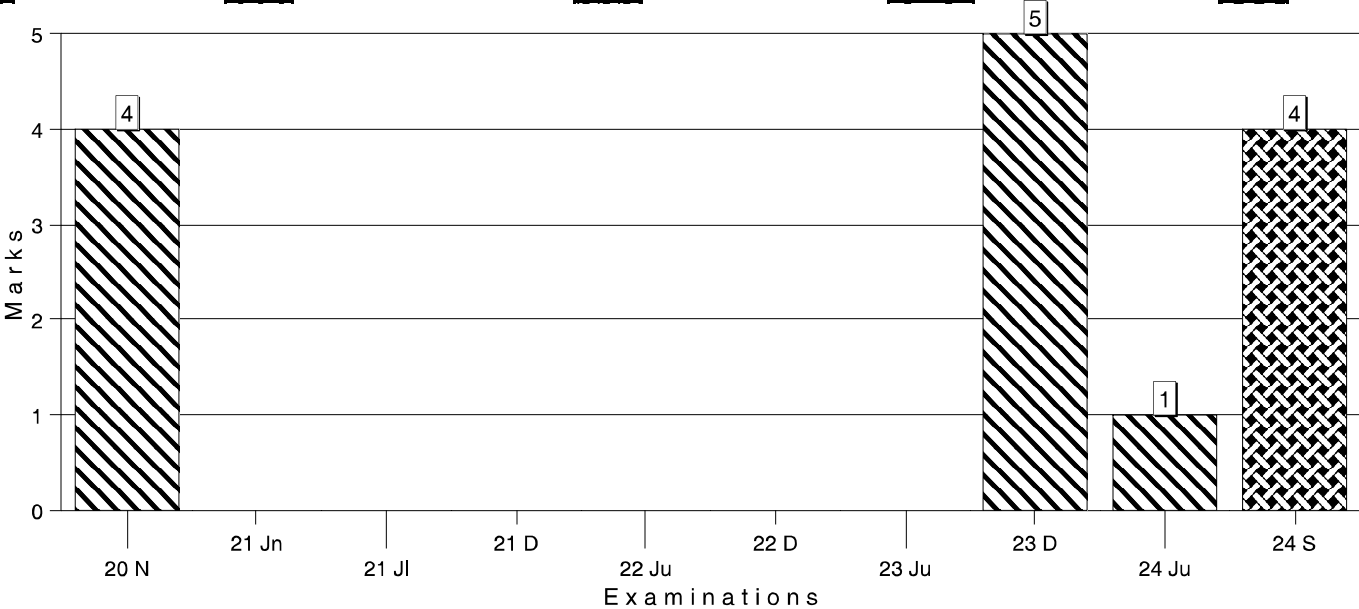


THE GRAPH **Chapter Trend Analysis**

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



CHAPTER	THEORETICAL FRAMEWORK
1.1	Meaning and Scope of Accounting

SELF STUDY QUESTIONS

Q. 1. Write Introduction to Accounting.

Answer:

In all activities (whether profit making or non-profit making) and in all organisations (like manufacturing entities, trading entities, or non-profit organisations like schools, hospitals, clubs, temples, political parties) some or the other kind of economic activities are performed. Such activities require money and other economic resources for which accounting is required to account for these resources.

Such economic activities are performed through “transactions and events”. In other words, wherever money is involved, accounting is required to account for it. **Accounting is thereby often called language of business.** Basic function of any language is to serve as a means of communication, and accounting serves that purpose.

Transactions and Events

Transaction is defined as a business, performance of an act, an agreement, while event is used to mean a happening, as a consequence of transaction, or a result. Events are the end results or conclusions of all the transactions taking place round the year.

Nalin starts a music shop by introducing capital of ₹ 5,00,000. He purchases goods worth ₹ 2,20,000, pays shop rent and electricity charges, ₹ 15,000. He sells goods worth ₹ 1,80,000 for ₹ 2,35,000.

The individual performs an economic activity. He carries on a few transactions and encounters with some events. Obviously he would want to know the result of his activities.

Result of the above activity may be ascertained as follows:

	₹
Sales	2,35,000
<i>Less:</i> Cost of goods sold	<u>1,80,000</u>
Gross Profit	55,000
<i>Less:</i> Expenses paid	<u>15,000</u>
Net Profit/Surplus	<u>40,000</u>

Earning surplus of ₹ 40,000 is an event, and closing inventory in hand ₹40,000 (2,20,000 – 1,80,000) is also an event. Introduction of capital, purchase of goods, sale of goods and payment of expenses are all transactions.

Likewise, Government collects taxes, pays salary to employees and spends on other developmental activities.

Everybody wants to keep record of all such transactions and accounting helps us to keep record of all such transactions and events.

The aim of accounting is to meet the informational needs of the rational and sound decision-makers, and thus, it is called language of business.

Q. 2. Write Meaning and Definition of Accounting.

Answer:

Accounting is a process of recording financial transactions, summarising them and communicating the financial information to users viz, the proprietor, creditors, investors, government agencies, etc. It is because of these characteristics, that accounting is called the language of business.

The committee on Terminology formed by American Institute of Certified Public Accountants gave the following definition of Accounting —

“Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.”

The American Accounting Association defined accounting as –

“The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of accounts”.

Accounting helps to ascertain the impact of events and transactions occurred during the period in terms of money. It not only helps in recording the transactions but also relates to interpreting the results thereof.

Q. 3. What are the Procedural Aspects of Accounting?

Answer:

1. Generating financial information:

Recoding the business events and transactions of financial nature in Primary Books (Journal) and other subsidiary books with the help of invoices, sales bills, passbooks, etc.

Classification of transaction and events is done to group identical transactions together and to describe them by the name of account. This classification is done in secondary books called ledger, by posting transactions from Journal.

Summarising the transactions is the systematic presentation of recorded data so that it is understandable and useful for its users. It is the combined effect of all recorded transactions and is obtained by preparing various financial statements such as:

1. Trial Balance
2. Profit & Loss A/c
3. Balance Sheet
4. Cash flow statement.

Analysing provides the basis for interpreting the recorded data. It involves critical examination of accounting data. It is the process to evaluate the relationship between various components of financial statements.

Interpreting is the process of giving meaning to the analysed data so that proper judgement regarding profitability and financial position of business operations can be made. It helps in planning the future business activities.

Communication is the process of transmitting the financial statements in the form of accounting reports, balance sheets etc. to the users to help them in the decision making process.

2. Using the Financial Information:

Financial information is used not only by the management of business but also by other stakeholders, such as creditors, investors, employees, bankers, competitors, government etc. Various stakeholders require information related to the business for different purposes.

The financial information required for different purposes must be presented in different forms so that it meets the objective of the users which may be internal or external. Information regarding internal working should be in detail for the use by management; however, information can be in charts and graphs with less details for external users, who only want an overview of the business.

Q. 4. How was Evolution of Accounting as a Social Science done?**Answer:**

Phase I: The root of financial accounting system was Stewardship Accounting. This traditional approach of accounting places an obligation on stewards or agents to manage the property and provide relevant financial information relating to their resources to the owner which were usually the wealthy persons or businessmen.

Phase II: Then emerged the idea of joint stock company in the second phase of evolution. It is a type of business organisation with the basic idea of separating ownership from the management. For better disclosure of financial data, various tools such as profit and loss account and Balance Sheet were introduced.

These were the information systems used by the different users such as investors, employees, managers, and other stakeholders for getting meaningful information.

Phase III: Then came the new dimension of accounting in the third phase called as Management Accounting, which was seen as “value creator”. It was developed in 20th century. Its focus was to apply professional knowledge and skills in such a way so as to assist the management in making quality decisions.

Phase IV: Social Responsibility Accounting is the process of communicating the social and environmental effects of an organisation's actions to particular groups of society and society at large. It broadens the scope of accounting in a sense that it should:

- concern itself with more than only economic events;
- not be exclusively expressed in financial terms; and
- be accountable to a broader group of stakeholders beyond reporting financial success.

Social Science studies man as a member of society and concerns about social purposes, contribution to the social progress. Hence, Accounting is treated as **social science**.

Q. 5. What are Objectives of Accounting?

Answer:

1. **Recording Transactions:** Systematically records all financial transactions of a business.
2. **Ensuring Accountability:** Monitors performance and promotes transparency through financial reporting.
3. **Compliance with Legal Requirements:** Ensures adherence to financial regulations and standards.
4. **Assessing Financial Position:** Determines the company's financial position through key statements.
5. **Providing Financial Information:** Offers financial data to stakeholders for decision-making.
6. **Facilitating Decision-Making:** Provides data to support business decisions and financial planning.
7. **Maintaining Financial Records:** Keeps accurate and up-to-date financial records.
8. **Taxation:** Assists in the preparation of tax returns and compliance with tax laws.

To remember the objectives of accounting easily, you can use the mnemonic "**RECAP FAT**", where each letter stands for one of the key points:

R – Recording Transactions

E – Ensuring Accountability

C – Compliance with Legal Requirements

A – Assessing Financial Position
P – Providing Financial Information
F – Facilitating Decision-Making
A – Maintaining Accurate Financial Records
T – Taxation

Q. 6. What are Functions of Accounting?

Answer:

1. **Measurement:** Accounting helps the business organisation to measure its financial performance of earlier years along with current position.
2. **Comparison:** It facilitates comparison of financial position of earlier years with the current year.
3. **Evaluation:** Accounting helps to evaluate the financial results of a business organisation by providing proper disclosures about the accounting policies used in preparation of books of accounts.
4. **Forecasting:** 'It helps in predicting the future business activities by using the past data.
5. **Control:** Accounting keeps a check on operational system and thus identifies weaknesses which can be overcome by implementing necessary measures.
6. **Government Regulation and Taxation:** Accounting information helps the government to keep a check on business activities and facilitates collection of various taxes.

Q. 7. Define Book Keeping.

Answer:

1. Book keeping is the systematic recording of financial transactions on a day to day basis.
2. It includes:
 - Recording of transactions and events in books of Accounts.
 - Classifying the recorded transactions and events in ledger [i.e. posting]
3. The end product of book keeping is the 'financial statements' which includes Profit and Loss A/c, Balance sheet, Notes to Accounts and Cash flow statement.

4. The transactions of financial nature [which are related to money] are recorded. For, example Appointment of a director or employee in the company is not a financial transaction, hence need not be a part of book keeping. On the other hand if a loan is given to director of ₹ 1,00,000, it is a financial transaction, and hence will be recorded as a part of book keeping.
5. The person responsible for maintaining the records of business is known as **book keeper**.
6. Book Keeping helps to know the true picture of company's income, expenses, assets, liabilities, etc.
7. Various laws such as Companies Act, Income tax Act, Banking Regulation Act, Insurance Act, etc. guide about proper preparation, presentation and preservation of books of Accounts of the company.

Q. 8. What are Objectives of Book Keeping?

Answer:

1. **Complete recording of transactions** in orderly and systematic manner, so that proper documentary base is created which can be referred by any person and he is able to interpret the same.
2. **Ascertain the financial effect** of the business transaction done during a specified period on the business as a whole in terms of profit or loss.
3. **To know the financial position** of business as and when required.
4. **Facilitating management** to discharge their duties by providing information for taking business decisions.

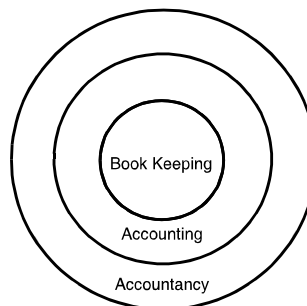
Q. 9. Differentiate between Book Keeping and Accounting.

Answer:

Basis of Difference	Book Keeping	Accounting
1. Scope	Recording of transaction in a systematic manner	Summarising of the recorded transactions
2. Stage	Primary Stage or initial stage	Accounting begins where book keeping ends.
3. Decision-making	Cannot be done	Can be done.

4. Nature of job	Clerical and routine. Can be done by lower staff	Analytical in nature and requires special knowledge and ability.
5. Objective	Accurate and complete record of financial transaction of business.	Apply further financial analysis to financial records.
6. Financial Position of business	Cannot be ascertained	Can be ascertained.

Relationship of Book Keeping, Accounting, and Accountancy.



Book Keeping is the primary function of accounting and focuses on proper recording and maintenance of books of accounts.

Accounting is the secondary function. It **starts where book keeping ends**.

Accountancy is the systematic knowledge applied in the process of accounting.

It can be said that accountancy is a broader term that acts as a guide for preparation of books of accounts and it involves book keeping and accounting.

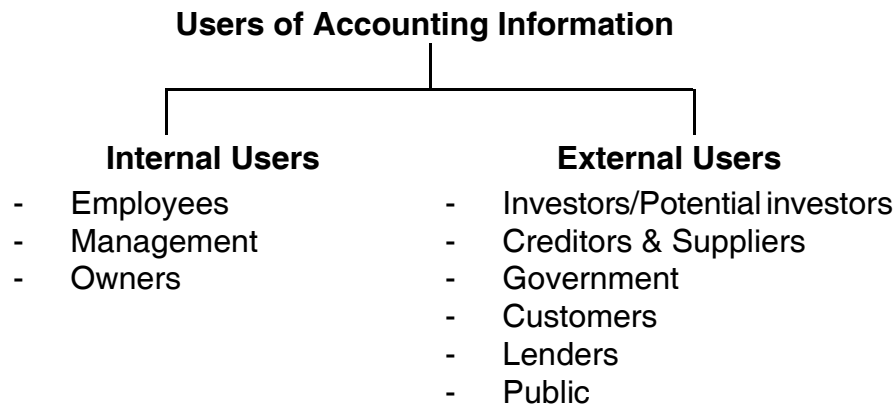
Q. 10. What are the Sub Fields of Accounting?

Answer:

- 1. Financial Accounting:** It is concerned with recording, summarising and interpreting the financial transactions and communication of the same to the users.

It focuses on preparation of profit and loss account and balance sheet to ascertain the financial position of business at the end of an accounting period.

2. **Management Accounting:** It is a recent development in accounting. It deals with the aspect of costing and cost control. It includes costing department which keeps records of various products and services. It is the process of analysis, interpretation and presentation of accounting information collected with the help of financial accounting and cost accounting in order to assist the managerial staff in decision making and day to day operations of the business.
3. **Cost Accounting:** It ascertains the cost of products manufactured or the services rendered and helps the management in taking pricing decisions and exercising control. According to Institute of cost management accounts of England, "Cost Accounting is the process of accounting for cost which begins with the recording of income and expenditure or the base on which they are calculated, and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.
4. **Social Responsibility Accounting:** It is the ability to provide correct information in company's financial statements regarding the estimated social cost and social benefits generated due to business operations. For example, if a factory is setup, it will benefit the society by way of generation of employment opportunities crates etc. Similarly, if a product is found defective or harmful to the users then it may adversely affect the image of the company. The organisations which creates value for its users and society usually survive in the long run. Thus, the demand of social responsibility accounting has increased.
5. **Human Resource Accounting:** It is the process of assigning, budgeting and reporting the cost of human resources incurred by an organisation. It includes salaries or wages paid, training expenses, recruitment costs, etc. It is a new branch of accounting which includes the management of human resource which will ultimately enhance the quantity and quality of goods and services.

Q. 11. Who are the Users of Accounting Information?**Answer:****Internal Users:****(a) Employees**

- They have direct relationship with the growth of the business organisation.
- They are entitled to incentives linked to profit earned by the business and thus are interested in financial statements.

(b) Management

- Accounting information acts as a guiding tool for various managerial decisions such as ascertaining the selling price of a product, investment in a new project, market entry strategy, etc.
- They are concerned with using their expertise knowledge about the business operations to improve the performance and increase the efficiency within the company.

(c) Owners

- They are the persons who contribute towards the capital of the business and are therefore exposed to business risk.
- Owners are concerned with the profits and losses of the business.

External Users:**(a) Investors or Potential investors**

- Accounting information helps the investors to know the return on investment made, or to be made.

- It helps them to know how safe is their investment and also whether the business will survive, prosper and pay good dividends, or not.

(b) Creditors & Suppliers

- Creditors are those who supply goods and services to the business organisation and are concerned whether business will survive in a long run.
- Before granting credit, creditors want to satisfy themselves about the credit worthiness of the business and formulate credit policy accordingly.

(c) Government

- Government regulates day to day activities of the business, and imposes various taxes. Therefore, it is necessary for it to inquire into the financial statements of the business organisation to find whether the correct account of taxes due are paid, or not.
- Accounting information also helps the government in price fixation of essential commodities, compilation of National Income and other necessary information.

(d) Customers

- Customers are concerned with the fact whether the company offers products at fair prices, and its survival, for honouring product warranties.
- They want to know about the stability and profitability of the business enterprise since they are dependent on products and services of such businesses.

(e) Lenders

- They are the providers of loan funds and hence want to assure themselves about the recovery of loans alongwith interest, if any, as and when due.
- “Lenders” includes banks & financial institutions which are interested to know the performance of business, whether the business is flourishing as projected at the time of raising of loan, or do the terms of loans need to be revised.

(f) Public

- Public needs to know whether the business is contributing substantially for the growth of economy, or not.
- Public also wants to know whether the products and services provided are useful, for providing employment to the public without adversely affecting the environment.

Q. 12. What is the Relationship of Accounting with other disciplines?**Answer:****1. Accounting and Economics:**

- Economic theories help to develop the decision making tools which are used in accounting. Accountants get the idea about income, value, capital maintenance, etc. from economics and apply the same in accounting of business operations.
- Economics is regarded as science of rational decision making for use of scarce resources efficiently to satisfy the human wants. Accounting provides financial data which is relevant for taking such decisions.
- Accountants use various methods to analyse expenses, incomes, budgets etc., whereas economics on the other hand is concerned with interpreting the financial patterns for understanding the economic behaviour of such transactions, and takes rational decisions for the business.

2. Accounting and Statistics:

- Statistics deals with typical values, behaviour, trends of a given period of time and the degree of deviation over a series of observations while accounting focuses on accuracy in recording of financial transactions of business.
- The main object of both is to make arithmetical figures in such form which is understandable and usable to the management and other concerned parties.
- Various accounting and financial ratios are formulated on the basis of statistical method. Accounting records are usually viewed for short term, however statistical analysis takes long term view of events.

3. Accounting and Mathematics

- For accounting, it is necessary to have to knowledge of algebra, arithmetic for calculation of interest, lease rentals, depreciation, tax due, penalties, etc.
- For better understanding of financial information, analysts use various presentation tools such as matrix, graphs, charts, and hence it has become essential to have knowledge of geometry, trigonometry for proper understanding.
- Accounting expression can be expressed in algebraic forms. For example double entry book keeping can be stated in algebraic form $\text{Assets} = \text{Liabilities} + \text{Equity}$.

