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THEORY NOTES FOR PRINCIPLES AND PRACTICES OF ACCOUNTING

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THEORY OF ACCOUNTS

1. INTRODUCTION TO ACCOUNTING

State with reason whether the following statements are true or false (no marks shall awarded without valid reason):

1. The Capital + Long term Liabilities = Fixed Assets + Current Assets + Cash – Current Liabilities.

   [Dec. 1993]
2. Capital is all a assets less fictitious assets.

   [May 2001]
3. Transactions and events are guided by generally accepted accounting principles subject to laws of land.

   [May 2001]
4. Accounting can be viewed as an information system which has its input processing methods and outputs.

   [May 2003]
5. Equity + LTL-CL = FA+CA

   [May 2003]
6. Accounting involves communication.

   [Nov.2003]
7. Capital is equal to assets less external liabilities.

   [Nov.2004]
8. As per AS-1, fundamental Accounting Assumption are Going Concern, Full Disclosure and Accrual.
9. Qualitative characteristics of Financial Statements are- Understanding, Relevance, Reliability and Materiality.
10. Major considerations governing the selection and application of accounting policies are prudence, Substance over From and Full Disclosure.
11. Valuation Principles are – Historical Cost Base, Realizable Value Base and Future Value Base.
12. Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decision by the external users of accounts.
13. A person who owes money to the firm is a creditor.
14. A person to whom the firm owns money is debtor.
15. Furniture purchased by Rama Motors is a current assets.
16. Furniture purchased by Rama purchased is a fixed assets.
17. A transaction which increased the capital is called' Income'
18. Amount owed to outsiders (other than proprietor) is called capital.
19. An increase in assets is always due to profits.
20. Profit/loss = closing capital + Additcational Capital – Drawings – Opening Capital.

ANSWERS:

S.NO	Reason
1	**False:** the right hand side of the equation includes cash twice-once as a part of current assets and another separately. The basic accounting equation is: The Capital + Long term Liabilities = Fixed Assets + Current Assets + Cash – Current Liabilities.
	False: Capital is all a assets less fictitious assets less outside liabilities.
3	**False:** Transactions and events are guided by generally accepted accounting principles subject to laws of land. For example, the companies Act has prescribed the format of financial statements of companies. All transactions with suppliers and customers are governed by the Contact Act, the sale of Goods Act and The Negotiable instruments Act, etc.
4	**False:** Accounting is a process of identifying, measuring and communicating economic information to permit informed judgments and decision by the users of accounts. Here, Input = Financial transactions processing methods = Recording, classifying, summarizing, analyzing and interpreting Output= Communicating the accounting information to the users
5	**False:** the basic accounting equation is : Equity + LTL-CL = FA+CA
6	**False:** Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of accounts hence, accounting involve communication.
7	**False:** Capital is equal to assets (whether tangible or intangible but not fictitious)less external liabilities.
8	**False:** As per AS-1, fundamental Accounting Assumption are Going Concern, Full Consistency and Accrual.
9	**False:** Qualitative characteristics of Financial Statements are- Understanding, Relevance, Reliability and Comparability.
10	**False:** Major considerations governing the selection and application of accounting policies are prudence, Substance over From and Materiality.
11	**False:** Valuation Principles are – Historical Cost Base, Current Cost Base Realizable Value Base and Present Value Base.
12	**False:** Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decision by the all users of accounts.
13	**False:** A person who owes money to the firm is a debtor.
14	**False:** A person to whom the firm owns money is a creditor.
15	**False:** Furniture purchased by Rama purchased is a fixed assets.
16	**False:** Furniture purchased by Rama Motors is a current assets.

17	**False:** A transaction which increases the capital need not necessarily be 'income'. It may be additional capital contribution.
18	**False:** Amount owed to outsiders (other than proprietor) is External Liability.
19	**False:** An increase is not necessarily due to profits. It may be due to purchase of assets.
20	**False:** Profit/loss = Opening Capital + Additional Capital – Drawings – Opening Capital.

2. ACCOUNTING PRINCIPLES

State with reason whether the following statements are true or false (no marks shall awarded without valid reason)

1. Prudence is a concept to recognize unrealized profits an losses [June 1993]
2. In accounting, all business transactions are recorded as having dual respect [Nov. 1996]
3. Accrual concept implies accounting on cash basis [May 1998, Nov 2001, May 2004]
4. Revenues are matched with expenses in accordance with the matching principle [May 2003]
5. Revenues are matched with expenses in accordance with the matching principle [May 2003]
6. The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumptions. [Nov 2003]
7. Accounting principle is general rule followed in preparation of financial statements. [Nov. 2004]
8. As per the concept of conservatism, the accountant should provide for all possible losses, but should not anticipate income. [Nov. 2005]
9. The Assets are classified as Current Assets and Fixed Assets as per Full Disclosure Principle.
10. The assets and Income are not overstated and the Liabilities and Losses are not Understand as per Accrual Principle.
11. Accounting of a small calculator as an Expense and not As an Assets is as per Going Concern Principle.
12. The Accounting data should be definite, verifiable and free from personal-bias as per Materiality Principle.
13. Materiality Principle is an exception to Consistency Principle.
14. Valuation of Inventory at Lower of Cost or Net Realizable Value (NRV), making Provision for Doubtful Debts and Discount on Debtors are the applications of Consistency Principle.
15. Disclosure is required if fundamental assumptions are followed.
16. Disclosure is required if a particular accounting policies are followed.
17. Prudence principle is an exception to be given Retrospective Effect.
18. Change in accounting estimate has to be given Retrospective Effect.
19. Personal transactions are distinguished from business transactions in accordance with the money measurement Assumption.
20. When stock is valued at cost in one accounting period and at lower of Cost and net realizable value in another accounting period consistency principle conflicts' with the prudence Principle
21. Accrual means recognition of revenue as it is earned and of costs as they are paid.
22. Going Concern Concept fixes up the time frame for which the performance is to be measured and financial position is to be appraised.
23. According to matching principle, periodic Profit = all Revenues – All expenses.

24. According to accounting standard (as-1), the fundamental accounting assumptions are going concern, conservation and accrual.

25. Prudence it the inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under condition of uncertainty so that assets and income are not understand, and loss and liabilities are not over stand.

26. X purchased goods for R 20,000 and sole 9/10th of the goods for R 24,000 and met expenses of R 2,000. He counted net profit as Rs 2,000. (i.e. R 24,000-Rs 20,000-Rs 2,000). He has violated the Cost Concept.

27. X Ltd purchased a machine for Rs 1,00,000]on 1.1.2018. The market price of the machine was Rs 1,20,000 on 31.12.2018. The accountant of X Ltd values machine for Rs 1,20,000 while finalizing the accounts. He has violated the Realization Concept.

28. X purchased merchandise worth Rs 24,000 and sold 11/12 of the merchandise. The market value of the remaining merchandise was Rs 1,920. He valued the closing stock at Rs 2,000. He has violated the Realization Concept.

29. Prudence is a concept to recognize realized losses and not profits.

30. Prudence is a concept to recognize losses and not profits.

ANSWERS:

S.NO	Reason
1	**False:** Prudence is a concept to recognize unrealized profits a losses and not profits.
2	**True:** being associated with the double entry system of book keeping every transaction has a two-fold effect in accounting whereby one account is debited and another is credited by same amount.
3	**False:** Accrual concept implies accounting on 'accrual' basis. Accrual basis of accounting involves recognisition of revenues and costs as and when they accrue irrespective of actual receipts or payments.
4	**False: expenses are matched with** Revenues in accordance with the matching principle. Concept of matching requires accrual and periodicity concepts as accrued revenues are matched with accrued expenses of a definite accounting period.
5	**True: the financial statement must disclose all the relevant and reliable information in accordance with AS-1 Disclosure of Accounting Policies.**
6	**True:** The economic life of an enterprise is artificially split into periodic intervals in accordance with the Accounting period assumption or the periodicity concept. The going concern assumption assumes that an enterprise will continues in operation for indefinite period of time.
7	**True:** Accounting principle may be defined as those rule of action, which are adopted by the accountant universally while recording accounting transactions.
8	**False:** the financial position of a business should not be shown better than what it is. Hence an accountant should not anticipate income but should provide for all possible losses.
9	**False:** The Assets are classified as Current Assets and Fixed Assets as per Going Concern Principle.
10	**False:** The assets and Income are not overstated and the Liabilities and Losses are not Understand as per Prudence Principle.
11	**False:** Accounting of a small calculator as an Expense and not As an Assets is as per Going Materiality Principle.

12	**False:** The Accounting data should be definite, verifiable and free from personal-bias as per Objectivity Principle.
13	**False:** Materiality Principle is an exception to Full Disclosure Principle.
14	**False:** Valuation of Inventory at Lower of Cost or Net Realizable Value (NRV), making Provision for Doubtful Debts and Discount on Debtors is the applications of Consistency Principle.
15	**False:** Disclosure is required if fundamental assumptions are followed.
16	**False:** Disclosure is required if a particular accounting policies are followed.
17	**False:** Prudence principle is an exception to be given Retrospective Effect.
18	**False:** Change in Accounting Estimate has not to be given Retrospective Effect.
19	**False:** Personal transactions are distinguished from business transactions in accordance with the accounting Entity Assumption.
20	**False:** When stock is valued at cost in one accounting period and at lower of Cost and net realizable value in another accounting period consistency principle conflicts' with the Consistency Principle
21	**False:** Accrual means recognition of revenue as it is earned and of costs as they are paid incurred.
22	**False:** Going Concern Concept fixes up the time frame for which the performance is to be measured and financial position is to be appraised
23	**False:** According to matching principle, periodic Profit = all Revenues – All expenses.
24	**False:** According to accounting standard (as-1), the fundamental accounting assumptions are going concern, consistency and accrual.
25	**False:** Prudence it the inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under condition of uncertainty so that assets and income are not understand, and loss and liabilities are not understand.
26	**False:** X purchased goods for R 20,000 and sole 9/10th of the goods for R 24,000 and met expenses of R 2,000. He counted net profit as Rs 2,000. (i.e. R 24,000-Rs 20,000-Rs 2,000). He has violated the machine Concept.
27	**False:** X Ltd purchased a machine for Rs 1,00,000]on 1.1.2018. The market price of the machine was Rs 1,20,000 on 31.12.2018. The accountant of X Ltd values machine for Rs1,20,000 while finalizing the accounts. He has violated the Realization Cost Concept.
28	**False:** X purchased merchandise worth Rs 24,000 and sold 11/12 of the merchandise. The market value of the remaining merchandise was Rs 1,920. He valued the closing stock at Rs 2,000. He has violated the Prudence Concept.
29	**False:** Prudence is a concept to recognize unrealized losses and not profits.
30	False: Prudence is a concept to recognize all unrealized losses and not profits.

3 JOURNALILSIING , POSTING AND BALANCING

State with reason whether the following statements are true or false (no marks shall awarded without valid reason):

1. The sales day book is a part if the ledger. [Nov. 1994, Nov. 2001 and May 2004]
2. Sale of office furniture should be credited to sales accounts. [Nov. 1995, Nov.1997, Nov. 2001 and May 2004]
3. When we bur furniture on cash we debit cash accounts [June 1993]
4. Patent right is in the nature of nominal account. [Nov. 1995, Nov. 2001 and May 2004]
5. Outstanding expenditure is a normal account, [Nov. 1999]
6. The debts written off as bad, if recovered subsequently are credited to debtors account. [Nov. 1996 and May 2002]
7. Wages paid for erection of machinery are debited to profit of loss account

. [Nov. 1995, Nov. 2000 and May 2002]

8. The return of goods by a customer should be debited to return outward account. [Nov. 2003]

9. The balance of an account is always known by the side which is shorter. [Nov. 2003]

10. Nominal Account is balanced at the end of the accounting year. [May 1999]

11. The allowance made for prompt payment is called trade discount. [June 1994]

12. Bank account is a real account. [Nov. 2005]

13. Goods costing R 600 taken by the proprietor for personal use should be credited to sales [May 2005]

14. Rent paid account is nominal account whereas, rent received account is a real account. [May 2005]

15. Where subsidiary books are maintained journal is not required. [May 2005]

16. Fixed assets + Current Assets – External Liabilities = capital + creditors

17. Reserve for discount on creditors has a credit balance.

18. Normally personal and nominal accounts are balanced and not real accounts.

19. Real the personal account is closed at the end of accounting period.

20. The return of goods of supplies should be credited to return inward account.

21. Prepaid expense is a nominal account,

22. The allowance made for promoting sales is called cash discount,

23. When trade discount is allowed to a customer, trade discount allowed is credited.

24. Goods costing R 600 distributed as free samples should be credited to sales account.

25. The recovery of debts (due from Mohan R 10,000) written off in the previous year should be credited to Mohan's account.

26. Debit means an increase in liability and a decrease in an asset.

27. Credit means an increase in assets and a decrease in a liability.

28. Journal is a book of original entry.

29. Ledger is a book of secondary entry

30. L.F (i.e. ledger folio column) in the journal is filled at the time of journalizing.

31. The word' to balance b/d' or by balance b/d are recorded in the particular Colum at the time of balancing.

32. A sale of goods to ram for cash should be debited to ram.

33. A withdrawal of cash from business by the proprietor should be credited to drawing account.

34. Goods were sold to Ram R 1,000 on 1.4.2018 on 1.5.2018, ram paid r 950 on account ram's account should be credited with R 1,000,

35. Ram paid Rs 900 toward a debt of R 950 which was written off as bad in the previous year Ram's accounts should be credited with Rs 950.

36. Goods worth R 100 taken by the proprietor for personal use should be credited to sales account

37. In case of debit balance. The words 'to balance c/d are written on credit side.

38. While posting an opening entry in the ledger, in case of an account having debit balance the word 'n to balance b/d' are written on credit side and in case of an account having credit balance the words ' by balance b/d' are written on debit side.

ANSWER:

S.NO	Reason
1.	**False:** The sales day book is a books of prime entry and hence it is a part of journal
2	**False:** Sale of office furniture should be credited furniture account because it is a capital receipt.
3	**False:** When we bur furniture on cash the **furniture account is debited** and cash account is credited.
4	**False:** Patent right being an intangible asset is in the nature of **real account**.
5	**False:** Outstanding expenditure is a **personal account of representative nature** because it Represent a liability due to some person.
6	**False:** The debts written off as bad, if recovered subsequently, shall be treated as gain and be credited to bad debtors recovered account. which is closed by transferring it to the profit and loss accounts.
7	**False:** such Wages paid for erection of should be debited to the machinery account.
8.	**False:** The return of goods by a customer should be debited to **returns inward account.**
9.	**False:** The balance of an account is always known by the side which is **higher**.
10.	**False:** Nominal account are **not balanced but are closed** by transferring their balance to the income statement.
11.	**False:** The allowance made for prompt payment is called **cash discount**.
12	**False:** Bank account is a personal account.
13	**False:** Goods taken by the proprietor for personal use should be credited to purchases account.
14	**False:** Rent paid account is nominal account whereas, rent received account is a real account.
15	**False:** journal is required even Where subsidiary books are maintained. Opening and closing entries, rectification entries, transfer and adjusting entries and other miscellaneous entries are recorded in the journal.
16	**False:** Fixed assets + Current Assets – fictitious = capital + external liabilities creditors also included in the external liabilities.
17	**False:** Reserve for discount on creditors has a credit balance.
18	**False:** Normally personal and nominal accounts are balanced and not real accounts.
19	**False:** Real the personal account are closed at the end of accounting period.
20	**False:** the return of goods of supplies should be credited to return onward account.
21	**False:** Prepaid expense is a personal Account of representative nature because it represents an asset due from some person.
22	**False:** The allowance made for promoting sales is called **trade discount,**
23	**False:** When trade discount is allowed to a customer, trade discount allowed is not recorded at all.
24	**False:** Goods costing R 600 distributed as free samples should be credited to purchase account.
25	**False:** The recovery of debts (due from Mohan R 10,000) written off in the previous year should be credited to bad debit recovered account.

26	**False:** Debit means a decrease in liability and a increase in an asset.
27	**False:** Credit means a decrease in assets and a increase in a liability.
28	**False:** Journal is a book of original entry.
29	**False:** Ledger is a book of secondary entry
30	**False:** L.F (i.e. ledger folio column) in the journal is filled at the time of journalizing.
31	**False:** The word' to balance b/d' or by balance b/d are recorded in the particular column at the time of balancing.
32	**False:** A sale of goods to ram for cash should be debited to ram.
33	**False:** A withdrawal of cash from business by the proprietor should be credited to drawing account.
34	**False:** Goods were sold to Ram R 1,000 on 1.4.2018 on 1.5.2018, ram paid r 950 on account ram's account should be credited with R 1,000,
35	**False:** Ram paid a 900 toward a debt of R 950 which was written off as bad in the previous year ram's accounts should be credited with Rs 950.
36	**False:** In case of debit balance. The words 'to balance c/d are written on credit side.
37	**False:** While posting an opening entry in the ledger, in case of an account having debit balance the word 'n to balance b/d' are written on credit side and in case of an account having credit balance the words ' by balance b/d' are written on debit side.

4. CASH BOOKS

State with the reason whether the following statements are true or false (No marks shall be awarded without valid reason):

1. The balance in the petty cash book represents expense. [Dec. 1993, May 1999, May 2005]
2. The balance in the cash book shown net income. [May 1996]
3. Bank column of the cash book will show only a debit balance. [Nov.2002]
4. Cash column of a cash book may show a debit or credit balance.
5. In a cash book, discount columns may show either debit balance or credit balance [May 1997 and May 2000]
6. If a cheque received is further endorsed, it must be entered on both sides of the cash book. [Nov.2002]
7. A crossed cheque s always payable across the bank counter. [Nov.2002]
8. Cash book is a special Journal and not a Ledger.
9. In a Cash Book, trade Discount received is recorded on the debit side of Cash Book and trade Discount allowed is recorded on the credit side of Cash Book.
10. In a Cash Book, Cash Discount received is recorded on the debit side of Cash Book and cash Discount allowed is recorded on the credit side of Cash Book.
11. When a firm maintains a three-column Cash Book, it need not maintain Cash account, Bank Account and Discount A/c in the Ledger.
12. If a debit as well as credit aspects of a transaction are recorded in the Cash Book itself, it is called a double Entry.

13. The allowance made for prompt payment is called trade Discount.
14. The total of Discount column on debit side of Cash Book is posted to the Credit of Discount Account.

S.NO	Reason
1	**False:** The balance in the petty cash book represents upset petty cash balance lying with the petty cashier. It is shown on the asset side of the Balance Sheet under the heading ' cash & Bank balance'.
2	**False:** The balance in the cash book shown net income.
3	**False:** Bank column of the cash book will show only a debit balance.
4	**False:** Cash column of a cash book may show a debit or credit balance.
5	**False:** balance Discount column of a cash book are merely totaled but never balanced. Debit total of discount column represents discount allowed and that of credit side. Represents discount received. These are merely totaled and transferred to Discount Allowed and Discount Received Account respectively.
6	**False:** the cash book is debited when the Cheque is received and it is credited when it is endorsed favors of somebody.
7	**False:** Only a bearer cheque s always payable across the bank counters.
8	**False:** Cash book is both a special Journal and Ledger.
9	**False:** In a Cash Book, trade Discount received is recorded on the debit side of Cash Book and trade Discount allowed is recorded on the credit side of Cash Book.
10	**False:** In a Cash Book, Cash Discount received is recorded on the debit side of Cash Book and cash Discount allowed is recorded on the credit side of Cash Book.
11	**False:** When a firm maintains a three-column Cash Book, it need not maintain Cash account, Bank Account and Discount A/c in the Ledger.
12	**False:** If a debit as well as credit aspects of a transaction are recorded in the Cash Book itself, it is called a double Entry.
13	**False:** The allowance made for prompt payment is called trade Discount.
14	**False:** The total of Discount column on debit side of Cash Book is posted to the Credit of Discount Account.

ANSWERS:

5. SUBSIDARY BOOKS OTHER THAN CASH BOOK

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Purchase book record all purchases of goods. [Nov. 1996]
2. The purchase day book is a part of the ledger. [Nov. 2002, Nov. 2005]
3. The sales book is a part of the sales [Nov.2002]
4. The debit notes issued are used to prepare sales return book. [May 2003]
5. Opening, closing, rectifying and adjusting entries are recorded in journal proper [Nov.2003]
6. An individual transaction of purchase book is posted to the credit of purchases A/c.
7. Purchases A/c in the ledger shows all purchases.
8. The credit notes are used to prepare purchases.
9. Where cash book, purchases book, Sales Book, purchases Returns Book, Sales Returns Book, Bill Receivable Book and Bill Payable Book are maintained, Journal need not be maintained.
10. Purchases Returns Book is used to record return of all assets purchased on credit.
11. Sales Returns Book is used to record return of assets sold on credit.
12. When a customer returned to a supplier, a credit note is sent to him.
13. When the goods are returned to a supplier, a credit note is sent to him.
14. Purchase of a fixed asset on credit is recorded in Purchases Book.
15. The allowance made for prompt payment is called trade Discount.
16. The total of Purchase Returns Book is posted to the debit of Purchases Account.

S.NO	Reason
1.	**False:** Purchase book records only credit purchases of goods dealt in or of material and stores used in the factory.
2.	**False:** purchase day book is a part of prime entry and hence it is a part of journal.
3.	**False:** The sales book is kept record only the credit sales of goods dealt in by the firm, cash sales are entered in the cash book.
4.	**False:** The debit notes issued are used to prepare purchase return book.
5.	**true: all the** Opening, closing, Rectifying and Adjusting entries are recorded in journal proper because these entries can not be recorded in any other subsidiary book
6.	**False:** An individual transaction of purchase book is posted to the credit of individual supplier's A/c.
7.	**False:** Purchases A/c in the ledger shows all purchases of goods (whether cash or on credit).
8	**False:** The credit notes are used to prepare Sales Return book.
9.	**False:** Where cash book, purchases book, Sales Book, purchases Returns Book, Sales Returns Book, Bill Receivable Book and Bill Payable Book are maintained, Journal need not be maintained. **False:** Purchases Returns Book is used to record return of all assets purchased on credit.
11	**False:** Sales Returns Book is used to record return of assets sold on credit.

12	**False:** When a customer returned to a supplier, a credit note is sent to him.
13.	**False:** When the goods are returned to a supplier, a credit note is sent to him.
14	**False:** Purchase of a fixed asset on credit is recorded in Journal Book.
15	**False:** The allowance made for prompt payment is called Cash Discount.
16.	**False:** The total of Purchase Returns Book is posted to the debit of Purchases Account.

