshi is also entitled to a commission of 5% on sales. Joshi settles his account by remitting a bank draft. Pass journal entries and ledger account in both parties.

7.Punjab Cycle Co. of Ludhiana consigned 100 tricycles to Kanpur Cycle Co. of Kanpur costing Rs 1,500 each, invoiced at Rs 2,000 each. The consignor paid freight Rs 10,000 and insurance in transit Rs 1,500. During transit, 10 tricycles were totally damaged.

Kanpur Cycle Co. took delivery of remaining tricycles and paid Rs 1,530 for octroi duty. Kanpur Cycle Co. sent a bank draft to Punjab Cycle Co. for Rs 50,000 as advance and later on sent an account sales showing that 80 tricycles had been sold @ Rs 2,200 each. Expenses incurred by Kanpur Cycle Co. on godown rent were Rs 2,000. Kanpur Cycle Co. is entitled to a commission of 5% on invoice price and 25% on any surplus of sale price over invoice price. Insurance claim was settled at Rs 14,000.

Prepare consignment account, consignee’s account and accidental loss account in the books of the consignor.

8.Bring out the features of joint venture and Distinguish between joint venture and Consignment?

9. A Co. Ltd., manufacturers and dealers in edible oil, consigned to their Bangalore agent, 250 crates of oil (each crate containing 12 one-kilo sachets) in March, 2012. The consignment was sent at 20% over the cost price of Rs 120 per kilo. A bill was drawn on the agent for 80% of the value of the consignment which was met on presentation. Expenses incurred by the company by way of freight and insurance came to Rs 12,000.

The agent received the consignment by lorry and sold in March 2012, 225 crates @ Rs 180 per kilo. He found that 125 sachets had got damaged in transit—the manufacturer accepted this as a normal loss— and these were sold to consumers at Rs 80 per sachet. The insurance company settled the loss claim for Rs 2,500.

Agent incurred expenses of Rs 5,000 on his own account (unconnected with the liability under the agreement) and Rs 3,000 on consignor's account. He is entitled to a commission of 5% on sales effected. By 15th April, 2012, the agent remitted the balance due to him to the company.

Draw the accounts in the book of A Co. Ltd., to record the above transactions.

10. Arun and Varun entered into a joint venture to purchase, recondition and sell secondhand cars. Arun purchased for cash 50 cars at an average price of Rs 70,000 during the period from 1st October, 2011 to 31st March, 2012.

Varun, during the same period reconditioned the cars by spending the following amounts:

A.C. cars were sold for Rs 3,50,000 each while non-A.C. cars were sold as follows:

(i) 18 cars @ Rs 2,50,000 each by Arun,

(ii) 18 cars @ Rs 2,20,000 each and 5 cars @ Rs 2,10,000 each by Varun.

During testing one non-A.C. car met with a major accident and the insurance company paid the actual cost as amount of the claim; Varun receiving the amount.

Prepare Memorandum Joint Venture Account and Varun in Joint Venture Account in the books of Arun

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UNIT 5

1. From the following particulars, ascertain the Bank Balance as per Pass book on December 31, 2010

a) The Bank balance as per cash book on that date was Rs. 11,500
b) Cheques issued but not cashed before that date amounted to Rs 1,750
c) Cheques paid into bank, but not cleared before December 31, 2010.
d) Interest on investments collected by the bank but not entered in the cash book amounted to Rs. 275
e) Local cheque paid in but not entered in the cash book Rs. 300.
f) Bank charges debited in the pass Rs. 25.
g) A customer paid into bank directly a sum of Rs. 300 on March 28, 2013 which has not been entered in cash book

2.Elaborate the provisions of contingent liability and contingent asset?

3.From the following particulars of Neha and Co. prepare Bank Reconciliation Statement on March 31,2006

Overdraft as per pass book 16,500

Interest on overdraft 1,600

Insurance premium paid by the bank 800

Cheques deposited but not yet credited 5,500

Cheques issued but not present for payment 6,000

Wrongly credit to firm account by the bank 1,000

4.Explain about Accounting Standard (AS1): Disclosure of Accounting Policy

5.Prepare Income and Expenditure Account from the following particulars, for the year 2014

	Rs.
Subscription collected (Including Rs. 1000 for the year 2013)	34, 000
Subscription outstanding for the year 2014	1, 500
Donation received	1, 800
Salary paid	1, 200
Rent paid	2, 400
Expenses on tournament	1, 500
Periodicals	800
Travelling expenses	400

Postage	600
Other expenses	1, 000
Purchases of furniture	1, 800

6.Explain about Accounting Standard (AS 27): Financial Reporting of Interests in Joint Venture.