4. Accounting and Law

- All the transactions of a business organisation are governed by several Acts such as contract Act, companies Act, sales of goods Act, Labour Laws, etc. These laws need to be followed to prevent the organisation from being penalised due to non-compliance.
- There cannot be enactment of legislation about accounting system unless accounting discipline is developed correspondingly. Therefore, it can be said that accounting influences law and is also influenced by laws.

5. Accounting and Management

- Management decisions are based on accounting data provided by the accountant. Accountants are thus required to present the data in an understandable and usable manner.
- With the information provided by accountants, management is able to analyse past performance of business organisation, and accordingly plan future operations.
- Various functions of management are linked with accounting. For example – Planning of budget requires costing of a product; controlling function requires management to control cost/expenditure which can only be done if management is aware about the standard cost to be incurred for a product and the excess or deficit in actual cost in making of the product. All this requires accounting data. Hence, we can say that both the disciplines are related to each other.

Q. 13. What are Limitations of Accounting?**Answer:**

- Various qualitative factors are ignored such as expertise and knowledge of managerial personnels, loyalty of employees, etc., although responsible for success of business, as they are not measurable in term of money.
- Accounting for future projections are done on basis of various assumptions and estimations which may not hold good if conditions change in future in an unpredictable manner.
- Accounting ignores time value of money for recording transactions.
- Selection of different methods for calculation of depreciation such as SLM, WDV, method of calculation of valuation of closing stock such as LIFO, FIFO etc. may give different results for the financial period.
- Selection of methods, assumptions, etc., may vary from organisation to organisation. Hence, it becomes difficult to compare the two organisations.
- Financial statements are subject to window dressing, and hence, may not show the true picture of the business operations and financial position of the company.
- Accounting is based on personal judgement of accountants for various estimates, and hence, may provide different results from time to time.

Q. 14. What is the Role of Accountant in the society?**Answer:**

Accounting profession serves the society in various ways such as —

A. Areas of Services

1. **Maintenance of Books of Accounts** of business and preparation of financial statements such as profit and loss account, Balance Sheet, which assist various users for decision making.
2. **Taxation:** Accounting records helps to assess the tax liability of a person and also assists in tax planning.
3. **Analysis:** Accounting Data of various years is compared, and thus, the performance of business can be monitored.
4. **Statutory Audits:** Books of Accounts must give true and fair view. For limited companies, statutory audit is necessary, which must be done by a Chartered Account or a firm of Chartered Accountants.

5. **Internal Audits:** To ensure that proper controls are implemented by the management over the assets of company and preparation of financial statements, firms appoint internal Auditors who are responsible to check controls and communicate deficiencies, if any, to management in a timely manner.
6. **Management and Consultancy Services:** Various functions of management, including decision making, requires financial data. Hence, Accountant may play advisory role in such decision making process.
7. **Financial Advice:** Accountants are believed to be financial literate persons, i.e., having expertise knowledge, and so they can give advice in areas such as—
 - (a) Insurance
 - (b) Business Expansion
 - (c) Investment
 - (d) Sale of business
 - (e) Tax relief under various Pension Schemes
8. **Investigation:** Accountants are required to investigate into various financial matters such as:
 - (a) Variation in profit figures as compared to previous years.
 - (b) Costing of a product or service rendered.
 - (c) Detection of Fraud and remedial action required to lower the impact of such fraud.
 - (d) Valuation of business for ascertaining correct tax liability, for purchase or sale of business, etc.
9. **Other Services:**
 - (a) Portfolio Management
 - (b) Secretarial Work
 - (c) Company incorporation
 - (d) Feasibility study
 - (e) Arbitration
 - (f) Share Transfer and Registration work
 - (g) Act as a liquidator, Receiver, Arbitrator
 - (h) Cost Accounting Work
 - (i) Supply of information.

B. Chartered Accountants in Industry

- Act as financial advisor of management for planning future activities.
- Performs various business functions such as setting of budgets, ascertaining cost of product, calculation of profit linked bonus of employees, etc.

C. Chartered Accountants in Public Sector

- Preparation of report of public corporations to know whether the expenditure by several departments exceeds the budget sanctioned to them, or not.
- To keep a check, whether the Public Sector units are performing their functions properly, challenges faced by them, if any, and making the general public aware about the authenticity of various items appearing in financial statements and other reports.

D. Chartered Accountant in Framing Fiscal Policies

- Fiscal Policy is the spending made by the government which influences the economy of the nation. Accountants help in development of trade, commerce, industry, and hence, help to determine suitable fiscal policies.
- There is a social responsibility on Accountants along with the industry to give true and correct disclosures regarding financial results as are necessary in calculation of national income.

E. Chartered Accountants and Economic Growth

- High quality corporate reporting helps in transparency and mobilisation of various investments and generating confidence among investors across the globe, hence facilitating economic growth of the nation.
- Chartered Accountants are responsible for proper reporting and encouraging the business organisations for efficient working and true and fair disclosures. This, in turn, contributes to the growth of the economy.

SHORT PRACTICE QUESTIONS

1. State with reasons whether following statements are **True** or **False**.
 - (i) The term book keeping and accountancy can be used interchangeably.
 - (ii) Accounting deals with quantifiable information.
 - (iii) Accounting is the language of business.
 - (iv) Accounting aims to communicate financial information to investors only.

Answer:

- | | |
|------------|------------|
| (i) False | (ii) True |
| (iii) True | (iv) False |
2. Define Accounting. What are the objectives of Accounting?
 3. Enumerate the advantages on Accounting.
 4. What are the limitations of accounting?
 5. Differentiate between Book keeping and Accounting.
 6. What are the sub-fields of Accounting?
 7. Write short note on 'transaction' and 'events'.
 8. Accounting is treated as a social science. Explain.

LONG PRACTICE QUESTIONS

1. Explain in detail different categories of users of Accounting information.
[Hint: Refer Question 11]
2. The practice of Accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Enumerate various areas of service for an Accountant.
[Hint Refer Question 14]

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

2002 - Nov [5] State with reasons whether the following statement is True or False:

- (d) Assets and Liabilities of a particular accounting period are shown in the Balance Sheet. (2 marks)

Answer:

False: A balance sheet shows the position of the assets and liabilities as on a particular date.

2003 - May [5] State with reasons whether the following statements are true or false:

- (i) Accounting can be viewed as an information system which has its input processing methods and output. (2 marks)
- (ii) The value of human resources is generally shown as assets in the Balance Sheet. (2 marks)
- (ix) $\text{Equity} + \text{LTL} - \text{CL} = \text{FA} + \text{CA}$. (2 marks)

Answer:

- (i) **True:** Accounting is a processing system whose input is financial transaction and output is financial statements communicating various information to various interested groups.
- (ii) **False:** The human recourse still cannot be defined in terms of money.
- (ix) **False:** The correct equation is as follows:–
$$\text{Equity} + \text{LTL} + \text{CL} = \text{CA} + \text{FA}.$$

2003 - Nov [5] State with reasons whether the following statement is true or false:

- (i) Accounting involves communication. (2 marks)

Answer:

True: Accounting starts only when there is a communication of business transactions to the accounting department. It also communicates the results obtained from arranging of data to interested parties like investors, creditors, employees etc.

SHORT NOTES

1999 - May [6] Write short note on the following:

(ii) Double Entry System.

(5 marks)

Answer:**Double Entry System:**

It is a system of book keeping. It was developed in England. It is a system which recognises that every transaction has a two fold effect. Under "Double Entry System" there are two approaches of recording business transactions:

- (i) Traditional Approach i.e. Book Keeping Approach.
- (ii) Modern Approach i.e. Accounting-equation Approach.

Under the traditional approach, transactions are recorded into different books of accounts i.e. Journal, Ledger, Subsidiary Book, etc.

Under the modern approach, business transactions are recorded through accounting equation i.e. $\text{Assets} = \text{Capital} + \text{Liabilities}$.

Advantages:

1. There is a complete record of every transaction because under this system all the accounts i.e. personal, real and nominal are maintained and all the aspects of debit and credit are recorded.
2. It provides all day-to-day and reliable information.
3. It easily makes available the full details of every transaction.
4. It helps in checking of unnecessary expenditures.
5. It helps in testing of ledger posting by trial balance and also the arithmetical accuracy.
6. It helps in ascertaining the financial position of the business by preparing Balance Sheet.

Hint: Emphasize the dual effect of every transaction in the Double Entry System.

Time Required: 7.5 minutes

2004 - Nov [6] Write short note on the following:

- (v) Role of Accountants in society. (5 marks)

Answer:

Role of Accountants in society: In the present competitive scenario, accountants play a dual role. They not only look into conventional matters relating to tax, costing, management accounting, company legislation etc., but also act in matters of modern concepts like financial policies, economic principles etc.

In brief, we can put forward the role of accountants in the following points:

- (i) They maintain the books and accounts of the business in a way that they show a true & fair view of the position of the business.
- (ii) They act as an auditor both internal and external.
- (iii) They provide service as an tax consultant.
- (iv) They act as financial advisors.
- (v) They also assist in the share registration, registration of company etc.

Hint: Multifaceted role of accountants in traditional and modern finance.

Time Required: 7.5 minutes

2005 - Nov [6] Write short note on the following:

- (ii) Qualitative characteristics of Financial Statements. (3 marks)

Answer:

Qualitative Characteristics of Financial Statements: Financial statements have some qualitative characteristics so that they may provide more information to the users. These are the qualitative characteristics of financial statements:

- (1) Understandability;
- (2) Relevance;
- (3) Reliability;

- (4) Comparability;
 - (5) Faithful Representation; and
 - (6) Completeness.
- (1) **Understandability:** Required quality of information should be provided so that financial statements become more understandable for users. For this reason, it is assumed that users have a reasonable knowledge of business and economic activities and they study information with reasonable diligence. Information regarding complicated matters should be included in the statement because of its relevance to the economic decision-making needs of the users and it should not be excluded merely on the ground that it may be too difficult for some users to understand.
- (2) **Relevance:** Incorporate that information in the financial statement which is relevant for decision making. Quality of relevance of the information is determined when it influences the economic decisions of users.
- (3) **Reliability:** Information must be reliable. Level of reliability of the information is high when it is free from material errors and biased decisions. Information may be relevant but so unreliable in nature or representation that its recognition may be badly misleading.
- (4) **Comparability:** Financial Statements should be prepared in such a way that users of the financial statements must be able to compare their information with other information or financial statements in order to identify trends in performance, Cash flows, and financial position.
- (5) **Faithful Representation:** Information must be represented faithfully so that its degree of reliability is high.
- (6) **Completeness:** In order to present more reliable information in the financial statements, it must be complete within the boundaries of materiality and cost. An omission of information may cause information to be false or misleading and therefore unreliable and deficient in terms of relevance.

Hint: Core qualities: Understandability, Relevance, Reliability, Comparability.

Time Required: 4.5 minutes

DISTINGUISH BETWEEN

2024 - Sep [1] {C} (b) Differentiate between Book-keeping and Accounting.
(4 marks)

Answer:

Please refer Self Study Question No. 9 on page no. 8

DESCRIPTIVE QUESTIONS

1998 - Nov [5] Discuss briefly the relationship of Accounting with:

- (i) Economics. (3 marks)
- (ii) Statistics. (3 marks)
- (iii) Mathematics. (3 marks)
- (iv) Law. (3 marks)
- (v) Management. (3 marks)

Answer:

(i) Accounting & Economics:

Accounting has some economic specialty of its own. It deals with prices and not the values. It deals with the prices of property and services and not with the property and services themselves. Accounting uses price because it can serve as a quantitative representation of the physical and actual property and services. From the viewpoint of economists, there is a very close relationship between accounting and economics. Emphasis has been laid down to test the economic theories and to apply the economic principles in the concern where accounting is a rich source. Accounting is a major supplier of information to economic agents about the various aspects.

Hint: Accounting quantifies economic data through prices.

Time Required: 4.5 minutes

(ii) Accounting and statistics:

Statistical methods are very helpful and useful in the interpretation and development of the accounting data. While the accounting records generally take a view of events in short term and are mainly confined to a year, a statistical analysis is more useful if a long-term view is taken for the purpose. Statistical tools are very helpful in taking decisions when they are applied to accounting data.

Hint: Statistics enhances long-term analysis and decision-making in accounting.

Time Required: 4.5 minutes

(iii) Accounting and Mathematics:

The dual aspect concept of fundamental accounting assumption is expressed in terms of mathematical equation, which is popularly known as Accounting Equation i.e.

$$\text{Assets} = \text{Capital} + \text{Liabilities.}$$

Mathematics has a useful impact on the users of the accounts. If the mathematics of the user is strong, its accounting may also be strong because the knowledge of mathematics helps in computations and calculations. The econometric models are also being developed for the users.

Hint: Accounting equations rely on mathematical principles.

Time Required: 4.5 minutes

(iv) Accounting and Law:

An enterprise works under various statutory laws. The transactions and accounts are also affected by various laws such as companies Act, Sales of goods Act, Negotiable Instrument Act, Customs Act, etc. The financial statements must be prepared in accordance with relevant provisions of the applicable laws.

Hint: Accounting ensures compliance with legal requirements in financial reporting.

Time Required: 4.5 minutes

(v) Accounting and Management:

Accounting provides necessary information to the management for discharging its functions. Since an accountant plays an active role in management, he knows the needs of the system and data. A large portion of accounting information is made for management's decision making. Thus management and accounting are related to each other.

Hint: Accounting aids management decisions.

Time Required: 4.5 minutes

2020 - Nov [1] {C} (b) What services can a Chartered Accountant provide to the society? (4 marks)

Answer:

Services that a Chartered Accountant can provide to the society may include the following:

1. Maintenance of books of accounts.
2. Statutory audit.
3. Internal audit.
4. Taxation services.
5. Management Accounting and Consultancy services.
6. Financial Advice.
7. Investigations.
8. Secretarial work.
9. Company Formation.
10. Arbitrations.
11. Liquidation of Company.
12. Share Registration work.

Hint: CAs provide audit, taxation, financial advice and management services.

Time Required: 6 minutes

2023 - Dec [6] (b) What are the sub-fields of Accounting? (5 marks)

Answer:

Accounting is the art of recording, classifying and summarising in a signification manner and in terms of money, transactions and events which are in part at least, of a financial character and interpreting the result thereof.

The various sub-fields of accounting are:

Financial Accounting: It covers the preparation and interpretation of financial statements and communication to the users of accounts. It is historical in nature as it records transactions which had already been occurred. The final step of financial accounting is the preparation of Profit and Loss account and the balance sheet. It primarily helps in determination of the net result for an accounting period and the financial position an on the given date.

Management Accounting: It is concerned with internal reporting to the managers of a business unit to discharge the function of stewardship planning control and decisions-making the management needs variety of information. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control.

Cost Accounting: The terminology of cost accounting published by the Institute of Cost and Management Accountants of Englands defines cost accounting as:

The Process of accounting for cost which begins with the recording of income and expenditure in the bases on which they are calculated and ends with the preparation of periodical statement and reports for ascertaining and controlling cost.

Social Responsibility Accounting: The demand for social responsibility accounting systems from increasing social awareness about the undesirable by-products of economic activities. As already discussed earlier social responsibility accounting is concerned with accounting for social costs incurred by enterprise and social benefits created.

Human Resource Accounting: Human resource accounting is an attempt to identify, quantity and report investments made in human resources of an organization that are not presently accounting for under conventional accounting practice.

Hint: Sub-fields: Financial, Management, Cost, Social Responsibility, Human Resource.

Time Required: 6 minutes

2024 - June [1] {C} (b) (ii) Explain the following:

(1) Cash Basis of Accounting


(1 mark)



Answer:

Cash Basis Accounting: It is a system of accounting by which a transaction is recognized only if cash is received or paid. In cash system of accounting, entries are made only when cash is received or paid no entry being made when a payment is due.

Hint: Records transactions only when cash changes hands.

Time Required: 1.5 minutes

Smart Study with Scanner	Unasked, but Important Questions
	<ul style="list-style-type: none"> ● At the end of Chapter ● Helps prepare for potential exam surprises. ● Includes questions not previously asked. ● Covers crucial topics for thorough understanding.

Smart Study with Scanner	Chapter Trend Analysis
	<ul style="list-style-type: none">● At the beginning of Chapter● Analyses chapter's mark contribution over time.● Distributes marks across question categories.
Smart Study with Scanner	Chapter-Wise Marks Analysis
	<ul style="list-style-type: none">● At page no six● Total and average marks for each chapter.● Helps prioritize chapters based on marks.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



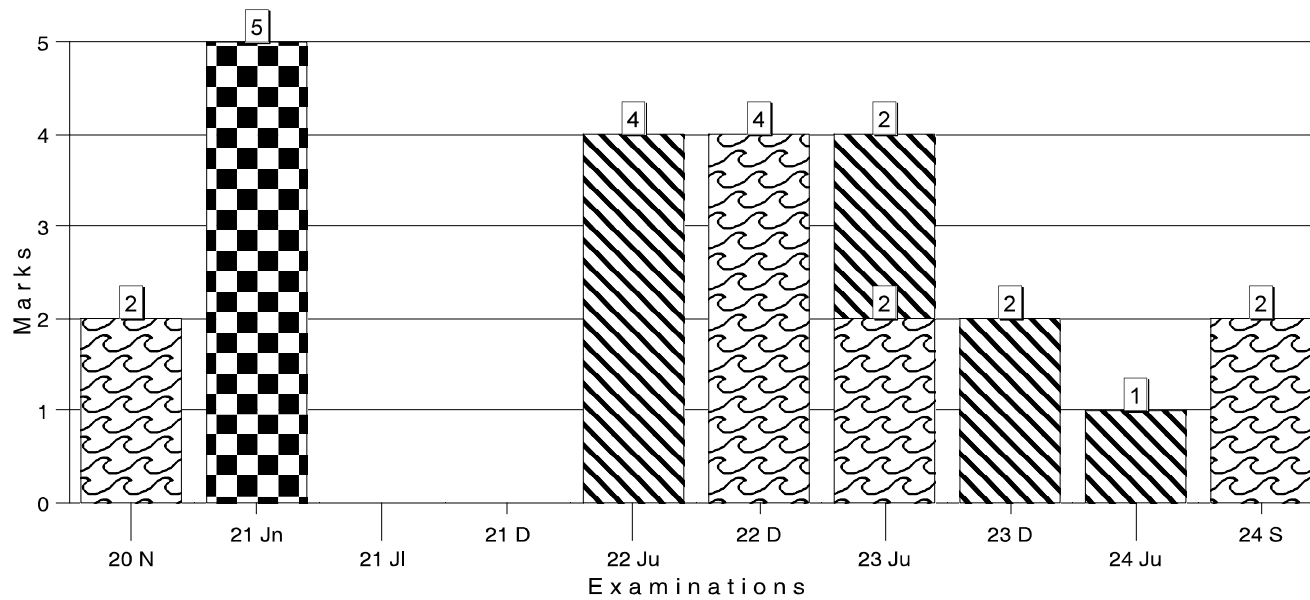
Distinguish



Descriptive



Practical



CHAPTER	THEORETICAL FRAMEWORK
1.2	Accounting Concepts, Principles and Conventions

SELF STUDY QUESTIONS

Q. 1. Introduce Accounting and GAAPs.

Answer:

Accounting is the language of business. It is not merely the systematic record of financial transactions of a business organisation but also a tool to analyse the financial position of the organisation in the current period and change in the position over a span of time. It enables the comparison of data with not only past period of same organisation but also with other business organisations within the same industry. It is necessary that financial statements prepared for different years or for different organisations must adopt uniformity and consistency in its preparation, which would enable the users to compare the same as and when required.