6. BANK RECONCILIATION STATEMENT

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Bank reconciliation statement is prepared to arrive at the bank balance. [Dec. 1993, May 1995, Nov. 1997, Nov, 2000, May 2002 and Nov. 2004]
2. Interest charged by the bank will be deducted, when the overdraft as the cash book is the starting point for making the bank reconciliation statement. [Nov. 1996 and May 1997]
3. If the balance as per cash book and pass book are the same, there is no need to prepare a reconciliation statement. [May 2003]
4. Direct collection received by the bank on behalf of its customers will increase the balance as per the bank pass Book as compared to the balance as per the Cash Book.
5. The interest charged by Banker to customer on overdrawn account is called Red in interes [Nov. 2005]
6. While preparing a BRS taking the balance as per pass book as starting point under cast of bank (debit) column of Cash Book is added.
7. While preparing a BRS taking the balance as per cash book as starting point wrong credit in pass book is subtracted.
8. Amended Cash Book is prepared by passing Rectifying Enters in respect of errors committed in Cash Book and Pass Book.
9. While preparing a BRS taking balance as per Amended Cash Book. Uncollected Cheques, Unpresented cheques and all items which appear only in Pass Book are considered.
10. In Balance Sheet bank balance as per unamended cash book appears and not as per Pass Book.
11. Bank Reconciliation Statement is a part of Cash Book.
12. Bank Reconciliation Statement is a prepared by a Book.
13. Credit balance in Pass Book means overdraft.
14. A debit balance of R 1,000 has been brought forward as a credit balance of R 100 on the next page in the pass book. R 900 should be added to the balance as per pass book is order to ascertain the balance as per Cash Book.
15. A bank Reconciliation Statement is a prepared to reconcile the Cash Balance as per Cash Book with Bank Balance as per Pass Book.
16. The Pass Book is a copy of the bank column of Cash Book of the account holder.
17. When balance as per Cash Book is the starting point, unpresented cheque are subtracted.

18. When balance as per Cash Book is the starting point, uncollected cheque are subtracted.
19. When balance as per Pass Book is the starting point, direct deposits by customers into the bank are added.

ANSWERS:

S.NO	Reason
1	**False:** Bank reconciliation statement is prepared to reconcile and explain the cause of differences between bank balance as per cash book and the same as per bank statement as on the particular date.
2	**False:** Interest charged by the bank will be added because this charge when accounted for, will increase the overdraft (credit balance) as shown by the cash book.
3	**False:** bank reconciliation statement is prepared to find out the causes of difference in individual items of cash book and pass book even if the balance as per cash book and pass book are same.
4	**true:** because unless the customer is informed and records in the cash book, the balance as per the Cash Book will remain lower as compared to Bank Balance as per the Cash Book.
5	**False:** The interest charged by Banker to customer on overdrawn account is called Interest on overdraft' whereas ' red-ink interest' is applied in account current if the due date of a bill falls after the date of costing the account. The red-ink interest is treated as negative interest.
6	**False:** While preparing a BRS taking the balance as per pass book as starting point under cast of bank (debit) column of Cash Book is subtracted.
7	**False:** While preparing a BRS taking the balance as per cash book as starting point wrong credit in pass book is added.
8	**False:** Amended Cash Book is prepared by passing Rectifying Entries in respect of errors committed in Cash Book and by Passing Adjusting Entries in respect of correct items which appear only in Pass Book.
9	**False:** While preparing a BRS taking balance as per Amended Cash Book. Uncollected Cheques, Unpresented cheques and Wrong entry only in Pass Book are considered.
10	**False:** In Balance Sheet bank balance as per amended cash book appears and not as per Pass Book.
11	**False:** Bank Reconciliation Statement is not a part of Cash Book.
12	**False:** Bank Reconciliation Statement is a prepared by a Account holder.
13	**False:** Credit balance in Pass Book means overdraft.
14	**False:** A debit balance of R 1,000 has been brought forward as a credit balance of R 100 on the next page in the pass book. R 1,100 should be subtracted from the balance as per Pass Book is order to ascertain the balance as per Cash Book.
15	**False:** A bank Reconciliation Statement is a prepared to reconcile the Cash Balance as per Cash Book with Bank Balance as per Pass Book.
16	**False:** The Pass Book is a copy of the Bank Account of account holder in Bank Books.
17	**False:** When balance as per Cash Book is the starting point, unpresented cheque are added.
18	**False:** When balance as per Cash Book is the starting point, uncollected cheques are added.
19	**False:** When balance as per Pass Book is the starting point, direct deposits by customers into the bank are added.

7. TRIAL BALANCE, ERRORS AND THEIR RECTFICATION

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. A tallied trial balance means that the books of accounts contain no errors.
   Or

   A tallied trial balance is a conclusive proof of accuracy of books of accounts.
2. Errors of principle will affect trial balance. [June 1993]
3. Errors of principle involves an incorrect allocation of expenditure or recipe between capital and revenue [may 1997, May 1998, Nov.2000 and May 2002]
4. Any type of error affects the agreement of trial balance. [Nov. 1995]
5. Wrong casting of subsidiary books does not affect the trail balance[June 1994 and Nov. 2002]
6. If the amount is posted in the wrong account or it is written on the wrong side of an account it is called an error of commission [Dec. 1993 and May 1999]
7. Under or over- casting of a subsidiary book is an example of error of commission [Nov.2004]
8. Purchase of office furniture has been debited to general expenses account. It is compensating error [May 1996]
9. A tallied trial balance will not reveal compensating errors and errors on account of wrong balancing. [May 1995, May 1998 and May 2001]
10. Error of carry – forward of totals of purchase journal affects two accounts. [Nov. 1996]
11. Travelling expenses of R 80,000 paid to a technician for the installation of a new machine is debited to a profit and loss account. [May 2000]
12. Errors of complete omission will be located, if trail balance is prepared. [Nov. 2002]
13. Rectification of mistake is necessary to tally the trail balance [June 1993, Nov. 1994, May 2005]
14. Rectification error in subsequent accounting period always affects the profit or loss of that period [Nov. 2004]
15. Salary paid to Ram will be debited to Ram's personal account. [Nov. 2005]
16. A trail balance will reveal all errors of commission.
17. A trail balance will reveal all errors of posting
18. The object of opening suspense account is to avoid the delay in preparation of trail balance.
19. The balance of Suspense A/c represents the net effect of all error whether detected or not.
20. After the preparation of financial statements, profit & Loss adjustment Account is used to rectify all errors involving Real & Personal A/cs in the subsequent year so as not to affect the profit/Loss of that period.
21. The preparation of a trial balance helps in locating errors of complete omission.
22. Freight Inward Accounts shows a debit balance but a freight outward account shows a credit balance.
23. Errors of recording in the books of original entry will affect the trail balance.
24. Correct recording in the Journal Proper but not posted in the ledger at all will affect the trail balance

25. Trail balance is prepared for a particular period which may be a week, month , quarter, half year or year.
26. When some of the errors affecting the trail balance are located and rectified, the suspense account automatically stands balanced.
27. The difference in the trail balance is transferred on the debit side of the Suspense Account if the total of debit column of the trail balance exceeds that of credit column.
28. 28. Trail balance is prepared after preparing the profit & Loss Account.

ANSWERS:

S.NO	Reason
1	**False:** agreement of trail balance is not an absolute proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not affect the agreement of trail balance
2	**False:** Errors of principle will not affect trial balance because both the aspects (debit & credit). Of a transaction are recorded. Error of principle involves incorrect allocation of payments/ receipts between capital and revenue.
3	**True:** Recording the transaction in a fundamentally incorrect manner in contravention of accounting principles is n error of principle
4	**False:** every error does not affect the agreement of trial balance. For example manner in contravention of accounting principles is an error of principle
5	**False:** Wrong casting of subsidiary books affect the trail balance for example, if PF purchase book is under cast by R 1,000 the total of debit column will be lower by R 1,000
6	**True:** Error of commission includes error on account of wrong posting, wrong balancing of an account, wrong carry forward, wrong casting etc., whether of subsidiary books or any other books.
7	**True:** Error of commission includes error on account of wrong posting, wrong balancing of an account, wrong carry forward, wrong casting etc., whether of subsidiary books or any other books.
8	**False:** it is an error of principle because an item of capital nature has been treated as an item of revenue nature.
9	**Partly true, partly false:** A tallied trial balance will not reveal compensating errors and errors as it will agree in spite of the existence of these errors. However, in the case of errors on account of wrong balancing, the trail balance will not tally. However, the statement will be true in the limited cases where the errors on account of wrong balancing get fully compensated.
10	**False:** it will affect only one account i.e. purchases account and hence it will affect the agreement of trial balance.
11	**False:** such expenses being a capital expenditure should be debited to machinery Account.
12	**False:** such errors cannot be located because both debit and credit aspects of an entry are not recorded and hence it will not affect trail balance
13	**False:** the trail balance can be tallied by debiting or crediting the difference amount to suspense account. However, Rectification of mistake is necessary to have a proper accounting of transactions and if all errors and rectified than there is no reason for disagreement of trail balance
14	**False:** Rectification error in real & personal accounts will not affects the profit of that period

15	**False:** Salary paid to Ram will be debited to salaries account.
16	**False:** A trail balance will reveal all errors of commission other than error of recording and error of posting involving t o wrong account on correct side with correct amount.
17	**False:** A trail balance will not reveal all errors of posting involving two wrong amount on correct side with correct amount.
18	**False:** The object of opening suspense account is to avoid the delay in preparation of financial statement.
19	**False:** The balance of Suspense A/c represents the net effect of error which still remain undetected
20	**False:** After the preparation of financial statements, profit & Loss adjustment Account is used to rectify all errors involving nominal A/c in the subsequent year so as not to affect the profit/Loss of that period.
21	**False:** The preparation of a trial balance helps in locating one side errors of commission.
22	**False:** Freight Inward Accounts shows a debit balance but a freight outward account shows a debit balance.
23	**False:** Errors of recording in the books of original entry will not affect the trail balance.
24	**False:** Correct recording in the Journal Proper but not posted in the ledger at all will not affect the trail balance
25	**False:** Trail balance is prepared for a particular date.
26	**False:** When all of the errors affecting the trail balance are located and rectified, the suspense account automatically stands balanced.
27	**False:** The difference in the trail balance is transferred on the credit side of the Suspense Account if the total of debit column of the trail balance exceeds that of credit column.
28	**False:** Trail balance is prepared before preparing the profit & Loss Account.

8. CAPITAL AND REVENUE EXPENDITURE

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Pre-operative expense is revenue expenses. [June 1993]
2. An expenditure intended to benefit the current period is a revenue expenditure.[June 1994, Nov.1997 and Nov. 2002]
3. Expenditure which results in acquisition of a permanent asset is a capital expenditure.[May 1995, Nov.1997, Nov. 2000 and Nov. 2001]
4. Deferred revenue expenditure is current year's revenue expenditure to be paid in the later years. [Nov. 1994 and Nov. 2002]
5. Heavy expenditure incurred on advertisement at the time if introducing a new product is deferred revenue expenditure. [June 1993]
6. Expenses incurred to keep the machine in working condition is a capital expenditure.[Dec. 1993]
7. Wages paid to workers to produce a tool to be captive consumed is capital expenditure.[Nov. 1994 and May 1998]
8. Amount paid for acquiring goodwill is deferred revenue expenditure. [Nov. 1996 and Nov. 1996]
9. Overhaul expenses of a second- hand machinery purchased are revenue expenditure. [May 1996 and Nov.1996],

10. Amount spent for replacement of worm out parts of a machine is a capital expenditure.[May 1999]
11. Expenditure incurred on white washing of factory building done after every six months is revenue expenditure. [May 1999]
12. Amounts written off from the cost of fixed assets is capital expenditure. [Nov. 1994]
13. Legal fees paid to acquire a property is capital expenditure.[Nov.1999, Nov. 2002 and Nov. 2004]
14. Expenditure on renovation of a theatre which has increased the seating capacity by 10% is deferred revenue expenditure.[May 2000]
15. Temporary shed put up at project site to house materials is a capital expenditure.[Nov 1999]
16. Overhauling expense of R 25,000 for the engine of a motor car to get better fuel efficiency are revenue expenses.
17. Inauguration expenses of Rs 25 lacks incurred on the opening of a new manufacturing unit in an existing business are capital expenditure.
18. Compensation of Rs 2.5 crores paid to workers, who opted for voluntary retirement in capital expenditure.
19. Amount paid to Management Company for consultancy to reduce the working expenses is revenue expenditure. [May 2005]
20. Wages incurred by a factory in manufacturing a part for its plant, is a revenue expenses.[Nov 2005]
21. The classification of expenditures and receipts each into capital and revenue is as per accrual principle.
22. Sale of land & building by a real estate dealer is a capital receipt
23. Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it useable is revenue expenditure.
24. Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order is revenue expenditure.
25. Registration fees paid at the time of purchases of a building is Revenue expenditure.
26. Expenditure incurred on the maintenance of a tea garden which will produce tea after four years is a revenue expenditure.
27. The expenditure incurred in erecting a platform on which a machine will be fixed is revenue expenditure.
28. Advertising expenditure, the benefits of which a machine will last for five years is revenue expenditure.
29. Cost of R 80,000 for dismantling, removing and reinstalling plant by a cotton mill incurred In connection with the removal of works to a more suitable locality is Capital expenditure.
30. Imported goods worth R 1,00,000 confiscated by customs authorities for non-disclosure of material facts is a capital loss.
31. Expenditure of R 20,000 for advertisement in newspapers is a capital expenditure.
32. Expenditure of R 30,000 on non-sign board at the airport is revenue expenditure.
33. Spent R 50,000 fir remodeling the factory is a capital expenditure and the value of factory is enhanced by R 20,000.
34. Rs 1,00,000 spent on renewal fee of patent rights is a Capital Expenditure.
35. Expenses incurred in connection with obtaining a licensee for starting the factory are revenue Expenditure.

36. Rings and pistons of an engine were changed at a cost of R 5,000 to get fuel efficiency. This is revenue Expenditure.
37. Rs 2,00,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff. The suit was not successful. This is Capital Expenditure.
38. R 1,00,000 paid as compensation to the two employees who were retrenched is a Capital Expenditure.
39. Rs 10,000 Customs Duty paid on import of machinery for modernization of the factory production during the current year is a Revenue Expenditure.
40. R 5,000 paid on Import Duty for purchase of Raw Materials is a Capital Expenditure.
41. R 12,000 Interest had accrued during the year on term loan obtained and utilized for the construction of factor building and purchase of machineries, however the production has not commenced till the last date of the accounting year. It is a Revenue Expenditure.
42. Any expenditure which is unreasonably large is Capital Expenditure.
43. Premium received on issue of shares is a revenue receipt.

ANSWERS:

s. no	Reason
1.	**False:** Pre-operative expenses are incurred prior to commencement of commercial production and hence are generally capitalized.
2	**True:** Revenue expenditure is that expenditure the benefit of which does not extend beyond the current accounting period
3	**True:** Expenditure which results in acquisition of a permanent asset is a capital expenditure since it will generate enduring benefits and help in revenue generation over more than one accounting period.
4.	**False:** deferred revenue expenditure is that expenditure for which payment has been made or a liability has been incurred during current year but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods.
5	**True:** it is considered as deferred revenue expenditure because its benefits would accrue over a subsequent period or period.
6	**False:** it is revenue expenditure because it Is not increasing the benefits but only keeping the machine in working condition.
7	**True:** Wages paid to workers to produce a tool to be captive consumed is capital expenditure.
8	**False:** Amount paid for acquiring goodwill is capital expenditure. Because it involves acquisition of an intangible asset which is classified as fixed asset.
9	**False:** such expenses are capital expenditure because these are incurred to put second-hand machinery in good/working condition to derive long term benefits of enduring nature.
10	**False:** Amount spent for replacement of any worm out parts of a machine is revenue expenditure because it is a part of its maintenance cost.
11	**True:** these expenses are revenue expenditure because these are incurred in the course of normal maintenance of the assets.
12	**False:** Amounts written off from the cost of fixed assets is treated as revenue expenditure and charged to profit and loss account. Depreciation is an example of such write-off
13	**True:** legal fees paid to acquire a property are a part of the cost of that property. Hence it is taken as capital expenditure.

14	**False:** it is a capital expenditure because it has increased the revenue earning capacity of the business over more than one accounting period.
15	**True:** temporary shed get up at a project site to house materials is incidental to the main construction and the expenditure on it, is a part of construction cost and hence, it is a capital expenditure.
16	**False:** these expenses should be capitalized because these are incurred for the engine of a motor car to derive better fuel efficiency. These expense will reduce the running cost in future and thus the benefit is in from of endurable long term advantage
17	**False:** such expenses are revenue expenditure because such expenditure may not generate any enduring benefit to the business over more than one accounting period.
18	**False:** such compensation is revenue expenditure. Since the magnitude of the amount of expenditure is very significant, it may be better to treat it as deferred revenue expenditure
19	**False:** Amount paid to management company for consultancy to reduce the working expenses is revenue expenditure.
20	**False:** Wages incurred by a factory in manufacturing a part for its plant, is a capital expenditure. This expenditure will be included in the cost of plant.
21	**False:** The classification of expenditures and receipts each into capital and revenue is as per accrual principle.
22	**False:** Sale of land & building by a real estate dealer is a Revenue receipt and not a capital receipt
23	**False:** Expenditure incurred on repairs and whitewashing at the time of purchase of an old building in order to make it useable is a capital expenditure.
24	**False:** Expenditure incurred to provide one more exit in a cinema hall in compliance with a government order is a capital expenditure.
25	**False:** Registration fees paid at the time of purchases of a building is Capital expenditure.
26	**False:** Expenditure incurred on the maintenance of a tea garden which will produce tea after four years is a revenue expenditure.
27	**False:** The expenditure incurred in erecting a platform on which a machine will be fixed is a Capital expenditure.
28	**False:** Advertising expenditure, the benefits of which a machine will last for five years is revenue expenditure.
29	**False:** Cost of R 80,000 for dismantling, removing and reinstalling plant by a cotton mill incurred In connection with the removal of works to a more suitable locality is Revenue expenditure.
30	**False:** A sum of Rs 50,000 spent for alternation of existing plant incorporating thereby new devices which could affect substantial reduction in power consumption is a Capital expenditure
31	**False:** Imported goods worth R 1,00,000 confiscated by customs authorities for non-disclosure of material facts is a Revenue loss.
32	**False:** Expenditure of R 20,000 for advertisement in newspapers is Revenue expenditure.
33	**False:** Expenditure of R 30,000 on non-sign board at the airport is a Capital expenditure.
34	**False:** Spent R 20,000 for remodeling the factory is a capital Expenditure and the balance Rs 30,000 is a Revenue Expenditure.
35	**False:** Rs 1,00,000 spent on renewal fee of patent rights is a Capital Expenditure.
36	**False:** Expenses incurred in connection with obtaining a license for starting the factory are Capital Expenditure.
37	**False:** Rings and pistons of an engine were changed at a cost of R 5,000 to get fuel efficiency. This is Capital Expenditure.

38	**False:** Rs 2,00,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff. The suit was not successful. This is Revenue Expenditure.
39	**False:** R 1,00,000 paid as compensation to the two employees who were retrenched is a Revenue Expenditure.
40	**False:** Rs 10,000 Customs Duty paid on import of machinery for modernization of the factory production during the current year is a Capital Expenditure.
41	**False:** R 5,000 paid on Import Duty for purchase of Raw Materials is a Capital Expenditure.
42	**False:** it is a Capital Expenditure.
43	**False:** Any expenditure which is unreasonably large need not be Capital Expenditure. For example, Rs 20,00,000 paid as arrears of salaries & wages will be Revenue Expenditure although the amount is large.
44	**False:** Premium received on issue of shares is a Capital receipt.

9. DEPRECIATION

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Depreciation is an amortized expenditure. [June 1993]
2. Depreciation is a process of allocation of the cost of fixed asset. [Nov.2003]
3. Depreciation amount refers to the difference between historical cost and the market value of an asset.
   [May 2004]
4. Depreciation cannot be provided in case of loss, in a financial year. [Nov.1994 and Nov. 1997]
5. Depreciation is cash expenditure like other normal expenses. [Nov. 2002]
6. Land is also a Depreciation asset. [May 2001]
7. Providing Depreciation ensures sufficient cash for asset replacement. [Dec. 1993]
8. Reducing balance method for Depreciation is followed to have a uniform charge for Depreciation and repairs and maintenance together. [June 1993]
9. Depreciation can be charged on Goodwill by Fixed installment Method. [May 2006]
10. Depreciation refers to economic Depreciation of natural resources like one deposit in mines, oil wells.
11. Amortization refers to the physical Depreciation of intangible assets like Goodwill, patents, copy Rights.
12. Obsolescence refers to physical Depreciation by change in technology or taste or fashion.
13. Depreciation accounting is the process of valuation and not allows action.
14. If market value of a fixed asset is higher than its cost, then Depreciation need not be provided.
15. Depreciation is non-cash and non-operating expense which is to be provided for if there are profits.
16. Providing Depreciation in the accounts reduces the amount of cash profits.
17. Fixed Assets are stated in the balance sheet at their market value.
18. There exists difference between the written Down Value Method and Diminishing Balance Method of Depreciation.
19. The expressions- Depreciation is to be charged at 10% and 10% p.a. on furniture carry the same meaning.

20. M/s Ram & co need not provide any Depreciation on plant & machinery as its market value (Rs 10,00,000) is much higher than the cost of purchase (Rs 9,00,000).
21. Straight line method of Depreciation is followed to have a uniform charge for Depreciation and Repairs & maintenance together.

ANSWERS:

S.NO	Reason
1	**True:** Depreciation is charged on value of fixed assets over their useful life. Thus, by way of depreciation charge capital expenditure is amortized over the useful life of depreciable assets.
2	**True:** Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.
3	**False:** Depreciation amount refers to historical cost less estimated salvage values.
4	**False:** Depreciation being a charge against profit has to be provided for whether there is profit or loss in a financial year.
5	**False:** Depreciation non-cash expenditure because it does not involve any cash outflow.
6	**False:** Land is not a Depreciation asset because its useful life is not limited to few years.
7	**False:** Providing Depreciation does not necessarily ensures sufficient cash for asset replacement especially under inflationary conditions.
8	**True:** Reducing balance method for Depreciation is followed to have a uniform charge for Depreciation and repairs and maintenance together.
9	**True:** Depreciation can be charged on Goodwill by Fixed installment Method because fixed installment method is suitable where the risk of obsolescence is less.
10	**True:** Depreciation refers to physical Depreciation of natural resources like one deposit in mines, oil wells.
11	**False:** Amortization refers to the economic Depreciation of intangible assets like Goodwill, patents, copy Rights.
12	**False:** Obsolescence refers to economic Depreciation by change in technology or taste or fashion.
13	**False:** Depreciation accounting is the process of allocation and not valuation.
14	**False:** Depreciation needs be provided since Depreciation is not concerned with the fluctuation in market price.
15	**False:** Depreciation is non-cash but operating expense which is to be provided for whether there are profits.
16	**False:** Providing Depreciation in the accounts does not reduces the amount of cash profits.
17	**False:** Fixed Assets are stated in the balance sheet at their cost less Depreciation.
18	**False:** There does not exist any difference between the written Down Value Method and Diminishing Balance Method of Depreciation.
19	**False:** The expressions- Depreciation is to be charged at 10% and 10% p.a on furniture carry the same meaning.
20	**False:** M/s Ram & co need not provide any Depreciation on plant & machinery as its market value (Rs 10,00,000) is much higher than the cost of purchase (Rs 9,00,000).
21	**False:** Straight line method of Depreciation is followed to have a uniform charge for Depreciation and Repairs & maintenance together.