7.The cash book shows a balance of Rs. 25,000. On comparing the cash book with the pass book, the following discrepancies were noted:

i) Cheques issued but not presented for payment Rs. 1200
ii) Cheques deposited in bank but not collected Rs. 1,800
iii) Bank paid insurance premium Rs. 1,000
iv) Directly deposited cash by a customer in bank of Rs. 1,600
v) Interest on investment collected by bank Rs. 400
vi) Bank Charges Rs. 60

Prepare a Bank Reconciliation statement showing balance as per pass book

8.Describe about the Account Standard AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

9.On 31st December, 2015 the Pass book of Mr. Murali's shows a credit balance of Rs. 10, 000. Prepare a Bank Reconciliation Statement with the following information.

a) Mr. Murali issued cheques of Rs. 300 on 25th December 2015 but this was not presented for payment till 31.12.2015
b) A cheque of Rs. 200 issued to Avinash has not been presented for payment
c) A cheque of Rs. 285 deposited on 28th December 2015 entered in cash book but not entered by the banker
d) A customer directly deposited of Rs. 800 in the bank but not entered in the cash book until 30th Jan 2015
e) The debit side of the cash book has been undercast by Rs. 300

10.Distinguish between Receipts and Payment account and Income and Expenditure account.

S.No.	QUESTION	OPTION 1	OPTION 2	OPTION 3	OPTION 4
1	What is the method of	Book keeping	Auditing	Accountancy	Cost Accounting
2	Which of the following is not	Sales	Purchase	Management decisions	Cash
3	Which of the following event is	Death if key	Strike of workers	Payment of Rs. 10,000	Marriage of the
4	Management Accounting is	Suppliers	Employees	Management	Supervisors
5	The Primary functions of cost	Cost of a product	Administrate	Recorded transaction	Maintain books
6	Mention the branches of accounting	Cost and Financial	Cost and	Financial and	Financial, Cost and
7	When does an accountant record a	If it is materialized	If it has a tax	On managers' demand	On the demand of
8	Accounting is the process of match	Benefits and Costs	Revenues and	Cash inflows and	Potential and real
9	The concept that recognizes	Cost	Realization	Accrual	Matching
10	Furniture is______________	Fixed asset	Current asset	Liquid assets	Tangible assets
11	While putting the value or price of	Business Entity	Conservatism	Cost Concept	Money Measurement
12	The Financial record should	Accounting Period	Cost Concept	Money Measurement	Consistency
13	The main objective of accounting	Financial position	Position of the cash	Position of purchases	Position of sales
14	Current asset is ____________	Cash balance	Furniture	Investments	Closing stock
15	Mention the two accounting princip	Accounting	Accounting Terms	Accounting Period and	Accounting Concepts
16	Which of the following groups use	Management,	Management	Employers	Shareholdelrs
17	A business was commenced on 1st	At the breakup value	On the basis of going	Liquidation value	More than market value
18	When asset is purchased for cash --	Cash	Bank	Debtors	Asset
19	The example of intangible asset	Land	Building	Furniture	Patents.
20	An entry required for transferring	Single entry	Transfer entry	Double entry	No entry
21	All transactions are first recorded i	Journal	Ledger	Papers	Noted materials
22	The transactions are posted in the	Journal	Ledger	Papers	Noted materials
23	Purchases return and sales return	Real	Nominal	Personal	Persons
24	Expenses like wages, salaries,	Nominal account	Real account	Personal account	Cash account
25	An example which increase the	Credit sales	Credit purchase	Purchase return	Sales return
26	Which of the following is real	Drawings	Cash	Rent	Salary
27	Debtors ledger is otherwise	Creditors	Bought	Sales	General
28	An example of nominal account is	Freight Charges	Good will	Sales	Purchase
29	A _________ account usually	Debtors account	Creditors account	Capital account	Debenture account
30	Total purchases is equal to cash	Credit purchases	Credit sales	Cash sales	Creditors
31	A firm has assets worth rs.60,000	10,000	15,000	20,000	Rs.25,000
32	The total assets of a proprietor are	1,00,000	1,50,000	3,00,000	2,50,000

33	Cash purchases at rs.9,000 and	20,000	10,000	30,000	11,000
34	Total sales at rs. 8,000 and cash	13,000	8,000	3,000	5,000
35	Credit sales can be ascertained as	Creditors a/c	Debtors a/c	Profit & Loss a/c	Balancesheet
36	Credit purchase can be	Creditors a/c	Debtors a/c	Profit & Loss a/c	Balancesheet
37	Commission received is ________	Expenditure for the	Income for the	No income and	loss to the business
38	Commission Paid is ________	Expenditure for the	Income for the	No income and	loss to the business
39	The primary function of accounting	Recording financial	Recording non-	Recording and	Recording of
40	Financial accounting deals with	Determination of	Determination of price	Determination of cost	Determination of value
41	Every debit must have a	Single entry system	Double entry system	Incomplete records	Book Keeping
42	Non-financial quantitative	Dual concept	ney measurement conc	Accrual concept	Periodic concept
43	Journal is a book of ___________	Original entry	Secondary entry	Petty cash transaction	Credit records
44	The accounting equation is concerned	Assets only	Liabilities only	Assets and Liability	Assets, Liabilities and Capital
45	Financial accounts records only	Actual figures	Budgeted figures	Standard figures	Market cost
46	The process of recording the journal is	Journalising	Costing	Ledger	Posting
47	Which of the following is correct____	Asset = Liabilities – Capital	Capital = Assets – Liabilities	Capital = Assets + Liabilities	Capital = Asset
48	Dividend received is a	Gain	Expenses	Asset	Liability
49	The modern double entry	1949	1494	1946	1926
50	The Book-Keeping is mainly conce	Collection of data	Recording the	Record non-monetary	Collection of
51	The concept of treating the	Money	Dual aspect concept	Business entity concept	Matching concept
52	chronological records of transaction	Ledger	Trial Balance	Journal	Subsidary books
53	Debtors ledger is also known as _____	Customers ledger	General ledger	Suppliers ledger	Specific ledger
54	A statement below the journal is _____	Narration	Description	Transaction	Descreptive
55	The process of recording in the ledger	Posting	Ledger	Journalising	Summarizing
56	Cash account is a ___________	Personal account	Nominal account	Real account	Book
57	The sales made to surya for cash shoul	Cash account	Purchases account	Sales account	Surya account
58	Trial Balance is prepared to find out__	Financial position of the business	Arithmetic accuracy of the business	Profitability position of the business	Inaccuracy of accounts
59	Trial Balance is prepared with the prin	Single entry system of book keeping	Double entry system of book keeping	Transaction	Jouranlising
60	An irrecovable debt is called _______	Bad debts	Doubtful debts	Debts	Non fund