Suppose Mr. X, a businessman approached his CA to prepare the financial statements from the records provided by him. For assuring the correctness, he further gave the same records to 3 other accountants. All the four accountants submit their statements to Mr. X a week later. When Mr. X read the statements, all the statements were different from one another, showing different figures under different heads. The profits of the statements also varied among themselves. Mr. X is unable to decide which statement is true and correct about his business profits.

To prevent such situations and to build the confidence of general public and the users over the correctness of preparation of financial statements, a set of generally accepted rules have been developed which helps to bring uniformity, and consistency in the preparation of the financial statements which makes the statements understandable and reliable.

Generally Accepted Accounting Principles (GAAP) is applied to accounting procedure by the accountants so as to prepare the financial statements which are uniform in nature. GAAP is the backbone of accounting system which describes rules, principles, conventions, concepts, on the basis of which accounting reports are prepared. GAAP are supported by accounting bodies such as ICAI.

Q. 2. What are Accounting Concepts?**Answer:**

- These are the basic assumptions upon which accounting is based.
- These concepts help in interpreting the financial statements.

Q. 3. What are Accounting Principles?**Answer:**

- The rules and guidelines to be followed in preparation of financial statements.
- The acceptance of accounting principles depends on following:
 - ⇒ Usefulness, i.e. meaningful information,
 - ⇒ Based on realistic assumptions,
 - ⇒ Consistency,
 - ⇒ Objectivity, i.e., free from personal biases,
 - ⇒ Simplicity, i.e., easy to understand and implement.

Q. 4. What are Accounting Conventions?**Answer:**

- The customs or traditions or guidelines used over a period of time in preparation of accounting statements and reports.
- These can be altered with the changing needs of today's business environment, thus they may not have universal application.

Q. 5. What are Concepts, Principles and Conventions?**Answer:****1. Accounting concepts, Principles and conventions are discussed as follows:**

- (a) Accounting Concepts:** They define the assumptions on the basis of which financial statements of a business entity are prepared.

Concepts have a universal application. They lay down the foundation, on the basis of which, accounting principles are formulated.

(b) Accounting Principles: These are a body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practice and a guide for selection of accounting alternative.

(c) Accounting Conventions: They emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over a period of time. These are derived from usage and practice and need not have universal application.

2. Money Measurement Concept:

- Transactions and events which can be ascertained in monetary terms must form the part of accounting records.
- Money is considered as yardstick. Measurement makes the accounting data meaningful and helpful for analysing the financial results of the business organisations.
- Events which may have huge importance but are not ascertainable in money terms are not recorded in financial statements.
- The main focus of this concept is on monetary value, i.e., the home currency in which the accounts of the enterprise are being prepared. All the transactions must be converted in the home currency and in the same denomination before forming the part of financial statements.

3. Periodicity Concept:

- The life of business is divided into small parts, usually, per year, so as to analyse the results after each year and also to compare the performance of different years.
- These small divisions of the life are termed as accounting periods. An accounting period of a business starts from 1st April and ends on 31st March.
- The financial statements are prepared on the assumption that the entity is a going concern, i.e., it will carry its operations for a foreseeable period. However, various users such as investors, creditors, management, employees, are interested to know the

current position rather than to wait for a longer period. Thus, due to periodicity concept or accounting period concept, they can get the desired information at regular intervals.

- The periodicity concept helps in comparing the financial results of different years. It focuses on matching of periodic expenses with periodic income so as to get true profit for the accounting period.

4. Accrual Concept:

- Transactions are recorded at the time when they occur irrespective of the fact that the settlement is on a later date.
- If any revenue income is received which does not belong to current period but to next period, it must not form part of current year. Similarly, if any payment is done in an earlier year, or, say, next year, but the expense pertains to current year, the same must be recorded in the current year itself irrespective of the payment being done in different period. Company law mandates preparation of accounting books under accrual basis for companies.

For examples:

Mr. A, a trader started retail business. During the year he sold goods worth ₹ 60,000 for ₹ 1,20,000 out of which only ₹ 100,000 was collected during the year. He had a closing stock of ₹ 15,000. His other business expenses for the period were ₹ 20,000 out of which ₹ 10,000 was outstanding at the year-end. Ascertain his total profit. In accrual system, revenue and expense should be recognised as they are earned or incurred and not as money is paid or received. So profit would be:

Sales	1,20,000
Less: Purchase cost	<u>60,000</u>
	60,000
Less: Expenses Incurred	<u>20,000</u>
Profit	<u>40,000</u>

5. Matching Concept:

- Under this concept, expenses incurred for an accounting period are recognised in the period when the related revenue is earned.
- This makes the owner aware of the progress or shortfall in its business after comparing the performances of different years.

- To ascertain the true profit of the accounting period, it is important to match the revenue earned for the period with the expenses incurred to earn such revenues.

6. Going Concern Concept:

- The financial statements of the enterprise are prepared on the basis of the assumption that the entity is a going concern, i.e., it will carry on its business operations for a foreseeable period.
- It is assumed that there is no intention that the business will stop its operations in the near future, and thus, the expenses are classified as revenue expenditure and capital expenditure. Revenue expenditure is that the benefits of which are realised in a short span of time, say, one year; while capital expenditure is that the benefit of which is realised in a long run.
- Depreciation on fixed assets (PPE) is charged on the basis of useful life of the asset.

7. Cost Concept:

- Under this concept, assets are recorded at the acquisition cost, i.e., the price paid at the time of purchase of such asset. This cost becomes relevant for subsequent years' accounting i.e., changing the depreciation on asset over its useful life.
- The market value, realisable value, actual worth of assets, etc. are not recognised, hence the value recorded is free from any personal bias of the makers of financial statements.

Merits:

- Objectivity and reliability of accounting data since the information is not manipulated.
- Simple and convenient in recording.
- Consistency in preparation and makes the financial statements comparable.

Demerits:

- Does not consider the changes in price level due to inflation.
- Unrealistic profit, since revenue is recognised on current value while depreciation is charged on historical cost.
- Depreciation is charged at lower rates than required for making sufficient provision for replacement.

8. Realisation Concept:

- Under this concept, revenue is recognised at the point of sale or at the time of rendering of the service in case of long term contracts, hire purchase contracts. etc.

9. Dual aspect concept:

- Under this concept, all the business transactions have two-fold aspects which need to be recorded in the books of accounts. It is the core of entire accounting system.
- Every credit entry has an equivalent debit and *vice-versa*. Double entry book keeping system is based on this concept. There is a relationship between assets and liabilities which can be expressed as:

Assets = Owner's Equity + Liabilities

Or

Equity = Assets – Liabilities

10. Conservatism:

- Under this concept accounting entries are recorded on the basis of prudence, that is, all probable losses must be accounted for, and anticipated profits, should be ignored.
- This concept presents the realistic financial position of the enterprise without any window-dressing for showing better position than it actually has.
- It encourages accountants to create provisions, overstate the liabilities and understate the assets in Balance Sheet. However this concept must be applied with caution so that the real results are not the misleading results.
- The three qualitative characteristics for applying this concept are
 - (a) Prudence
 - (b) Neutrality
 - (c) Faithful representation of values.
- It is due to this concept that stock is shown on cost or market value, whichever is lower.

For Example:

X traders purchased goods for ₹ 30,00,000 and sold 70% of such goods during the accounting year ended 31st March 2017. The market value of remaining goods was ₹ 6,00,000. As per conservatism, the valuation stock should be valued as cost or market price whichever is lower, i.e. ₹ 6,00,000 and not ₹ 9,00,000.

11. Consistency:

- Under this concept, all the accounting principles and policies are applied in a similar manner i.e. consistently in different accounting periods, so that the users may make comparison of the performance for different years.
- The method once chosen for a particular period must be applied in all subsequent periods until change required is for better presentation and disclosures.
- Any change in a accounting policy must be reflected in notes to accounts attached with balance sheet so as to enable the users to understand the reason for change in a particular item and take rational decisions accordingly.
- Any change in a accounting policy can be done:
 - ⇒ To comply with law;
 - ⇒ To present books as per the accounting standards; or
 - ⇒ to reflect true and fair view in presentation of financial standards.

12. Materiality:

- It is a subjective term – an item material for one business may not be material for another. It usually happens due to various factors such as size of business, level of information, and person requiring to take decision.
- Materiality means the relative importance of an item. If the knowledge of a particular item affects the decision of the user, it may be said to be material. In other words, omission of a material item may lead to incorrect decision making.

- Under this concept, items of material nature are disclosed separately, while immaterial items are ignored or merged with other items.

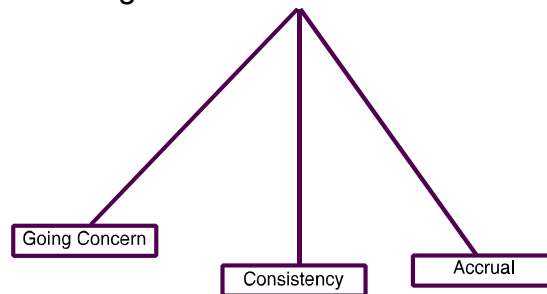
Q. 6. What are Fundamental Accounting Assumptions?

Answer:

There are three fundamental accounting assumptions:

(i) Going Concern (ii) Consistency (iii) Accrual.

All the above fundamental accounting assumptions are assumed to be followed in the preparation of financial statements and do not require a mention. However, if any of them is not followed, then this fact should be specifically disclosed along with reasons.



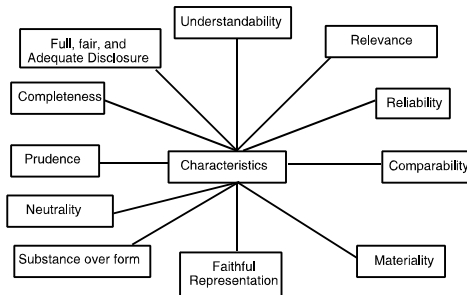
Q. 7. What are Financial Statements?

Answer:

- Financial statements are the accounting reports prepared to ascertain the financial position and performance of the business at a given point of time.
- It comprises of Profit and Loss Account, which reflects the details of income and expenditure and the net result of such transactions [i.e. Profit/Loss]; Balance Sheet, which reflects the details regarding owner's equity, outside liabilities, and total assets of the business; and cash flow statement, which reflects the details of cash inflows and outflows during an accounting period.

Q. 8. What are Qualitative Characteristic of Financial Statements?

Answer:



(a) Understandability:

- Financial statements must be prepared in such manner that the information can be easily understood by the users.

(b) Relevance:

- Information must be relevant i.e. it must be communicated at the time it is required for decision making.
- It should be able to influence the decision of user and help in analysing the financial position.

(c) Reliability:

- Financial information used to prepare accounting statements must be from reliable sources and evidenced by proper supporting documents, such as sale bills, vouchers, etc.
- Unreliable information may result in misleading result which may adversely affect the user.

(d) Comparability:

- Financial statements must be comparable, i.e. they should be prepared by following relevant accounting standards and policies so that users could compare the performance of different organisations.
- Any changes in accounting policies must be communicated along with the monetary effect to the users requiring such statements.

(e) Materiality:

- Information is material if its misstatement (i.e. omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information.

- Materiality depends on the size and nature of the item under consideration.
- All material facts must be disclosed in the financial statements.
- Omission of paise and showing the rounded off figure is based on this concept.

(f) Faithful Representation:

- Due to certain inherent limitations of accounting, there are instances where adequate disclosures regarding particular transactions may not be given.
- Information or figures projected in various statements should truly represent the business. No under or over presentation of organisation's position should be projected.
- If any information given in statements is subject to risk of error, the certainty of such risk should be mentioned so as to make users act accordingly.

(g) Substance Over Form:

- Transactions must be recorded in financial statements on the economic substance, i.e., for recording the transactions, a proper judgement should be made to present it in the best manner to reflect the true essence of transaction; and the legal aspects may have to be given less attention to give true and fair disclosure of business affairs.

(h) Neutrality:

- Information in financial statements must be free from personal bias.
- Faithful representation of transactions in the financial statements make the statements reliable.

(i) Prudence:

- Prudence is the degree of caution for making judgements while recording any particular item of income or expense.
- Prudence concept is described as "Don't anticipate profit, but provide for all possible losses".

(j) Completeness:

- Transactions must be recorded properly so that the complete information is displayed about the nature of such transaction in financial statements.
- If any omission of information misleads the decision making of user, it is said that the information is incomplete and hence not reliable.

(k) Full, Fair and Adequate Disclosure:

- All the information relevant for decision making of users must be fully disclosed in the financial statements.
- Financial statements must be prepared on the basis of 'Generally Accepted Accounting Principles' (GAAP), so the users can rely on them.
- Proper disclosure of accounting policies, contingent liabilities and other relevant information necessary to understand the statements must be given.

SHORT PRACTICE QUESTIONS

1. Write Short Notes on:
 - (i) Entity Concept
 - (ii) Periodicity Concept
 - (iii) Accrual Concept
 - (iv) Fundamental Accounting Assumptions
 - (v) Accounting Conventions
 - (vi) Materiality Concept
2. Discuss accounting concept based on presumption that do not anticipate profits but provide for all probable losses.
[Hint: Refer Question 5 Part (x)]
3. What is the importance of adopting consistency concept in preparation of financial statement.
[Hint: Refer Question 5 Part (xi)]
4. What is a financial statement? Enumerate its characteristics.
[Hint: Refer Questions 7 and 8]

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

1998 - May [5] State with reasons whether the following statement is true or false:

(7) Accrual concept implies accounting on cash basis. (2 marks)

Answer:

False: Accrual concept implies accounting done on due or accrual basis. It involves the recognition of revenues and costs as they accrue irrespective of the actual receipts or payments.

1999 - Nov [5] State with reasons whether the following statement is true or false:

(iii) Companies can keep their accounts under cash basis. (2 marks)

Answer:

False: It is mandatory for companies to keep their accounts under accrual basis as per the provisions of the Company Law.

2003 - May [5] State with reasons whether the following statements are true or false:

(ii) The value of human resources is generally shown as assets in the Balance Sheet. (2 marks)

(iii) Revenue is matched with expenses in accordance with the matching principle. (2 marks)

(iv) The financial statements must also disclose the relevant and reliable information in accordance with the Full Disclosure Principle. (2 marks)

Answer:

(ii) **False:** The human recourse still cannot be defined in terms of money.

(iii) **True:** The matching concept involves that the revenue earned in an accounting year is matched with the expenses incurred during the same period to generate that revenue.

- (iv) **True:** The financial statements must also disclose the relevant and reliable information as per AS-1 i.e. Disclosure of Accounting policies.

2003 - Nov [5] State with reasons whether the following statement is true or false:

- (ii) The economic life of an enterprise is artificially split into periodic intervals in accordance with the going concern assumption. (2 marks)

Answer:

False: The economic life of an enterprise is artificially split into periodic intervals in accordance with the Periodicity Concept.

2004 - Nov [5] State with reasons whether the following statements are true or false:

- (i) Accounting principles are general rules followed in preparation of Financial Statements. (2 marks)
(ix) Capital is equal to assets less external liabilities. (2 marks)

Answer:

- (i) **True:** Accounting principles suggests the rules of action, which are universally accepted by the accountants for the recording of accounting transactions.
(ix) **True:** Capital + Reserves & Surplus (internal liabilities) = All Assets - External Liabilities

2005 - Nov [5] State with reasons whether the following statement is true or false:

- (ii) As per the concept of conservatism, the accountant should provide for all possible losses, but should not anticipate income. (2 marks)

Answer:

True: Concept of conservation states that the accountants should not anticipate income and should provide for all possible losses.

2006 - Nov [5] State with reasons whether the following statement is true or false:

- (ix) All significant accounting policies adopted in preparation and presentation of financial statements must be disclosed. (2 marks)

Answer:

True: Disclosure of significant accounting policies must form part of the financial statements and these policies must be disclosed separately, at one place in annual report, e.g., policies relating to valuation of inventory, depreciation accounting, etc.

2020 - Nov [1] {C} (a) State **with reasons**, whether the following statement is **True** or **False**.

- (vi) A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date. (2 marks)

Answer:

False: If a concern proposes to discontinue its business, then financial statements have to be prepared on a different basis as going concern is lost. Assets should be shown at realisable value and not on historical cost.

2022 - Dec [1] {C} (a) State with reasons, whether the following statements are True or False:

- (i) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. (2 marks)
- (iii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism. (2 marks)

Answer:

- (i) **False:** The going concern principle is the assumption that an entity will remain in business for the foreseeable future. If the company is not a going concern and the financial statements are prepared, accordingly, management must disclose the fact, the reason why and the basis on which the financial statements are prepared.
- (iii) **True:** Accounting conservatism is a principle that requires company accounts to be prepared with caution and high degrees of verification. All probable losses are recorded when they are discovered, while gains can only be registered when they are fully realized.

2023 - June [1] {C} (a) State **with reasons**, whether the following statements are **True or False**:

- (i) As per Concept of Conservatism the accountant should provide for all possible losses, but should not anticipate income. (2 marks)

Answer:

True: Conservatism states that the accountant should not anticipate income but provide for all possible losses.

2024 - Sep [1] {C} (a) State with reason, whether the following statement is True or False:

- (iii) Valuation of inventory at cost or net realizable value is based on Principle of Conservatism. (2 marks)

Answer:

True: The conservation Concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or not realisable value, whichever is less, therefore is based on principle of conservatism.

SHORT NOTES

1998 - Nov [6] Write short note on the following:

- (i) Going concern concept. (5 marks)

Answer:

Going concern concept: It means that the business will go on indefinitely i.e. the business is not going to be liquidated in foreseeable future. This concept is fundamental to the accounting theory. The Balance sheet is prepared on the basis of this concept and the prepaid expenses are shown as assets in the B/S because of this concept only. The creditors supply the goods and services expecting the continuation of business for a long period.

Hint: Assumes business will continue operating indefinitely.

Time Required: 7.5 minutes

2000 - May [6] Write short note on the following:

(a) Periodicity Concept.