10 INVENTORY VALUATION

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Finished goods are normally valued at cost or market price whichever is higher.
2. The inventory under AS-2 is valued on the basis of cost price or current replacement cost, whichever is less.
3. Damaged inventory should be valued at cost or market price, whichever is lower.
4. Inventory of by- products, should be valued at net reliable value where cost of by- products can be separately determined.
5. Periodic inventory system is a method of recording inventory balances after each issue and receipt.
6. Inventory include stock of materials, work-in –progress and finished goods, maintenance supplies, consumables, loose tools and machinery spares.
7. Cost of conversion consist of direct labor, direct Expense, Sub-Contracted Work and Production Overheads as per Marginal Costing Method.
8. The cost of inventor includes:
   (i) Abnormal amounts of wasted material labour or other production cost.
   (ii) Storage cost.
   (iii) Administrative overhead.
   (iv) Selling and distribution Cost.
9. As per AS-2 'Valuation of Inventories'. The historical cost of inventories should normally be determined by FIFO (First in First Out), LIFO and weighted Average Cost Formula.
10. As per AS-2, the historical cost of manufactured inventories should be arrived at by Marginal costing.
11. As per AS-2, the historical cost may be compared with net realizable Value (NVR) by item by item method only.
12. As per AS-2, the Inventory of Raw Materials is valued a at Cost or NRV whichever is lower.
13. As per AS-2, the Inventory of Materials and other Supplies is valued at cost or NVR whichever is lower even if Finished Products are expected to be sold at or above cost.
14. If Costing Stock is understated, the Cost of Goods sold will increase but Profit and Current Assets will decrease.
15. Under inflationary conditions, LIFO method will show lower cost of Goods Sold, higher income and Higher value of Closing Stock.
16. Cost of Unsold Good lying with other on our behalf (e.g. Cost of Goods Sent on Approval Basis/ Consignment Basis/ Joint Venture Basis) should not form part of our Closing Stock at Balance Sheet Date.
17. In Balance sheet Stock as per physical verification as on date of balance sheet appears.

ANSWERS:

S.NO	Reason
1	**False:** Finished goods are normally valued at cost or market price whichever is higher.
2	**False:** The inventory under AS-2 is valued on the basis of cost price or current replacement cost, whichever is less.
3	**False:** Damaged inventory should be valued at cost or market price, whichever is lower.
4	**False:** Inventory of by- products, should be valued at net reliable value where cost of by- products can be separately determined.
5	**False:** Periodic inventory system is a method of recording inventory balances after each issue and receipt.

6	**False:** Inventory include stock of materials, work-in –progress and finished goods, maintenance supplies, consumables, loose tools but does not include machinery spares.
7	**False:** Cost of conversion consist of direct labour, direct Expense, Sub-Contracted Work and Production Overheads as per Absorption Costing Method.
8	**False:** The cost of inventor includes: Abnormal amounts of wasted material labour or other production cost. Storage cost. Administrative overhead. Selling and distribution Cost.
9	**False:** As per AS-2 'Valuation of Inventories'. The historical cost of inventories should normally be determined by FIFO (First in First Out), and weighted Average Cost Formula.
10	**False:** As per AS-2, the historical cost of manufactured inventories should be arrived at by absorption costing.
11	**False:** As per AS-2, the historical cost may be compared with net realizable Value (NVR) by item by item method or group of items method.
12	**False:** As per AS-2, the Inventory of Finished Goods is at Cost or NRV whichever is lower.
13	**False:** As per AS-2, the Inventory of Materials and other Supplies is not written down below cost if Finished Products are expected to be sold at or above cost.
14	**False:** If Costing Stock is understated, the Cost of Goods sold will decrease but Profit and Current Assets will increase.
15	**False:** Under inflationary conditions, LIFO method will show lower cost of Goods Sold, higher income and Higher value of Closing Stock.
16	**False:** Cost of Unsold Good lying with other on our behalf (e.g. Cost of Goods Sent on Approval Basis/ Consignment Basis/ Joint Venture Basis) should form part of our Closing Stock at Balance Sheet Date.
17	**False:** In Balance sheet Stock as per books appears and not Stock as per physical verification.

11 FINANCIAL STATEMENTS .

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Fixed cost remains relatively unaffected in a defined period of time. [Dec. 1993]
2. Current cost gives an alternative measurement base. [Nov. 1999]
3. Net profit is reflected in higher cash balances and net loss is reflected in lower net worth. [Dec. 1993].
4. Profit and loss account is a point statement whereas a balance sheet is a period statement. [Dec. 1993, Nov. 1994, Nov.1997]
5. A profit and loss account is a point statement whereas a balance sheet is a period statement. [May 1995]
6. Fixed assets are stated in the balance sheet at their market value. [Nov. 1995]
7. Trial balance is prepared after preparing the profit and loss account. [Nov. 1995]
8. The provision for discount o debtors is calculated before deducting the provision for doubtful debts from debtors. [Nov. 1995, May 1998, Nov.2002 and Nov 2004]

9. Provision for doubtful debts is debited to sundry debtors account. [May 2000]
10. The gain from sale of capital assets no0-09 is added to revenue to ascertain the net profit of a business. [May 1997 and Nov. 2000]
11. Freight and cartage expense paid on purchases of goods is added to the amount of purchase. [May 1997 and Nov. 2000]
12. The debit balance in the profit & loss account is surplus. [May 2001]
13. Debit balance of profit or loss account is a real asset. [Nov. 2002]
14. Assets and liabilities of a particular accounting period are shown in the balance sheet. [Nov. 2002 of Foundation]
15. Under the 'liquidity approach' assets which are most liquid are presented at the bottom of the balance sheet. [Nov. 2002]
16. The value of human resources is generally shown as assets in the balance sheet. [May 2003]
17. A withdrawal of cash from the business by the proprietor should be charged to profit and loss Account as an expense. [June 1994]
18. The proprietor of a shop feels that he has made a loss due to classing stock being Zero. [May 1995 and Nov. 1997]
19. Marshalling and Grouping has the same meaning.
20. Sundry Debtors are liquid assets. [May 2006]
21. Closing stock will never appear in the trail. [May 2006]
22. Income statement is prepared to ascertain the financial position but balance sheet is prepared to ascertain financial performance at the end of a given accounting period.
23. Income statement is prepared on the basis of closing entries relating to Nominal and Real Accounts but Balance sheet is prepared on the basis of balances of Real and Nominal Accounts.
24. Gross Profit means excess of all revenue over all expenses.
25. Operating Profit means excess of operating revenue over all expenses and losses.
26. Net profit means excess of all operating revenue over all expenses and losses.
27. Depreciable fixed assets are valued at cost.
28. Current assets are usually at Net realizable value or cost whichever is higher.
29. Under order of liquidity the most liquid assets is shown last and least urgent payment is shown first.
30. The company as defined under companies Act, 2013 prepares Balance sheet in the order of liquidity.
31. Banking and finance companies, and sole proprietorships prepare their balance sheets in the order of permanence.
32. Under order of performance least liquid asset is shown last and most urgent payment is shown first.
33. In trading account Returns having debit balance and credit balance are shown by way of deduction from account returns having debit balance and credit balance or shown by way deduction from amount of purchases and sales respectively.
34. If Closing Stock, Outstanding Expenses, prepaid Expense and Accrued Income and Unsacred Income appear inside the Trail Balance, these appear only in Income statement and not in the Balance Sheet.
35. If depreciation, Interest on capital, Interest on drawings appear inside the trail Balance, these will appear in only in the Balance sheet and not in Income statement.

36. Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trail balance and Provision for Discount on Debtors.
37. If opening entry and adjusting entries are not passed both trial balance and balance sheet will not be tallied.
38. Reserve for Discount on Creditors has credit balance.
39. Bank Account, provision for Doubtful debts, provision for discount on Debtors, reserve for Discount on Creditors, provision for Depreciation are Nominal Accounts.
40. Bill Receivable Account and Bills Payable Account are Real Account.
41. Prepaid insurance, Accrued Interest, commission received in advance and Closing Stock are Nominal Accounts.
42. Manufacturing A/c is prepared by an enterprise engaged in trading Activities.
43. Manufacturing A/c is prepared to ascertain the cost of goods sold.
44. Manufacturing A/c is closed by transferring its balance to the credit of profit & Loss A/c
45. Opening and closing Stock of Raw Materials, work in progress and Finished Goods are considered while preparing Manufacturing A/c.
46. A Balance sheet is a statement of assets and liabilities of an enterprise for a particular accounting period.
47. The most liquid asset is shown first and the most urgent payment to be made is shown last in order of liquidity.
48. The least liquid asset is shown first and the most urgent payment to be made is shown last in order of performanence.
49. Contingent liability is an ascertained liability but its amount and due date are indeterminate.
50. Deferred revenue expenditure is current year's expenditure to be paid in future year.

ANSWERS:

S.NO	Reason
1	**True:** Fixed costs represent that part of cost of production which, by its very nature, remain relatively unaffected in a defined period of time provided there is no change in the level of production and there is no change in factor prices.
2	**True:** Current cost is another alternative of measurement basis according to which assets are carried at the amount at which the same or an equivalent asset can be acquired currently. This is used under current cost accounting. Historical Cost is used under Historical Cost Accounting.
3	**False:** Net profit may not be reflected in higher cash balances because of credit transactions. On the other hand, cash may increase because of fresh loan or fresh capital. Net worth is the sum of capital, reserve and profit and loss is account balance. Net worth is reduced by net loss. But net worth may also be reduced by withdrawal by proprietor/partners. Sor lower net may not necessarily reflect net loss.
4	**False:** Profit and loss account shown the financial performance of concern for a particular accounting period.
5	**False:** A profit and loss account is a **periodic** statement and a balance sheet is a point statement.
6	**False:** Fixed assets are stated in the balance sheet at cost less depreciation.
7	**False:** Trial balance is prepared **before** preparing the profit and loss account.
8	**False:** The provision for discount o debtors is calculated **after** deducting the provision for doubtful debts from debtors.

9	**False:** Provision for doubtful debts is debited to profit and loss account, in the balance sheet, it is shown as deduction from debtors.
10	**False:** The profit on sale of capital assets not-be added to ascertain the true net profit of a business because it is not due to normal operations.
11	**False:** Freight and cartage expense paid on purchases of goods is added to the amount of purchase.
12	**False:** The debit balance in the profit & loss account is deficit or loss because expenses are more than revenues.
13	**False:** Debit balance of profit or loss account is a **fictitious asset.**
14	**False:** Assets and liabilities of a particular date are shown in the balance sheet.
15	**False:** Under the 'liquidity approach' assets which are most liquid are presented **first**.
16	**False: it is not shown in the balance sheets as per money measurement concept because it cannot be measured inmonetary tearms.**
17	**False:** Such a cash Withdrawal should be treated as drwings and not a business expensee chargeable to profit and loss account. Such drwings should be deducted from the proprietor capital.
18	**False:** The level of closing stock does not directly determine the profits of a business. The operational efficiency and other factors affecting cost determine the profits. The whole stock might have been sold out.
19	**False: the term ' Grouping' means putting together items of a similar nature under a common heading. For example, under the heading ' Trade creditors' the balance of the ledger accounts of all the suppliers form whom goods have been purchased on credit, will be shown** **The term'** Marshalling' refers to the order in which the various assets and libialities are shown in the balance sheet. The assets and liabilities can be shown either in the order liquidity or in the order of permanency.
20	**True:** Sundry Debtors are liquid assets because these are readily convertible into cash.
21	**False:** Closing stock may appear in the trail balance if an sdjusting entry relating to closing stock has already been passed. If clasing stock appears in trial balance it will appear only on the asset side of the balance sheet.
22	**False:** Income statement is prepared to ascertain the financial performance for a given accounting period but balance sheet is prepared to ascertain financial position at the end of a given accounting period.
23	**False:** Income statement is prepared on the basis of closing entries relating to Nominal and Real Accounts but Balance sheet is prepared on the basis of balances of Real and Personal Accounts.
24	**False:** Gross Profit means excess of all revenue over direct operating expenses.
25	**False:** Operating Profit means excess of operating revenue over operating expenses and losses.
26	**False:** Net profit means excess of all operating (whether operating or non- operating) revenue over all expenses and losses (whether operating or non- operating).
27	**False:** Depreciable fixed assets are valued at cost less Depreciation.
28	**False:** Current assets are usually at Net realizable value or cost whichever is Lower.
29	**False:** Under order of liquidity the most liquid assets is shown last and least urgent payment is shown first.
30	**False:** The company as defined under companies Act,2013 prepares Balance sheet in the order of liquidity.
31	**False:** Banking and finance companies, and sole proprietorships prepare their balance sheets in the order of liquidity.

32	**False:** Under order of performance least liquid asset is shown last and most urgent payment is shown first.
33	**False:** In trading account Returns having debit balance and credit balance are shown by way of deduction from account of sales and purchases respectively.
34	**False:** If Closing Stock, Outstanding Expenses, prepaid Expense and Accrued Income and Unaccrued Income appear inside the Trail Balance, these appear in Balance Sheet not in Income statement.
35	**False:** If depreciation, Interest on capital, Interest on drawings appear inside the trail Balance, these will appear in Income statement not in Balance sheet.
36	**False:** Provision for Doubtful Debt is calculated after deducting additional bad debts and additional discount appearing outside the trail balance but before deducting Provision for Discount on Debtors.
37	**False:** If opening entry and adjusting entries are not passed both trial balance and balance sheet will be tallied.
38	**False:** Reserve for Discount on Creditors has debit balance.
39	**False:** Bank Account, provision for Doubtful debts, provision for discount on Debtors, reserve for Discount on Creditors, are personal accounts but provision for Depreciation are Real Accounts.
40	**False:** Bill Receivable Account and Bills Payable Account are personal Account.
41	**False:** Prepaid insurance, Accrued Interest, commission received in advance are personal accounts but Closing Stock are real Accounts.
42	**False:** Manufacturing A/c is prepared by an enterprise engaged in Manufacturing Activities.
43	**False:** Manufacturing A/c is prepared to ascertain the cost of goods manufactured.
44	**False:** Manufacturing A/c is closed by transferring its balance to the debit of trading A/c
45	**False:** Opening and closing Stock of Raw Materials, work in progress and not Finished Goods are considered while preparing Manufacturing A/c.
46	**False:** A Balance sheet is a statement of assets and liabilities of an enterprise at a particular date.
47	**False:** The most liquid asset is shown first and the most urgent payment to be made is shown first in order of liquidity.
48	**False:** The least liquid asset is shown first and the least urgent payment to be made is shown last in order of permanence.
49	**False:** Contingent liability is an unascertained liability but its amount and due date are indeterminate.
50	**False:** Deferred revenue expenditure is future year's expenditure but paid in current year.

12. NOT FOR PROFIT ORGANISATIONS

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Receipts and Payments Account is a summary of all capital receipts and payments[Nov. 1995, Nov 1997, May 2005]

Or

The receipts and payments account records receipts and payments of revenue nature only. [May 1996].

2. Scholarships granted to students out of funds provided by Government will be debited to Income and Expenditure Account.

3. If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account.

4. Receipts and payments account highlights total income and expenditure.

5. Only revenue items disclosed in income and Expenditure account.

6. Receipts and payments Account is a summary of all receipts and payments (whether capital or revenue) relating to current year.

7. Income and expenditure Account is a summary of all revenue receipts and revenue payments relating to current year.

8. Income and expenditure account is a summary of all revenue income and payments relating to current year.

ANSWER

S,NO	Reasons
1	**FALSE:** Receipts and Payments Account is a summary of all cash/bank receipts and payments whether capital or revenue in nature.
2	**FALSE: The** Scholarships granted to students be shown as deduction from the funds provided by the Government for the same purpose in the balance sheet.
3	**FALSE: Such expenses will be deducted from sports funds only.**
4	**FALSE:** Receipts and payments account is a classified summary of cash/bank receipts and payment over on accounting period together with cash and bank balances at the beginning and close of the period.
5	**FALSE:** income and Expenditure account is a revenue statement prepared to ding out surplus/ deficit, Hence, only revenue items are shown In the Income and Expenditure account.
6	**FALSE:** Receipts and payments Account is a summary of all receipts and payments (whether capital or revenue) relating to current year previous year future year.
7	**FALSE:** Income and expenditure Account is a summary of all revenue income and revenue expense relating to current year.
8	**FALSE:** Income and expenditure account is a summary of all revenue income and revenue expenses relating to current year.

13 CONSIGNMENT .

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. The relationship between consignor and consignee is that of principal and agent.
2. In consignment, the goods are dispatched on the basis that the goods will be sold on [may 1996]
3. Behalf of at the expense of and at the risk of the consignee. [may 1996]
4. Del-credere commission is normally calculated on total sales. [may 1996]
5. Loss of stock is said to be normal loss when such loss is not due to inherent characteristics of the commodities. [Nov. 1996, May 2005]

6. Loss of stock is said to be normal loss when such loss is not due to inherent characteristics of the commodities. [May 1998]
7. If the consignee is not authorized to get the Del-credere commission, than he is liable for all losses on account of non-recovery of debts. [May 1997]
8. Consignee has no right in the profit on goods remains with the consignor [May 2001. Nov. 2005]
9. In consignment account, ownership of the goods remains with the consignor [Nov. 2002]
10. The party to whom goods are sent is called 'consignee'. [Nov 2003]
11. Over-riding commission is calculated on credit sales only
12. The additional commission to be consignee who agree to bear the loss on account of bad debts is called overriding commission.
13. Overriding commission is granted to an agent in case of sales exceeding targets.
14. The relationship between consignee and consignor is that of Principle and Agent.
15. Unless otherwise agreed, Del-credere commission is calculated on credit sales.
16. Any property may be the subject matter of consignment.
17. Discount charges on discounting a B/R accepted by consignee are credited to consignment A/c.
18. Total cost of abnormal loss not recovered is debited to consignment A/C.
19. Consignor sends invoice but Consignee sends Sales Account.
20. Cost of Unsold Consignment Stock lying with Consignee consists of Cost of unsold Goods. Consignor's proportionate Expenses and Consignee's all Expenses of non-recurring nature.
21. Consignee will not pass a journal entry in his books for the amount of bad debts if del-credere commission is allowed.
22. Consignor allows overriding commission to the consignee to bear the bad debts on account of credit sales.
23. Non-recurring expenses are those expenses which are incurred after the goods reach the consignee's godown.
24. The consignee gives advance to the consignor as a part payment of good received.
25. Loading charges paid by the consignee are non-recurring expenses.
26. All expenses incurred by consignee are debited to his account.
27. When defective goods are returned by the consignee, the consignor debits it to consignee's account.
28. Consignee does not pass any entry for goods sent on consignment, profit and loss on consignment and consignment stock.
29. The cost of consignment stock is the cost at which the good are consigned plus all the non-recurring expenses.
30. Goods returned by the consignee should be charged to consignment account at cost or market price whichever is lower
31. Expenses incurred in forwarding the defective goods should be debited to profit & Loss Account.
32. Loss of weight due to evaporation is abnormal loss.
33. Normal Loss does not affect the valuation of Closing Stock.
34. Abnormal Loss is affecting the valuation of Closing Stock.
35. Abnormal Loss is debited to Consignment Account.
36. The amount of loss not accepted by the insurance company is debited to Consignment Account.
37. Loading is the difference between Selling Price and Cost price.
38. Consignor always consigns goods at invoice price.
39. Sending goods at invoice price shall result in more profit in the Consignment Account, if no adjustment is made for the loading.
40. Invoice price is always equal to selling price.
41. Consignee consigns the goods at invoice price to conceal the actual profit earned on consignment.
42. Loading on closing stock will be nullified by debiting stock reserve Account and crediting Closing Stock Account.

43. All the entries of adjustment for loading are recorded in the books of consignee.
44. Sales Account and Account Sales are synonymous terms:

ANSWERS:

S.NO	REASON
1	**True:** The relationship between consignor and consignee is that of principal and agent. The consignee acts only on behalf of and at the instructions of the consignor and not as partner of the consignor.
2	**True:** In a consignment, business goods are generally sold on behalf of, at the expenses of and at the risk of the **consignor.** However, if the consignee gets del-Credere commission, the risk of bad debts is borne by him.
3	**False:** accounts sales is a statement sent by the consignee to consignor, showing (a) the details of sales made, (b) the expenses incurred on behalf of consignor,(c) the commission earned by the consignee, (d)any advance given to the consignor and (e) the balance due to the consignee.
4	**True:** although it arises in relation to credit sales, it is calculated on total sales, not merely on credit sales unless otherwise agreed.
5	**False: when** loss is caused by abnormal factors like fire, theft, abnormal, spoiling etc.. loss is said to be abnormal
6	**False:** Loss due to inherent features of goods is a normal loss.
7	**False:** If the consignee is not authorized to get the del-credere commission, than he is not responsible for any bad-debts that may arise in due course of business.
8	**True: the** Consignee being an agent earns only commission and not profit.
9	**True:** the ownership of the goods remains with the consignor. The consignee does not become owner even though the goods are in his possession.
10	**True:** in consignment accounts, the party which sends the goods is called the consignor, while the party to whom goods are sent is called 'consignee'.
11	**False:** In case the sales exceed a specific amount, an extra commission is allowed to the consignee. This commission is termed as Over-riding commission it is calculated on total sales, unless specifically agreed between the consignor and the consignee.
12	**False:** The additional commission to be consignee who agree to bear the loss on account of bad debts is called overriding commission.
13	**False:** Overriding commission is granted to an agent in case of sales exceeding specific targets.
14	**False:** The relation between consignee and consignor is that of Agent and Principle.
15	**False:** Unless otherwise agreed, Del-credere commission is calculated on total sales and not on credit sales.
16	**False:** only movably property may be the subject matter of consignment.
17	**False:** Discount charges on discounting a B/R accepted by consignee are debited to consignment A/c.
18	**False:** Total cost of abnormal loss (whether recovered or not) is credited to consignment A/C.
19	**False:** Consignor sends Performa invoice but Consignee sends Sales Account.