ANSWER
Accountancy
Management decisions
Payment of Rs. 10,000 to
Management
Cost of a product
Financial, Cost and
If it is materialized by a
Revenues and Expenses
Matching
Fixed asset
Cost Concept
Accounting Period
Financial position
Cash balance
Accounting Concepts and
Management, employees,
On the basis of going
Asset
Patents
Transfer entry
Journal
Ledger
Real
Nominal account
Credit sales
Cash
Sales
Freight Charges
Debtors account
Credit purchases
15,000
1,50,000

20,000
3,000
Debtors a/c
Creditors a/c
Income for the business
Expenditure for the
Recording financial data
Determination of profit
Double entry system
Money measurement
Original entry
Assets, Liabilities and Capital
Actual figures
Journalising
Capital = Assets – Liabilities
Gain
1946
Recording the financial
Business entity concept
Trial Balance
Customers ledger
Narration
Posting
Real account
Cash account
Financial position of the business
Double entry system of book-keeping
Bad debts

The book used for recording transactions relating	Cash book	Sales	Purchase book
Credit purchases is _____________	Total purchases -	Total purchases	Total purchases +cash
Easy location of errors are possible under	Self balancing	Sectional balancing	Depreciation
Cash sales are recorded in ____________	Cash book	Purchase book	Sales return book
In debtors account opening balance is always	Debit	Credit	Single entry
In creditors account opening balance is always	Debit	Credit	Single entry
Credit Purchases are recorded in ___________	Cash book	Purchase book	Sales return book
Credit Sales are recorded iln _______________	Cash book	Purchase book	Sales book
Debit note is sent to __________	Suppliers	Buyers	Suppliers and Buyers
Return of goods sold is recorded in_____________	Sales return book	Sales book	Purchase book
The balance of a cash book indicates___________	Cash in hand	Cash in bank	Payable amount
Purchase Book is kept to record all __________	Cash	Credit	Revenue
Sale of goods on credit is recorded in __________	Sales	Purchase	Purchase return
Purchases Book, Sales Book, Purchase Return	Day books	Cash book	Subsidiary book
When cash is withdrawn from bank for office	Debited	Credited	Posted
The book that records all small payments is called	Cash book	Purchase book	Petty cash book
Discount allowed to debtors is ___________in	Debited	Credited	Contra
Contra entries are ________________	Entries of contracts in the books of accounts	Entries of contracting nature in the ledger	Entries for recording affecting both the sides
Credit transactions are entered in ___________	Cash book	Subsidiary book	Day books
The Cash book records _________	All cash receipts	All cash payments	All cash receipts and
State which of the following errors will not be	error of complete	error by carrying	wrong totalling of the
Errors which affect one account can be error of	Posting	double sided errors	error of complete
Amount spent on servicing office typewriter	Misalaneous	Type writer account	Repairs account
Wages paid to workers for the installation of a	Wages a/c	Machinery account	Installation account
Salary paid to manager must be debited to	Manager's a/c	office expenses a/c	salary account
Error of commission arises when	Any transaction is	Any transaction is	Any transaction is
Error of principle arises when _____________	Any transaction is	Any transaction is	Any transaction is
Sales to Ram of Rs.336 posted to his account as	Sales a/c	Ram's a/c	Cash a/c
Sales to senthil of Rs. 500 not recorded in the	Sales a/c	Senthil's a/c	Cash a/c
Carriage charges paid for a new plant purchased,	Plant a/c	Carriage a/c	Plant a/c and Carriage
An amount of Rs. 200 received from P and	Pa/c and Q a/c	cash a/c	P's a/c
A sale of Rs. 100 to A recorded in the purchase	Bank a/c	Purchase a/c	Sales return a/c
Errors which affect profit and loss related to	Nominal a/c	Impersonal a/c	Real a/c
Errors of carry forward affect ___________	Nominal a/c	Impersonal a/c	Real a/c