(5 marks)

Answer:

The life of business is based on going concern assumption and the measurement on the basis of this assumption is not possible for a long period. The owner cannot wait for such a long time, so a small workable fraction of time is selected from an unending life cycle of the business enterprise for measuring the performance and looking at the financial position. Generally, a period of one year is taken for measuring and appraising the performance of the financial position. Thus, the periodicity concept makes the accounting system and the term 'accrual' workable.

Hint: Divides business life into regular, measurable periods (e.g., one year).

Time Required: 7.5 minutes

2003 - Nov [6] (b) What is meant by Accounting Policies? Give four examples of Accounting Policies? (5 marks)

Answer:

Accounting Policies:

“Accounting policies” means specific methods or principles of accounting adopted by an enterprise for a particular transaction or event in the preparation and presentation of financial statements. While adopting a particular accounting policy, main consideration should be to prepare financial statement so as to represent true and fair view of the state of affairs of the enterprise.

For e.g.

1. Valuation of fixed assets (PPE - Property, Plant, and Equipment), stock, goodwill, investment, etc.
2. Method of depreciation, amortization.
3. Treatment of goodwill, contingent liabilities.
4. Conversion of foreign currency items.

Hint: Specific methods for preparing financial statements.

Time Required: 7.5 minutes

2004 - Nov [6] Write short note on the following:

- (iii) Accounting Convention.

(5 marks)

Answer:

Accounting Conventions

Accounting Conventions emerge out of accounting practices, commonly known as Accounting Principles, adopted by various organizations over a period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the convention to improve the quality of accounting information. Accounting Conventions need not have universal application.

Hint: Established practices guiding consistent accounting.

Time Required: 7.5 minutes

2005 - Nov [6] Write short notes on the following:

- (i) Accrual basis of Accounting.

(3 marks)

- (ii) Qualitative characteristics of Financial Statements.

(3 marks)

Answer:

- (i) **Accrual basis of Accounting:** Accrual or mercantile basis of accounting refers to a system of recording revenues and expenses whether or not they have been received or paid in cash at the time of recording.

Accounting on accrual basis signifies that owner's equity is affected by the profit earned or loss suffered by an enterprise during the accounting period, and not as money is received or paid.

Therefore, while ascertaining the profit or loss, not only those expenses which have been paid in cash should be considered, but also expenses which have become due though not paid should be taken into account.

Similarly all the incomes earned during the accounting period should be considered whether they have been received in cash or not.

Hint: Recognizes revenues and expenses when incurred, not when cash is exchanged.

Time Required: 4.5 minutes

(ii) **Qualitative Characteristics of Financial Statements:** Financial statements have some qualitative characteristics so that they may provide more information to the users. These are the qualitative characteristics of financial statements:

- (1) Understandability;
- (2) Relevance;
- (3) Reliability;
- (4) Comparability;
- (5) Faithful Representation; and
- (6) Completeness.

- (1) **Understandability:** Required quality of information should be provided so that financial statements become more understandable for users. For this reason, it is assumed that users have a reasonable knowledge of business and economic activities and they study information with reasonable diligence. Information regarding complicated matters should be included in the statement because of its relevance to the economic decision-making needs of the users and it should not be excluded merely on the ground that it may be too difficult for some users to understand.
- (2) **Relevance:** Incorporate that information in the financial statements which is relevant for decision making. Quality of relevance of the information is determined when it influences the economic decisions of users.
- (3) **Reliability:** Information must be reliable. Level of reliability of the information is high when it is free from material errors and biased decisions. Information may be relevant but so unreliable in nature or representation that its recognition may be badly misleading.
- (4) **Comparability:** Financial Statements should be prepared in such a way that users of the financial statements must be able to compare their information with other information or financial statements in order to identify trends in performance, Cash flows, and financial position.

- (5) **Faithful Representation:** Information must be represented faithfully so that its degree of reliability is high.
- (6) **Completeness:** In order to present more reliable information in the financial statements, it must be complete within the boundary of materiality and cost. An omission of information may cause information to be false or misleading and therefore unreliable and deficient in terms of relevance.

Hint: Key traits: Understandability, Relevance, Reliability, Comparability.

Time Required: 4.5 minutes

2006 - May [6] Write short note on the following:

- (i) Fundamental Accounting Assumptions. (5 marks)

Answer:

Fundamental Accounting Assumptions: Fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The Institute of Chartered Accountants of India issued Accounting Standard (AS 1) on 'Disclosure of Accounting Policies' according to which the following have been generally accepted as fundamental accounting assumptions:

1. **Going concern:** The enterprise is normally viewed as a going concern, i.e. as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
2. **Consistency:** It is assumed that accounting policies are consistent from one period to another.
3. **Accrual:** Guidance Note on 'Terms used in Financial Statements' defines accrual basis of accounting as "the method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts in the period in which they accrue". The accrual "basis of accounting" includes considerations relating to deferrals, allocations, depreciation and amortisation. Financial Statements prepared on the accrual basis inform users not only of past events involving the payment

and receipt of cash but also of obligations to pay cash in future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions. Accrual Basis is also referred to as Mercantile Basis of Accounting.

Hint: Key assumptions: Going Concern, Consistency, Accrual.

Time Required: 7.5 minutes

2006 - Nov [6] Write short note on of the following:

(i) Money measurement concept (5 marks)

Answer:

Money measurement concept: Accounting records only those transactions which are expressed in monetary terms. As per this concept, a transaction is recorded in terms of money. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money are to be recorded in the books of account. Money i.e., the ruling currency of a country provides a common denomination for the value of material objects.

Hint: Records only transactions measurable in monetary terms.

Time Required: 7.5 minutes

DISTINGUISH BETWEEN

2019 - June [1] (b) Distinguish between Going Concern concept and Cost concept. (4 marks)

Answer:

Distinction between Going Concern and cost concept

Going Concern Concept:

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue operation for the foreseeable future. Hence, it is assumed that enterprise has neither the intention nor the

need to liquidate or curtail materially the scale of its operations; if such intention exists, the statements will have to be prepared on a different basis, and, if so, the basis used is disclosed.

Cost Concept:

By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. It is highly objective and free from all bias.

Hint: Going Concern: continuity; Cost Concept historical value.

Time Required: 6 minutes

DESCRIPTIVE QUESTIONS

2022 - June [1] {C} (b) Briefly explain the following Concepts of Accounting:

- (i) Money Measurement Concept.
- (ii) Periodicity Concept. (4 marks)

Answer:

- (i) **Money Measurement Concept:**
 - (a) As per this concept, only those transactions, which can be measured in terms of money are recorded in books of accounts.
 - (b) Money is the medium of exchange and thus, this concept requires that those transactions alone that are capable of being measured in terms of money to be only recorded in books of accounts.
 - (c) Those transactions that cannot be expressed in monetary terms are not recorded in business books e.g. employees of the organization are no doubt, assets of the organization, but their measurement in money terms is not possible, thus not included in books.
- (ii) **Periodicity Concept:**
 - (a) This is also called the concept of definite accounting period concept. It will be impossible for a business entity to measure performance over an indefinite life of the entity.

- (b) So, a small fraction out of infinite life of business is chosen to measure the performance and look at the position of the entity. It is known as one period and generally one year period is taken up.
- (c) Accordingly, accounts are to be prepared after every period, and not at the end of the life of the entity. We generally follow from 1st April of a year to 31st March of immediate next year.

Hint: Money Measurement Only money matters; Periodicity Fixed time frames.

Time Required: 6 minutes

2023 - June [1] {C} (b) Briefly explain the following terms:

- (i) Materiality
 (ii) Conservatism (1 mark each)

Answer:

- (i) **Materiality:** Concept is a concept according to which the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements which might influence the decisions of the user of financial statements.
- (ii) **Conservatism:** It says that an accountant should not anticipate any future income, but should provide for all possible losses. The golden rule of stock valuation 'lower of cost or market price' has originated from this concept.

Hint: Materiality: Significant items matter Conservatism Expect losses, not gains.

Time Required: 1.5 minutes

2023 - Dec [1] {C} (b) Briefly explain the following term:

- (iii) Money Measurement Concept
 (iv) Realisation Concept (1 mark each)

Answer:

(iii) **Money Measurement Concept:**

Under the money measurement concept every transaction which can be measured in terms of money eg: Sales, Wages, etc. are recorded in the books of accounts.

In other words, we can say that transactions which cannot be expressed in terms of money are not recorded even if they effect business materiality.

(iv) Realisation Concept:

According to the Realisation accounting concept revenue is only recognised only when it is actually realised.

Any charge in the value of an asset is to be recorded only when the business realises it i.e. at the time of actual sale/deposit or when the company is reasonably and completely certain that the payment against the same will be received from the customer.

Hint: Money Measurement: Only money Realisation Revenue when earned.

Time Required: 1.5 minutes

2024 - June [1] {C} (b) (ii) Explain the following:

(2) Going Concern concept

(1 mark)

Answer:

Going Concern Concept:

- The financial statements of the enterprise are prepared on the basis of the assumption that the entity is a going concern, i.e., it will carry on its business operations for a foreseeable period.
- It is assumed that there is no intention that the business will stop its operations in the near future, and thus, the expenses are classified as revenue expenditure and capital expenditure. Revenue expenditure is that the benefits of which are realised in a short span of time, say, one year; while capital expenditure is that the benefit of which is realised in a long run.
- Depreciation on fixed assets (PPE) is charged on the basis of useful life of the asset.

Hint: Business will continue operating.

Time Required: 1.5 minutes

PRACTICAL QUESTIONS

2021 - Jan [5] (b) Mr. K is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March, 2020 has been given below:

On 1st April, 2019 he had a balance of ₹ 3,00,000 advance from customers of which ₹ 2,25,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of ₹ 7,50,000. You are required to compute:

- (i) Total income for the year 2019-20.
 - (ii) Total money received during the year, if the closing balance as on 31st March, 2020 in Advance from Customers Account is ₹ 2,55,000.
- (5 marks)

Answer:

Computation of Income for the year 2019-20

	₹
Money received during the year related to 2019-20	7,50,000
<i>Add:</i> Money received in advance during previous years	2,25,000
Total income of the year 2019-20	9,75,000

Advance from Customers A/c

Date	Particulars	₹	Date	Particulars	₹
	To Sales A/c (Advance related to current year transferred to sales)	2,25,000	1.4.2016	By Balance b/d	3,00,000
31.3.20	To Balance c/d	2,55,000		By Bank A/c (Balancing Figure)	1,80,000
		4,80,000			4,80,000

So, total money received during the year is:

	₹
Cash Sales during the year	7,50,000
<i>Add:</i> Advance received during the year	<u>1,80,000</u>
Total money received during the year	<u>9,30,000</u>

QUICK STUDY TIPS

Use the Pomodoro Technique

- Study for 25 minutes, then take a 5-minute break. Repeat this cycle four times, then take a longer 15-30 minute break.
- **Why:** This technique helps maintain focus while preventing burnout.

Active Recall


- Instead of just re-reading notes, actively quiz yourself on the material. Close your book and try to recall key points.
- **Why:** Helps improve long-term memory retention.


Teach What You Learn



- After studying a concept, explain it to someone else (or pretend to). Teaching reinforces understanding.
- **Why:** It solidifies your grasp of the topic and reveals areas that need more review.


Break Down Complex Topics

- Divide large, complex topics into smaller, manageable sections. Focus on one small section at a time.
- **Why:** This reduces overwhelm and makes the material easier to absorb.

<p>Smart Study with Scanner</p>	<p>Unmasked, but Important Questions</p>
	<ul style="list-style-type: none"> ● At the end of Chapter ● Helps prepare for potential exam surprises. ● Includes questions not previously asked. ● Covers crucial topics for thorough understanding.

<p>Smart Study with Scanner</p>	<p>Chapter Trend Analysis</p>
	<ul style="list-style-type: none"> ● At the beginning of Chapter ● Analyses chapter's mark contribution over time. ● Distributes marks across question categories.

Share your Experience	
	

MEMORIZATION TECHNIQUES	Clustering
	<ul style="list-style-type: none"> • How it Works: Group related information into "clusters" based on themes or categories. For example, when learning different types of audit procedures, cluster them under "internal controls," "substantive testing," etc. • Why it Helps: Organizing information into logical groups makes recalling significant amounts of data more accessible.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



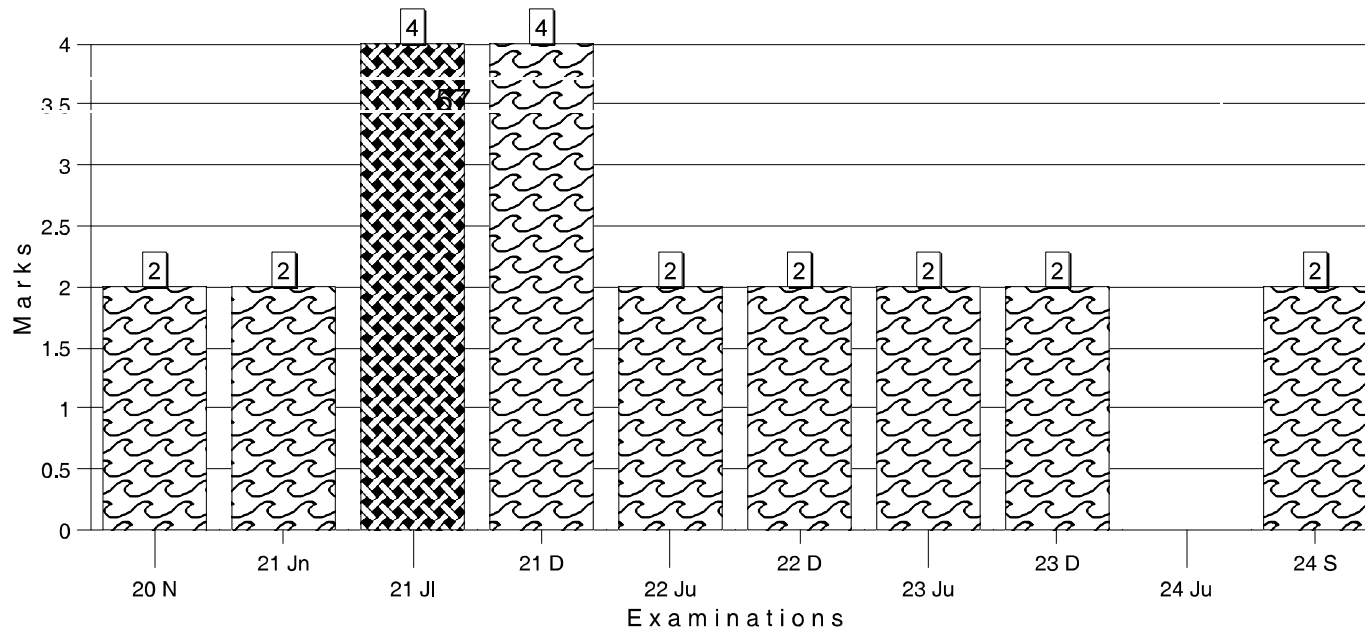
Distinguish



Descriptive



Practical



CHAPTER	THEORETICAL FRAMEWORK
1.3	Capital and Revenue Expenditure and Receipts

SELF STUDY QUESTIONS

Q. 1. Why is distinction between Various Expenses Needed?

Answer:

Accounting is ascertaining and presenting of financial results of Enterprise for a particular accounting period. A proper distinction should be made between various expenses and incomes regarding their nature so as to give correct information to the users of accounting statements. While preparing of financial accounts, expenses related to business operations for a particular accounting period must form part of Trading and profit and loss Account as they are of revenue nature. Similarly, expenses which generated benefits and revenue for more than a year must be capitalised and form part of balance sheet and later would be transferred to Profit and loss A/c in the year in which the benefit of such expenses is actually utilised. The distinction between the capital and revenue expenditure or income is based on the time factor.

Q. 2. What consideration is needed is determining Capital and Revenue Expenditures?

Answer:

1. Nature of business:

Categorisation of capital of revenue depends upon the type of business entity. An item can be capital for entity and revenue for another.

For example:

Purchase of machinery is generally a capital expenditure however an entity trading in such machines will treat it as a revenue expenditure.

2. Recurring nature of the expense:

An expense of periodic nature, i.e. recurring in nature is generally classified as revenue expenditure while expenses which are not of periodic nature and are infrequent are classified as capital expenditure.

For example:

Amount spent on repairs and white wash of building is required to be done periodically would be treated as revenue expenditure however if cost is incurred for extension of building, the same will be of capital nature because it is non-recurring.

3. Purpose of expenditures:

Purpose is also a deciding factor for treating expenditure as capital or revenue. If any expense is incurred in the ordinary course of business it will be treated as revenue expense and if expense incurred results in creation of new asset, increasing the life beyond original improving the existing system it would be capital expenditure.

For example:

Daily repairing and maintenance of office equipments are revenue nature however expense for improvement of electrical wiring system in capital expenditure.

4. Effect on revenue generating capacity:

If the expense incurred results into increase in future benefits of the enterprise it is said to be of capital nature and if the future benefits remain unchanged then the expense is revenue expense.

For example:

Expense incurred for increasing the production capacity of a machine so that the number of units produced gets doubled, it will be treated as capital expenditure.

If expense is done for normal wear and tear of machinery, it will be revenue expenditure.

5. Materiality:

The concept of materiality comes into operation while dealing with capital expenditure of low value.

For example:

Expenses incurred on purchase of pen drives, calculators, CD, etc although qualify for capital expenditure due to nature of transaction, but still they are treated as expenses and debited in Profit and Loss A/c.

Q. 3. What are Capital Expenditures and Revenue Expenditures?**Answer:**

Amount spent by the business enterprise for purchase of assets which are used in business and not meant for resale. It is an expenditure the benefit of which is not exhausted in one accounting year but is spread over a number of years. They are of non-recurring nature i.e. they are infrequently incurred. Revenue expenditure is the amount spent by business enterprise on day to day operations or such expenditure, the benefit of which is exhausted in the period in which they are incurred i.e. within the same accounting period. They are usually of recurring nature and short period expenses. These expenses do not result in any increment in production capacity or improvement in operations but they are expended to maintain the existing revenue generating capacity of the assets.

Example 1:

State whether the following expenditures are of capital or revenue nature.

- (a) A second hand machine was purchase for ₹ 60,000 and installation charges ₹ 10,000.
- (b) Cost of Air-condition for the office of CEO.
- (c) ₹ 50,000 spent on construction of temporary huts necessary for construction of apartment which were demolished after the completion of construction work.
- (d) Compensation paid to workers opted for VRS of ₹ 5 crore.
- (e) Customs duty ₹ 18,000 paid on import of machinery for mordenisation of factory.
- (f) Repairs of 15,000 necessitated by negligence.