20	**False:** Cost of Unsold Consignment Stock lying with Consignee consists of Cost of unsold Goods. Consignor's proportionate Expenses and Consignee's proportionate Expenses of non-recurring nature.
21	**False:** Consignee will not pass a journal entry in his books for the amount of bad debts if del-credere commission is allowed.
22	**False:** Consignor allows overriding commission to the consignee to achieve sales exceeding a specific amount.
23	**False:** Non-recurring expenses are those expenses which are incurred before the goods reach the consignee's godown.
24	**False:** The consignee gives advance to the consignor as a security for the goods dispatched to him.
25	**False:** Loading charges paid by the consignee after the goods reach the consignee's godown are recurring expenses.
26	**False:** All expenses incurred by consignee are credited to his account.
27	**False:** When defective goods are returned by the consignee, the consignor debits it to Goods sent on consignment account.
28	**True:** Consignor passes entry for goods sent on consignment, profit and loss on consignment and consignment stock.
29	**False:** The cost of consignment stock is the cost at which the good are consigned plus proportionate non-recurring expenses.
30	**False:** Goods returned by the consignee should be charged to consignment account at cost or net Realizable Value whichever is lower
31	**False:** Expenses incurred in forwarding the defective goods should be debited to consignment Account.
32	**False:** Loss of weight due to evaporation is normal loss.
33	**False:** Normal Loss affects the valuation of Closing Stock.
34	**False:** Abnormal Loss does not affect the valuation of Closing Stock.
35	**False:** Abnormal Loss is credited to Consignment Account.
36	**False:** The amount of loss not accepted by the insurance company is credited to Consignment Account.
37	**False:** Loading is the difference between Invoice Price and Cost price.
38	**False:** Consignor need not always consigns the goods at invoice price. Good may be consigned at cost also
39	**False:** Sending goods at invoice price shall result in less profit in the Consignment Account, if no adjustment is made for the loading. Profit shall be reduced by the amount of loading on Goods Sold.
40	**False:** Invoice price is always equal to Cost plus price.
41	**False:** Consignor consigns the goods at invoice price to conceal the actual Cost of Goods to the consignee.
42	**False:** Loading on closing stock will be nullified by debiting Consignment Account and crediting Stock revenue Account.
43	**False:** All the entries of adjustment for loading are recorded in the books of consignor.
44	**False:** Sales Account and Account Sales are different terms:

15 BILL OF EXCHANGE

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. A bill given to a creditor is called bill payable.[May 1996, Nov 2001 and May 2004]
2. A promissory note can be made payable to the bearer. [May 1996, Nov 2000]
3. A has drawn a bill on B.B accepts the same and endorses the bill to C. [May 2000]
4. No cancellation entry is required when a bill is renewed [May 1997, May 1998, Nov 2001, May 2004]
5. Cancelling old bill and drawing new bill is called renewal of bill[May 2001]
6. Discount at the time of retirement of a bill is a gain for the drawee [Nov 1996 and May 2002]
7. At the time of Renewal of a bill, Interest account is debited in the books of a drawee.[May 2006]
8. Promissory note requires acceptance [May 2006]
9. Refusal by the acceptor to make payment of the bill on the maturity date is called retirement of the bill [May 2005]
10. A bill of exchange is a conditional order in writing given by a Debtor to a Creditor.
11. A promissory Note is a written unconditional order to pay by a Creditor to a Debitor but a bill of exchange is a written unconditional undertaking to pay a debtor to a creditor. [Nov. 2005]
12. The term of bill after date commences from the date of acceptance of the bill but the term of bill after sight commences from the date of drawing a bill.
13. In case of all bill of exchange, three days (days of grace) are added to due date to arrive at date of maturity.
14. In case of insolvency of acceptor, the amount which could not be recovered is debited to deficiency A/c in the books of drawer and the amount which could not be paid is credited to bad debt A/c in books to drawee.
15. Rebate on retirement of bill is an expense for drawer and an Income for Drawee.
16. On discounting of accommodation bill, the proceeds are shared by drawee and drawe equally the party bears the discount in the proportion in which it shares the proceeds of bill, unless otherwise agreed.
17. In case of a public holiday the due date of the bill falls on the next working day.
18. Bill of exchange is an unconditional promise to pay in writing.
19. When bill is endorsed for discounted, no entry is passed in the books of drawer.
20. When an endorsed or discounted bill is honored, no entry is passed in the books of drawee.
21. When the bill is honored on the due date, the drawee credits Bill payable A/c in his books.
22. When the bill is discounted or endorsed, no entry for payment of the bill is passed in the books of the drawee.
23. In case of the dishonor of a bill, noting charges are initially paid by the drawee.
24. The bill is treated as dishonored in case of insolvency of the drawee who pays only 75%.
25. When the bill is dishonored in drawee's books the banker (in case bill has been discounted and endorsee (in case bill has been endorsed) will be debited.
26. For drawing an accommodation bill some valuable consideration must pass between the two parties.
27. A bill receivable drawn on Ram recorded in B/R book is posted to the debit of Bill Receivable A/c

28. All individual entries from Bill Payable Journal are to be posted to the debit of Bill Payable A/c
29. A bill of exchange is an unconditional promise in writing given by a debtor to a creditor.
30. A promissory note is an unconditional order in writing given by a creditor to a debtor
31. Drawer and payee can be the same person in a Bill receivable.
32. Days of grace are added to date of maturity of bill to arrive at due date.

ANSWERS:

S.NO	Reason
1	**True:** A bill given to a creditor is called bill payable because the debtor commits to pay by giving a bill to creditor.
2	**False:** A promissory note can be made payable to the bearer. It is payable to or to the order of a certain person
3	**False: B** cannot endorse the bill on C because he is a drawee. Only A , the drawe can do so,
4	**False: when the bill is renewed, entries are passed first for** cancellation of the old bill and then entry is required when a bill is renewed [May 1997, May 1998, Nov
5	**True:** when the acceptor of a bill fails to make the payment on the due date, a new bill may be drawn on him after Cancelling old bill this is known as renewal of bill[May 2001]
6	**True:** Discount at the time of retirement of a bill is a gain for the drawer and loss for the drawer. Gain is basically an interest for the unexpired term of the bill
7	**True:** At the time of Renewal of a bill, Interest account is debited in the books of a drawer. Because it is represents an expense for drawee.
8	**False:** Promissory note does not require acceptance because it is already a valuable instrument. Bills receivable an expense for drawer.
9	**False:** Refusal by the acceptor to make payment of the bill on the maturity date is called dishonor of the bill
10	**False:** A bill of exchange is a conditional order in writing given by a creditor to a Debtor.
11	**False:** A promissory Note is a written unconditional order to pay by a Debtor to a creditor but a Bill of Exchange is a written unconditional order to pay a creditor to a Debtor. [Nov. 2005]
12	**False:** The term of bill after date commences from the date of drawing a bill but the term of bill after sight commences from the date of acceptance of bill.
13	**False:** In case of all bill of exchange, (other than payable on demand), three days (days of grace) are added to due date to arrive at date of maturity.
14	**False:** In case of insolvency of acceptor, the amount which could not be recovered is credited to bad debt A/c in the books of drawer and the amount which could not be paid is debited to deficiency A/c in books to drawee.
15	**False:** Rebate on retirement of bill is an income for drawer and an expense for Drawer.
16	**False:** On discounting of accommodation bill, the proceeds are shared by drawer and drawer in agree ration. The party bears the discount in the proportion in which it shares the proceeds of bill, unless otherwise agreed.
17	**False:** In case of a public holiday the due date of the bill falls on the preceding working day.
18	**False:** Bill of exchange is an unconditional order to pay in writing.
19	**False:** When bill is endorsed for discounted, no entry is passed in the books of drawer.

20	**False:** When an endorsed or discounted bill is honored, no entry is passed in the books of drawer.
21	**False:** When the bill is honored on the due date, the drawer debits Bill payable A/c in his books.
22	**False:** When the bill is discounted or endorsed, no entry for payment of the bill is passed in the books of the drawer.
23	**False:** In case of the dishonor of a bill, noting charges are initially paid by the holder of the bill.
24	**False:** The bill is treated as dishonored in case of insolvency of the drawer since he falls to pay at the date of maturity.
25	**False:** When the bill is dishonored, the drawer will be debited in books of drawer whether the bills is retained, discounted and endorsee or discounted
26	**False:** For drawing an accommodation bill consideration need not pass between the two parties.
27	**False:** A bill receivable drawn on Ram recorded in B/R book is posted to the credit of Ram's A/c
28	**True:** All individual entries from Bill Payable Journal are to be posted to the debit of Bill Payable A/c
29	**False:** A bill of exchange is an unconditional order in writing given by a creditor to a debtor.
30	**False:** A promissory note is an unconditional promise in writing given by a debtor to a creditor
31	**False:** Drawer and payee can be the same person in a Bill receivable.
32	**False:** Days of grace are added to due date of bill to arrive at date maturity.

16 AVERAGES DUE DATE AND ACCOUNT CURRENT

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. If payment is made on the average due date, it results in loss of interest to creditors. [Nov 1999 and May 2003]
2. Average due date is the median average of several due dates for Payments.[May 1999]
3. In the calculation of average due date, only the due date of first transaction must be taken as the base date. [May 1999 and Nov 2003]
4. In account current, red-ink interest is treated as negative interest.[Nov 1999 and May 2003].

ANSWERS:

S .no	Reason
1	**False:** Average due date is 'no loss no gain' date to either party i.e. neither the debtor nor the creditor stands to lose or gain anything by way of interest.
2	**False:** Average due date is the mean/equated date for several due dates for Payments.
3	**False:** while calculation of average due date, any transaction date may be taken as the base date.
4	**True:** in case the due date of a bill falls after the date of closing the account, interest from the date of closing to such due date is written in 'red-ink' in the appropriate side of account current. This red-ink interest is treated a negative interest.

17 GOODS SENT ON APPROVAL

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Sales or Return Account in the sale or return ledger represents the value of goods till lying with the customers for approval. [May 2006]
2. If Goods sent on Approval are temporarily pledged by customer for security purposes only with the lender, it does not mean that goods have been sold to the customer.
3. If Goods sent on Approval to a Customer are sent by that customer on approval basis to any other person, it does not mean that foods have sold to the customer.
4. Credit Balance of sale on Approval A/c at the close of Accounting period represents total value of Goods sent out.
5. Goods sent out on approval but neither sold nor returned till the close of accounting period are included in the stock of the customer at cost or Net Realizable value whichever is higher.

ANSWERS:

S.NO	Reason
1	**True: the balance** sale or Return Account in the sale or return ledger represents the value of goods lying with the customers who have neither returned nor accepted goods till date.
2	**False:** if Goods sent on Approval are pledged by customer as security with the lender, it amount to acceptance of goods and, it mean that goods have been sold to the customer.
3	**False:** If Goods sent on Approval to a Customer are sent by that customer on approval basis to any other person, it amount to acceptance of goods have been sold to the customer.
4	**False:** Credit Balance of sale on Approval A/c at the close of Accounting period represents total value of Goods sent out but neither sold nor returned.
5	**False:** Goods sent out on approval but neither sold nor returned till the close of accounting period are considered as good lying with customer on behalf of seller and included in the stock of the seller at cost or Net Realizable value whichever is higher.

18 PARTNERSHIP—FUNDAMENTALS

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. A Joint venture is a partnership under the partnership Act [May 2000, May 2003]
2. A partner who devotes more time to a business than other partners is entitled to get a salary. [May 2000]
3. Partners can share profits or losses in their capital ratio, when there is no agreement.
4. The business of partnership firm must be carried on by all the partners. [Nov 2005]
5. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio. [May 2005]
6. Sharing profit is conclusive evidence of partnership but mutual agency is only a prima facie evidence of partnership.
7. Registration of a firm has to be effected before the formation of partnership.
8. Every partner is only jointly liable to third parties.
9. It is necessary to have partnership between in writing.

10. Terms of partnership and nature of business of firm can be changed with the consent of majority of partner.
11. If the amount of available profits is less than the total amount of interest on capital, the available profit should be distributed in the profit sharing ratio of partners.
12. If partnership deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.m.
13. A partnership deed must be in writing.
14. In the absence of any provision in the partnership deed, the partners share profit be and losses in the ratio of their capitals.
15. In the absence of any provision in the partnership deed, only a working partner (and to non-working partner) is entitled to remuneration.
16. In the absence of any provision in the partnership deed, interest will be calculated on the total amount of drawing for a period of 12 month assuming that the amounts were drawn evenly throughout the year.
17. If a fixed amount is withdrawn on the first day of every month, the interest on the total amount of drawings will be calculated for a period of 6 months
18. If a fixed amount is withdrawn on the last day of every month, the interest on the total amount of drawings will be calculated for a period of 6.5 months
19. Interest on loan given by a partner to the firm shall be paid if there are profit.
20. Current accounts of partners are maintained under the Fluctuating capital method.

ANSWERS:

S.NO	Reason
1	**False:** A Joint venture is a partnership under the partnership Act [May 2000, May 2003]
2	**False:** A partner who devotes more time to a business than other partners is entitled to get a salary.
3	**False:** Partners can share profits or losses in their capital ratio, when there is no agreement.
4	**False:** The business of partnership firm must be carried on by all the partners. [Nov 2005]
5	**False:** When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio. [May 2005]
6	**False:** Sharing profit is conclusive evidence of partnership but mutual agency is only a prima facie evidence of partnership.
7	**False:** Registration of a firm has to be effected before the formation of partnership.
8	**False:** Every partner is only jointly liable to third parties.
9	**False:** It is necessary to have partnership between in writIng.
10	**False:** Terms of partnership and nature of business of firm can be changed with the consent of majority of partner.
11	**False:** If the amount of available profits is less than the total amount of interest on capital, the available profit should be distributed iin the profit sharing ratio of partners.
12	**False:** If partnership deed is silent, Rate of Interest on loan by firm to a Partner shall be 6% p.m.
13	**False:** A partnership deed must be in writing.
14	**False:** In the absence of any provision in the partnership deed, the partners share profit be and losses in the ratio of their capitals.
15	**False:** In the absence of any provision in the partnership deed, only a working partner(and to non-working partner) is entitled to remuneration.

16	**False:** In the absence of any provision in the partnership deed, interest will be calculated on the total amount of drawing for a period of 12 month assuming that the amounts were drawn evenly throughout the year.
17	**False:** If a fixed amount is withdrawn on the first day of every month, the interest on the total amount of drawings will be calculated for a period of 6 months
18	**False:** If a fixed amount is withdrawn on the last day of every month, the interest on the total amount of drawings will be calculated for a period of 6.5 months
19	**False:** Interest on loan given by a partner to the firm shall be paid if there is profit.
20	**False:** Current accounts of partners are maintained under the Fluctuating capital method.

19 GOODWILL AND ADMISSION OF PARTNER

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Goodwill is a fictitious asset [May 1996, May 2001, Nov 2001 and May 2004]
2. Goodwill is in the nature of personal account [May 1999]
3. Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio.
4. A person may be admitted as partner either with the consent of majority of partners or in accordance with express agreement among partners;
5. There exists no difference between Y surrenders 1/3rd of his share and Y surrenders 1/3rd from his share.
6. Machinery replacement fund is credited to partners in their sacrificing.
7. Excess of investment fluctuation reserve over difference between book value and market value is credited to revaluation Account.
8. Excess of workmen compensation reserve over liability of workmen compensations credited to revaluation account.
9. The ratio in which the old partners have agreed to sacrifice their share in profit in favor of a new partner is called the gaining ratio.
10. Unless given otherwise, the ratio of sacrifice is the same as old profit sharing ratio.
11. The amount is Goodwill brought in by the new partner is shared by old partners in their old profit sharing old.
12. The assets and liabilities are revalued at the time of admission of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to the date of admission may be adjusted in the capital accounts of sacrificing partners only.
13. If, at the time of admission, provision for doubtful debts is to be reduced, it will be debited to debtors accounts.
14. Any amount released from the sale of unrecorded asset is debited to the old partners' capital account.
15. Any amount paid to discharge an unrecorded liability is credited to the old partner's capital accounts.
16. Gain or loss arising from revaluation f asset and liabilities is shared by old partner in their sacrificing ratio.

17. All accumulated profit, reserves, losses and fictitious assets appearing in the books of the firm at the time of admission, are transferred to old partners' capital accounts in their respective sacrificing ratio.

ANSWERS:

S.NO	Reason
1	**False:** Goodwill is an intangible asset and not fictitious or current asset.
2	**False:** Goodwill is an intangible asset therefore it is an item of real account
3	**False:** Goodwill brought in by an incoming partner in cash for joining a partnership firm is taken away by the old partners in their new profit sharing ratio.
4	**False:** A person may be admitted as partner either with the consent of all partners or in accordance with express agreement among partners;
5	**False:** There exists no difference between Y surrenders 1/3rd of his share and Y surrenders 1/3rd from his share. If B share is 2/5th. It means in the former case he has surrendered 2/15th , in the latter case, he has surrendered 1/3rd share and B's new share is 1/15
6	**False:** Machinery replacement fund is not credited to partners because it is in the nature of accumulated depreciation and not accumulated profit.
7	**False:** Excess of investment fluctuation reserve over difference between book value and market value is credited to partner in profit sharing Ratio.
8	**False:** Excess of workmen compensation reserve over liability of workmen compensations is credited to partner in profit sharing Ratio.
9	**False:** The ratio in which the old partners have agreed to sacrifice their share in profit in favor of incoming in their respective old profit sharing ratio.
10	**False:** Unless given otherwise, it is presumed that old partners have surrendered their in favor of a new partner in the respective old sharing ratio.
11	**False:** The amount is Goodwill brought in by the new partner is shared by old partners in their sacrificing old.
12	**False:** The assets and liabilities are revalued at the time of admission of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to the date of admission may be adjusted in the capital accounts of sacrificing partners only.
13	**False:** If, at the time of admission, provision for doubtful debts is to be reduced, it will be provision for doubtful debts accounts.
14	**False:** Any amount released from the sale of unrecorded asset is debited to the cash/bank accounts.
15	**False:** Any amount paid to discharge an unrecorded liability is credited to the cash/bank accounts.
16	**False:** Gain or loss arising From revaluation of asset and liabilities is shared by old partners in their respective old sharing ratio.
17	**False:** All accumulated profit, reserves, losses and fictitious assets appearing in the books of the firm at the time of admission, are transferred to old partners' capital accounts in their respective old profit sharing ratio.

20 PARTNERSHIP-RETIRMENT/DEATH OF A PARTNER

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. If a partner entries, than other partners have a gain in their profit sharing ration[May 2001]
2. Joint life policy is taken by the partners in order to provide working capital for the firm[June 1994]

3. A partner may retire from firm either with the consent of majority of partners or in accordance with express agreement among partners.
4. Deceased partner's share of profit is adjusted through P&L suspense A/c which appears on the liabilities side of the balance sheet.
5. The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as sacrificing ratio.
6. Unless given otherwise, the gaining ratio is the same as old profit ratio.
7. The assets and liabilities are revalued at the time of retirement/ death of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to date of retirement/death of a partner may be adjusted in the capital accounts of continuing partners only.
8. Gain or loss arising from revaluation of assets and liabilities up to date of retirement/ death of a partner is shared only by continuing partners in their respective old sharing ratio.
9. All accumulated profit, reserves, losses and fictitious assets appearing in the books if the firm at the time of retirement of a partner is transferred only to continuing partner's capital accounts in their respective old profit sharing ratio.
10. The amount standing to the credit of deceased partner' capital account is transferred to his her loan account in case it is not paid immediately.
11. Joint life policy is an assurance policy covering the lives of the partners jointly & severally.
12. Joint life policy becomes due in the event of death of any of the partners or on the maturity of the policy, whichever is later.
13. Surrender value of an insurance policy means the realizable value of an insurance policy in the event of the surrender of the policy to the insurance company at the date of maturity.
14. A retired partner or the legal representative of a deceased partner cannot claim a share in the subsequent profit of the firm in any case.

ANSWERS:

S.NO	Reason
1	**True:** If a partner entries, his share of profit or loss will be shared by the other partners in their profit sharing ration unless otherwise agreed.
2	**False: the objective of taking a** Joint life policy is to minimize the financial hardships in the event of payment of large sum to the legal representatives of deceased partners or to the retiring partner.
3	**False:** A partner may retire from firm either with the consent of all other partners' accordance with express agreement among partners.
4	**False:** Deceased partner's share of profit is adjusted through P&L suspense A/c which appears on the Assets side of the balance sheet.
5	**False:** The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as a gaining ratio.
6	**True:** Unless given otherwise, it is presumed that continuing partners have acquired the outgoing(retired or deceased) partner's share in their respective old profit sharing ratio.
7	**False:** The assets and liabilities are revalued at the time of retirement/ death of a partner so that the profit or loss arising on the revaluation of assets and liabilities up to date of retirement/death may be adjusted in the capital accounts of all the partners.
8	**False:** Gain or loss arising from revaluation of assets and liabilities up to date of retirement/ death of a partner is shared by all partners in their respective old profit sharing ratio.
9	**False:** All accumulated profit, reserves, losses and fictitious assets appearing in the books of the firm at the time of retirement of a partner are transferred to all partner's capital accounts in their respective old profit sharing ratio.

10	**False:** The amount standing to the credit of deceased partner' capital account is transferred to his/her executors' loan account in case it is not paid immediately.
11	**False:** Joint life policy is an assurance policy covering the lives of the partners jointly.
12	**False:** Joint life policy becomes due in the event of death of any of the partners or on the maturity of the policy, whichever is earlier.
13	**False:** Surrender value of an insurance policy means the realizable value of an insurance policy in the event of the surrender of the policy to the insurance company before the date of maturity.
14	**False:** A retired partner or the legal representative of a deceased partner cannot claim a share in the subsequent profit of the firm in any case.

21 ACCOUNTNG FOR SHARE CAPITAL

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Maximum number of members in case of private company is 50.
2. Maximum paid up capital for public company is R 5 lakes and for private company is Rs 1 Lake.
3. Equity share capital with differential rights as to voting or dividend cannot be issued.
4. Unless otherwise state a preference share is always deemed to be non-cumulative, non-participating & non-convertible.
5. Participating preference share is that share which in addition to two basic preferential rights also carries a right to particular in surplus profit and surplus assets.
6. Securities premium can be applied to issue partly paid bonus shares.
7. Under the capital clause of memorandum of association, the amount of issued Capital and its division into shares of fixed amount is required to be stated.
8. Issued capital refers to paid up value of all shares allotted.
9. Shares issued to supplier of a fixed asset are required to be disclosed separately under the sub-head 'issued capital'
10. Reserve capitals carry the same meaning.
11. As per table F, the minimum Rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance is 10%and 12%p.m respectively.
12. While passing an entry for forfeiture, share capital A/c is debited with the amount paid-up (excluding securities premium) tills the stage of forfeiture.
13. While passing an entry for forfeiture, securities premium us debited only with the amount of
14. While passing an entry for forfeiture shares A/c is credited with the total amount already received (whether on application or allotment or call).
15. While passing an entry for re-issue, shared capital is credited with the amount called up.
16. While passing an entry for re-issue, securities premium is credited with excess of re-issue price over the face value.
17. Share application account, share allotment account, share call Account and share capital account are Real Accounts.
18. Forfeited shares Account, Securities Premium Account, Call- in – arrears Account and Call-in advance Account are Nominal Accounts.

ANSWERS:

S.NO	Reason
1	**False:** Maximum number of members in case of private company is 200.
2	**False:** Maximum paid up capital for Public Company is R 5 lakhs and for Private Company is Rs 1 lakh.
3	**False:** Equity share capital with differential rights as to voting or dividend may be issued.
4	**False:** Unless otherwise stated a preference share is always deemed to be Cumulative, Non-participating & Non-convertible.
5	**False:** Participating preference share is that share which in addition to two basic preferential rights also carries a right to participate in surplus profit and surplus assets.
6	**False:** Securities premium can be applied to issue fully paid bonus shares.
7	**False:** Under the capital clause of memorandum of association, the amount of Authorized Capital and its division into shares of fixed amount is required to be stated.
8	**False:** Issued capital refers to Nominal value of all shares allotted.
9	**False:** Shares issued to supplier of a fixed asset are required to be disclosed separately under the sub-head 'Subscribed capital'
10	**False:** Reserve capital refers to that portion of uncalled up share capital which shall not be capable of being called up except in the event and for the purpose of the company being would up. Capital reserve refers to those amounts which are not regarded as free for distribution by way of dividend.
11	**False:** As per table F, the minimum rate of interest that can be charged on Calls-in-Arrear and that can be allowed on calls-in-advance are 10% posed 12%p.m respectively.
12	**False:** While passing an entry for forfeiture, share capital A/c is debited with the amount called-up(excluding securities premium) till the stage of forfeiture.
13	**False:** While passing an entry for forfeiture, securities premium is debited only with the amount of Securities Premium due but not received.
14	**False:** While passing an entry for forfeiture shares A/c is credited with the amount already received(excluding Securities Premium)(whether on application or allotment or call).
15	**False:** While passing an entry for re-issue, shared capital is credited with the amount paid up value.
16	**False:** While passing an entry for re-issue, securities premium is credited with excess of re-issue price over the paid up value.
17	**False:** Share application account, share allotment account, share call Account and share capital account are personal Accounts.
18	**False:** Forfeited shares Account, Securities Premium Account, are nominal Accounts but Call- in – arrears Account and Call-in advance Account are personal Accounts.