Which of the following error results in unadjusted	Outstanding	Un presented cheques	Deposit in transit
Bank charges amounting to Rs.5000 was not	Bank charges will	Bank charges will be	Bank charges will be
Unpresented cheques also referred as	Uncollected cheques	Uncredited cheques	Outstanding cheques
________ are cheques that are issued by the	Uncollected cheques	Uncredited cheques	Outstanding cheques
_________ Cheques that are presented to bank	Unpresented	Uncredited Cheques	Outstanding Cheques
Uncollected cheques also referred as __________	Unpresented	Uncredited Cheques	Outstanding Cheques
Favourable balance of bank statement implies	Credit balance	Debit balance	Bank overdraft
Standing orders are ________	Credited in the cash	Debited in the cash	Entered in the bank
A company was entered in hire purchase	Rs.1000 will be	Rs.2000 will be	Rs.3000 will be added
Rs.5000 deposited in bank account was entered	Rs.5000 will be	Rs.5000 will be debited	Rs.10,000 will be
Bank sent debit advice of Rs.500 to company	Rs.500 will be	Rs.500 will be credited	Non-adjustable
Provision is recorded in debit side of	Trading	Profit & Loss account	Profit & Loss
Bad debts previously written off now recovered	Debtors ledger	Creditors ledger	General ledger
Reserves are shown ________________ side of	Liability	Asset	Credit
An example for direct expenses is	Interest	Income tax	Depreciation
An example for indirect expenses is ________.	Wages	Carriage inward	Freight
Selling expenses like sales, commission, bad	Sales ratio	Floor area	Light points
Repairs to building, maintenance of building are	Turnover ratio	Floor area	Wages
Opening stock + purchases – closing stock =	Purchases	Sales	Stock
Exchange of goods or services to gain profit or	Business transaction	Banking transaction	Transaction
The amount which the proprietor has invested in tl	Capital	Liabilities	Assets
The closing stock at the end of the year is the	Opening stock	Closing stock	Average Stock
The balance of unsold goods is known as _______	Stock	Assets	Liabilities
___________enables the trader to find out Gross	Trading account	Profit and loss account	Cash book
____________enables the trader to find out Net	Profit or loss	Trading account	Balance Sheet
___________shows the financial position of a trac	Balance sheet	ank reconciliation stateme	Cash book

Sales return book	Sales return book
Cash Purchase	Total purchases - cash purchases
Single entry system	Self balancing
Purchase return book	Cash book
Bank account	Debit
Cash account	Credit
Purchase return book	Purchase book
Purchase return book	Sales book
Retailers	Buyers
Creditors book	Sales return book
Receivable amount	Cash in hand
Payment	Credit
Sales return book	Sales
Debtors book	Subsidiary book
Contra	Debited
Creditors book	Petty cash book
Transferred	Credited
Not recorded in cash book	Entries for recording affecting both the sides of the cash book
Debtors book	Subsidiary book
Credit payment	All cash receipts and cash
Error of principle	error of complete omission
error by carrying forward	Posting
Asset Account	Repairs account
Expenses Account	Machinery account
Cash account	salary account
Any transaction is wholly	Any transaction is incorrectly
Any transaction is wholly	Any transaction is recorded
Bank a/c	Ram’s a/c
Bank a/c	sales a/c
Cash a/c	Plant a/c and Carriage a/c
Q’s a/c	Pa/c and Q a/c
Cash a/c	Purchase a/c
Personal a/c	Nominal a/c
Personal a/c	Impersonal a/c

Omission of Bank charges	Omission of Bank charges
Bank charges need no	Bank charges will be credited in
Bounced cheques	Outstanding cheques
Bounced cheques	Outstanding cheques
Bounced Cheques	Uncredited Cheques
Bounced Cheques	Uncredited Cheques
Adjusted balance	Bank overdraft
Entered in the petty cash	Entered in the bank statement
Rs.3000 will be subtracted	Rs.3000 will be subtracted from
Rs.10,000 will be debited	Rs.5000 will be credited
Rs.1000 will be subtracted	Rs.500 will be credited
Profit statement	Profit & Loss account
Cash account	Creditors ledger
Debit	Debit
Wages	Wages
Salaries	Salaries
Purchase value	Sales ratio
Light points	Floor area
Debtor	Sales
Entries	Business transaction
Fund	Capital
Stock	Opening stock
Profit	Stock
Balance Sheet	Trading account
Purchase book	Profit or loss account
Asset	Balance sheet