Solution:

- (a) Total expense of ₹ 70,000 to be treated as capital expenditure as ₹ 60,000 was expended on capital asset and ₹ 10,000 to make asset ready to use.
- (b) Capital expenditure since benefit will available for number of years.
- (c) Cost of constructing a temporary structure for main building is a capital expenditure as it was necessary for the construction of apartments.
- (d) Revenue expenditure but due to huge amount to be deferred over number of years.

- (e) Custom duty on import of machinery for modernisation of factory is a capital Expenditure.
- (f) Repairs changes are revenue expenditure as they are incurred for maintenance and not for improvement of asset.

Q. 4. What are Capital Receipts and Revenue Receipts?

Answer:

Capital Receipts: Amount received by the business which is not of regular nature i.e. not obtained in the normal course of business such as capital contribution received by the owners at the time of issue of shares, these receipts are of non-recurring nature and do not affect the profits and are shown as liability in balance sheet.

Revenue Receipts: Those business receipts which are earned due to normal business activities in the ordinary course of business. These are recurring and are shown in Trading and profit and loss A/c of the accounting period.

Example:

Dividend income, Revenue from sales etc.

Example 2:

- (a) Amount received from Trade debtors ₹ 15,000.
- (b) Insurance claim received on machinery destroyed due to fire in factory building.
- (c) Term loan taken from bank of ₹ 2,00,000
- (d) Share premium received on issued of shares
- (e) Compensation received from supplier due to late delivery of goods.

Solution:

- (a) Revenue receipt since it is earned in the ordinary course of business.
- (b) Capital receipt since it is not any ordinary business receipt.
- (c) Securing of loan is not a normal business activity and hence loan from bank is a capital receipt.
- (d) Share Premium is a capital receipt and is received occasionally when shares are issued. It is shown on the liability side of balance sheet and not in nature of regular income and hence is a capital receipt.
- (e) Dealing in goods is the regular business activity, any compensation received on account of such activities is general to business and hence is a revenue receipt.

SHORT PRACTICE QUESTIONS

1. Differentiate between Capital expenditure and revenue expenditure

Answer:

Basis	Capital Expenditure	Revenue Expenditure
Purpose	Incurred for acquiring fixed assets (PPE) to be used in business	Incurred for day to day operations of business
Earning Capacity	Increases	Remains same
Treatment	It is shown in balance sheet	It is shown as a part of Trading and profit and loss A/c
Nature	Non recurring in nature	Recurring in nature
Examples	(i) Cost of fixed assets (PPE). (ii) Installation expenses.	(i) Depreciation of fixed Assets (PPE). (ii) Repairs and maintenance of plant and machinery.

2. Define capital receipts

3. Mention the basic consideration in determining capital and revenue expenditures (*RAQ same as Question no.2 on page no. 58*).

RELAXATION TECHNIQUES

Deep Breathing (Box Breathing)

- How to Do It: Inhale deeply for 4 counts, hold your breath for 4 counts, exhale for 4 counts, and hold your breath again for 4 counts. Repeat for 1-2 minutes.
- Benefits: Helps calm the mind and reduce anxiety by bringing more oxygen into the body.

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

1997 - May [5] State with reasons whether following statement is true or false.

- (1) The gain from sale of capital assets need not be added to revenue to ascertain the net profit of a business. (2 marks)

Answer:

True: To ascertain the true net business profit, the gain from sale of capital assets should not be considered because it is not due to normal business operations.

1997 - Nov [5] State with reasons whether following statements are true or false.

- (1) An expenditure intended to benefit the current period is a revenue expenditure. (2 marks)
(7) Sale of office furniture should be credited to sales account. (2 marks)
(10) Expenditure which results in acquisition of permanent asset of enduring benefit to the business is a capital expenditure. (2 marks)

Answer:

(1) **True:** Revenue expenditure is that expenditure benefit of which does not extend beyond the current accounting period.

(7) **False:** Sale of office furniture should be credited to furniture account because it the capital receipt.

(10) **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.

1998 - May [5] State with reasons whether following statement is true or false.

- (6) Wages paid to workers to produce a tool to be captively consumed is capital expenditure. (2 marks)

Answer:

True: Wages paid to workers for the creation of an asset to be used in the business is capital expenditure.

1999 - May [5] State with reasons whether following statements are true or false.

- (vii) Expenses incurred on white-washing of factory building done after every six months is Revenue expenditure. (2 marks)
- (x) Amount spent for replacement of worn out part of a machine is Capital Expenditure. (2 marks)

Answer:

(vii) True: Expenses incurred on white-washing of factory building done after every six months are incurred in the course of normal maintenance of the asset and are therefore, revenue expenses.

(x) False: Amount spent for replacement of any worn out part of a machine is revenue expenditure since it is part of its maintenance cost.

1999 - Nov [5] State with reasons whether following statements are true or false.

- (v) Heavy advertising to introduce a new product is capital expenditure. (2 marks)
- (x) Legal fees paid to acquire a property is capital expenditure. (2 marks)

Answer:

(v) False: The effect of heavy advertising with regard to the launching of a new product will last generally for more than one accounting period, but it does not create any property of tangible or intangible nature and so the expenditure is spread over the period for which its effect would remain. This type of expenditure is deferred revenue expenditure and not capital expenditure.

(x) True: Legal fees paid to acquire a property is part of the cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.

2000 - May [5] State with reasons whether following statement is true or false.

- (ix) Travelling expenses of ₹ 80,000 paid to a technician for the installation of a new machine is debited to Profit and Loss Account. (2 marks)

Answer:

False: The expenditure is a capital expenditure since it has been incurred to put the asset in working condition.

2000 - Nov [5] State with reasons whether following statement is true or false.

- (7) Expenditure which results in acquisition of a permanent asset is a revenue expenditure. (2 marks)

Answer:

False: 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.

2001 - Nov [5] State with reasons whether following statement is true or false.

- (ii) Expenditure, which results in acquisition of a permanent asset is a Revenue Expenditure. (2 marks)

Answer:

RAQ same as 2000 - Nov [5] (7) on page no. 65

2002 - May [5] State with reasons whether following statement is true or false.

- (v) Wages paid for erection of machinery are debited to the Machinery Account. (2 marks)

Answer:

True: Wages paid for erection of machinery is a capital expenditure and hence should be debited to the machinery account.

2002 - Nov [5] State with reasons whether following statement is true or false.

- (j) An Expenditure intended to benefit the current period is a Revenue Expenditure. (2 marks)

Answer:

True: Revenue expenditure is that expenditure the benefit of which does not extend beyond the current accounting period.

2004 - May [5] State with reasons whether following statement is true or false.

- (iii) Sale of office furniture should be credited to sales account.

(2 marks)

Answer:

RAQ same as 1997 - Nov [5] (7) on page no. 63

2004 - Nov [5] State with reasons whether following statement is true or false.

- (v) Legal fees paid to acquire a property is capital expenditure.

(2 marks)

Answer:

True: Legal fees paid to acquire a property is a part of the cost of that property. Hence it is taken as capital expenditure.

2005 - May [5] State with reasons whether following statement is true or false.

- (iii) Amount paid to Management company for consultancy to reduce the working expenses is revenue expenditure. (2 marks)

Answer:

False: Amount paid to management company for consultancy to reduce the working expenses is deferred revenue expenditure as this expenditure will generate long-term benefit to the entity.

2005 - Nov [5] State with reasons whether following statement is true or false.

- (vi) Wages incurred by a factory in manufacturing a part for its plant, is a revenue expense. (2 marks)

Answer:

False: Wages incurred by a factory in manufacturing a part of its plant, is a capital expenditure. This expenditure will be included in the cost of plant.

2006 - Nov [5] State with reasons whether following statement is true or false.

- (viii) A heavy advertisement expense to introduce a new product is a capital expenditure. (2 marks)

Answer:

False: Such expenses are treated as Deferred Revenue Expenditure and not Capital Expenditure as the effect of heavy advertisement expense will be lasting for more than one accounting period. Such expenses are spread over the effective period.

2018 - May [1] {C} (a) State with reasons, whether the following statement is true or false:

- (i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure. (2 marks)

Answer:

False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

2018 - Nov [1] {C} (a) State with reasons, whether the following statement is true or false:

- (i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure. (2 marks)

Answer:

False: Overhauling expenses are incurred for the engine of a motor car to derive better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in form of enduring long-term advantages. So this expenditure should be capitalised.

2019 - June [1] (a) State with reasons, whether the following statement is true or false:

- (i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure.(2 marks)

Answer:

True: Cost of temporary huts constructed which were necessary for the construction of the Cinema House is part of the construction cost of the Cinema House. Therefore, such costs are to be capitalised.

2019 - Nov [1] {C} (a) State with reason, whether the following statement is True or False.

- (ii) M/s. XYZ & Co. runs a café. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure. (2 marks)

Answer:

False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus, the renovation expense is capital expenditure in nature.

2020 - Nov [1] {C} (a) State with reasons, whether the following statement is **True** or **False**.

- (iii) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt. (2 marks)

Answer:

True: Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not in the ordinary cause of business.

2021 - Jan [1] {C} (a) State with reasons, whether the following statement is **True** or **False**:

- (ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt. (2 marks)

Answer:

True: Subsidy received from Government for working capital by a manufacturing concern is treated as revenue receipts because it will be utilized in meeting day to day routine expenses.

2021 - Dec [1] {C} (a) State with reasons, whether the following statements are **True or False**:

- (i) Any amount spent to minimize the working expenses is revenue expenditure.
- (ii) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure. (2 marks each)

Answer:

- (i) **False:** It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long term benefits to the entity. It becomes part of intangible fixed assets if it is in the form of technical know how and tangible fixed assets if it is in the form of additional replacement of any of the existing tangible fixed assets. So this is capital expenditure.
- (ii) **True:** Expenses incurred on the repairs for the first time on purchase of an old building are incurred to put the building in usable condition. These are the parts of the cost of building. Accordingly, these are capital expenditure.

2022 - June [1] {C} (a) State with reasons, whether the following statement is **True or False**:

- (iv) Any amount spent for replacement of worn out part of a machine is capital expenditure. (2 marks)

Answer:

False: Amount spent on replacement of any worn out part of a machine is a revenue expenditure, as it is incurred to maintain the asset.

2022 - Dec [1] {C} (a) State with reasons, whether the following statement is **True or False**:

- (v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account. (2 marks)

Answer:

True: Receipts and payment account is prepared to record all the receipts and payments of a particular period. This account is normally prepared by those organisation which are running with no profit motive. It records all receipts and payments including capital and revenue nature.

2023 - June [1] {C} (a) State **with reasons**, whether the following statements are **True or False**:

- (ii) Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure. (2 marks)

Answer:

False: The cinema hall could not be started without a license. Expenditure incurred to obtain the license is pre-operative expense which is capitalised such expenses are not revenue and hence, amortized over a period of time.

2023 - Dec [1] {C} (a) State with reason, whether the following statement are **True or False**:

- (v) Inauguration expenses of ₹ 10 lakhs incurred on the new unit in an existing business is a capital expenditure. (2 marks)

Answer:

False: Inauguration expenses of ₹ 10 lacs incurred on the new unit in an existing business might help in marketing or exploring new customers but may not ensure enduring benefit which may last for more than a year. Hence, this expenditure will be considered in the nature of revenue expenditure.

Example: Inaugural decoration marketing etc.

2024 - Sep [1] {C} (a) State with reason, whether the following statement is True or False:

- (ii) Overhaul Expenses of a second-hand machinery purchased are Revenue Expenditure. (2 marks)

Answer:

False: Overhaul expenses are incurred to put second-hand machinery in working condition to derive enduring long-term advantage. So it should be capitalised

SHORT NOTES

2004 - Nov [6] Write short note on the following:

- (iv) Capital Expenditure and Revenue Expenditure. (5 marks)

Answer:

Capital Expenditure: An expenditure intended to benefit future periods is known as capital expenditure. In other words, if the benefit of an expenditure is not exhausted in one accounting period, but is spread over future periods, the expenditure is known as capital expenditure. For instance, a table or a chair bought during the current accounting period is intended to be used over and over again, so that the benefit of its usage is spread over a number of future accounting periods. The same is true of land, buildings, plant and machinery, etc.

Accordingly, any expenditure incurred in the acquisition of an asset to be used over a number of years is capital expenditure. Similarly, an expenditure on an existing asset, in the form the additions or improvements, with a view to increasing its revenue earning capacity, is also a capital expenditure.

Revenue Expenditure: Revenue expenditure benefits a current period. Accordingly, an expenditure, the benefit of which is exhausted in the period in which it is incurred, is known as revenue expenditure. A revenue expenditure neither results in the acquisition of an asset, nor is it incurred to increase the revenue earning capacity of an existing asset. It is, in fact, incurred to retain the original revenue earning capacity of an asset. As such, the expenditure is of a revenue nature.

Hint: Capital: Long-term benefits; Revenue: Short-term benefits.

Time Required: 7.5 minutes

DISTINGUISH BETWEEN

1997 - May [6] Distinguish between the following:

(4) Capital Expenditure and Revenue Expenditure.

(5 marks)

Answer:

Capital Receipt: These are the money received from the activities other than normal business activities e.g. Issue of shares and debentures, sale of fixed assets (PPE). Such receipts are of non-recurring nature. They do not affect profit and are shown as a liability or as a reduction from the assets.

Revenue Receipt: These are the money received in the course of normal business activities. e.g. Sales, interest, dividend, etc. Such receipts are of recurring nature and for general purpose. They are shown on the credit side of profit & loss A/c.

Hint: Capital: Non-recurring, long-term; Revenue: Recurring, short-term.

Time Required: 7.5 minutes

1998 - May [6] Briefly explain the differences between on the following:
(b) Capital Receipts and Revenue Receipts. (5 marks)

Answer:

RAQ same as 1997 - May [6] (4) on page no. 71

Hint: Constructive Notice protects the company; Indoor Management shields outsiders.

Time Required: 9 minutes

2001 - Nov [6] Briefly explain the differences between on the following:
(d) Capital Expenditure and Revenue Expenditure. (5 marks)

Answer:

RAQ same as 1997 - May [6] (4) on page no. 71

2006 - Nov [6] Distinguish between the following:
(iv) Capital Receipts v/s Revenue Receipts. (5 marks)

Answer:

RAQ same as 1997 - May [6] (4) on page no. 71

2021 - July [1] (b) Discuss the basic considerations in distinguishing between capital and revenue expenditure. (4 marks)

Answer:

The basic considerations in distinction between capital and revenue expenditures are:

(a) **Nature of business:** Nature of business is a very important criteria in separating an expenditure between capital and revenue.

Eg. For an electronics dealer, purchase of T.V. is a revenue expenditure but for any other trade purchase of T.V. should be treated as capital expenditure and shown in Balance Sheet as an asset.

- (b) **Recurring nature of expenditure:** If the frequency of an expense is quite often in a year then it should be treated as revenue expenditure, however, if it is infrequent then it is capital expenditure in nature.
E.g. Salary paid each month is revenue expenditure but purchase of machinery in a year is capital expenditure.
- (c) **Purpose of expense:** Expenses incurred on maintaining an asset are revenue in nature like repair but those incurred to increase its productive capacity are capital in nature.
- (d) **Effect on revenue generating capacity of business:** Expenses which help to generate income in one period only are revenue expenditure but those which generate income over more than one accounting period are capital expenditure in nature.
- (e) **Materiality of the amount involved:** Proportion of the amount involved is also a consideration. If the amount involved is huge, it may be a capital expenditure.

Hint: Consider nature, frequency, purpose and impact on revenue.

Time Required: 6 minutes

LEGAL MAXIMS CORPORATE LAW

Quasi-contract

- Meaning: As if there were a contract.
- Usage: In corporate law, this principle applies when a party benefits from another's actions even without a formal contract, and equity demands that they compensate the other party as if a contract existed.

MOTIVATIONAL QUOTES

"The secret to getting ahead is getting started." - Mark Twain

"Push yourself, because no one else is going to do it for you."

- Unknown

"Dream big and dare to fail." - Norman Vaughan

"Do not wait to strike till the iron is hot; but make it hot by striking." - William Butler Yeats

"What seems to us as bitter trials are often blessings in disguise." - Oscar Wilde

"The only limit to our realization of tomorrow is our doubts of today." - Franklin D. Roosevelt

"An investment in knowledge pays the best interest." - Benjamin Franklin

"The stock market is filled with individuals who know the price of everything, but the value of nothing." - Philip Fisher

"Risk comes from not knowing what you're doing." - Warren Buffett

"Do not save what is left after spending, but spend what is left after saving." - Warren Buffett

"The four most dangerous words in investing are: 'This time it's different.'" - Sir John Templeton

"The stock market is a device for transferring money from the impatient to the patient." - Warren Buffett


"Financial freedom is available to those who learn about it and work for it." - Robert Kiyosaki


HOW DREAMS COME TRUE

1. **Define Your Dream:** Clearly define your goal to avoid vagueness.
2. **Set Clear, Achievable Goals:** Break dreams into smaller, measurable goals to create a roadmap for success.
3. **Believe in Yourself:** Cultivate confidence and a growth mindset to reinforce self-belief.
4. **Take Consistent Action:** Small, daily steps lead to progress.
5. **Overcome Fear and Obstacles:** Challenges are part of the journey and offer learning opportunities.
6. **Learn from Failures:** Treat failure as a stepping stone and learn from setbacks.
7. **Stay Focused and Avoid Distractions:** Discipline and focus are crucial to staying on track.
8. **Seek Support and Guidance:** Surround yourself with a supportive network.
9. **Visualize Success:** Regularly visualise your dream as a reality to stay motivated.
10. **Adapt and Stay Flexible:** Be open to changes and adjust your plans as needed.
11. **Celebrate Small Wins:** Acknowledge progress to boost motivation.
12. **Stay Patient and Persistent:** Achieving big dreams takes time; persistence is essential.

Define Your Dream

- **Why it Matters:** A dream without clarity remains vague. Consider what you truly want to achieve in life-becoming a successful Chartered Accountant, starting a business, or reaching personal milestones.