22 ACCOUNTING FOR DEBENTURES

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. Now debentures can be issued at par/premium but not at discount.
2. Like shares a company can issue debentures with voting rights.
3. Debenture interest is calculated on issue price and is payable when there are profit after the payment of any dividend on shares.

4. Debenture redemption premium account and discount on issue of debentures Account are Nominal Accounts.

ANSWERS:

S.NO	RESON
1	**False:** debentures can be issued at par/premium discount since there are no restrictions on issue of debentures at discount.
2	**False:** Like shares a company cannot issue debentures with voting rights.
3	**False:** Debenture interest is calculated on face value and not on issue price and is payable irrespective or fact whether there are profit or not before the payment of any dividend on shares.
4	**False:** Debenture redemption premium account is a personal account but discount on issue of debentures Account are Nominal Accounts.

24 LIMITED LIABILITIY PARTNERSHIPS

State with reason whether the following statements are true or false (no marks shall be awarded without valid reason):

1. LLP is an entity registered under' the Limited Liability Partnership Act, 2018'
2. LLP has no separate legal entity.
3. LLP is created by agreement and not by law.
4. LLP has no perpetual succession.
5. Name of LLP need not contain 'Limited liability Partnership' or LLP' as suffix.
6. For LLP minimum number of partners required is 2 but there is limit of 20 on maximum number of partners.
7. Liability of LLP partner is unlimited.
8. LLP partners act as agents of LLP and other partners.
9. Minor can be admitted to the benefits of LLP
10. Foreign National cannot become a Partner in a LLP
11. LLP must have at least 2 individuals as Designated Partners who must be residents in India.
12. Each Designated Partner of LLP is required to have a DPIN before appointment.
13. All Designated Partner must have Digital Signatures since a form are filled electronically.
14. All partners of LLP are liable for Legal Compliance.

s.no	Reason
1	**False:** LLP is an entity registered under' the Limited Liability Partnership Act, 2018'
2	**False:** LLP has separate legal entity.
3	**False:** LLP is created by law.
4	**False:** LLP has perpetual succession. The death, insolvency or unsoundness of its members does not affect its existence, members may come and go but LLP goes forever.
5	**False:** Name of LLP must contain 'Limited liability Partnership' or LLP' as suffix.
6	**False:** For LLP minimum number of partners required is 2 but There is no limit on maximum number of partners.

7	**False:** Liability of LLP partner is limited, to the extent their contribution towards LLP, except in case of intentional fraud is wrongful act of omission or commission by the partner.
8	**False:** LLP partners act as agents of LLP and not of other partners.
9	**False:** Minor cannot be admitted to the benefits of LLP
10	**False:** Foreign National can become a Partner in a LLP
11	**False:** LLP must have at least 2 individuals as Designated Partners of whom at least a one must be residents in India.
12	**False:** Each Designated Partner of LLP is required to have a DPIN before appointment.
13	**False:** All Designated Partner must have Digital Signatures since a forms are filled electronically.
14	**False:** All partners of LLP are liable for Legal Compliance.

2 IMPORTANT DISTINCTIONS

1.0 DISTINGUISH BETWEEN ACCRUAL BASIS O F ACCOUNTING AND CASH BASIS OF ACCOUNTING [JUNE 1993, MAY 2003, NOV 2005]

Accrual basis of accounting differ from cash basis of accounting in the following respects:

Basis of Distinction	Accrual Basis of Accounting	Cash Basis of Accounting
Prepaid/outstanding expenses/accrued/uncured Income in Balance Sheet.	Under this, there may be prepaid/outstanding Expenses and Accrued/Uncured Income in the Balance Sheet.	Under this, there is prepaid/outstanding Expenses or Accrued/Uncured Income.
Higher/lower Income in case of prepaid expenses and Accrued Income	Income Statement will show a relatively higher income.	Income Statement will show lower income.
3. Higher/lower Income in case of outstanding expenses and uncared Income	Income Statement will show a relatively lower income.	Income Statement will show a relatively higher income.
4.Recognition under the companies Act 2013	This basis is recognized under the Companies Act 2013.	This basis is not recognized under the Companies Act 2013.
5.Availability of options to an accountant to manipulate the accounts by way of choosing the most suitable method out of several alternative methods of accounting e.g. FIFO/LIFO/SLM/WDV	Under this, an accountant has options,	Under this, an accountant has no options to make a choice as such,

2.0 DISTINGUISH BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE

[JUNE 1993, NOV 1996, MAY 1997, NOV 2001, NOV 2004.]

Basis of Distinction	Accrual Basis of Accounting	Cash Basis of Accounting
Meaning	It is an expenditure which is incurred: To acquire or bring into existence an asset, or To acquire or bring into existence an advantage or benefit of an enduring nature, or To increase the productivity or earning capacity.	It is an expenditure which is incurred: **To maintain the productivity or earning capacity of a business, or** **To carry out operating activities in the normal course of business.**
Benefits	It normally yields benefits during current accounting period,	It normally does not yields benefits during current accounting period,
Accounting treatment	It is debited to the respective Asset Account.	It is debited to the respective Expense Account.
Examples	cost of Land and Building Cost of Plant and Machinery Cost of Furniture & Fixtures	depreciation on Land and Building Rent of Machines Repair of Building Insurance of Building

2.0 DISTINGUISH BETWEEN CAPITAL RECEIPTS AND REVENUE RECEIPTS

[NOV 1994, MAY 1996, MAY 1998.]

Basis of Distinction	CAPITAL RECEIPTS	REVENUE RECEIPTS
Meaning	Capital receipts refer to those receipts which are not revenue in nature	Revenue receipts refer to those receipts which arise in the normal course of business.
Accounting treatment	These are credited to the respective account of capital nature	These are credited to the respective account which appears in the income statement.
Examples	Sale of Land and Building by a person other than a dealer in real estate. Rising of loan by a person other than one engaged in the business of finance/banking. Rising of capital.	Sale of Land and Building by a dealer in real estate. Sale of securities by a dealer in securities

4.0 DISTINGUISH BETWEEN DEFERRED REVENUE EXPENSES &PREPAID EXPENSES [MAY 1995]

The guidance note on ‘’ terms used in Financial Statement ‘’ issued by the Institute of Chartered Accountants of India (ICAI), define deferred revenue expenditure as that expenditure for which payment has been made or a liability incurred, but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods.’’ In short, it refer to that expenditure that is, for the time being, deferred from being charged to income. Such suspension of ‘ charging off’ operation may be due to the nature of expense and the benefit expected there from.

Deferred revenue expenditure should be revenue expenditure by nature in the first instance, for example, advertisement. But its matching with revenue may be deferred considering the benefit to be accrued in future.

A thin line of difference exists between deferred revenue expenses and prepaid expenses. The benefits available from prepaid expenses can be precise estimated but that is not so in case of deferred revenue expenses. Heavy advertising to launch a new product is a deferred expense since the benefits from it will be available over the next three to five years but one cannot say precisely how long. On the other hand, insurance premium paid say, for the year ending 30th June 2018, when the accounting year ends on 31st march 2018, will be an example of prepaid expenses to the extent of premium relating to three months period, i.e., from 1st April 2018 to 30th June 2018. Thus, the insurance protection will be available precisely for three months after the close of the year and the amount of the premium to be carried forward can be calculated exactly. deferred expenses are considered fictitious assets but prepaid expenses are considered as current assets.

5.0 DISTINGUISH BETWEEN CONTINGENT LIABILITY AND OTHER LIABILITIES

Basis of distinction	Contingent Liability	Other Liability
Meaning	It is an obligation which may or may not arise depending on the happening or non-happening of an uncertain future event.	These the financial obligation of an enterprise other than owners' equity
Disclosure	It is disclosed by way of foot note to the Balance sheet.	These are disclosed on the liabilities side of the Balance sheet.
Example	Bills discounted but not yet matured Arrears of dividend on Cum-prep-Shares	Creditors for Goods Outstanding expenses

5.0 DISTINGUISH BETWEEN PROVISION AND CONTINGENT LIABILITY

Basis of distinction	Provision	Contingent Liability
Meaning	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation..	It is an obligation which may or may not arise depending on the happening or non-happening of an uncertain future event.
Recognition criteria	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
Conditions for Recognition	Provision is recognized when(a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b)a reliable estimate can be made of the amount of the obligation	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.

EXAMPLE TO UNDERSTAND THE DISTINGUISH BETWEEN PROVISIONS AND CONTINGENT LIABILITIES

The GST officer imposes a penalty on X Ltd. For violation of a provision in the GST Act. The company files an appeal. If the management t of the company estimates that it is probable that the company will have to pay the penalty, it recognizes a provision for the liability. On the other hand, if the management anticipates that the judgment of the appellate authority will be in its favors and it is lees likely that the company will have to pay the penalty, it will disclose the obligation as a contingent liability instead of recognizing a provision for the same.

7.0 DISTINCTION BEETWEEN THE FUNDAMENTAL ACCOUNTING ASSUMPTIONS AND ACCOUNTING POLICIES.

The fundamental accounting assumptions differ from accounting policies in the following respects:

Basis of Distinction	Fundamental Accounting Assumptions	Accounting Policies
Number	There are only three fundamental accounting assumptions viz. Going Concern, consistency and Accrual	There is no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises
disclosure if followed	No disclosure Is required if all the Fundamental Assumptions have been followed.	Disclosure is required if a particular Accounting policy has been followed
Disclosure if not followed	In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statement together with the reasons.	In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to ve disclosed.
Choice	There is no choice	The firm has a choice to select a particular policy

8.0 DISTINGUISH BETWEEN PERSONAL ACCOUNTS AND IMPERSONAL ACCOUNTS[NOV. 1997, NOV. 1999, NOV 2002.]

Types of accounts	Meaning	Examples
Personal account	These accounts relate to natural persons, artificial person and representative persons.	**Natural** – Ram's A/c **Artificial** – Ram & Co.'s etc **Representative** – outstanding Salary A/c, prepaid Insurance
Impersonal Account (Real Accounts)	These accounts relate to the tangible or intangible real assets.	**Tangible** – Land A/c **Intangible** – Goodwill A/c
Nominal Accounts	These accounts relate to losses. Profit & gain	**Expenses** – Purchases A/c **Loss** – Loss by fire A/c **Profit & Gains**- Sales A/c, Discount received A/c

9.0 DISTINGUSISH BETWEEN JOURNAL AND LEDGER [NOV. 2001]

Journal differ form the Ledger in the following respects

Basis of distinction	Journal	Ledger
Nature of Book	It is book of original or b.	It is book of final or **secondary entry**.
Basis for Preparation	It is prepared on the basis of **source documents** of transactions.	It is prepared on the basis of **journal.**

Stage of Recording	Recording in the journal is the **first** stage.	Recording in the ledger is the **second** stage.
Object	It is prepared **to record all transactions in chronological order.**	It **is prepared to know the net effect** of various transactions affecting a particular account.
Format	In journal, there are **five column –** Date Particular Ledger Folio Debit Account Credit Account	In ledger, there are identical **four column** on debt side and credit side. Date Particulars Folio Amount
Balancing	Journal is **not balanced.**	All ledger account(except nominal account) are **balanced** in the ledger.
Narration	Narration is **written** for each entry	**No** narration is given.
Name of the Process of recording entries	The process of recording in journal is called **journalizing**	The process of recording in the ledger is called **posting**.
Basis for preparation of Final Accounts	Journal directly does **not serve as basis** for the preparation of final account	Ledger serves the **basis** for the preparations of final accounts.

10.0 DISTINGUSIH BETWEEN BOOK OF ORIGINAL ENTRY AND LEDGER.

Books of original entry and ledger can be distinguished a s follows:

Basis of Distinction	Books of Original Entry	Ledger
Nature of book	There are books of original or prime **entry.**	This is a book of final or **secondary entry.**
Basis of Preparation	These books are prepared on the basis of **source documents**	These books are prepared on the basis of **books of original entry.**
Stage of recording	Recording of entries in these books is the first stage	Recording of entries in the ledger is the second stage.
Net effect of various transaction	These books do not help to know the net effect of the various transactions effecting a particular account	A ledger helps to know the net effect of the various transactions effecting a particular account
Format	In the journal, there is one column for particulars and two columns for amounts – on for debit and another for credit. Special journals (except Cash Book) have only one column of amount.	In the ledger, there are two divided sides having identical columns. The left side is known as debit and the right side is known as credit.
Balancing	In the books of original entry are transferred to the ledger	In the ledger, all the accounts (except nominal accounts are balanced)
Next stage of accounting process	From the books of original entry, entries are transferred to the ledger.	From the ledger, first the trail balance I s drawn and then financial statement are prepared

Name of process of recording entries	The process of recording entries in these books is called 'journalizing'.	The process of recording entries in the ledger is called 'posting'.

11.0 DISTINGUISH BETWEEN TRADE DISCOUNT AND CASH DISCOUNT [JUNE 1993, NOV.2002]

Basis of distinction	Trade Discount	Cash Discount
Meaning	It is a reduction granted by a supplier from the list Price of goods or services on business considerations (such as quantity brought, trades practices, etc.,) other than for prompt payment,	A reduction granted by a supplier from the invoice price in consideration of immediate payment of payment within a credit period allowed.
Purpose	It is allowed **to promote the sales or as a trade practices.**	It is allowed to **encourage the prompt payment.**
Time when allowed	It is allowed **on purchase** of goods.	It is allowed **on immediate payment** or payment within a specified period
Disclosure in the invoice	It is shown **by way of deduction un the invoice itself.**	It is **not shown in the invoice.**
Ledger account	Trade discount Account is not opened in the ledger.	Cash Discount Account is opened in the ledger.
Variations	It may very with the quantity purchased.	It may vary with the period within which the payment is made.

12.0 DISTINGUISH BETWEEN COMMISSION AND DISCOUNT.[May 1995, May 1997, May1998, Nov.2000, Nov.2002]

Commission the term 'commission' may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other type of business transactions and usually based on a percentage of the amounts involved. The various examples of commission include the following:

(a) Commission to selling or buying agents.
(b) Commission to brokers and bankers for services rendered
(c) Commission to property dealers for assistance in renting out properties or for services in connection with purchase/sale of properties.
(d) Commission to export-import agents in foreign trade.

Commission earned is accounted for as an income in the books of the beneficiary and commission allowed is accounted for as expenses or deferred revenue expenditure in the books of the party availing of such facility.

Discount the term 'discount' is used to expresses one of the following situation:

(a) An allowance given for the settlement of a debt before it is due, that is, cash discount.
(b) An allowance given to the wholesalers or bulk buyers on the list price or retail price, known as trade discount.
(c) The excess of par or face value of shares or debentures over the amount paid by subscriber that is, discount on issue of shares or debentures.
(d) The amount charged by a bank on discounting of a bill of exchange.

Discount earned is accounted for as an income in the books of the beneficiary and discount allowed is accounted for as expense or deferred revenue expenditure in the books of the party availing of such facility.

13.0 DISTINGUISH BETWEEN IMPREST AND NON-IMPREST SYSTEM OF PETTY CASH.

Meaning of impressed or Float:' imprest' or ' Float' is the amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period.

Petty cash book may be maintained on imprest system on non-imprest system.

(a) **Imprest System of Petty Cash –** under imprest system. The Chief Cashier makes the reimbursement of the amount spent by the petty Cashier and the petty Cashier again has the same amount of petty cash at the end as in the beginning.

(b) **Non-imprest system of petty cash-** under non- imprest system, the chied Cashier may hand over the cash to the petty Cashier equal to/more than/less than the amount spent by the petty cashier. The petty cashier may or may not have the same closing balancing of petty cash as opening balance.

14.0 DISTINGUISH BETWEEN DEBIT NOTE AND CREDIT NOTE.

Basis of Distinction	Debit Note	Credit Note
Who prepares?	It is prepared by **purchaser**.	It is prepared by **seller**
Contents	Date of return Name of supplier to who returned Details of goods returned Reasons for returning goods	Date of return Name of Customer to who returned Details of goods returned Reasons for returning goods
Source document	It is used as source document for recording in **Purchase Return Book**	It is used as source document for recording in **Sales Return Book**
Why prepared?	It is prepared to debit supplier's account	It is prepared to credit supplier's account

15.0 DISTINGUISH BETWEEN SALERS DAY BOOK AND SALES ACCOUNT [NOV. 2001]

Basis of Distinction	Sales Day book	Sales Account
Nature	It is a book of original entry	It is opened in the books of secondary entry i.e. Ledger.
Basis of preparation	It is prepared on the basis of sales invoices raised.	It is prepared on the basis of Sales Day Book (for Credit Sales) and Cash Book (for Cash Sales)
Nature of transactions recorded	It records only the credit sales of goods in which the enterprise deals in.	It contains the effect of both Cash Sales and Credit Sales.

16.0 DISTINGUISH BETWEEN BANK STATEMENT AND BANK RECONCILATION STATEMENT

Bank statement differs from the Bank reconciliation statement in the following respects:

Basis of Distinction	Bank statement/pass book	Bank reconciliation statement
Who prepress	It is prepared by the **Bank**	It is prepared by the bank **customer** i.e., account holder.
Object	It is prepared to **inform the customer about all transactions** which have taken place during the period covered by the Statement.	It is prepared **to reconcile** the bank balance as per cash book with the bank balance shown by the Bank Statement.
Timing when prepared	It is prepared **for a particular period.**	It is prepared **for a particular date.**
Necessity	It is **compulsory** for the bank to prepare it.	It is **not compulsory.**
Contents	It shows— Dates of transactions Particulars of transactions Withdrawals Deposits Balances	It shows- Causes of disagreement & Amount thereof
Starting amount	It starts with the balance as per customer's account in bank ledger.	It may start with bank balance as per cash book or Bank Statement.
Final Result	It shows the balance in customer's account as per bank ledger at the end of the period.	It may show the bank balance as per cash book or Bank Statement at the end of period.

17.0 DISTINGUISH BETWEEN ERROR OF PRINCIPLE AND CLEARICAL ERRORS.[JUNE 1994]

Error of Principle

Meaning: this error arises when the transaction is recorded ignoring the distinction between the capital item and revenue item. In other words, this error involves an incorrect allocation of expenditure or receipt between Capital and Revenue. The correct allocation between Capital and revenue is of paramount importance because any incorrect allocation would disturb the final results as disclosed by the Financial Statement.

Effect: it may lead to under/over stating of Incomes or Expenses of Assets or Liability. This error **does not affect the trail balance.**

Example: freight paid for bringing new machinery is debited to Freight A/c

Effect

1. Effect on Revenue Expenditure (i.e., freight)- overstated
2. Effect on Capital expenditure (i.e., Cost of Machinery)- understand
3. Effect on Depreciation on Machinery-undercharged
4. Effect on net profit – understated by the net effect (i.e., the difference between the amount of Freight and amount of Depreciation)

Note: the costs incurred on the acquisition, installation and commissioning of a fixed asset up to the point the fixed asset is ready for use represent capital expenditures.

Clerical Errors

Meaning- clerical errors refer to those error which arise because to mistakes committed in the ordinary course of the accounting work.

Type-there are three type of clerical error as follows:

1. **Error of Omission**	
(a) Error of complete Omission	This error arises when any transaction is not recorded in the books of original entry at all or, the transaction is recorded in General journal (or journal Proper) but is not posted in the ledger at all. This error does not affect the trail balance

(b) Error of partial Omission	An Error of omission other than an Error of Complete Omission is called as Error of Partial Omission. This error **affects the trail balances.**
2. Error of commission	This error arises due to wrong recording, wrong casting, and wrong carry forward, wrong costing, wrong balancing etc.., error of commission may be classified as follows. **Error of recording 2. Error of casting** **Error of Carrying Forward 4. Error of posting** This error may or may not **affect the trial balance**
3.compensating Errors	These errors arise when two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts involved is nil. In other words, compensating error refer to such a group of errors wherein the effect of one error is compensated by the effect of other error or errors. These errors **do not affect the agreement of the trial balance but may or may not affect the figure of net profit.**

18.0 DISTINGUISH BETWEEN FIFO AND LIFO METHOD OF VALUATION OF INVENTORY [JUNE 1994, NOV 1998]

FIFO method of valuation of inventory differ from LIFO method in the following respects:

Basis of Distinction	FIFO	LIFO
Basic assumption	Good received first are issued first.	Good received last are issued first.
Cost of goods sold	Cost of goods sold represents cost of **earlier purchases**	Cost of goods sold represents cost of **recent purchases.**
Ending inventory	Ending inventory represents cost of recent purchases	Ending inventory represent cost of earlier purchases.
In case of Rising prices	**Higher income** is reported since old costs (which are lower than current costs) are matched with current revenue. As a result, income tax liability is increased.	Lower income is reported since current costs (which are higher than the old costs are matched with current revenue. As result, income tax liability is reduced.
Distortion in Balance sheet	Balance sheet shows the ending inventory at a value nearer the current market price.	Balance sheet is distorted because ending inventory understated at old costs.

19.0 DISTINGUISH BETWEEN FIFO AND WEIGHTED AVERAGE METHOD OF STOCK VALUATION [MAY 2002]

FIFO

1. Basic assumption –Goods received first are issued first.
2. Costs of Goods Sold- Cost of goods sold represents cost of earlier purchases.
3. Ending inventory – Ending inventory represents cost of recent pur-chases.
4. In case of Rising prices- higher income is reported since old costs (which are lower than current costs) are matched with current revenue. As a result, in-come tax liability is increased.
5. Distortion in Balance Sheet- balance sheet shows the ending inventory at a value nearer the current market price.

WEIGHTED AVERAGE PRICE METHOD

The weighted average Price Method is based on the assumption that each issue of goods consists of a due proportion of the earlier lots and is valued at the weighted average price. Weighted average price is calculated by dividing the totel cost of goods in stock by the total quantity of goods in stock. This weighted average price is used for pricing all the issues until a new lot is received when a new weighted average price would be calculated. This method even out the effect of widely varying prices of different lots which make up the stock.