Outstanding expenses are shown on the	Liability side	Asset side	Both Liability and	Trading account
Income received in advance will be shown on the	Asset side	Both Liability and	Trading account	Liability side
Opening stock is to be ___________	Debited in trading	Credited in trading	Debited in P/L a/c	Credited in P/L a/c
Balance sheet is a ___________	Statement	Account	Ledger	Transaction
Current liabilities are recorded in the balance	Liability side	Asset Side	Profit and Loss	Trading
Capital are recorded in the balance sheet	Liability side	Asset Side	Both Liability and	not appear in the balance
The Gross profit can be ascertained by preparing	Trading a/c	Creditors a/c	Profit and Loss a/c	Debtors a/c
Selling expenses like sales, commission, bad	Sales ratio	Floor area	Light points	Purchase value
Fixed assets are recorded in the balance sheet	Liability side	Asset Side	Both Liability and	not appear in the balance
Fictituous assets are recorded in the balance sheet	Liability side	Asset Side	Both Liability and	not appear in the balance
___________is a current liability	Plant	Machinery	Sundry Creditors	Building
Tangible assets are recorded in the balance sheet	Liability side	Asset Side	Both Liability and	not appear in the balance
Long term liabilities are recorded in the balance	Liability side	Asset Side	Both Liability and	not appear in the balance
An example for direct expenses is _______	Interest	Income tax	Depreciation	Freight
An example for indirect expenses is	Wages	Carriage inward	Freight	Printing and stationery
In ________ capital is added with net profit	Balance sheet	k reconciliation stater	Trading account	Statement of affairs
Prepaid expenses are shown on the	Liability side	Asset side	Both Liability and	not appear in the balance
An example for indirect expenses is ________	Wages	Carriage inward	Freight	Office expenses
___________is a fixed asset	Plant	Cash balance	Sundry Debtors	Bank balance
___________is a intangible asset	Goodwill	Machinery	Plant	Building
Unexpired expenses are shown on the	Liability side	Asset side	Both Liability and	not appear in the balance
___________is a fixed asset	Cash balance	Machinery	Sundry Debtors	Bank balance
___________ is a irecoverable debt from the	Bad debts	Reserves	Drawings	Capital
Discount allowed will be recorded in the -----------	Trading account	Profit and loss accoun	Purchase account	Purchase return account
Discount received will be recorded in the ----------	Trading account	Profit and loss accoun	Sales account	Sales return account
Intangible assets are recorded in the balance sheet	Liability side	Asset Side	Both Liability and	not appear in the balance
The amount spent to increase the earning capacity	Capital expenditure	Revenue expenditure	Deferred revenue	Expenditure
The amount spent for the maintenance of the	revenue expenditure	Capital expenditure	Deferred revenue	Revenue
A person to whom the business owes money is a _	Debtor	Creditor	Cashier	Supervisor
Decrease in value of fixed assets is called_______	Less	Depreciation	Decrese	Increase
Number of parties involved in a bill of exchange	2	3	4	5
On discounting of a bill of exchange with the	Drawer	Drawee	Payee	Bank
If the amount of a bill of exchange is paid before	Discounting of the bill	Discounting	Retiring the bill	Dishonor of the bill
On receiving a request from the drawer to renew	The bank	The drawer	The drawee	New Bill Receivable

A bill of exchange of Rs. 2000 is endorsed in	Rs.2500	Rs.2,000	Rs.2100	Rs.1900
An amount of Rs. 4000 spent on the repairs of	Error of Commission	Error of omission	Compensatory error	Error of principle
A bill drawn on Ramesh was entered in the Bills	Bill Receivable a/c	Bills Payable a/c	oth B/R A/c & B/P A	Ramesh's A/c
When a bill is drawn by A on B, it is debited in	Cash account	B account	ills Receivable accou	Bills Payable account.
Bills are drawn by_______	Creditors	Debtors	Agent	Brokers
While discounting the bill, debit should be given	Bank account	Bill receivable accoun	acceptors account	cash account
Bills payable book is a ________	Subsidiary book	Principal book	ledger	Memorandum book
How many sides does an account have________	One	Two	Three	Four
The assets of a business can be classified as	Only fixed assets	Only current assets	fixed and current ass	fictitious assets
The balance sheet is a ________ of the assets,	Statement	Document	Picture	balance
______ is given to promote sales	Cash discount	Trade discount	Quantity discount	Price discount
______ is allowed to encourage early cash	Cash discount	Trade discount	Quantity discount	Price discount
Bills Receivable book is to keep record of	Bills received from custo	bills received from su	credit purchases	credit sales
Bills payable book is to keep a record of ________	bills payable to creditors	bills received from su	credit purchases	credit sales
If a cheque sent for collection is dishonoured, the	Suppliers account	Bank account	Customers account	Cash account
A bill drawn and accepted for a genuine trade	Trade	Time	Inland	Personal
A bill which is not an inland bill is a _____ bill	Outward	inward	Foreign	New
A person who draws a bill of exchange is known	Drawee	Drawer	Payer	Payee
A person named in the negotiable instrument to	Payer	Payee	Consignor	Consignee
Noting charges are paid in the event of ____ of a	Withdrawal	Payment	Dishonour	Deposit
At the time of the renewal of a bill, interest	Credited	Totaled	Debited	Posted
______ days of grace are allowed in case of time	Five	Seven	Three	Two
Bills receivables a/c reveals ____________ as a	Opening Bills Receivabl	Opening stock	Opening debtors	Opening creditors
Bills payables a/c reveals ____________ as a	Opening Bills Payable	Opening stock	Opening debtors	Opening creditors
Sundry creditors means a person who supplies	Cash basis	Credit basis	Installment basis	Account basis
An account which contains all the trade debtors is	Purchase ledger	Sales ledger	General ledger	Subordinate ledger