<p>Smart Study with Scanner</p>	<p>Chapter Marks Trend Graph</p>
	<ul style="list-style-type: none"> ● At page no xiix ● Graph of the total marks allocated to each chapter across multiple exams

<p>Smart Study with Scanner</p>	<p>Chapter-Wise Marks Analysis</p>
	<ul style="list-style-type: none"> ● At page no xix ● Total and average marks for each chapter. ● Helps prioritize chapters based on marks.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



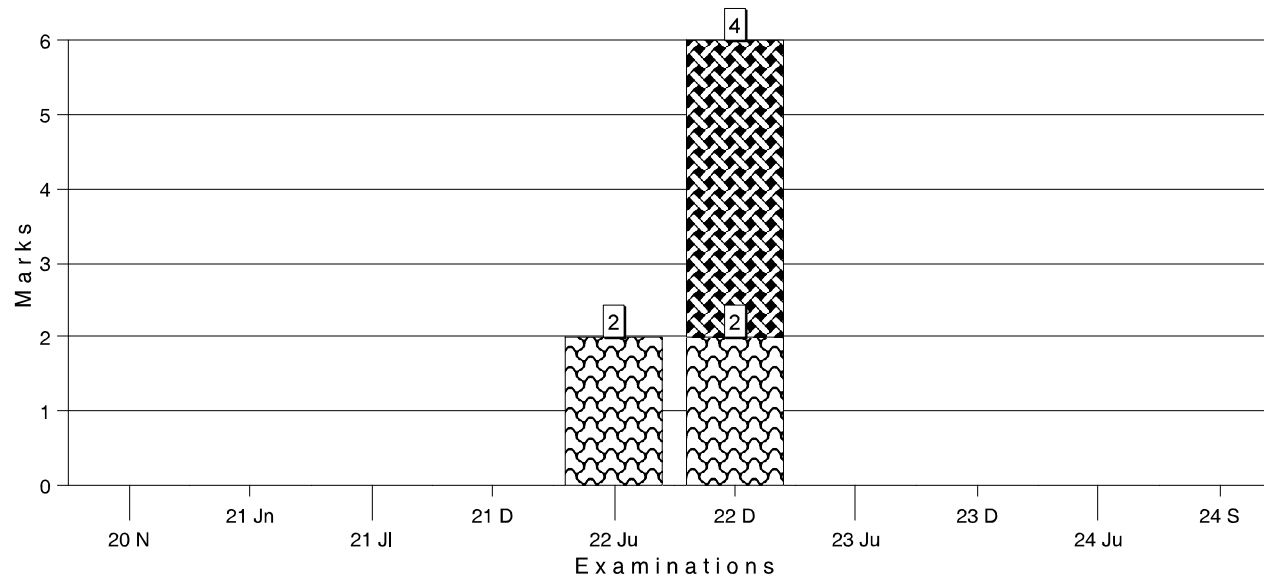
Distinguish



Descriptive



Practical



CHAPTER	THEORETICAL FRAMEWORK
1.4	Contingent Assets and Contingent Liabilities

SELF STUDY QUESTIONS

Q. 1. What are Contingent Assets?

Answer:

A potential economic benefit or a possible asset which arises from the past events but the existence of which will be confirmed on happening or non-happening of one or more future events which are beyond the control of the enterprise. As per AS-29,

Asset to be qualified as contingent must have following characteristics:

- **Possible Asset:** Asset should arise out of past events.
- Existence to be confirmed on occurrence or non-occurrence of one or more future events.
- The dependent future events are beyond the control of the enterprise. These assets are not recognised in financial statements as a matter of prudence and is disclosed in the Director's report.

Q. 2. What are Contingent Liabilities?

Answer:

According to AS-29, Accounting Standard on Provision, Contingent Liabilities and Contingent Assets.

A contingent liability is:

- (a) a possible obligation that arises from past events and 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; or

- (b) a present obligation that arises from past events but is not recognised because:
- (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations:
 - or
 - (ii) a reliable estimate of the amount of the obligation cannot be made.

Q. 3. Distinguish between Contingent Liabilities and Liabilities?

Answer:

Basis	Contingent Liabilities	Liabilities
1. Meaning	Possible obligation that arises out of past events and confirmed by one or more future events.	Present financial obligation arising out of past events resulting in outflow of resources.
2. Measurement	Cannot be measured with sufficient reliability.	Can be measured with sufficient reliability.
3. Disclosure	Is disclosed by way of foot note at the end of Balance Sheet as per AS-29.	Forms the part of Balance Sheet.
4. Examples	Unacknowledged debts, statutory liabilities in dispute, bills discounted, etc.	Amount due to creditors, tax due, payment of wages to workers, etc.

Q. 4. Distinguish between Contingent Liabilities and Provisions?


Answer:

Basis	Contingent Liabilities	Provisions
1. Meaning	Possible obligation arising out of past events and confirmed by occurrence of one or more future events, hence cannot be measured with sufficient reliability.	Liability which can be measured using substantial degree of estimation.

2. Recognition	Is not recognised due to uncertainty.	Is recognised in books of accounts as a reliable estimate can be made.
3. Disclosure	Is disclosed by way of foot note as per AS-29.	Is debited to Profit and Loss A/c after adjusting expense paid, addition, deletion as required.
4. Examples	Pending litigation, third party guarantees, etc.	Provision for doubtful debts, provision for

SHORT PRACTICE QUESTIONS

1. Write short notes on:
 - (a) Contingent liability
 - (b) Provisions
2. Differentiate between:
Contingent liability and liability

Smart Study with Scanner	Hints and Time
	<ul style="list-style-type: none"> ● Provides helpful hints for revision. ● Suggests ideal time to solve questions.

PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

2022 - June [1] {C} (a) State with reasons, whether the following statement is **True or False**:

- (i) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability. (2 marks)

Answer:

False: A contingent asset gives rise to the possibility of an inflow of economic benefits. Accordingly, a claim that an enterprise is pursuing through legal process, where outcome is uncertain, a contingent asset.

2022 - Dec [1] {C} (a) State with reasons, whether the following statement is **True or False**:

- (vi) A fixed charge generally covers all the assets of the company including future one. (2 marks)

Answer:

False: The fixed charge covers those assets that are specific, ascertainable and existing during the creation of charge whereas, floating charge, covers present or future assets.

SHORT NOTES

1998 - Nov [6] Write short note on the following:

- (iv) Contingent liability. (5 marks)

Answer:

Accounting Standard (AS) 29 on 'Provisions, Contingent Liabilities and Contingent Assets' defines contingent liability as

- a possible obligation that arises from past events and 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, or
- a present obligation that arises from past events but it is not recognised because
 - (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

or

(b) a reliable estimate of the amount of the obligation cannot be made. A contingent liability should not be recognised but only disclosed. Also contingent liability should be periodically reviewed by the enterprise.

Hint: Possible obligation, uncertain outcome, disclosed but not recognized.

Time Required: 7.5 minutes

2001 - May [6] Briefly explain the following:

(d) Contingent Liability. (5 marks)

Answer:

RAQ same as 1998 - Nov [6] (iv) on page no. 81

2005 - May [6] Write short note on the following:

(iii) Contingent liability. (5 marks)

Answer:

RAQ same as 1998 - Nov [6] (iv) on page no. 81

DISTINGUISH BETWEEN

1998 - May [6] Briefly explain the differences between the following:

(a) Contingent Liability and Other Liabilities. (5 marks)

Answer:

Contingent Liability and Other Liabilities: Liability is defined as the financial obligation of an enterprise other than owner's fund. They may be classified into current liabilities and long-term liabilities. Creditors, bills payable and outstanding expenses are examples of current liabilities whereas debentures and term loans from banks and financial institutions are examples of long-term liabilities.

Guidance Note on Terms Used in Financial Statements defines contingent liability as "an obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events." Contingent liability may be in respect of bills discounted, pending suits etc. Thus, it is not an actual liability and as such it is not recorded in the balance sheet. It is simply mentioned by way of foot note to the balance sheet.

Hint: A subsidiary may keep holding company shares if acquired before becoming a subsidiary.

Time Required: 7.5 minutes

2018 - May [1] {C} (b) Differentiate between Provision and Contingent Liability. (4 marks)

Answer:**Difference between Provision and Contingent Liability**

	Provision	Contingent Liability
1.	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
2.	A provision meets the recognition criteria.	A contingent liability fails to meet the same.

3.	Provision is recognized when 1. an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and 2. 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.
4.	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

Hint: Provision is recognized; Contingent liability is disclosed.

Time Required: 6 minutes

2019 - Nov [1] {C} (b) Distinguish between Provision and Contingent Liability. (4 marks)

Answer:

RAQ same as 2018 - May [1] {C} (b) on page no. 83

2022 - Dec [1] {C} (b) Differentiate between Provisions and Contingent Liabilities. (4 marks)

Answer:

RAQ same as 2018 - May [1] {C} (b) on page no. 83

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



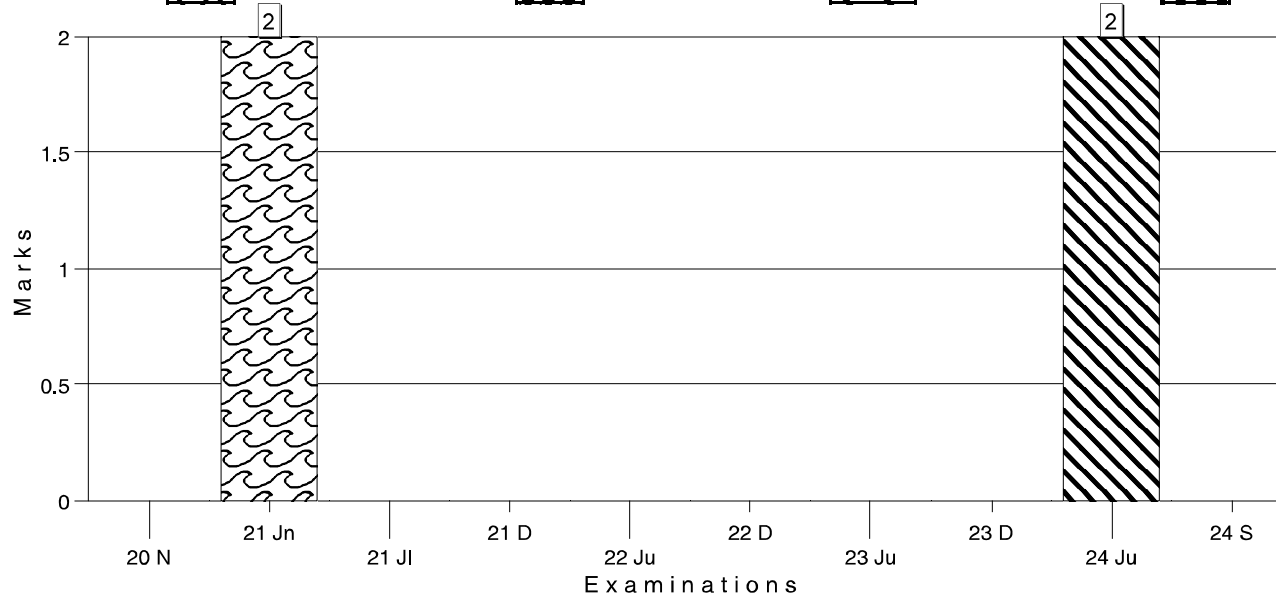
Distinguish



Descriptive



Practical



CHAPTER	THEORETICAL FRAMEWORK
1.5	Accounting Policies

SELF STUDY QUESTIONS

Q. 1. What do you mean by Accounting Policies?

Answer:

- Accounting policies are principles and methods of applying the various principles in preparation and presentation of entity's financial statements.
- The choice of applying a particular policy required managements judgement on the basis of operating environment of business.
- **Few areas where different accounting policies can be encountered**
 - (a) Valuation of inventories
 - (b) Calculation of Depreciation
 - (c) Calculation of Goodwill
 - (d) Valuation of Investments
- For better understanding of financial statements, method adopted must be given in notes to accounts.

Q. 2. What should be kept in mind while doing Selection of Accounting Policies?

Answer:

- A due care should be given by management while selecting the policy taking into regard the effect on profit statement and performance of business.
- **Characteristics to be considered**
 - (a) **Prudence:** Degree of caution for making judgement regarding recording of a particular item of income or expense.

- (b) **Substance over form:** Proper judgement to reflect true essence of transaction rather than its legal form.
- (c) **Materiality:** Financial statements must disclose material facts which are relevant for decision making.

Q. 3. When can change in Accounting Policies be made?

Answer:

Any change in policies should only be made if:

1. Change is required by statute for compliance with accounting standard.
2. Change would result in more appropriate presentation of financial statement of the business.

Note: Any change during the year must be disclosed in notes to accounts along with the amount by which financial statements are affected.

SHORT PRACTICE QUESTIONS

1. What are the main considerations in the selection of Accounting Policies?
2. When is change in accounting policy recommended?

Share your Experience



PAST YEAR QUESTIONS AND ANSWERS

OBJECTIVE QUESTIONS

2021 - Jan [1] {C} (a) State **with reasons**, whether the following statement is **True** or **False**:

- (vi) Accounting Standards for non-corporate entities in India are issued by the Central Government. (2 marks)

Answer:

False: Accounting standards for non-corporate entities are issued by ICAI and not Central Government.

DESCRIPTIVE QUESTIONS

2005 - Nov [3] (b) Explain the meaning of Accounting Policies. (3 marks)

Answer:

The meaning of Accounting Policies:

Accounting Standard 1 on “Disclosure of Accounting Policies” defines the nature and significance of accounting policies. The 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 circumstances. The accounting policies followed vary from enterprise to enterprise. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The management of each enterprise has to select appropriate accounting policies having regard to the nature and circumstances in which the enterprise is operating.

Some of the areas in which different accounting policies may be adopted by different enterprises are:

- (a) Methods of depreciation, depletion and amortisation
- (b) Valuation of inventories
- (c) Valuation of investments.

Hint: Specific principles and methods used in financial reporting.
Time Required: 4.5 minutes

2024 - June [1] {C} (b) (i) Define accounting policy. What are the conditions under which a company can change its accounting policy? (2 marks)

Answer:


Meaning of Accounting Policies:

Accounting policies refer to specific accounting principles and methods of applying these principles adopted by enterprise in preparation and presentation of financial statements.

Conditions under which a company can change its accounting policy:

- If it is required with any statute or accounting standard OR
- It would result in better representation of financial statements.

Hint: Accounting policy changes for legal compliance or better financial representation.
Time Required: 3 minutes

<p>Smart Study with Scanner</p>	<p>Compulsory Questions Analysis</p>
	<ul style="list-style-type: none"> ● At page no xx ● Shows marks for compulsory questions by chapter.

PROMINENT CAS

Piyush Goyal


- Position: Union Minister for Commerce & Industry, Government of India
- Achievement: Piyush Goyal is a Chartered Accountant who has transitioned into a successful political career. He has held several high-profile portfolios in the Government of India, including Finance, Railways, and Coal, and is known for his work on economic reforms and infrastructure development.


Motilal Oswal

- Position: Co-founder of Motilal Oswal Financial Services Ltd.
- Achievement: A successful entrepreneur and investor, Motilal Oswal, a qualified CA, co-founded Motilal Oswal Financial Services, a leading financial services company in India. His journey from a CA to establishing one of the top brokerage firms showcases how the profession can lead to entrepreneurial success.

Rameshwar Thakur

- Position: Former Governor of Madhya Pradesh and Odisha, Padma Shri Awardee
- Achievement: Rameshwar Thakur, a CA and politician, served as Governor in several Indian states. He played a significant role in promoting the profession and received the Padma Shri for his contributions.

<p style="text-align: center;">MEMORIZATION TECHNIQUES</p>	<p style="text-align: center;">Visualization with Diagrams</p>
	<ul style="list-style-type: none"> • How it Works: Convert written material into diagrams or flowcharts. For example, draw out the tax calculation process or the flow of financial transactions. • Why it Helps: Visual representations make complex processes more digestible and improve long-term retention.

<p style="text-align: center;">MEMORIZATION TECHNIQUES</p>	<p style="text-align: center;">Memory Peg System</p>
	<ul style="list-style-type: none"> • How it Works: Memorize a list of "pegs" (easy-to-remember associations) and attach new information. For instance, use numbers 1 to 10 and create vivid mental images tied to each number, then associate the content with those images. • Why it Helps: Peg systems provide a structured framework for remembering lists or sequential information.

QUICK STUDY TIPS

Use the Pomodoro Technique

- Study for 25 minutes, then take a 5-minute break. Repeat this cycle four times, then take a longer 15-30 minute break.
- Why: This technique helps maintain focus while preventing burnout.

Active Recall

- Instead of just re-reading notes, actively quiz yourself on the material. Close your book and try to recall key points.
- Why: Helps improve long-term memory retention.

Teach What You Learn

- After studying a concept, explain it to someone else (or pretend to). Teaching reinforces understanding.
- Why: It solidifies your grasp of the topic and reveals areas that need more review.

Break Down Complex Topics

- Divide large, complex topics into smaller, manageable sections. Focus on one small section at a time.
- Why: This reduces overwhelm and makes the material easier to absorb.

Use Mnemonics

- Create acronyms, rhymes, or stories to remember complex concepts or lists.
- Why: Mnemonics make recalling information quicker and easier.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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Short Notes



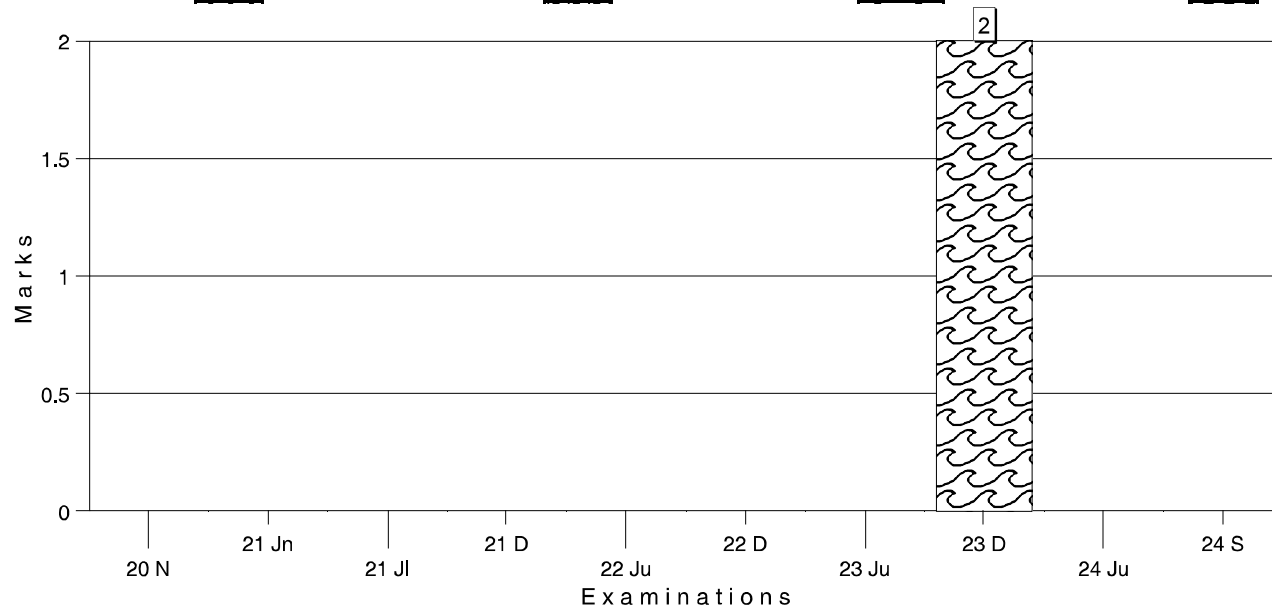
Distinguish



Descriptive



Practical



CHAPTER	THEORETICAL FRAMEWORK
1.6	Accounting as a measurement discipline-Valuation Principles, Accounting Estimates

SELF STUDY QUESTIONS

Q. 1. What is the Meaning of Measurement?

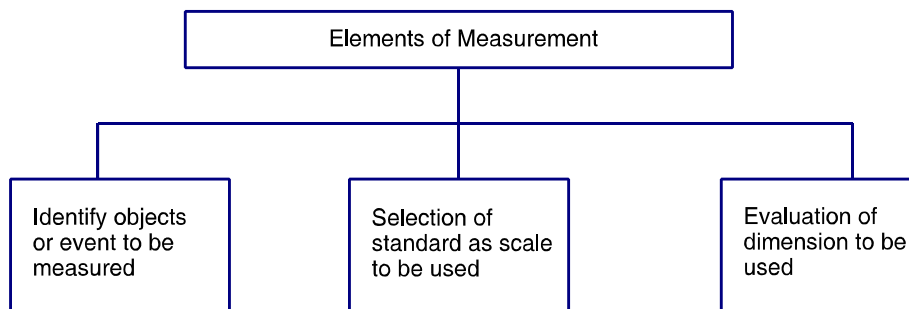
Answer:

Definition: “Measurement is assignment of numbers to objects and events according to rules specifying the property to be measured, the scale to be used and the dimension of the unit”.