20.0 DISTINGUISH BETWEEN PERIODIC IINVENTORY SYSTEM AND PERPETUAL INVENTORY

Periodic inventory System differs from perpetual inventory System in the following respects:

Basis of Distinction	Periodic Inventory System	Perpetual Inventory System
Basis of ascertaining Inventory	Inventory is ascertained by taking an actual physical count	Inventory is ascertained on the basis of records.
Calculating of cost of goods sold	Inventory is directly calculated by applying the method of valuation of inventories	Inventory is calculated as a residual figure as under: Closing Inventory= Opening Inventory + Purchases- Cost of Goods Sold
Calculation of cost of goods sold	Cost of goods Sold is Calculated as a residual figure as under:	Cost of Goods Sold is directly calculated by applying the method of valuation of inventories. Cost of Goods Sold = Opening Inventory + Purchases – Closing inventory.
Lost goods lost goods (if any).	Cost of Goods and includes (if any).	Inventory includes lost goods
Closing Down of work for Stock taking.	It require Down of work for Stock taking.	It does not require down of work for Stock taking.
Continuous Stock checking.	It does not facilitate the checking	It facilitates the continuous stock checking.
Simplicity and cost		

21.0 DISTINGUISH BETWEEN STRAIGHT LINE METHOD DOWN VALUE METHOD [JUNE 1993, MAY 2002]

Basis of Distinction	Straight line method	Written down value method.
Basis of calculation	Depreciation is calculated at a fixed percentage on the **original** cost.	Depreciation is calculated at a fixed percentage on original cost (in first year) and on written down value(in subsequent years).
Amount of depreciation	The amount of depreciation remains constant.	The amount of depreciation goes on decreasing.
Total charge (i.e depreciation plus repairs and renewals)	Total charge in later years in more as compared to that in earlier years since the amount of repairs and renewals goes on increasing as the asset grows older, whereas the amount of depreciation remains constant year after year.	Total charge remains almost uniform year after year, since in earlier years the amount of depreciation is more and the amount of repairs and renewals is less whereas in later years. The amount of depreciation is less and the amount of repairs & renewals is more.

Books value	The book value of the asset become zero or equal to its scrap value.	The book value of the asset does not become zero.
Suitability	This method is suitable for those assets in relation to which(a) repair charges are less (b)the possibility of obsolescence is less	This method is suitable for those assets in relation to which(a)the amount of repairs & renewals goes on increasing a the asset grows older and (b) the possibility of obsolescence is more
Calculation – Easy or Difficult	It is easy to calculate the rate of depreciation.	It is difficult to calculate the rate of depreciation.

22.0 DISTINGUISH BETWEEN REVENUE AND CAPITAL RESERVE

Revenue reserve refers to the amounts which are free for distribution by way of divided. Capital reserve refer to the amount which are not free for distribution by way of dividend

23.0 DISTINGUISH BETWEEN PROVISION AND RESERVE.[NOV. 1996, NOV 2000, NOV 2002,]

A provision can be distinguished from a reserve as follow:

Purpose	It is created for a particular purpose and can only be used for that particular purpose.	It need not necessarily be created for a particular purpose. E.g. General reserve is not for any particular purpose.
Charge Vs. appropriation	It is a charge against the profit and is required to be created irrespective of the amount of profit	It is an appropriation out of profit and can be created only if profits have been earned.
Disclosure in Income statement	It is shown on the debit side of P & L A/c	It is shown on the debit side of P & appropriation A/c
Disclosures of balance sheet	Usually a provision is shown by way of deduction from the amount of the items for which the it is created. E.g. provision for doubtful of provisions.	Reserve is shown as a separate items under the head reserves and surplus on the liability side of the Balance Sheet.
Investment outside the business	There Is no question of investment of the amount of provisions	the amount of a reserve can be in casted outside the business.
Utilization for Dividends	It cannot be utilized for distribution by way of dividend	It can be utilized for distribution by way of dividend
Legal necessity	It is made mainly because of Legal necessity	It is a matter of financial prudence.

24.0 DISTINGUISH BETWEEN A BILL OF EXCHANGE AND A PROMISSORUY NOTE.[NOV.1994,MAY 1995, NOV.1997,NOV,1999,NOV.2000]

A BILL of exchange can be distinguished from promissory notes as follows.

Basis of distinction	Bill of exchange	Promissory note
No of parties	There are three parties- drawer, drawer and payee and payee.	There are two parties- maker and payee.
Promise/order	It contains an unconditional order given by a creditor to a debtor.	It contains an unconditional promise given by a debtor to a creditor.
Nature of liability	The liability of the drawer is secondary and conditional.	The liability of the maker is primary and absolute.
Acceptance	It requires an acceptance to become valuable instruments.	It does not enquire any acceptance since it is valuable instrument right front he beginning.
Same odemty of payer and payee	The drawer an pay may the same person.	The maker and payee cannot be the same person
Payable to bearer	It can be payable to the bearer.	It cannot be payable to bearer it cannot be drawn as payable to bearer on demand.
Protest for Dishonor	It requires the protesting for dishonor	It does not require any protesting.
Notice of Dishonor	Notice of dishonor must be given to all persons(including drawer) liable to pay	Such notice is not required to be given to the maker.

25.0 DISTINGUISH BETWEEN TRADE BILLS AND ACCOMMODATION BILLS[MAY 2006].

Basis of Distinction	**Trades bill**	**Accommodation Bills.**
Purpose	These bills are drawn to settle a business transaction.	These bills are drawn to meet the financial needs of the drawer/ drawee/both temporarily
consideration	These bill are accepted for a consideration	These bill are accepted without any consideration.
Role	This bill act as an evidence of ineptness.	These bills act as a source of finance.
Sharing of proceeds of the bill	On discounting of such bills, proceeds remain with the holder.	On discounting of such bill, proceeds may be shared by drawer and drawee in an agree ration.
Recovery in case of dishour	On dishonor of such bills drawer can file a suit against the drawee, because drawee is liable to drawer.	On dishonor of such bills drawer cannot file a suit against the drawee, because drawee is liable to drawer.

26.0 DISTINGUISH BETWEEN CONSIGNMENT AND SALE[NOV. 1994,NOV.1997,MAY 2002.]

Consignment differs from sale in the following respects:

Basis of distinguish	Consignment	Sale
Nature of relationship	The relation between the consignor and the consignee is that of **principle and agent.**	The relation between the seller and buyer is that of **creditor and debtor**.
Ownerships and possession of goods	**Only the possession** and not the ownership is transferred to the consignee.	**Both** the possession and ownership are transferred.
Risk of goods	Risk remains **with the consignor** because ownership remains with the consignor.	Risk remains **with the buyer** since ownership are transferred.
Performa invoice/invoice.	Consignor prepares only a **Performa invoice**.	Seller prepares a sales **invoice**.
Subject matter of dealing	**Only movable property** may be its subject matter.	**Any property** may be its subject matter.
Who bears expenses	Expenses incurred by consignee are born by **consignor**.	After the sale is complete, the profit/loss belongs to **buyer**.
Profit/loss belongs to	Profit/loss on sale of belongs to **consignor**	After the sale is complete, the profit /loss belong to **buyer**.
Return of goods	Goods are **returnable** if they are not sold by the consignee.	Goods once are not **returnable**.
Account sales	**Account sales** has to be submitted by the consignee to the consignor from time to time,	**No account sale** is required to be submitted by the buyer to the seller.
Treatment of unsold goods	Unsold goods with the consignee are be treated as stock of the consignor.	The seller has nothing to do with the goods which could not be resold. Unsold goods with the buyer are treated as Stock of the Buyer.

27.0 DISTIGUISH BETWEEN ORINARY COMMISSION AND DEL-GREDERE COMMISSION.

Basis of Distinction	Ordinary commission	Delcede
When allowed?	It is allowed to all the consignee for all the consignments for selling goods	It is allowed to the consignee only wher out of credit sales,
Guarantee	In return of this commission consignee guarantee only the proceeds of cash sales	It return of this commission, consignee credit sales.
How to calculate?	It is calculated at an agreed rate on the total sales	It is calculated at an agreed rate either sales(if agreement provides).

28.0DISTINGUISH BETWEEN NORMAL LOSS AND ABNORMAL LOSS IN CONSIGNMENT. [NOV.2002]

Normal loss differs from abnormal loss in the following respects:

Basis of Distinction	Normal loss	Abnormal loss
Avoidable vs. unavoidable	It is an unavoidable loss.	It is an avoidable loss.
Causes	It is caused due to the inherent feature of the goods e.g. evaporation, normal leakage/spoilage,	It is usually cause by fire, theft, abnormal spoilage/pilferage etc.
Part of cost	It is treated as a part of cost.	It is not treated as a part of cost.
Valuation	Its value is not calculated separately.	Its value is calculated in the same manner as value of unsold stock.
Treatment	Its value is adjusted by inflating the cost per unit as under. Effective cost per unit=	Its value is credited to the consignment account is order to calculate the normal profit/loss on consignment.
Journal entry	No journal entry is passed to account for such loss.	The following journal entry is passed to account for such a loops: P&A/c [unrecovered loss] Dr. Insurance co. Dr. [claim admitted] To consignment A/c [Total Loss]

31.0 DISTINGUISH BETWEEN ORDER OF LIQUIDITY AND ORDER OF PERMANENCE

Basis or Distinction	Order of Liquidity	Order of permanence
Order of assets	The assets are arranged in the order of their , I.e., the most liquid asset (e.g., Cash-in -hand), is shown first. The least liquid asset (e.g., Goodwill) is shown last. The least liquid asset does not mean an asset which cannot be encased.	The assets are arranged in the order of their PERMANENCE i.e., The least liquid asset (e.g., Goodwill) is shown first and the most liquid asset (e.g., Cash-in -hand), is shown first.
Order of Liabilities	The liabilities are arranged in the order of their urgency of payment, i.e., the most urgent payment to be made (e.g., Short term creditors) is shown first. The least urgent payment to be made (e.g., Long term creditors)is shown last.	The liabilities are arranged in the order of their permanence i.e., the least urgent payment to be made (e.g., Owners) is shown first. The least urgent payment to be made (e.g., Short term creditors) is shown last.
Users	Usually, the banking and financial companies, sole proprietorship and the partnership concerns prepare their balance sheets in the order of liquidity.	The company as defined under the companies Act. 1956 is required to prepare the balance sheet in order of permanence.

32.0 DISTINGUISH BETWEEN TRADING & PROFIT & LOSS ACCOUNT & BALANCE SHEET [NOV. 1994]

The trading and Profit and loss Account can be distinguished from the balance sheet as follows:

Basis of Distinctions	The trading and Profit & Loss A/c	balance sheet
Need for preparation	The trading and Profit and loss A/c is prepared to ascertain the Financial performance during and accounting period.	The balance sheet is prepared to ascertain the Financial Position of an enterprise at a particular time.
Contents	The balances of all the ledger accounts of revenue nature are shown in the trading and profit & loss A/c	The balances of all the ledger accounts which still remain open even after the preparation of trading and profit & loss A/c
Format	The trading & Profit & Loss A/c is a ledger account. It has debit side and a credit side. It is closed by transferring its balance to the capital Account.	The balance sheet is only a statement & not an account It has debit side and a credit side. The headings of the two sides are 'Liability' and 'assets'.

33.0 DISTINGUISH BETWEEN A TRTAL BALACNE AN A BALANCE SHEET. [MAY 1995, MAY 1997, MAY 1998, MAY 2002]

A trial Balance can be distinguished from a balance sheet as follow:

Basis of Distinction	Trial balance	Balance sheet
Need for preparation	It is prepared to check the arithmetical accuracy of	It is prepared to ascertain the Financial Position of an enterprise at a particular point of time.
Contents	All the ledger accounts are shown in the Trial balance.	The balances of only those ledger accounts which still remain open even after the preparation of Trading & Profit & Loss Account are shown in the Balance Sheet.
Format	The headings of the two column are ' **debit balances**' and '**credit balances**'(in case of a trial balance by Balance Method).	The heading of the two sides are '**liabilities'** and **'Assets'**.
Closing stock	Generally, the closing stock does not appear in the trail balance whereas the opening stock appears.	In a balance sheet, only the Closing Stock appears on the Assets side as a Current Assets.
Items of adjustments (e.g., outstanding expenses, prepaid exp., Accrued Income etc.)	It can be prepared without incorporating the items of adjustments.	It cannot be prepared without incorporating the items of adjustments.
Net profit/net Loss	Information about net Profit/net loss is not provided in a Trail Balance.	Information about net Profit/net loss is provided.

Periodicity	It can be prepared periodically (say) at the end of a moth/ quarter/ half-year.	It is generally prepared at the end of an accounting period.
Can the preparation be dispensed with?	Its preparation can be dispensed with.	Its preparation cannot be dispensed with.

34.0 DISTINGUISH BETWEEN FIXED CAPITAL METHOD AND FLUCTUATING CAPITAL [NOV. 1995, NOV.2004]

Fixed capital method and fluting capital method in partnership accounts can be distinguished as follows:

Basis of Distinction	Fixed capital method	Fluctuating Capital method
Change in capital	The capital normally remains unchanged except under special circumstances.	The capital fluctuates quite frequently from period to period
No. of Accounts maintained	Two accounts are maintained for each partner viz. (a) Fixed Capital account, (b)Current accounts	Only one account (viz., Capital ACCOUNT) is maintained for each year.
Adjustments for drawings etc.	All adjustments for drawings interest on drawings, interest on capital, salary, share of profit/loss are made in **current account.**	All adjustments for drawings interest capital, salary, share of profit/loss are made in Capital Account.
Can Capital Account show a negative balance?	Fixed capital account can never show a negative balance.	Fluctuating capital account can show a negative balance.

35.0 DISTINCTION BETWEEN AVERAGE PROFITS & SUPER PROFITS

Basis of distinction	Average profit	Super profit
Meaning	Average profit is the **average of the profit and past few years.**	Super profit is the **excess of Average profits over normal profits**
Whether average capital employed considered for calculation	Average capital employed is not considered while calculating average profit.	Average capital employed is considered while calculating super profit.
Whether normal rate of return considered for calculation?	Normal rate of Return is not **considered** while calculating Average Profits	Normal rate of Return is **considered** while calculating Average Profits
Relevance while valuing Super Goodwill	Average profit is relevant **for average profit Method, super profits Methods and**	Super profit is relevant for **profits Methods and capitalization of super profits methods of** valuation of Goodwill

	capitalization methods of valuation of Goodwill	

36.0 DISTINGUISH BETWEEN PERSONAL GUARANTEE AND FIRM GUARANTEE.

Personal guarantee	When guarantee is give by one or some or all of the partners in a ratio different from existing profit sharing ratio, such guarantee is said to be personal guarantee.
Firm guarantee	When guarantee is give by all of the partners in an existing profit sharing ratio, such guarantee is said to be firm guarantee.

37.0 DISTINCTION BETWEEN SACRIFICING RATIO AND GAINING RATIO

Sacrificing ratio and gaining ratio can be distinguished as follow:

Basis of Distinction	Sacrificing ratio	Gaining ratio
Meaning	It is the ratio in which the old partners have agreed to sacrifice their shares in profit in favor of new partner.	It is the ratio in which the continuing partners acquire the outgoing (retired or deceased) partners share.
Purpose	It is calculated to determine the amount of compensation to be paid by the incoming partner to be sacrificing partners.	It is calculated to determine the amount of compensation to be paid by each of the incoming partner to be sacrificing partners.
How to calculate?	It is calculated by taking out the difference between Old Share and New Share.	It is calculated by taking out the difference between new Share and New Share.
When to calculate?	It is calculate at the time of admission of a new partner and change in profit sharing ratio.	It is calculate at the time of retirement/ date of a partner and change in profit sharing ratio.

38.0 DISTINGUISH BETWEEN EXISTING PARTNERSHIP AND LLP

Basis of Distinction	Partnership	LLP
Regulating law	It is governed by' **the Indian partnership Act**, 1932'	It is governed by' **the limited liability partnership Act,2008**'
Registration	Registration is **optional**	Registration is **compulsory**.
Creation	It is created **by agreement**	It is created by **Law.**
Separate Legal Entity	**It has no** separate legal entity	It **has** separate legal entity
Name of entity	It can have **any name** as per choice.	It Name to contain 'Limited Liability partnership "or LLP as as as a suffix.
Perpetual Succession	It does **not have perpetual succession**. The death, insolvency or unsoundness of its members may affect its existence.	It **has** perpetual succession. The death, insolvency or unsoundness of its members does not affect its existence. Member may come and go but LLP goes forever.

Can foreign national become partner?	foreign national **cannot become a** partner in a partnership firm in India.	foreign national **can become a** partner in a LLP
Number of members	Minimum **2** and maximum **10** for Banking business & **20** for non-Banking business.	**Minimum 2** but there is no limit on **maximum** number of partners.
Liability of partners	Liability of Partner is **unlimited**. Partner is severally and jointly liable for actions of other partners and the firm and liability extend to their personal assets.	Liability of Partner is **limited**. To the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.
Mutual agency	Partners are **agents of the firm and other partners.**	Partners act as **agents of LLP and not of other partners.**
Designated Partner	It **need not have** Designated Partners.	It **must have** at least 2 two individuals as Designated Partners. Of whom at least one must be resident in India. Each designated Partner is required to have a DPIN before appointment.
Digital signature	There is **no requirement** of obtaining Digital Signature	At least one Designated Partner **must have** Digital Signatures since e forms are filled electronically.
Whistle blowing	**No such provision** is provided under the Indian Partnership Act, 1932	foreign national **cannot become a** partner in a to provide protection to employees & partners, providing useful information during an investigation or convicting any partner or firm.
Admission of minor	Minor **can be admitted** to the benefits of Partnership as per its Agreement.	Minor **cannot be admitted** to the benefits of LLP
Liability of Partners for Legal compliance	**All partners** are liable for Legal Compliance.	**Only Designated Partners** are liable for Legal Compliance.

39.0 DISTINGUISH BETWEEN COMPAY AND LLP

Basis of Distinction	Company	LLP
Prevailing Law	It is governed by' **the companies Act, 2013**'	It is governed by' the limited liability partnership Act, 2008'
Motive	It can be formed for **Profit or Service motive**.	It can be formed **only for Profit or motive**.
Cost of formation	Minimum statutory fee for incorporation of private company is Rs **6,000 and that of Public Company is Rs 19,000.**	Minimum cost of formation of LLP is Rs **800 only**, comparatively much lesser than the cost of formation of company.
Charter Document	**Memorandum of Association** is the charter of the company which defines its scope of operations.	**LLP Agreement** is a charter of the LLP which denotes its scope of operations
Common seal	It **must have** its own common seal(i.e Official Signature).	It **must have** its own common seal (i.e. Official Signature). As per its Agreement.
Formalities of incorporation	Memorandum & Articles of Association	**LLP Agreement** **Various E Forms**

	Various e Form **Prescribed fee.** Required to be filled with Registrar of Companies.	**Prescribed Fee.** Required to be filled with Registrar of LLP.
Number of members	**Private company minimum 2 numbers** & **maximum 200** members. **Public Company**: **Minimum 7** members but there is no limit **no maximum number of partners**.	**Minimum** 2 but there is **limit on maximum** number of partners.
Liability of Partners/ Members	Generally **limited to** the amount required to be paid up on each share.	Liability of Partners is limited, **to the extent their contribution** towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner
Transfer of share/ Partnership rights in case of death	Shares are **transmitted** to the legal heirs.	**Legal heirs will not become partners.** The legal heirs have the rights to get the refund of the capital contribution + share in Accumulated Profits, if any.
Filing of annual statement of solvency	Annual statement of Solvency is **not required** to be filled with the register of companies	Annual statement of Solvency is **required** to be filled with the register of LLP every year
Audit of accounts	Companies are required to get their account audited **annually** as per the provision of the companies Act, 1956.	An LLP is required to get their accounts audited annually as per the provisions of LLP act 2008 **if its turnover exceeds Rs 40 lacs or its capital contribution exceeds Rs 25 lacs in any financial year.**
Whistle Blowing	**No such provision** is provided under the companies Act 1956.	**Provision** has been **made** to provide protection to employees & partners, providing useful information during an investigation or convicting any partner or firm.

40.0 DISTINGUISH BETWEEN A PROFIT SEEKING ORGANISATION AND A NOT-FOR-PROFIT ORGANISATION

A profit seeking organization may be distinguished from a not-for-Profit Organization as under:

Basis of Distinction	Profit seeking organization	Not-for-profit organization
Primary motive	The primary motive of such an entity is to earn profit.	The primary motive of such an entity is to provide services.
Owner's Fund Vs. Capital Fund	Interest of owners is known as Owner's Fund which represents the owner's investments plus accumulated reserves and surplus.	Interest of members is known as Capital Fund which represents the accumulated surplus of subscriptions , donations and net income from activities carried on by such an entity.
Net Result of activities	The net result of the activities of such an	The net result of the activities of such an entity is known as the surplus/deficit.

	entity is known as the profit/loss.	
Accounting statements	The accounting statements of such type of entity include: A manufacturing A/c A Trading A/c; A Profit and Loss A/c; A Balance Sheet.	The accounting statements of such type of entity include: (a)a receipts and Payments A/c; (b) an Income and Expenditure A/c (c) A Trading A/c; (d) A Balance Sheet.

41.0 DISTINGUISH BETWEEN RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT [NOV.2002,MAY.2005]

A " receipt & Payment Account' and Income & expenditure Account' can be distinguished as follow:

Basis or Distinction	Receipts & Payments A/c	Income & Expenditure A/c
Nature of Account	It is a **real account**	It is a nominal account.
Period of which items relate	It records the receipts and payments whether they relate to **previous, current or following** accounting periods.	It records the incomes expenditures and losses which relate to current accounting period.
Nature of items recorded – revenue Vs. Capital.	It records the receipts and payments **whether** of capital or revenue nature.	It records the incomes expenditures and losses of **revenue nature.**
Non-cash items	Non-cash items are not shown in this account.	Non-cash items such as depreciation bad debts ,etc., are shown.
Items of Debits side	It is debited with all the sums received	It is debited with the expenses and losses.
Items of credit sides	It is credited with all the sums paid out.	It is credited with the Incomes.
Closing balance	Closing balance represents cash or bank balance(or bank overdraft) at the end of the accounting period.	It closing balance represents either nor surplus or net deficit.
Treatment of closing balance	Its closing balance is carried forward in the same account of the next period.	It is closing balance is transferred to the **Capital fund** in the balance Sheet.
Opening balance	Opening balance represents **cash or bank balances (or Bank Overdraft) in the beginning** of the accounting period.	It has no opening balance.
Basis Structure	It is **basically a summarized Cash book.**	It is like a profit & Loss Account.
Object	It is prepared to present a summary of cash transactions during an accounting period.	It is prepared to ascertain the results of all the transactions during an accounting period.

42.0 DISTINGUISH BETWEEN INCOME AND EXPENDITURE ACCOUNT AND PROFIT AND LOSS ACCOUNT

Income & Expenditure account differ from Profit & Loss Account in the following respects:

Basis of distinction	Income & Expenditure A/c	Profit & Loss A/c
Object	The main object of income and Expenditure Account is to ascertain excess of Income over expenditure over Income	The main object of Profit and Loss Account is to **ascertain net profit or Net Loss.**
Who prepares?	This account is prepared by **non-profit organizations**	This account is prepared by **Trading Institutions.**
Basis of preparation	This account is prepared on the basis of **receipts and Payments Account and other Information**	This account is prepared on the basis of **Trial balance.**
Balance	The balance of this account represent **Surplus or Deficit**	The balance of this account represent Net **Profit & Net Loss**.