Liability side
Liability side
Debited in trading
Statement
Liability side
Liability side
Trading a/c
Sales ratio
Asset Side
Asset Side
Sundry Creditors
Asset Side
Liability side
Freight
Printing and stationery
Balance sheet
Asset side
Office expenses
Plant
Goodwill
Asset side
Machinery
Bad debts
Profit and loss account
Profit and loss account
Asset Side
Deferred revenue
Deferred revenue
Creditor
Depreciation
3
Drawer
Retiring the bill
The drawee

Rs.2100
Error of principle
Both B/R A/c & B/P A/c
Bills Receivable account
Creditors
Bank account
Subsidiary book
Two
fixed and current assets
Statement
Trade discount
Cash discount
Bills received from
bills payable to creditors
Customers account
Trade
Foreign
Drawer
Payee
Dishonour
Debited
Three
Opening Bills
Opening Bills Payable
Credit basis
Sales ledger

Valuing current assets and current liabilities at the exchange rate	Valuation method	Estimation method	Closing method
The taking of goods away from customers who fail to keep up with	Readmission	Repossession	Reallocation.
The valuation method, as outlined in SSAP 20, implies that fixed	Temporal method	Net book value	Closing method
A change in the exchange rate of two currencies may not be known	Amortisation	Depreciation.	Appreciation
An account current is a statement of manual transaction between	Two Parties	In lieu of average due	On several Payment
In account current, while counting the number of days, the due date	Included	Excluded	Ignored
Red ink Interest is ____________	Really not interested	Negative Interest	Used in average due
A mean data is calculated ____________	In connection with the	Not for a lump-sum	For several payment
A bill of exchange payable ___________ becomes due immediately	At wrong	At right	May be right
The time after which the term bill is to be paid is said to be the	Periodic	Tender	Tenure
Average due date technique can be used for calculating	Interest	Dividend	Value
An account current is a _____________ of mutual	Statement	Balance	Accurate figure
Red ink Interest is treated as ____________ interest	Only Positive	Negative	Positive
An Account Current is a copy of the account appearing in the books	Receiver	Sender	Holder
Epoque method of calculation of interest is the reverse of the	Product Method	Re Ink Interest Method	Periodic Balanc
Red Ink Interest is the interest for the number of days by which the	Opening	Closing	Between
An Average due date is an Equated date of payment on which a	Single Payment	Few payments	Huge payment
___________ is the method of calculation of interest is followed by	Periodic Balance	Red Ink Method	Interest Tables Method
Interest = Balance of Numbers X __________ divided by 365	Rate	Price	Principal
A Year has _________ days	356	366	355
Interest = Interest on Capital - interest on _____________	Drawings	Savings	Earnings
______________ is a copy of the account appearing in the books of	Account Current	Current Account	Holder Account
A Leap year has __________ days	356	366	355
_________ of calculation of interest is the reverse of the Product	Epoque method	Re Ink Interest Method	Periodic Balanc
In__________ the day of the transaction is excluded and the last day	Current Account	Account Current	Savings Account
In Account Current the day of the transaction is _________ and the	Included	Excluded	Segregated
Account current is a copy of the account appearing in the books of	Sender	Receiver	Both sender and
No interest will be__________ on the opening balance in Epoque	Equated	Debited	Credited
No interest will be charged or credited on the opening balance in	Periodic Balance	Epoque	Red Ink
In Account Current the day of the transaction is excluded and the	Included	Excluded	Segregated
Interest = Balance of Numbers X __________ divided by 365	Tax	Rate	Cash
__________ is the arithmetic average of various payments	Account Current	Savings Account	Income Account
An Average due date is an ______ date of payment on which a	Equated	Debited	Credited
If the maturity date of a bill of exchange falls on a day which is an	Fall on preceding	Fall on next working day	Don’t fall on any day

If the due date falls on a day which is a public holiday, the due date	The next working day	The proceeding	Don't fall on any day
___________ interest is negative interest	Red ink	Current	Account
Account current is prepared when frequent transactions regularly	Not chargeable on	Chargeable on	Chargeable on
Interest income on a mortage loan receivable must be included in	Income	Net income	Non income
The interest paid on installment purchases on household furniture is	Personal	Non personal	Real
If an individual sustains a personal casualty loss, it is deductible in	Schedule B	Schedule A	Schedule C
All trade or business expenses of a self employed individuals are	Schedule B	Schedule A	Schedule C
A loss sustained from a non business bad debts is always classified	Short term capital loss	Long term capital loss	Capital loss
In accounting consignment means ______	Goods forwarded	Goods forwarded by	Goods sent by its
Goods sent on consignment should be debited by consignor to	Consignment A/c	Goods sent on consignm	Consignees A/c
In the books of consignor the balance of the consignment stock	As an asset in the	As liability in the	On the credit side of
On the dispatch of goods, the entry in the books of consignee would	Consignment A/c will	Consignment A/c	No entry
The consignor is __________	Principal	Agent	Debtor
The consignee is ___________	Principal	Agent	Buyer
Account sales is submitted by ___________	Consignor	Consignee	Principal to his agent
In the books of consignor, the expenses incurred by consignor	Consignees A/c	Consignment A/c	Expenses A/c
In the books of consignor, the expenses incurred by consignee	Consignee A/c	Consignment A/c	Expenses A/c
In the books of consignor the acceptance of bills of exchange by the	Consignment A/c	Consignment A/c	Income A/c
In the books of consignor the acceptance of bills of exchange by the	Consignment A/c	Consignee's A/c	Bill receivable A/c
In the books of consignor the abnormal loss should be credited to	Profit & loss A/c	Consignment A/c	Trading A/c
In case of delcreder commission, the liability for bad debits is on	Consignor	Consignee	Customer
In the books of consignor, the balance in the goods sent on	On the asset side to	On the liability side of	On the credit side of
In the books of consignee the expenses incurred by him on	Consignment A/c	Cash A/c	Consignor's A/c
In the books of consignee, the sale of goods is credited	Consignor's A/c	Sales A/c	Consignee's A/c
The term A/c and sale A/c are _______________ in nature.	Parallel	Some	Equal
The consignment inward book or journal is maintained by ________	Customer	Consignee	Debtor