— Prof. R.J. Chambers

“Measurement is the assignment of a system of ordinal or cardinal numbers to the results of a scheme of inquire or apparatus observations in accordance with logical and mathematical rules.”

— Kohler.



Q. 2. Which Objects or Events are to be measured?

Answer:

- For taking decisions regarding the future prospects of the business, decision makers need suitable information of various business transactions.
- Thus the objects or events to be measured includes measurement of information necessary for decision making.
- The information required can be past and present information which can be relied upon due to its accuracy and future information based on various predictions and logical estimation.

Q. 3. What is Standard or Scale of measurement?

Answer:

“Standard or Scale of measurement is “money” which can be any currency or denominations. Such as (₹) Rupees; (\$) Dollar (£) Pound, etc.

All the transactions and events recorded in financial statement must be measured and presented in monetary currency.

Q. 4. What should be Dimension of Measurement Scale?

Answer:

Measurement scale should be stable over a time so as to make data comparable of different accounting years.

However money as a measurement scale is unstable due to continuous change in prices, hence having no universal applicability. Hence, cannot be said as an ideal measurement of scale.

Q. 5. What do you understand by Accounting as a Measurement Discipline?

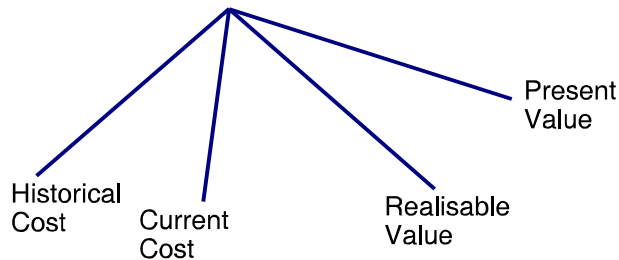
Answer:

Measurement is an important aspect of accounting. All the transaction of the business are measured in terms of money and Profit/Loss of the entity is calculated.

Quantitative as well as monetary value of transactions helps to find the financial position of the business and thus measures the performance of the business.

Q. 6. What are the Valuation Principles?

Answer:



1. Historical Cost:

- It means the cost of acquisition.
- Assets and liabilities are recorded at the cash or cash equivalent paid/received or fair value of any other consideration paid/received for acquiring the same.
- This principle does not involve any personal judgement for recording the amount and can easily be cross checked with supporting invoice or other documents.

2. Current Cost:

- It means the cost of asset which will have to be paid if the same or an equivalent asset is bought currently.
- Liabilities are carried at undiscounted value as required to settle the obligation.

3. Realisable Value:

- Also known as settlement value, it is the value at which assets are carried at the amount of cash or cash equivalent that can be realised if asset is orderly disposed off.
- Liabilities are carried at settlement value i.e. undiscounted amount of cash and cash equivalent required to pay them.

4. Present Value:

- This valuation principle considers time value of money.
- As per concept of present value, a unit of money today is more valuable than the same unit in future.

- Assets and liabilities are recorded at present discounted value of future net cash inflows/outflows that can be generated/required to pay in the ordinary course of business.
- The process of finding present value for future cash flows is called discounting and process of finding future value for present cash flows is called as compounding.
- As we know Compound Interest rule $A = P (1 + i)^n$ gives the relation between present money and future money in relation to given principal amount.

Where P = Principal
 A = Amount
 i = interest
 n = time

So if A, i and n are given, to find P, we can use the following formula.

$$P = \frac{A}{(1 + i)^n}$$

Example 1:

Mr. X purchase machine 1 year age for ₹ 1,25,000.

Useful life = 4 years Salvage Value = Nil

Price of machine increased by ₹ 50,000 in one year.

Annual cash flows accrued at end of

2nd year = 57,000

3rd year = 46,000

4th year = 70,000

Discount Rate = 10%.

Resale value of machine used for 1st year = ₹ 96,000

Find the value of machine as per

- (a) Historical Cost
- (b) Current Cost
- (c) Realisable Value
- (d) Present Value

Solution:**(a) Historical Cost [at the end of 1st year]**

Purchase Price	=	1,25,000
Less: Value already used		
$\left[\frac{1,25,000}{4 \text{ years}} \right]$	=	31,250
		93,750

(b) Current Cost

Replacement cost of machine		
[1,25,000 + 50,000]		1,75,000
Less: Value already used		
$\left[\frac{1,25,000 + 50,000}{4 \text{ years}} \right]$		(43,750)
		1,31,250

(c) Realisable value i.e. Resale Value [given] = 96,000

(d) Present Value $\Rightarrow P = \frac{A}{(1+i)^n}$

(n)	(A)		(A × i)
Year end	Amount	Discount factor @ 10% p.a.	Present Value
1	57,000	.909	51,813
2	46,000	.826	37,996
3	70,000	.751	52,570
			1,42,379

$$\text{Discount factor} = \frac{1}{(1+i)^n}$$

Q. 7. What do you understand by Measurement and Valuation in Accounts?**Answer:**

Valuation principles such as historical cost, current cost, realisable value, present value are the means of valuation of objects, abilities, ideas. Here valuation is on cardinal scale in terms of money.

In economics valuation is in terms of utility which cannot be measured by above principles. Economist use ordinal scales to measure utility.

Q. 8.What are Accounting Estimates?

Answer:

While preparing financial statements of the enterprise accounting standards are required to be followed. Such standards require certain estimates to be made to be recorded in balance sheet and notes to accounts. These estimates are termed as accounting estimates.

Example: Provision for bad and doubtful debts, provisions for income tax, etc.

Accounting estimates can differ from actual, hence any difference must also to account for in financial statements as per AS-5 few instances where there can be revision in estimates:

- Useful life of business assets
- Value realised from bad and doubtful debts
- Providing for employee benefits etc.

As per AS-5

1. The effect of a change in accounting estimate should be included in determination of net profit or loss in:
 - (a) the period of change, if the change affects the period only; or
 - (b) the period of change and future periods, if the change affects both.
2. The effect of change in accounting estimate should be classified using same classification in the statement of profit and loss as was used previously for the estimate.
3. The nature and amount of a change in an accounting estimate which has material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be stated.

SHORT PRACTICE QUESTIONS

1. What are the valuation principles. Explain briefly.
2. Write short note on Accounting Estimates.

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

1999 - Nov [5] State with reason whether the following statement is true or false.

(vii) Current cost gives an alternative measurement base. (2 marks)

Answer:

True: Generally, the value of an asset is determined on the basis of acquisition cost. Current cost is another alternative measurement basis according to which assets are carried at the amount of cash or cash equivalents required to be paid if the same or an equivalent asset has to be acquired currently.

2023 - Dec [1] {C} (a) State with reason, whether the following statement is **True or False:**

(i) The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle. (2 marks)

Answer:

True: As per AS-1 Disclosure of Accounting policies the financial statements must disclose all the relevant, reliable and significant accounting policies which are followed in preparing and presenting financial statements.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



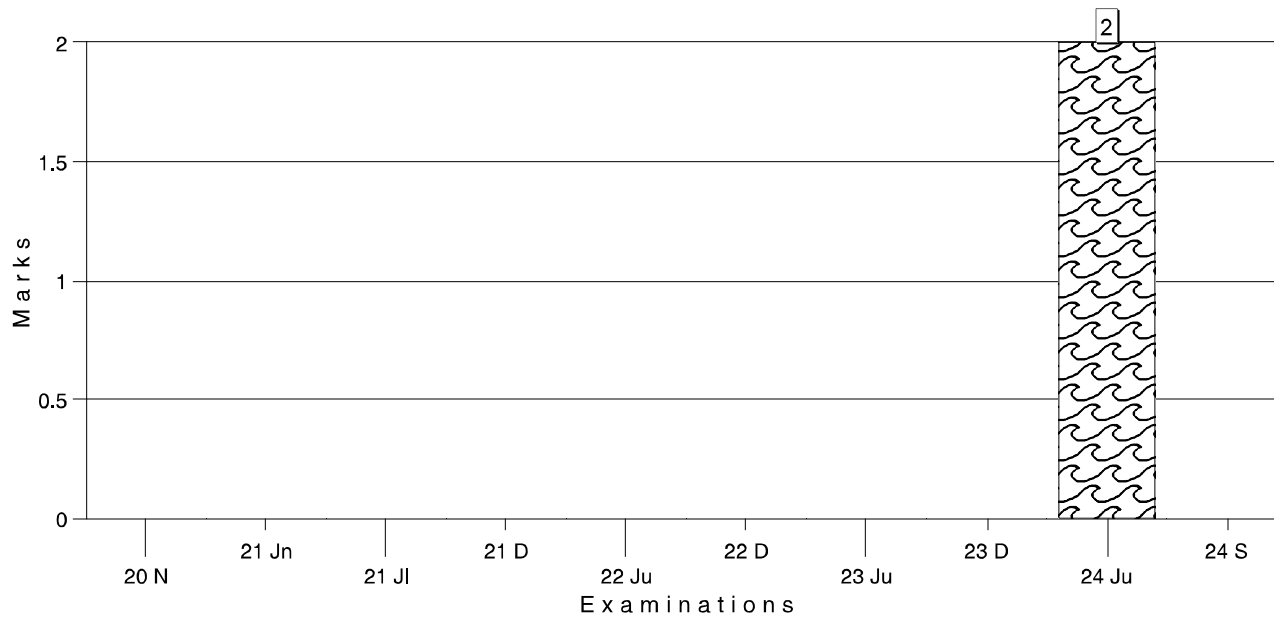
Distinguish



Descriptive



Practical



CHAPTER	THEORETICAL FRAMEWORK
1.7	Accounting Standards

SELF STUDY QUESTIONS

Q. 1. Write an Introduction on Accounting Standards.

Answer:

The financial accounting process should be carried out under the set guidelines so as to give true and fair view of the affairs of the company. Accounting Standards provide a framework along with standard accounting policies for recording the transactions in the books of accounts so that the financial information presented is in such form which is understandable and comparable with the financial statement of other entities.

According to Kolher:

“Accounting Standards are codes of conduct imposed by custom law or professional bodies for the benefit of public accountants and accountants generally.”

Q. 2. What are the Objectives of Accounting Standards?

Answer:

- (a) Harmonising the accounting practices of various entities so as to facilitate inter firm and intra firm comparison of financial statements.
- (b) To provide set standards and other disclosure requirements so as to reduce diversified accounting alternatives.

Q. 3. What are the Benefits and Limitations of Accounting Standards?

Answer:

Benefits:

- (a) **Standardisation of alternative accounting treatments:** Uniformity in treatment of transactions.
- (b) **Requirements for additional disclosures:** To make accounting statement understandable to the users.

(c) **Comparability of financial statements:** Due to uniform standards followed by all the entities inter firm and intra firm comparison is possible.

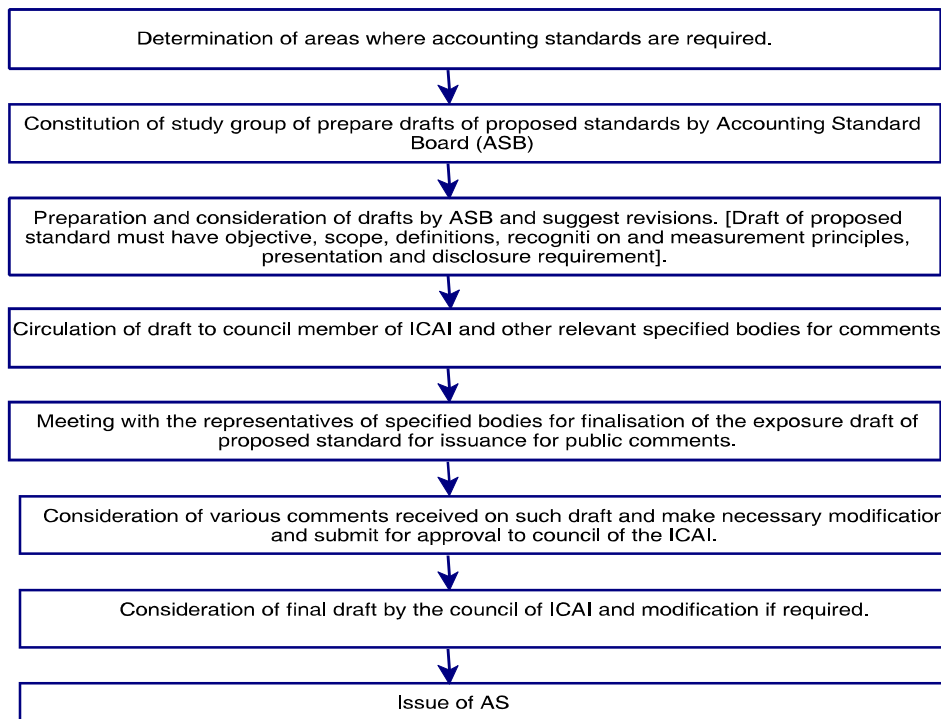
Limitations:

(a) **Difficulties in making choice between different treatments:** Some accounting problems may have multiple solutions along with reasons to recommend them, hence the choice between alternative may be come difficult.

(b) **Restricted Scope:** Accounting Standards are mandatory and hence may avoid initiative for better presentation and disclosure, if such initiative is beyond the ambit of the statute.

Q. 4. Process of formulation of Accounting Standards in India?

Answer:



Q. 5. List down Accounting Standards in India.**Answer:**

Sl. No.	Number of the Accounting Standard (AS)	Title of the Accounting Standard
1.	AS-1	Disclosure of Accounting Policies
2.	AS-2 (Revised)	Valuation of Inventories
3.	AS-3 (Revised)	Cash Flow Statements
4.	AS-4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date
5.	AS-5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS-6 (pursuant to merging with AS-10, Plant and Equipment w.e.f. 1.4.2017)	Depreciation Accounting
7.	AS-7 (Revised)	Accounting for Construction Contracts
8.	AS-8 (withdrawn pursuant to AS-26 becoming mandatory)	Accounting for Research and Development
9.	AS-9	Revenue Recognition
10.	AS-10	Property, Plant and Equipment
11.	AS-11 (Revised)	The Effects of Changes in Foreign Exchange Rates
12.	AS-12	Accounting for Government Grants

13.	AS-13	Accounting for Investments
14.	AS-14	Accounting for Amalgamations
15.	AS-15 (Revised)	Employee Benefits
16.	AS-16	Borrowing Costs
17.	AS-17	Segment Reporting
18.	AS-18	Related Party Disclosures
19.	AS-19	Leases
20.	AS-20	Earnings Per Share
21.	AS-21	Consolidated Financial Statements
22.	AS-22	Accounting for Taxes on Income
23.	AS-23	Accounting for Investments in Associates in Consolidated Financial Statements
24.	AS-24	Discounting Operations
25.	AS-25	Interim Financial Reporting
26.	AS-26	Intangible Assets
27.	AS-27	Financial Reporting of Interests in Joint Ventures
28.	AS-28	Impairment of Assets
29.	AS-29	Provisions, Contingent Liabilities & Contingent Assets

SHORT PRACTICE QUESTIONS

1. Briefly explain the process followed for issuing Accounting Standards in India.
2. What are the Limitations of AS.

LEGAL MAXIMS CORPORATE LAW**Fiduciary Duty**

- Meaning: A duty to act in the best interest of another party.
- Usage: Corporate directors and officers are bound by fiduciary duties to act in the best interest of the corporation and its shareholders. This maxim governs actions like avoiding conflicts of interest and acting with loyalty.

Separate Legal Entity

- Meaning: A company is a separate legal entity from its shareholders.
- Usage: This principle, established in *Salomon v. Salomon & Co. (1897)*, means that a corporation has its own legal personality, distinct from its owners, and can own property, enter contracts, and be sued in its own name.

Piercing the Corporate Veil

- Meaning: Disregarding the corporate entity.
- Usage: Courts may apply this principle to hold shareholders or directors personally liable for corporate actions, especially in cases of fraud, misuse of the corporate form, or when the company is merely a sham entity.

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

2024 - June [1] {C} (a) State with reason, whether the following statement is True or False:

- (iii) Accounting Standards can override the statute. (2 marks)

Answer:

False, Accounting Standards can never override statute. The standards are required within ambit of prevailing statutes.

DESCRIPTIVE QUESTIONS

2003 - Nov [6] Briefly explain the following:

- (a) What is the objective of 'Accounting Standards'? State the advantage of setting Accounting Standards. (5 marks)

Answer:

Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

1. Reduction in variations.
2. Disclosure beyond that required by law.
3. Facilitates comparison.

Hint: Ensures uniformity, comparability and quality in financial statements.

Time Required: 7.5 minutes

2006 - Nov [6] Briefly explain the following:

- (v) Advantages of Accounting Standards. (5 marks)

Answer:

Advantages of Accounting Standard: The Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies economic performance.

The setting of accounting standards has the following advantages:

- (i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
- (ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- (iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements 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 difference in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practiced in different countries.
- (iv) Adoption of accounting standards in the preparation of financial statements has reduced the chances of manipulations, frauds, insufficient disclosures or the use of inappropriate accounting policies.

Hint: Promotes consistency, transparency and comparability.