43.0DISTINGUISH BETWEEN RESERVE CAPITAL AND CAPITAL RESERVE

Reserve Capital should not be confuse with capital reserve which is creased out of the profits. Reserve Capital and Capital Reserve can be distinguished as follows:

Basis of Distinction	Reserve Capital	Capital Reserve
Meaning	It refers to those portions of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being would up. (Sec.65)	It refers to those amount which are not regarded as free distribution by way of divided through Profit and Loss Account.
Mandatory or not	It is not mandatory to create Reserve Capital	It is mandatory to create Reserve Capital in case of profit on forfeited shares.
Disclosure in Balance Sheet	It is disclosed in the company's balance Sheet	It can be used during the life of the company
Time when it can be used	It can be used during only at the time of winding up.	It can be used during the life of the company.
Realized vs. Unrealized	It refer to the amount which has neither been called up nor been received.	It refers to that amount which has already been realized.
Can it be used to write off capital losses?	It **cannot be used** to write off capital losses	It **can be used** to write off capital losses.
Can it be used to declare share bonus?	It **cannot be used** to declare a share bonus.	It **can be used** to declare a share bonus.

44.0 DISTINGUISH BETWEEN AN EQUITY SHARE AND PREFERENCE SHARE

An equity Share and preference share can be distinguished as follow:-

Basis of Distinction	An equity share	A Preference share
Preferential right as to the payment of dividend	Payment of equity dividend is made **after** the payment of preference dividend.	Payment of equity dividend is made **before** the payment of preference dividend.
Preferential right as to the payment of dividend	Repayment of equity share capital is made after the repayment of preference share capital.	Repayment of equity share capital is made before the repayment of preference share capital.
Fluctuations in the rate of dividend	The rate of equity dividend may vary from year to year depending upon the decision of directors and members.	The rate of preference dividend is fixed.
Arrears of dividend	In case of an equity share arrears of dividend cannot accumulate in any case.	In case of an preference share arrears of dividend may accumulate.
Convertibility	It cannot be convertible.	It may be convertible.
Voting rights	Equity shareholders generally enjoy voting rights	Preference shareholders do not have any voting rights except at their class meetings.
Redeem ability	It is not redeemable during the life time of the company unless the company decides to buyback the shares.	It is redeemable during the life time of the company.

45.0 DISTINGUISH BETWEEN CALLS-IN-ARREARS & CALLS –IN –ADVANCE

Calls-in-arrears differ from calls-in-advance in the following respects:

Basis of Distinction	Calls-in-arrears	calls-in-advance
Meaning	It refer to the called up amount not yet received from some shareholders till the last day fixed for payment thereof.	It refer to the uncalled up amount received from some shareholders
Authority under Articles	There is no question of any authority under Articles.	A company may accept calls-in-advance only if articles permit.
Interest	Interest is charged on calls-in-arrears.	Interest is allowed on calls-in-advance.
Maximum Rate of Interest	The maximum rate of interest as per table F is 10% p.a	The maximum rate of interest as per table F is 12% p.a
Disclosure	The amount of calls-in-arrears is shown in the Notes to Accounts 'share Capital' to the balance sheet.	The amount of calls-in-advance is shown under the head 'current Liabilities and sub-head 'other current Liabilities'.

46.0 DISTINGUISH BETWEEN A SHARE AND A DEBENTURE

A share and a debenture can be distinguished as follows:

Basis of Distinction	A share	A Debenture
Capital vs. loan	Share is a part of owned Capital	Debenture constitutes a loan.
Reward for Investment	Reward is the payment of dividend.	Reward is the payment of interest.
Fluctuation in the rate of interest and dividend	The rate of dividend may vary from year to year depending upon the profit decision of directors and members.	The rate of interest is fixed except in case of debenture carrying Floating Rate of Interest.
Charge vs. Appropriation	Payment of dividend is an appropriation out of profit and this cannot be made if there is not profit.	Payment of interest is a charge against profits and is to be made even if there is no profit.
Priority as to payment of interest/dividend	Payment of dividend gets no priority over the payment of interest,	Payment of interest gets priority over the payment of dividend.
Priority as to repayment of principal during winding up	Payment of share capital is made after the repayment of debentures	Payment of debentures is made before the payment of share capital.
Secured by charge	Shares are not secured by any charge.	Non-convertible Debentures redeemable on or after 18 month are secured by a charge.
Restriction on issue discount	Sec. 53 prohibits the issue of shares discounted.	No restriction is imposed on the issue of debentures at discount.
Voting rights	Shareholders generally enjoy voting rights.	Debenture-holders do not have any voting rights (except at their class-meetings).
Convertibility	Equity shares can never be convertible.	Debentures can be convertible.
Trust deed	Trust deed is required to be executed.	Debentures Trust deed is required to be executed.

49.0 DISTINGUISH BETWEEN A COMPANY'S BALANCE SHEET & FIRM'S BALANCE SHEET

1. A company's balance sheet differs from a firm's balance sheet in the following respects: company's balance sheet differ from a firm's balance sheet in the order of permanence whereas a partnership firm's balance sheet is usually prepared in the order of liquidity.

2. For company's balance sheet, there is vertical form prescribed under the companies Act, 2013 whereas, there is not standard form prescribed under the Indian Partnership Act 1932 for a partnership firm's Balance Sheet

3. In case of a company's Balance Sheet, previous year's figures are required to be given whereas it is not in the case of a partnership firm's balance sheet.

3 IMPORTANT SHORT NOTES

1. WRITE A SHORT NOTE ON ACCRUAL BASIS OF ACCOUNTING.

1. Accrual basis of accounting is a method of recording transactions by which Revenue, Costs, Assets and Liabilities are recognized during the accounting period in which they accrue.

2. The basis includes consideration relating to deferrals, allocation, depreciation and amortization.
3. This basis is also known as mercantile basis of accounting.
4. Under the companies Act 2013, all companies are required to maintain the books of accounts according to accrual basis of accounting.

2.WRITE A SHORT NOTE ON CASH BASIS OF ACCOUNTNING

Cash basis of accounting is a method of recording transactioves by which Revenue, Costs, Assets, and Liabilities are recognized during the accounting period in which actual receipts and Actual Payments take place.

3. WRITE A SHORT NOTE ON CASH BASIS OF ACCOUNTNING

It is a combination of both cash basis of accounting and Accrual basis of accounting .under the hybrid basis of accounting, Income are recorded on Cash basis (i.e., during the accounting period in which they are received irrespective of when they accrue) and expenses are rescored on Accrual Basis,(i.e., during) the accounting period in which they arise irrespective of when they are paid).

4. WRITE A SHORT NOTE ON LIMITATION OF ACCOUNTING [NOV.2003]

1. **Ignores the Qualitative Elements** – Since the accounting is confined to the monetary matters only, the qualitative elements like quality of management, quality of labor force, public relations are ignored.
2. **Not free form bias**- in many situation, the accountant has to make a choice but of varies alternative available, e.g., choice in the method of depreciation (e.g., straight Line or Written down), choice in the method of inventory valuation (e.g., FIFO,LIFO etc). Since the subjectivity is inherent in personal judgment, the financial statements are therefore not free from bias. As a result , the analysis of financial statement also cannot be said to be free from bias.
3. **Ignores the price level changes in case of financial statements prepared on Historical costs –** in case of financial statement prepared on historical costs, the fixed assets are shown In the balance sheet at historical costs less depreciation and not at the replacement value which is often far higher than the value stated in the balance sheet. The analysis of such financial statement will not yield directly comparable results unless the price –level changes are taken in to account.
4. **Estimated position and not real position-** since the financial statement are prepared on a going concern basis as against liquidation basis, they report only the estimated periodic results and not the true results since the true results since the true can be ascertained only on the liquidation of an enterprise.
5. **Danger of window dressing**- when the management decides to enter wrong figures to artificially inflate or deflate the figure of profits, Assets and Liabilities, the Income Statement fails to provide true and fair view of the financial performance and balance sheet fails to provide true and fair view of the financial position of the enterprise.

5 WRITE A SHORT NOTE ON QUALITATIVE CHARACTERSTICES

Understandability	The financial statement should present information in a manner as to be readily understandable by the user with reasonable knowledge of business and economic activities. It is not right to think that more one disclose better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure. No relevant information can be however withheld on the grounds of complicity
Relevance	The financial statement should contain relevant information only information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirmation should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decision of a user.
Reliability	To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless: Transactions and events reported are faithfully represented. Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form, this principle is called the principle of 'substance over from'. The reporting of Transactions and events are nature, i.e. free fro, bias. Prudence is exercised in reporting uncertain outcome of transaction or events
Comparability	Comparison of financial statement is one of the most frequently used and most effective tools of financial analysis. The financial statement should permit both inter-firm and intra- firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.
True and fair view	Transactions statement is required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The conceptual framework does not deal directly with this concept of true and fair view, yet the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statement portraying true and fair view of information bout an enterprise

6. WRITE A SHORT NOTE ON QUALITATIVE CHARACTERSTICES

MEANING OF DOUBLE ENTRY SYSTEM OF BOOK KEEPING

1. Double entry system of book-keeping refers to a system of accounting under which both the aspects (i.e., debit or credit) of every transaction are recorded in the accounts involved.
2. **Duel aspect**- two fold aspect of a transaction is called dual aspect or duality of a transaction. This duality is the basis of double entry records.
3. **As the name implies, the entry made for each information is composed of two parts** –one for debit and another for credit. The duable entry system may be compared with the Newton's law of motion ,viz to every action there is always an equal and country reaction.
4. Every debit has equal amount of credit. So the total of all debits must be equal to the total of all credits
5. **The term debit and credit used today have their origin fro the terms-** debito and credito as used by luca fra Pacioli in his books.

6. **Account** – the individual record of person or thing or an item of income or an expense is called an account.

ADVANTAGES OF DOUBLE ENTRY SYSTEM

1. It facilities the accuracy of ledger account through the device of trail balance
2. It facilities the ascertainment of Financial performance.
3. It facilities the ascertainment of Financial position.
4. It facilities the comparability of financial statements.

7 WRITE A SHORT NOTE ON CLASSIFICATION OF ACCOUNTS. [NOV 1999 NOV 2002, DEC. 1993]

Type of accounts	Meaning	Example
(personal accounts)	These accounts relate to natural person, artificial persons and representative person	**Natural** – Ram's A/c **Artificial**- Ram & co.'etc **Representative**- outstanding salary A/c. repaid Insurance.
(b)Impersonal accounts **Real accounts**	These accounts relate to the tangible or intangible real assets.	**Tangible** – Land A/c **Intangible** – Goodwill A/c
Nominal accounts	These account relate to losses profit & gains	**Expenses**-purchases A/c **Loss**- Loss by fire A/c **Profit & gain** –Sales A/c discount received A/c.

9 WRITE A SHORT NOTE ON CONTINGENT ASSET

MEANING OF CONTINGENT ASSET

According to accounting standard 29, ''a contingent asset is a possible asset that arise from past event the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. It usually arises from unplanned or unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise."

EXAMPLE OF CONTINGENT LIABILITY

Acclaim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

NO RECOGNITION IN FINANCIAL STATEMENTS

As per the concept of prudence as well as the present accounting standards, an enterprise should not recognize a contingent asset. It is possible that recognition of contingent assets may result in recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset no longer remains as contingent asset.

NO DISCLOSURE OF CONTINGET ASSET

A contingent asset need not be disclosed in the financial statements. A contingent asset is usually disclosed In the report of the approving authority(i.e., Board of Directors in the case of a company, and the corresponding approving authority in the case of any other enterprise.), if an inflow of economic benefits is probable.

WHEN RECOGNISED

Contingent assets are assessed continually and if it has becomes virtuosity certain that an inflow or economic benefits will arise, the asset and the related income are recognized in the financial statement of the period in which the change occurs .

MEANING OF CONTINGENT LIABILITY

According to accounting standard 29,' contingent liability'

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

(b) A present obligation that arised from past events but is not recognized 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.

- **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.
- **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.

NO RECOGNITION OF CONTINGENT LIABILITY

An enterprise liability is required to be disclosed by way of note to the balance sheet unless possibility of outflow of a resource embodying economic benefits is remote.

DISCLOSURE OF CONTINGENT LIABILITY BY WAY OF NOTE TO THE BALANCE SHEET

A contingent liabilities is required to be disclosed by way of note of the balance sheet unless possibility of outflow of a resource embodying economic benefits is remote.

WHEN RECOGNISED

Contingent assets are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. if it has becomes probable that an outflow or future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statement of the period in which the change probability occurs except in the extremely rare circumstances where no reliable estimate can be made.

11 WRITE A SHORT NOTE ON PROVISION

MEANING OF PROVISION

Provision means “any amount written of or retained by way of providing for depreciation, renewal or diminution in the value of assets or retain by way of providing for any known liability of which the amount cannot be determined with substantial accuracy”

As per AS 29, A provision is a liability which can be measured only by using a substantial degree of estimation.

CONDITIONS FOR RECOGNITION OF PROVISION

A provision should be recognized when:

(a) An enterprise has a present obligation as a result of a past event.
(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
(c) A reliable estimate can be made of the amount of the obligation.

12 WRITE A SHORT NOTE ON FUNDAMENTAL ACCOUNTING ASSUMPTIONS.[MAY 1996, MAY 1999, MAY2003, MAY 2004, MAY 2006,]

As per accounting standard (AS-1)’Disclosure of Accounting Policies’ issued by institute of Chartered Accountants of India (ICAI), there are three Fundamental Accounting Assumptions:

1 going concern 2 Consistency 3 Accrual

DISCLOSURE REQUIREMENETS

1. **If all the fundamental accounting assumption are followed in financial statements, specific disclosure is not require.**
2. **If any fundamental accounting assumption is not followed, the fact should be disclosed.**

13.WRITE A SHORT NOTE ON GOING CONCERN ASSUMPTION.

MEANING OF GOING CONCERN ASSUMPTION

1. **The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future.**
2. **It is assumed that the enterprise has neither the intention nor the necessity of liquidation or curtailing materially its scale of operations.**
3. **If an enterprise is not a going concern, valuation of its assets and liabilities on historical cost becomes irrelevant and as a consequence its profit/loss may not give reliable information.**

IMPLICATIONS OF GOING CONCERN ASSUMPTION

It is because of the going concern Assumption:

1. **That the assets are classified as current assets and fixed assets.**
2. **That the liabilities are classified Short- term Liabilities and Long-term Liabilities.**

3. **That the unused resources are shown as unutilized costs (or unexpired costs) as against the break-up values as in case of liquidating enterprise.**
4. **Accordingly, the earning power and not the break-up value evaluates the continuing enterprise.**

DISCLOSURE OF GOING CONCERN ASSUMPTION

According to accounting standard (1) issued by the institute of Chartered Accountants of India. This fundamental assumption is followed, this fact need not be disclosed in the financial statements since its acceptance and use are assumed. In case this concept is not followed, the fact should be disclosed in the financial statement tighter with reason.

14. WRITE A SHORT NOTE ON CONSISTENCY ASSUMPTION

MEANING OF CONSISTENCY ASSUMPTION

1. **It is assumed that accounting policies are consistent from one period to another.**
2. **This adds the virtue of comparability to accounting data.**
3. **If comparability is lost, the relevance of accounting data for users' judgment and decision making is gone.**
4. **According to consistency Assumption, whatever accounting practices (whether logical or not) are selected for a given category of transactions, they should be followed on a horizontal basis from one accounting period to another to achieve compatibility**

NEED FOR CONSISTENCY ASSUMPTION

The consistency principle is applied when alternative methods of accounting are equally acceptable.

EXAMPLE OF CONSISTENCY ASSUMPTION

1. If the inventory is valued on LIFO basis, this should be followed year after year.
2. If a particular asset is depreciated according to WDV method, this method should be followed year after year.

EFFECT OF NOT OBSERVING CONSISTENCY

If consistency assumption is not followed, the intra-firm comparison (i.e., comparison of actual figures of one period with those of another period for the same firm), inter-firm comparison (i.e. comparison of actual figures of one firm with those of another firms belonging to the same industry) and pattern comparison (i.e. comparison of actual figures of one firm with those of another firms belonging to the same industry) cannot be made.

CONSISTENCY DIFFERS FROM UNIFORMITY

The consistency should not be confused with mere uniformity or inflexibility and should not be allowed to become an impediment to the introduction of improved accounting standard. It is not appropriate for an enterprise to leave its accounting policies unchanged when more relevant and reliable alternative exist.

15 WRITE A SHORT NOTE ON ACCRUAL ASSUMPTION

MEANING OF ACCRUAL ASSUMPTION

1. **Revenues and costs are accrued, that is, recognized 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.**
2. **This assumption is the core of accrual accounting system.**
3. **For companies it is mandatory t keep accounts on accrual basis under the companies Act 2013.**

MEANING OF REVENUE

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of ordinary activities of an enterprise from the sale of goods, rendering of service and use of enterprise resources by others yielding interest, royalties, it excludes the amount collected on behalf of third parties such as certain taxes, in an agency relationship, the revenue is the amount of commission and not the floss inflow of cash, receivables or other considerations.

16 WRITE A SHORT NOTE ON MATERIALITY PRINCIPLE.

MEANING OF MATERIALITY PRINCIPLE.

1. According to the MATERIALITY PRINCIPLE, all relatively relevant items, the knowledge of which might influence the decision of the users of the financial statements, should be disclosed in the financial statement.
2. Which information is more relevant than others is largely a matter of judgment. For instance accounting and recording of a small calculator as an asset In the balance sheet may not be justified due to the excess of cost of recording over the benefits in term of usefulness of recording and the accounting of calculators as assets.

WHAT IS MATERIALITY

1. **The materiality depends not only upon the amount of item but also upon the size of business, level and nature of information, level of the person/ department who makes the judgment about materiality, for instance a worker reporting to his Forman about the production in grams (e.g. part of kilogram), a foreman to his supervisor in kilograms, supervisor to his production menagerie quintals and the production manager to the top management in tones, may be justified with regard to the circumstances, it hardly makes any difference if the production is 1,99,000.90 kilograms or simply 200 tones (nearly).**
2. **It is desirable to establish and follow uniform policies governing material or non-material items so that while measuring income for an accounting period, the non-material items can be uniform basis.**

EXCEPTION TO THE FULL DISCLOSURE PRINCIPLE

1. **This principle is basically an exception to the full Disclosure Principle.**
2. **The full disclosure principle requires that all facts necessary to ensure that the financial statement are not misleading, must be disclosed, whereas the materiality principle requires that the items or events having an insignificant economic effect or not being relevant to the user's need not be disclosed.**

17 WRITE A SHORT NOTE ON PRUDENCE PRINCIPLE. (OR CONSERVATISM PRINCIPLE)

MEANING OF PRUDENCE PRINCIPLE.

1. According to prudence principle, the principle of 'Anticipate no profit but provide for all probable losses' should be applied.
2. In other words, the prudence principle requires that in the situation of uncertainty and doubt, the business transactions should be recorded in such a manner that the profits and assets are not overstated and the losses and liabilities are not understated.

Note: prudence principle should be applied rationally only in circumstances in which great uncertainty and doubt exists as the over-conservatism may result in misrepresentation.

EXAMPLE OF APPLICATION OF PRUDENCE PRINCIPLE.

1. Valuation of Stock-in-trade at a lower of Cost or Net Realizable value.
2. Making the provisions for doubtful debts and Discount on Debtors.

CONFLICTS WITH CONSISTENCY

When the stock is valued at Cost in one accounting period and at a lower of cost or Net Realizable value in another accounting period, this principle conflicts with me the principle of consistency.

CONFLICTS WITH FULL DISCLOSURE

When excessive Provision for doubtful debts and depreciation are charged, it leads to the creation of Secret Reserves, and thus, this principle conflict with the full disclosure Principle.

CONFLICTS WITH OBJECTIVITY

1. The estimation of probable losses is a subjective judgment and thus, this principle conflicts with the principle of objectivity.
2. The practice of making provisions for doubtful debts and the like implies chargers in the following accounting periods.
3. It reduces the current income and raises the future income and thus it conflicts with the matching principle

18 WRITE A SHORT NOTE ON MEANING OF ACCOUNTING POLICIES.

Accounting policies refer to the specific accounting principles and methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements. There is no single list of accounting policies which are applicable to all enterprises in all circumstances. The management of each enterprise has to select appropriate accounting policies having regard to the nature and circumstances of the enterprise.

19 WRITE A SHORT NOTE ON EXAMPLE ACCOUNTING POLICIES.

Following are the example of some of the areas in which different accounting policies may be adopted by different enterprises:

(i) Methods of depreciation, depletion and amortizations;
(ii) Treatment of expenditure during construction;
(iii) Conversion or translation of foreign currency items;
(iv) Valuation of inventories;
(v) Treatment of goodwill;
(vi) Valuation of investment
(vii) Treatment of retirement benefits;
(viii) Recognition of profit on long-term contracts;
(ix) Valuation of fixed assets;
(x) Treatment of contingent liabilities.

This list should not be taken as exhaustive, it is only illustrative

20 WRITE A SHORT NOTE ON MAJOR CONSIDERATION IN THE SELECTION OF ACCOUNTING POLICIES.

The primary consideration in the selection of accounting policies should be to prepare and present financial statement in a way that they represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit and loss account for the period ended on that date. The major considerations governing the selection and application of accounting policies are as under:

1. Prudence uncertainties inevitably surround many transactions. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserves.
2. Substance over form transactions and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.
3. Materiality financial statements should disclose all material items, that is, items, the knowledge of which might influence the decision of the users of the financial statements.

21 WRITE A SHORT NOTE ON DISCLOSURE OF ACCOUNTING POLICIES.

According to AS-1 issued by the institute of Chartered accountants of India—

(a) All significant accounting policies adopted in the preparation and presentations of financial statements should be disclosed.

(b) The disclosure of the significant accounting policies as such should form a part of the financial statements and the significant accounting policies should normally be disclosed in one place**.**

22. WRITE A SHORT NOTE ON CHANGE IN ACCOUNTING POLICIES.

WHEN THE CHANGE IN ACCOUNTING POLICY IS RECOMMENDED

The change in accounting policy is recommended only in the following circumstances:

- If it is required by statute for compliance with an accounting standard.

- If it is considered that the change would result in a more appropriate presentation of the financial statements of an enterprise.

DISCLOSURE REQUIREMENTS IN CASE OF CHANGE IN ACCOUNTING POLICIES.

The disclosure requirements are as follow:

Case	Disclosure requirements
If change has a material effect in current period and the effect of change is ascertainable	**The amount of change should be disclosure.**
If changes has a material effect in current period and the effect of change is not ascertainable	**The fact should be disclosed**
If change has no material effect in current period but which is reasonably expected to have a material effect in later periods	**The fact of such change should be appropriately disclosed.**

EXAMPLE OF CHANGE IN ACCOUNTING POLICY

X Ltd. changed the method of depreciation from WDV to SLM, with effect from 1.4.2017. the depreciation has been recomputed from the date of commissioning of these assets at SLM rates applicable to those years. Consequent to this there has been an additional charge for depreciation during the year of R 100 crore due to said change which relates to the previous years and an equal amount has been withdraw from the General Reserve and credited to Profit & Loss Account. Had there been no change in the method of depreciation, the charge for the year would have been lower by Rs 10 carore excluding the charge relating to the previous years. Consequently, the net Block of Fixed Assets and Reserves and Surplus are lower by Rs 110 crore.