Temporal method	Closing method
Reapportionment.	Repossession
Historical cost	Temporal method
Devaluation	Amortisation
Payment Period	Two Parties
Deleted	Included
Under account current	Negative Interest
In single payment	For several payment
May be wrong	At right
Pecture	Tenure
Worth	Interest
Calculation	Statement
Mutual	Negative
Accountant	Sender
Tables Method	Product Method
Due	Closing
Several Payments	Several Payments
Product Method	Periodic Balance
Tax	Rate
365	365
Balance of Payment	Drawings
Accounting statement	Account Current
365	366
Tables Method	Epoque method
Sales Account	Account Current
Divided	Excluded
Supplier	Sender
Diversicated	Credited
Interest Tables	Epoque
Divided	Included
Principal	Rate
Average due date	Average due date
Diversicated	Equated
Fall on the same day	Fall on next working

Fall on the same day	The proceeding
Proceeding	Red ink
Chargeable on not	Chargeable on
Gross income	Gross income
Nominal	Personal
Schedule D	Schedule A
Schedule D	Schedule C
Loss	Short term capital loss
Goods sent by its	Goods sent by its
Consignors A/c	Consignment A/c
On the debit side of	As an asset in the
Entry	No entry
Credit	Principal
Seller	Agent
Debtor to creditor	Consignee
Consignor's A/c	Consignees A/c
Consignor's A/c	Consignment A/c
Consignor's A/c	Consignment A/c
Bills payable A/c	Consignee's A/c
Consignees A/c	Consignment A/c
Consumer	Consignee
On the credit side of	On the credit side of
Expense A/c	Consignor's A/c
Cash A/c	Consignor's A/c
Different	Different
Customer	Consignee

Unit - V

The consignee acts entirely on behalf of the ________
Del – creder commission is calculated on
Consignee A/c is the nature of__________
Normal losses are due to
In consignee book, the acceptance of bill of exchange by consignee will
Bank reconciliation statement is prepared by the __________
Debit balance in the cash book means __________
When balance as per cash book is the starting point to ascertain the
When balance as per cash book is the starting point to ascertain to balance
A bank pass book is a copy of __________
balance in pass book shows bank overdraft
When bank column of a pass book shows a debit balance it
Overdraft means credit balance as per
When cash is withdrawn from the bank, the bank debits the
Favourable balance of cash book implies that __________
A cash deposit made by business appears on the bank statement as
Bank reconciliation statement is the comparison of a bank statement (sent
A cheque returned by bank marked "NSF" means that __________
In the Bank reconciliation statement "Deposit in transit" is usually
Bank reconciliation statement is prepared by __________
Revenue receipts are___________ in the business
Venkatesh purchases good worth Rs.80,000 for the purpose of selling.
Revenue expenditure is intended to benefit ________
Capital expenditure is ___________in nature
An expenditure is revenue in nature when_______
The distinction between capital and revenue expenditure is based
Major repairs of plant and machinery is________
Compensation paid to employees in case of retirement is treated as
The performance measure that gives the amount of time required for a job
A performance measure that might be used to monitor improvements in
Which account is used for transactions concerned with head office
When conversions due to exchange rates leads to disagreement on the trial
The rules for how to deal with currency accounts are set out in which
The rules for how to deal with leases and hire purchase contracts is dealt
If the firm stops making repayments and the goods or assets are taken
Which of the following is not a feature of an operating
When making repayments on a lease, the profit and loss account will
How should current asset and current liabilities of foreign branches be
Which of the following does not give a difference between a hire purchase
Valuing current assets and current liabilities at the exchange rate ruling on
The taking of goods away from customers who fail to keep up with hire
The valuation method, as outlined in SSAP 20, implies that fixed assets
A change in the exchange rate of two currencies may not be known as
What are the components of advanced planning and scheduling (APS)
Accounting for Intangible Assets are related to ____________
Indian Accounting Standard – 28 is related to____________

The convergence of the Indian Accounting Standards with IFRS began in
The global key professional accounting body is
The original cost at which an asset or liability is acquired is known as
The International Accounting Standards Committee was set up in
The accounting process in which the financial statements of a parent
A price on goods and services sold by one member of a corporate family
The Doing Business Report" is prepared by which of the following
Bad loans in banking terminology are generally known as ________
Which of the following companies do not have the obligation to get its
Triple bottom line accounting is also called _________
Which of the following is not a tax haven_______
Accounting in India is governed by the ___________

Customer	Debtor	Consignor
Credit sales	Cash sales	Total sale
Nominal A/c	Personal A/c	Real A/c
Avoidable factor	Unavoidable	Contingent
Trading A/c	Consignor A/c	Balance payable A/c
Bank	creditos of a business	customer of a bank
Overdraft as per pass book	Credit balance as per pass	Overdraft as per pass book
Added with the balance as	Subtracted with the balance	Not adjusted with the
Added with the balance as	Subtracted with the balance	Not adjusted with the
The cash column of a	The bank column of a	The customers account in the
Debit	Credit	Excess
Amount due to the bank	Balance as per pass book	Balance as per cash book
Cash Book	Pass Book	Bank Statement
Customers Account	BankAccount	Cash Account
Credit balance of cash book	Debit balance of cash book	Bank overdraft
Debit	Credit	Expenses
Cash receipt journal	Cash payment journal	Cash book
Bank can't verify your	There are not sufficient	Cheque has been forged
Subtracted from bank	Added to bank balance	Added to Cash book balance
Accountant of the business	Manager of the business	Controller of the bank
non recurring	recurring	Both recuring and non
Capital expenditure	Revenu expenditure	Deferred expenditure
Subsequent year	Previous year	Current year
Non recurring	Recurring	Both recuring and non
It benefits the current period	It benefits the future period	It decrease the value of asset
Nature of expenditure	Period of benefit derived	Amount of expenditure
Revenue expenditure	Capital expenditure	Deferred expenditure
Nature of expenditure	Revenue expenditure	Capital expenditure
Makespan	Job flow time	Utilization
Processing time	Utilization	Total inventory
Branch account	Current account	Joint venture account
No account should be opened	Suspense account	Foreign exchange account
There is no specific standard	SSAP 20	FRS 18
FRS 16	SSAP 20	SSAP 21
Cancellation	Forfeiture	Annulment
Rental period is usually less	Supplier assumes	Legal title passes to the
Neither interest or instalment	Not in instalment charges	Instalment charges only
Using an average rate for the	Using the exchange rate at	No attempt should be made
Legal ownership of asset	Timing of payment for asset	Total cost of asset
An average rate between	The rate as at the previous	The rate on the day of the
Valuation method	Estimation method	Closing method
Readmission	Repossession	Reallocation.
Temporal method	Net book value	Closing method
Amortisation	Depreciation.	Appreciation
Demand planning	Supply network planning	Manufacturing scheduling
AS - 10	AS - 12	AS - 24
Accounting for taxes on	Financial Reporting of	Impairment of Assets

Apr-10	Apr-11	Dec-11
The Financial Accounting	The International	The Institute of Chartered
Replacement cost	Historical cost	Carrying cost
1976	2009	
Consolidation	Reconstruction	Translation
Translation	Amortization	
Import price	Arm's length price	Transfer price
World Bank	Asian Development Bank	International Monetary Fund
BPOs	Prime Asset	NPAs
Public Company limited by	Unlimited companies	Private companies limited
Historical accounting	Full cost accounting	Incremental costing
Mauritius	England	Bermuda Islands
Company Law Board	Income Tax Department	Reserve Bank of India

Consignor	Consignor
Credit and Cash Sales	Credit and Cash Sales
Expenses Account	Personal A/c
Consignment	Unavoidable
Consignee A/c	Consignor A/c
Debtors of the	customer of a bank
Debit balance as per	Credit balance as per
Multiplied with the	Subtracted with the
Multiplied with the	Added with the
Statement of Affairs	The customers
Average	Debit
overdraft as per pass	Amount due to the
Statement of Affairs	Cash Book
Overdraft Account	Customers Account
Adjusted balance of	Debit balance of cash
Liability	Credit
Financial statements	Cash book
Cheque can't be	There are not
Subtracted from cash	Added to bank
Accountant of the	Accountant of the
Current balance	Both recuring and
Expenditure	Capital expenditure
Proceeding year	Previous year
Credit balance	non recurring
It benefit in the	It benefits the future
Expenditure	Amount of
Nature of expenditure	Revenue expenditure
Deferred expenditure	Revenue expenditure
Processing time	Processing time
Work-in-process	Work-in-process
Capital account	Current account
Difference on	Difference on
FRS 21	SSAP 20
FRS 19	SSAP 21
Repossession	Repossession
Insurance is the	Legal title passes to
Interest only	Interest only
Using the exchange	Using the exchange
Quality of asset	Quality of asset
No conversion should	The rate as at the
Temporal method	Closing method
Reapportionment.	Repossession
Historical cost	Temporal method
Devaluation	Amortisation
Schedule	Manufacturing
AS - 26	AS - 26
Provisions,	Impairment of Assets

Aug-01	Apr-11
The International	The International
Amortization	Historical cost
1967	1967
Transmission	Transmission
Consolidation	Consolidation
Export price	Transfer price
World Trade	World Bank
CBS	NPAs
Companies limited by	Public Company
Management	Full cost accounting
Cayman Islands	England
Institute of Chartered	Institute of Chartered