23 WRITE A SHORT NOTE ON ACCOUNTING AS A MEASUREMENT DISICPLINE.

1. Accounting is not an exact measurement discipline because accounting measures information mostly in money terms which is-

(a) Not a stable scale

(b) Not having universal applicability

(c) Not stable in dimension for comparison over the time.

2. Though measurement is an important part of accounting discipline but a set of theorems which govern the measurement system (such as going concern, consistency and Accrual) should be carefully understood to know how the cogs of the accounting-wheel work.
3. Although quantitative information is also required in many cases but such information is only supplementary to monetary information.

24 WRITE A SHORT NOTE ON VALUATION PRINCIPLES OR MEASUREMENT BASE.

There are four generally accepted valuation principles or measurement bases.

HISTORICAL COST BASE

As per historical cost base-

(a) The assets are recorded in the amount of cash or cash equivalent paid or incurred or faor valuw of the assets at the time of acquisition.
(b) Liabilities are recorded in the amount of proceeds received in exchange for the obligation.

CURRENT COST BASE

As per current cost base-
(a) The assets are recorded at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently.
(b) Liabilities are recorded at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

REALIZABLE VALUE BASE

As per realizable value base-
(a) The assets are recorded at the amount of cash or cash equivalent that could currently be obtained by selling the assets in the normal course of business,
(b) Liabilities are recorded at the undiscounted amount of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

PRESENT VALUE BASE

As per present value base-
(a)an asset is recorded at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business.
(b) Liabilities are recorded at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

EXAMPLE:
X Ltd purchased a machine for R 1,00,000 on 1.4.2014 on 31st March 2018-
(a) The similar machine could be purchased for r 1,20,000
(b) The same machine could be purchased for R 80,000
(c) The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business is calculated at R 1,50,000.
In the above case-
(a) Historical Cost is r 1,00,000
(b) Current cost is r 1,20,000
(c) Realizable value is r 80,000
(d) Present value is r 1,50,000

25 WRITE A SHORT NOTE ON MEASUREMENT AND VALUATION.

1. In economics, the value of an object, ability or idea is the utility (i.e. satisfaction) of an economic resource to the person contemplation or enjoying its use. Economists use ordinal scale to indicate the level of satisfaction.
2. In accounting , the value of an object, ability or idea is always measured in items of money. Accountant use only cardinal scales.
3.

26 WRITE A SHORT NOTE ON ACCOUNTING ESTIMATES.

WHEN REQUIED

Accounting estimates are required when many items of financial statements cannot be measures with precision due to uncertainties inherent in business activities. The estimation process involves judgment based on the latest information available

EXAMPLES OF ACCOUNTING ESTIMATES

Accounting estimates are required in respect of :

(a) Doubtful debts
(b) Useful lives of depreciation assets
(c) Residual value
(d) Inventory obsolescence
(e) Employees retirement benefits obligations
(f) Provision for unseen contingent while using percentage of completion method long term contract

MEANING OF CHANGE IN ACCOUNTING ESTIMATES

Change in accounting estimate means difference arising between certain parameters estimated earlier and

(a) Re-estimated during the current period, or
(b) Actual result achieved during the current period.

WHEN AN ACCOUNTING ESTIMATE REQUIRES REVISION

An accounting estimate may require revision-

(a) If changes occur reading circumstances on which the estimate was based, or
(b) As a result of new information, more experience or subsequent developments.

EXAMPLE OF CHAGE IN ACCOUNTING ESTIMATE INCLUDE

1. **Change in the amount of doubtful debts.**
2. **Change in the estimated useful life of the depreciation asset**
3. **Change in the estimated residual value of the depreciation asset.**

NO RETROSPECTIVE EFFECT

Change in accounting estimates cannot be given a retrospective effect.

REQUIRMENTS OF AS 5

1. The effect of change in an accounting estimate should be included in the determination of net profit or lose-

(a) In the period of the change if the change affects the period only (e.g. change in the estimated amount of doubtful debts)

(b) In the period of change and future periods if the change affects both (e.g. change in the estimated useful life of a depreciable asset)

2. 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 (for example, previously included as an extraordinary item should be reported as an extraordinary item)
3. The nature and the amount of 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 b disclosed. If it is impracticable to quantify amount, this fact should be disclosed.

27 WRITE A SHORT NOTE ON ADVANTAGES OF SETTING ACCOUNTING STADARDS.[NOV. 2003]

Reduction in variations	Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
Disclosure beyond that required by Law	There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
Facilitates comparison	The application of accounting standards would, to a limited extent, facilitate comparison of financial statement of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practiced in difference countries.

28 WRITE A SHORT NOTE ON COMPENSATING ERRORS.

MEANING OF COMPENSATING ERRORS.

These errors arise when two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts involved is nil. In other words, compensating errors refer to such a group of errors where in the effect of one error is compensated by the effect of other error or errors.

EFFECTS OF COMPENSATING ERRORS

These errors do not affect the agreement of the trail balance but may or may not affect the figure of net profit

EXAMPLES OF COMPENSATING ERRORS

Example 1. If the total of purchases book is posted in the ledger as R 1,000 instead of R 100 and at the same time Ram's A/c is credited in the ledger as R 1,000 instead of Rs 100, as a result of these errors, there is an excess credit f R 900 in Ram's Account and excess debit of r 900 in purchases Account. Thus, these two error nullify the effects of each other. The first error will increase the figure of purchases and consequently will reduce the figure of profit.

Example 2. If the total of Bills receivable book is posted in the ledger as R 1,000 instead of R 100 and at the same time total of Bills Payable book is posted as 1,000 instead of R 100, as a result of these errors, there is excess credit of R 900 in Bills Payable Account and an excess debit of R 900 in Bills

Receivable Account. These two error will nullify the effect of each other. These errors will not affect the figure of profit in anyway.

29 WRITE A SHORT NOTE ON ERRORS OF PRINCIPLE.

MEANING OF ERROR OF PRINCIPLE.

This error arises when the transaction is recorded ignoring the distinction between the capital item and revenue item. In other words, this error involves an incorrect allocation or expenditure or receipt between Capital and Revenue. The correct allocation between Capital and Revenue is of paramount importance because any incorrect allocation would disturb the final results as disclosed by the financial statements.

EFEECT OF ERROR OF PRINCIPLE

It may lead to under/over stating of Incomes or expenses of Assets or Liabilities. This error does not affect the trail balance.

EXAMPLE OF ERROR OF PRINCIPLE

Error: freight paid for bringing a new machinery is debited to freight A/c
Effects:

1. On revenue expenditure (i.e. freight)- overstated
2. On capital expenditure (i.e., cost of machinery)-understand
3. On depreciation on machinery- undercharged
4. On Net Profit- understand by the net Effect (i.e., the difference between the amount of freight and amount of depreciation).

Note: the costs incurred on the acquisition, installation and commissioning of a fixed asset up to the point the fixed asset is ready for use represent capital expenditures.

30 WRITE A SHORT NOTE ON SUSPENSE ACCOUNT.

MEANING OF SUSPENSE ACCOUNT

A suspense Account Is an account in which the amount of difference in the trail balance is put till such time that errors are allocated and rectified.

PREPARATION OF SUSPENSE ACCOUNT

The difference in the trail balance is transferred on the credit side of the suspense Account (if the debit side of the trail balance exceeds the credit side) or on the debit side of the suspense account (in the credit side of the trail balance exceed the debit side). Thus, the difference is put on the shorter side.

UTILITY OF SUSPENSE ACCOUNT

The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

DISPOSAL OF BALANCE OF SUSPENSE ACCOUNT

When the errors affecting the suspense Account are located, they are rectified with the help of the suspense Account. Ehen all the errors affecting the trail balance are located and rectified, the suspense Account automatically stands balanced.

TREATMENT OF BALANCE F SUSPENSE ACCOUNT

1. The balance of suspense account represents the net effect of error affecting the trail balance which is still to be located and rectified.
2. Its debit balance will be shown on the assets side of the balance sheet.
3. Its credit balance will be shown on the liabilities side of the balance sheet.

32 WRITE A SHORT NOTE ON DEPLETION UNIT/ PRODUCTION METHOR OF DEPRECIATION.[nov.1995, NOV. 1998]

Meaning of depletion: depletion refers to the physical determination by the exhaustion of natural resources (are deposits in mines, oil wells, quarries, \timber stand etc.)
Meaning of depletion Method: it is the method under which (a) the life of the asset is estimated interns of output which could be raised during its life and (b) depreciation is related to the quantity taken out (amount of depletion) and not the passage of time. This method when applied to wasting assets like mines, quarries etc. is known as depletion method because wasting assets cannot be depreciated but can be gradually depleted.
Usefulness: it is used for depreciating natural resources like ore-deposit, oil-deposit etc.
Rate of depreciation per unit = original cost/less Residual value/ useful life in terms of productive output
Amount of depreciation = actual output (in units) x Rate of Depreciation per unit
Suitability: this method is suitable where (a) the life of the asset can be estimated in terms of output (b) the utility of the asset is directly related to its productive life (c) Obsolescence in not a primary factor.
Practical example: Cost of acquiring a mine = R 1,00,000 Estimated Qty of coal in the mine = 20,000 tones, Actual output in the year 2018=1,000 tones
Here,
Rate of Depreciation = R 1,00,000/20,000 = R 5 per tone
Amount of Depreciation for 2018 = 1,000 tones x r 5 = R 5,000

33 WRITE A SHORT NOTE ON RENEWAL AND RETIREMENT OF BILL.

Renewal of bill- cancellation of the original bill and drawing a fresh bill for another period on a request from the drawee, is called renewal of a bill. In such a case, the interest for the extended period is either paid in case or is included in the amount of the new bill.
Retirement of bill:

(i) Meaning: making the payment of a bill before the date of maturity is called retirement of a bill.
(ii) Rebate: Usually the holder of the bill allows at an agreed rate of interest for the unexpired period of the bill as a consideration for premature payment.
(iii) Nature of rebate: such rebate on retirement of a bill is an income for the drawee and is an expense for the payee.

34. WRITE A SHORT NOTE ON NOTING CHARGES AND PROTEST.

(i) **Meaning of noting-** Nothing is the recording of the fact of dishonor by a Notary Public. Such nothing must be made within a reasonable time after dishounor.

(ii) **contents of noting-** nothing must specify (a) the date of dishonor, (b) the reason. If any, assigned for such dishounour (c) Noting charges- the fee charged by Notary public for nothing is known as noting charges is the recording of the fact of dishonor by a notary Public. Such

(iii) **Recovery-**the amount of noting charges is recoverable from the party who is responsible for dishonor.

(iv) **Treatment in the books of the drawer-**the Drawee's Account is always debited with the total amount, i.e., the amount of the dishonoured bill plus the amount of noting charges (if any, incurred). ``

(v) **Treatment in the books of the drawer-** the Drawee's Account is always credited with the total amount, i.e., the amount of the dishonoured bill plus the amount of noting charges (if any, incurred).

(vi) **Protest-** Protest is the formal certificate given by the Notary Public. This certificate is based on the noting.

35. WRITE A SHORT NOTE ON ACCOMMODATION BILL.

(i) Meaning – Accomandance bill refer to those bill which are drawn, accepted or endorsed without any consideration

(i) **Purpose-**Such bill are drawan and accepted to meet the financial needs of the drawer/drawee/both temporarily

(ii) **Sharing of proceeds of the Bill-**On discounting of such bills, proceeds may be shared by drawer and drawee in an agreed ratio.

(iii) **Sharing of Discount-** the party bears the discounts in the proportion in which it shares the proceeds of the bill unless otherwise agreed.

(iv) **Recovery in case of dishonor-** On dishonor of such bill, drawer cannot file suit against the drawee because drawee is not liable to drawer.

(v) **Accounting entries-** the accounting entries are made in the usual manner as in case of trade bills.

36. WRITE A SHORT NOTE ON DEL-CREDERE COMMISION.

Meaning – del-credere commission is an additional commission paid by the consignor to the consignee for bearing the loss on account of bad debts, if any, arising out of credit sale of consignment goods. In case of a dispute regarding the delivery or quality etc. if a customer has deducted a particular amount, the consignee will not bear this loss event if he is getting a del- credere

commission. Thus, del-ceredere commission is a kind of insurance premium paid to cover the risk of bad debts.

Who will bear the bad debits

(i) If consignee gets Del-cerdere commission, consignee will bear the risk of bad debits

(ii) If consignee does not get Del-cerdere commission, consignee will bear the risk of bad debits.
How to calculate? Del-cerdere commission may be alloed on credit sales, however, in the absence of any such agreement, the consignee allows such commission on total sales and not merely on credit sales.

37. WRITE A SHORT NOTE ON OVER-RIDING COMMISION.

Meaning: Over-riding commission is an extra commission allowed over and above the normal commission generally offered:
When allowed: it is generally allowed-

(i) To provide incentive for effecting for sales at prices higher than the price fixed by the consignor,
(ii) To provide incentive for introducing a new product in the market,
(iii) To provide incentive for supervising the performance of other agents in a particular area.
How to calculate? Depending upon the terms of agreement it may be calculated on the actual total sales or on the difference between Actual total sales and sales at special selling price or invoice price. However, in the absence of any such agreement, over-riding commission should be allowed on the difference between the actual total sales and sales at specified selling price and ordinary commission should be allowed on total sales at specified sales price.

43 WRITE A SHORT NOTE ON ACCOUNT CURRENT.

Meaning: Account current is a running statement in the form of a ledger account showing the transactions between two parties for a given period of the together with the interest due or payable the heading of his statement is written as under:
"-(name of receiving Party)- In Account Current with- (Name of Sending Party)-" to "(date) for example, if X send the Account Current to Y, it will be headed as " Y in Account Current with X'. if Y sends the Account Current to X, it will be headed as –X in Account Current with Y'.
Who sends to whom: Account Current is usually sent by (a) a banker to its customer (b) a lender to its borrower (c) a supplier to its computer (d) an agent to its principle (e)a co-venture to another co-venture.
Method or preparing:

There are three methods of preparing Account Current viz. interest on individual transaction Method, product of individual transaction Method, product of Balance Method.

44 WRITE A SHORT NOTE ON RED INK INTEREST.

In case of transaction the due date of which falls after the date of closing the account, the product must be written either as negative product on the same side or as positive product on the opposite side(i.e. the side other than that on which the transaction appears). Traditionally, such product was used to be written in 'Red Ink' and interest on Suck 'red-ink product' was used to be called as "red ink interest".

45 WRITE A SHORT NOTE ON RECEIPTS AND EXPENDITURE ACCOUNT.

Meaning:

1. Receipts and expenditure Account is an income statement which is prepared by professionals ()like chartered accountants) or professional firms to ascertain the final results of their professional activities during an accounting period.
2. In Receipts and expenditure Account, all expenses are recognized on accrual basis and all incomes are recognized on cash basis. In other words, all outstanding expenses are considered but all outstandin fees and charges or work-in progress are not considered.
   Reason for non-recognition of Outstanding fees:
   The reson for non-recognition of outstanding fees is that professionals consider it imprudent and risky to recognize the outstanding fees.
   Reason for difference between the profit a shown by the income & expenditure Account and receipts and Expenditure account.
   Such difference arises because of non-recognition of outstanding fees and charges and work-in-progress in receipts & expenditure Account.

46 WRITE A SHORT NOTE ON GUARANTEE OF MINIMUM PROFIT TO A PARTNER.

Guarantee of a partner	It means assurance to giv a minimum amount of profit to a partner.
B Guarantee partner	A partner to whom guarantee of minimum profit has been provided is called 'Guarantee partner '.
Guaranteeing partners	The partner(s)who has (have given Guarantee of minimum profit is (are) called 'Guarantee partner '
Guaranteed Amount	The minimum account for which guarantee is given is called' Guarantee Account'
Who can provide Guarantee and in what ratio?	The Guarantee may be provided by one or some o all of the partners in an existing profit sharing ratio or in some other agreed ratio.
Personal Guarantee	When Guarantee is given by one or some or all of the partners in a ratio different from existing profit sharing ratio, such Guarantee is said to be personal Guarantee.
Firm Guarantee	When Guarantee is given by the entire partner in an existing profit sharing ratio, such Guarantee is said to be firm Guarantee.
Effect of Guarantee	If in any year, the actual share of profit of a Guarantee partner is less than the Guarantee amount over actual share of profit) is borne by the Guaranteeing partners in their agreed ratio.

Guarantee partner

47 WRITE A SHORT NOTE ON LIMITED LIABILITY PARTNERSHIP.

1. It is an entity registered under ' the Limited Liability Partnership Act, 2008'
2. It has separate legal entity.
3. It is created by Law.
4. If has perpetual succession. The death, insolvency or unsoundness of its members does not affect its existence. Members may come and go but LLP goes forever.
5. Its Name to contain 'Limited Liability Partnership' or 'LLP' as suffix.
6. Minimum number of partners required is 2 but there is no limit on maximum number of partners.

7. Liability of its partner is limited. To extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.
8. Partners act as agents of LLP and not of other partners.
9. Mirror cannot be admitted to the benefits of LLP.
10. Foreign National can become a Partner in a LLP.
11. It must have at least 2 individuals as Designated Partners, of whom at least one must be resident in India

48. WRITE A SHORT NOTE ON DESIGNATED PARTNERS.

1. LLP must have at least 2 two individuals as Designated partners, of whom at least one must be resident in India. Each Designated Partner is required to have a DPIN before appointment.
2. At least one Designated Partner must have Digital Signatures since e forms are filled electronically.
3. Only Designated Partners are liable for Legal Compliance.

49. WRITE A SHORT NOTE ON PERSONAL LIABILITY OF A PARTNER.

For his own wrongful Act or Omission	**A partner is personally liable.**
For his own wrongful Act or Omission of any other partner of the LLP	**A partner is not personally liable**
For any other Act	**A partner is not personally liable**

50. WRITE A SHORT NOTE ON METHODS OF VALUATION OF GOODWILL.

Average profit Method: goodwill under this method is ascertained by multiplying the Average Future Maintainable Profit by a certain number of years' purchases.

Goodwill= Average profits x No. of years' purchases

Super profit Method: Goodwill under this Method is ascertained by multiplying the Super Profits by certain number of year's purchase.

Goodwill= Super profits x No. of years' purchases

Capitalization of Super Profit: the goodwill under this method is ascertained by capitalizing the super profits on the basis of Normal Rate of Return

$$\textbf{Goodwill} = \text{Super Profits} \times \frac{100}{\text{Normal Rate of Return}}$$

Capitalization of Super Profit:

the goodwill under this method is ascertained by deducting the actual capital employed (i.e. Net Asset as on the date of Valuation) in business from the Capitalized Value of the average profits on the basis of Normal Rate of Return

Goodwill = Capitalization Value – Net Assets

Where,

$$\text{Capitalization Value} = \frac{\text{Average Profit}}{\text{Normal Rate of Return}} \times 100$$

Net Assets = All Assets (other than goodwill, fictitious assets and non-trade investments) at their current values less Outsiders' Liabilities

51 WRITE A SHORT NOTE ON LIMITAION OF FINANCIAL STATEMENT.

Ignores the qualitative elements	Financial statement ignores the qualitative element like quality of management, quality of labour force, public relations.
Not free from personal bias	Financial statement are not free from personal bias since the subjectivity is inherent in personal judgment involved in making decision regarding method of depreciation, method of inventory valuation, materiality, provision for doubtful debt etc.
Ignores the price level changes	Financial statement prepared on historical basis ignores the price level changes since the Financial statement is prepared on historical cost basis and not on current cost basis.
Relates to past and not to future	Financial statement relate to the past and not to the future.

52. WRITE A SHORT NOTE ON PRIVATE PLACEMENT OF SHARES.

Meaning	According to Section 42 private placement of shares implies issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a select group of person, is called ‘ private Placement of Shares’. All SEBI guidelines concerning preferential issue are applicable to private placement of shares as well. In order to make of shares through the private placement route, a company must pass a special resolution to this effect, where no special resolution is passed, the company must pass ordinary resolution and obtain the consent of the central Government stating that the proposal is most beneficial to the company
Accounting Treatment	Accounting entries relating to the private placement of securities are similar to those discussed at the time of application and allotment.

53. WRITE A SHORT NOTE ON RIGHT SHARES.

Meaning	As per sec. 62 in case of further issue of shares, further shares must be offered to the existing shareholders in proportion to their existing shareholding a date. Such shares are called’ Right Shares’.
When available	Such right is available when it is proposed to increase the subscribed capital of the company by allotment of further shares at any time after the expiry of 2 years from the formation of a company or after the expiry of 1 year from the first allotment of shares, whichever is earlier.
Value of right	The computation value of right consist of the following two steps: Step 1: calculate Average Price of a shares + issue Price of proportionate Right Shares > ________________________________ No. of Existing Shares + No of Rights Shares Step 2: calculate Value of Right Value of Right= Market price of a Share – Average Price of a Share
Option available	The existing shareholder to whom the offer is made, may: Accept the offer in full or in part Reject the offer in full Renounce the right in full or in part.

Accounting treatment	Accounting treatment of right issue of share is similar to the treatment discussed under application and allotment

Example:

X Ltd. Offers new shares of R 100 each at 10% premium to the existing shareholders In the ratio of two shares for every five shares held. The market price of share is R 124. Calculate of value of Rights.

SOLUTION:

Step 1: average Price = $\frac{(R124x5)+(R\ 110x2)}{5x2}$ = R 120= R120

Step 2: value of Right = R 124-R120 = R 4.0

54. WRITE A SHORT NOTE ON PREFERENTIAL ALLOTMENT.

Meaning	A preferential allotment is one that is made at a pre-determined price to the pre-identified people who wish to take a strategic stake in the company such as promoters, venture capitalists, financial institutions, buyers of companies' products or its suppliers
Guidelines	Some of the guidelines in this regard are as follows: **Lock-in-period**- the allotters will not sell their securities in the open market for a minimum period of three year from the date of allotment. This period is known as the lock in period. This period is applicable incase of promote **Special resolution**- the preferential allotment can take place only it three-fourths of the shareholders agree to the issue on preferential basis. **Minimum issue price**- the minimum price of such an issue has to be an average of highs and lows of the 26 weeks preceding the date on which the board resolves to make the preferential allotment. **Open offer-** if the preferential allotments are made over and above 15 per cent of the equity, an open offer is mandated by the SEBI

55 WRITE A SHORT NOTE ON SWEAT EQUITY SHARES.

Meaning	Sweat equity shares means equity share issued by the company to employees or directors at a discount or for consideration other than cash for providing know- how or making available right in the nature of intellectual property rights or value additions, by whatever name called.[sec.2 (88)]
Five conditions	According to Section 54, a company may issue Sweat Equity Shares if the following conditions are fulfilled namely: The shares must belong to a class of shares already issued; The issue must be authorized by a special resolution passed by the company in the general meeting. The resolution must specify the number of shares, current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued. At least 1 year must have completed since the date on which the company was entitled to commence business; The sweat equity shares of a company whose equity shares are not listed on any recognized stock exchange, the sweat equity Shares are issued as per the guidelines prescribed.