Time Required: 7.5 minutes

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



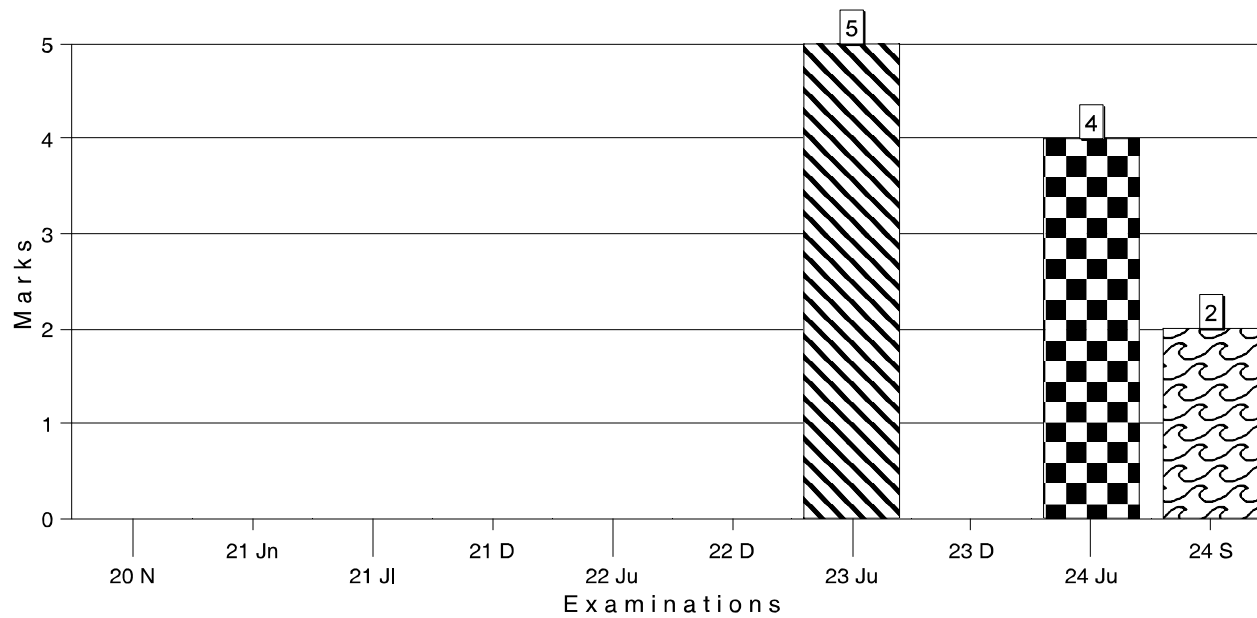
Distinguish



Descriptive



Practical



CHAPTER	ACCOUNTING PROCESS
2.1	Basic Accounting Procedures: Journal Entries

SELF STUDY QUESTIONS

Q. 1. What is Double Entry System?

Answer:

- Double Entry System was developed by Luca Pacioli in the 15th century.
- According to this system, every transaction has two aspects and both the aspects should be recorded in books of accounts.
- For every debit there is an equal and corresponding credit and *vice-versa*, hence each transaction affects at least two accounts.

Example: Purchase of machinery for cash ₹ 20,000.

Accounting entry:

Machinery A/c	Dr.	20,000	
To Cash A/c			20,000

[Being machinery purchased]

Machinery A/c

To Cash A/c	20,000		
-------------	--------	--	--

Cash A/c

		By Machinery A/c	20,000
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Q. 2. What are the Advantages of Double Entry System?

Answer:

- Complete record of all transactions.
- Minimises risk of errors and makes their detection easy.
- Facilitates preparation of Profit and Loss Account (to find net profit and loss for period) and Balance Sheet (to know the position of assets and liabilities).

- Ensures arithmetical accuracy of transactions recorded in books of accounts by means of trial balance.
- Provide full particulars of transactions and necessary information for managerial purposes such as control, decision making, etc.
- Financial position of different periods can be compared and reasons for difference may be ascertained.

Q. 3. What is an Account?

Answer:

Summary of transactions and events of similar nature, recorded sequentially under a particular head is called an account.

Accounts are usually prepared in T-form. A separate account is maintained for every expenses item, revenue item, assets, liability and capital.

Format of an Account:

Dr. Date	Particulars	Ref.	Amount (₹)	Cr. Date	Particulars	Ref.	Amount (₹)
-------------	-------------	------	---------------	-------------	-------------	------	---------------

Q. 4. What is Debit and Credit?

Answer:

In accounting, debit (Dr.) is used to denote the entries entered on the left side of an account and credit (Cr.) is used to denote the entries entered on the right side of an account. These two terms are used to describe two sides of an account.

The term 'Debit' is derived from Latin word 'debitum' i.e. due for date and credit is derived from Latin word 'creder', i.e. due to that.

The items recorded at debit side of account is said to be debited to the account and balance if any is called as Debit Balance similarly when an item is recorded on credit side of an account is said to be credited and balance if any is called as Credit Balance.

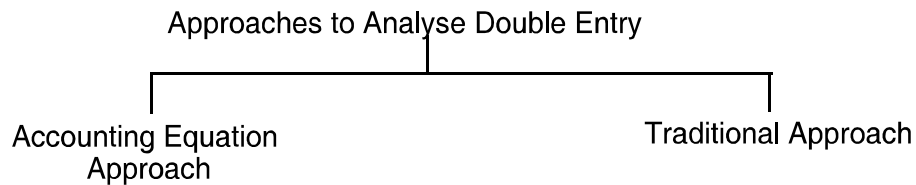
3.	Bought goods for cash.	Purchase Cash	Expenses Asset	Increase Decrease	15,000	15,000
4.	Cash Sales to Vivek	Cash Sales	Asset Revenue	Increase Increase	50,000	50,000
5.	Borrowed sum from Neha	Cash/Bank Loan from Neha	Asset Liabilities	Increase Increase	6,000	6,000

Q. 6. What is Transaction?

Answer:

A transaction is an event or any economic activity of the business which changes its financial position. The change must be capable to be expressed in monetary items evidenced by supporting documents such as invoice, cash memos etc.

A transaction is recorded on basis the of double entry system.



Q. 7. What is an Accounting Equation Approach?

Answer:

In double entry system, each business transaction has two fold effect on business i.e., it affects the assets, liabilities, capital in a way which equals the basic accounting equation [Equity (E)+ Liabilities (L) = Assets(A)]

At beginning of the year $\Rightarrow E_0 + L_0 = A_0$

$$(t_0) \quad E_0 = A_0 - L_0$$

At the end of the year $\Rightarrow E_1 + L_1 = A_1$

$$E_1 = A_1 - L_1$$

$$E_1 < E_0 \Rightarrow \text{Loss } (t_{01})$$

If

$$E_1 > E_0 \Rightarrow \text{Profit } (t_{01})$$

Example:

From the following information as on April 1st, 2016 and March 31st, 2017, find the profit earned during the year.

Particulars	As on 1.4.2016	As on 31.3.2017
	(t ₀)	(t ₁)
Share Capital	1,72,000	??
Trade Payables	7,000	8,000
Other Current Liabilities	4,000	5,000
Plant & Machinery	1,50,000	1,53,000
Non-Current Investment	4,000	–
Inventory	12,000	15,000
Trade Receivables	8,000	10,000
Cash and bank balance	9,000	11,000

Solution:

As we know Equity + Liability = Assets

In the given example

Equity = Share capital

Liability = Trade Payables + Other Current Liabilities

Assets = Plant & Machinery + Non Current investment + Inventory + Trade receivables + Cash and Bank balance

At t₀ –

$$E_0 = 1,72,000$$

$$L_0 = 7,000 + 4,000 = 11,000$$

$$A_0 = 1,50,000 + 4,000 + 12,000 + 8,000 + 9,000 = 1,83,000$$

At t₁

$$L_1 = 8,000 + 5,000 = 13,000$$

$$A_1 = 1,53,000 + 15,000 + 10,000 + 11,000 = 1,89,000$$

$$E_1 = A_1 - L_1 = 1,89,000 - 13,000 = 1,76,000$$

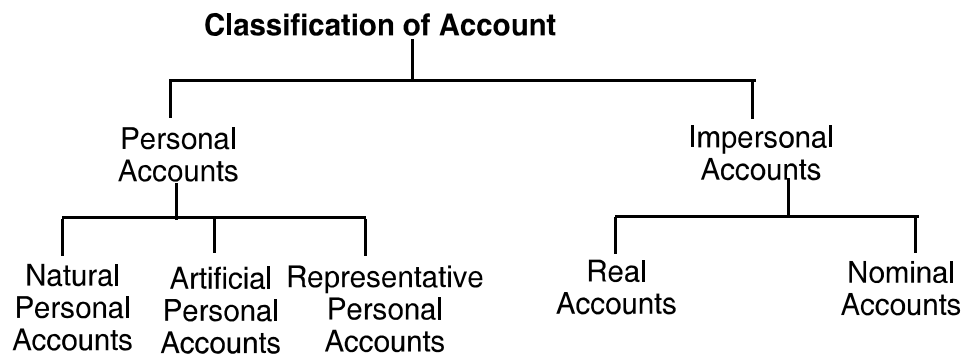
$$\begin{aligned} \text{Profit for } t_{01} &= E_1 - E_0 \\ &= 1,76,000 - 1,72,000 \\ &= 4,000 \end{aligned}$$

Q. 8. What is a Traditional Approach?**Answer:**

Transactions are recorded in Journal as per the rules of debit and credit.

Transactions can be

- Personal transaction - Those not related to business and may not form part of book of accounts.
- Related to assets and liabilities.
- Those which affect values of Balance Sheet items.
- Related to expenses, losses, income and gains – Those which form part of Profit and Loss Account.

Q. 9. What are Classifications of Accounts?**Answer:****1. Personal Accounts:**

- Accounts which relate to transactions with customers, suppliers, money lenders, owners etc.
- These accounts are prepared to ascertain balances due to or due from persons or organisations.
- Categories of Personal Accounts:
 - (a) Natural Personal Account:** Related to individuals or natural person.
 - (b) Artificial (legal) Personal Accounts:** Related to entities recognised as person by law
Example Banks, Co-operative societies, Companies, etc.

(c) Representative Personal Accounts : Those which represent certain person or a group.

Example Capital A/c, Drawing A/c, etc.

2. Impersonal Accounts:

- All accounts other than the personal accounts.
- Categories of Impersonal Accounts.

(a) Real Accounts: Those accounts which represents assets of the firm both tangible and intangible.

Example : Investments, Fixed Assets (PPE), Cash and Bank A/c etc.

(b) Nominal Accounts: Accounts related to income, expenses, gains, losses, etc. These accounts stores data to be shown in Profit and Loss Accounts. These accounts are closed at year end.

Example: Sales A/c, Selling and Administrative Expenses, Cost of goods Sold etc.

Q. 10. What are the Golden Rules of Account?

Answer:

- | | | | |
|---------------------|---|----------|---------------------|
| 1. Personal Account | — | Debit → | Receives |
| | | Credit → | Gives |
| 2. Real Accounts | — | Debit → | What Comes in |
| | | Credit → | What goes out |
| 3. Nominal Accounts | — | Debit → | All Expenses Losses |
| | | Credit → | All Income & Gains |

Example: State the nature of account and also show which Account is to be debited or credited.

1. Rent Paid
2. Rent received
3. Interest received
4. Machine Purchase
5. Building Sold
6. Goods Purchased
7. Discount Allowed
8. Capital introduced.

Solution:

	Accounts	Nature of A/c	Debit/Credit
1.	Rent Paid	Nominal	Debited
2.	Rent received	Nominal	Credited
3.	Interest received	Nominal	Credited
4.	Machinery A/c	Real	Debited
5.	Building A/c	Real	Credited
6.	Purchase A/c	Nominal	Debited
7.	Discount Allowed A/c	Nominal	Debited
8.	Capital A/c	Personal	Credited

Q. 11. What is the Modern Classification of Accounts?**Answer:**

	Type	An increase to the Account	A Decrease to the account	Normal Balance of A/c
1.	Assets A/c	Debit	Credit	Debit
2.	Liabilities A/c	Credit	Debit	Credit
3.	Capital A/c	Credit	Debit	Credit
4.	Revenue A/c	Credit	Debit	Credit
5.	Expenditure A/c	Debit	Credit	Debit
6.	Drawing A/c	Debit	Credit	Debit

Q. 12. What is a Journal? Explain Journalising process and advantages of a Journal?**Answer:**

The first book of accounts in which transactions are originally recorded is called Journal. It is also called the book of original entry. All the transactions are recorded in a chronological order.

Journalising Process:**Format**

Date	Particulars	L.F.	Amount (Dr.) (₹)	Amount (Cr.) (₹)
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Date: Date on which the transaction is done.

Particulars: Details of transaction i.e. Accounts to be debited or credited.

L.F.: Ledger folio number where transaction is posted.

Amount: Amount to be debited and credited to the account.

Points to be taken into care while recording a transaction in the Journal.

1. Journal Entry can be of two types –
 - (i) Simple Journal Entry/ Single Journal Entry
 - (ii) Compound Journal Entry.

Simple Journal/Single Journal entry**Ex.**

A A/c	Dr.	xxx			
To Cash A/c			xxx		
(Being cash paid to Mr. A)					

↑

Single debit and single credit

Compound Journal Entry**Ex.**

X A/c	Dr.	xx			
To Cash A/c			xx		
To Discount Received A/c			xx		

↑

Same account debited/credited in more than one transaction on the same date.

Advantages of Journal:

- Complete recording of all transactions in a chronological order.
- Narrations written below each journal entry helps to understand the transaction.
- Accounting entries recorded in journal are further posted to various ledger A/c and can be referred with the help of ledger folio number.


SHORT PRACTICE QUESTIONS

1. What are the advantages of double entry book keeping system?
2. Write short note on classification of accounts under traditional approach.
3. Illustration - 2

Anil had the following transactions:

1. Commenced business with cash ₹ 50,000.
2. Purchased goods for cash ₹ 20,000 and credit ₹ 30,000.
3. Sold goods for cash ₹ 40,000, costing ₹ 30,000.
4. Rent paid ₹ 500.
5. Rent outstanding ₹ 100.
6. Bought furniture for ₹ 5,000 on credit.
7. Bought refrigerator for personal use ₹ 5,000.
8. Purchased computer for cash ₹ 20,000.
9. Cash withdrawn for personal use ₹ 10,000.
10. Interest on drawings charged @ 5%.

Use accounting equation to show the effect of the above transactions on his assets, liabilities and capital and also show his balance sheet.

Smart Study with Scanner	Chapter Trend Analysis
	<ul style="list-style-type: none"> ● At the beginning of Chapter ● Analyses chapter's mark contribution over time. ● Distributes marks across question categories.

Answer:

No	Transaction	Cash	+	Stock	+	Furniture	+	Computer	=	Creditors	+	Rent	+	Capital
1.	Commenced business with cash ₹ 50,000	50,000	+	0	+	0	+	0	=	0	+	0	+	50,000
2.	Purchased goods for cash ₹ 20,000 and credit ₹ 30,000	- 20,000	+	50,000	+	0	+	0	=	30,000	+	0	+	0
	New Equation	30,000	+	50,000	+	0	+	0	=	30,000	+	0	+	50,000
3.	Sold goods for cash ₹ 40,000, costing ₹ 30,000	+ 40,000		-30,000	+	0	+	0	=	0	+	0	+	10,000
	New Equation	70,000	+	20,000	+	0	+	0	=	30,000	+	0	+	60,000
4.	Rent paid ₹ 500	- 500	+	0	+	0	+	0	=	0	+	0	-	500
	New Equation	69,500	+	20,000	+	0	+	0	=	30,000	+	0	+	59,500
5.	Rent outstanding ₹ 100	0	+	0	+	0	+	0	=	0	+	100	-	100
	New Equation	69,500	+	20,000	+	0	+	0	=	30,000	+	100	+	59,400

6.	Bought furniture for ₹ 5,000 on credit	0	+	0	+	5,000	+	0	=	5,000	+	0	+	0
	New Equation	69,500	+	20,000	+	5,000	+	0	=	35,000	+	100	+	59,400
7.	Bought refrigerator for personal use ₹ 5,000	- 5,000	+	0	+	0	+	0	=	0	+	0	-	5,000
	New Equation	64,500	+	20,000	+	5,000	+	0	=	35,000	+	100	-	54,400
8.	Purchased computer for cash ₹ 20,000	- 20,000	+	0	+	0	+	20,000	=	0	+	0	+	0
	New Equation	44,500	+	20,000	+	5,000	+	20,000	=	35,000	+	100	+	54,400
9.	Cash withdrawn for personal use	- 10,000	+	0	+	0	+	0	=	0	+	0	-	10,000
	New Equation	34,500	+	20,000	+	5,000	+	20,000	=	35,000	+	100	+	44,400
10.	Interest on drawings charged @ 10%	0	+	0	+	0	+	0	=	0	+	0	+	500
	New Equation	34,500	+	20,000	+	5,000	+	20,000	=	35,000	+	100	+	44,400

Balance Sheet of ANIL

Liabilities	₹	Assets	₹
Creditors (including creditor for furniture ₹ 5,000)	35,000	Cash in Hand	34,500
Rent Outstanding	100	Stock	20,000
Capital	44,400	Furniture	5,000
		Computer	20,000
	79,500		79,500

The accounting equation is the basis for Double Entry System. Total assets of the business unit are provided by the creditors/lenders and the owners. Therefore, at any point of time, the total assets of the business are equal to the total liabilities.

Illustration - 20 Journalise the following transactions in the books of Gupta Bros.:

2010		₹
March 1	Started business with cash ₹ 30,000; goods worth ₹ 15,000 and furniture worth ₹ 20,000	
March 2	Paid into bank	20,000
March 3	Bought goods from Mohan Bros. on credit	7,000
March 4	Sold goods to Goyal Bros. on credit	6,000
March 5	Bought a horse for ₹ 10,000 for delivering goods to customers	
March 7	Received from travelling salesman for goods sold by him after deducting travelling expenses ₹ 150	3,000

March 9	Drawn a cheque for ₹ 800 for personal use	
March 10	Goyal Bros. gave cheque; deposited in the bank	6,000
March 11	Paid to Mohan Bros. by cheque	6,700
	Discount allowed by him	300
March 13	Paid for repairs of furniture	200
March 13	Received an order for goods from Mahesh	5,000
March 14	Sold old newspapers	80
March 15	Interest received from bank	400
March 16	Paid ₹ 300 for expenses on goods sold to Goyal Bros. This amount to be realised from Goyal Bros.	
March 19	Bought goods from Sohan Lal & Sons	400
	Paid cartage on these goods	50
March 20	Bank intimates that the cheque of Goyal Bros. has been returned dishonoured	
March 21	The horse bought on March 5 died, its carcass was sold for ₹ 500	
March 22	Paid rent by cheque	600
March 23	Salaries for the month of February remain unpaid	300
March 25	Paid Municipal taxes in cash	800
March 31	Depreciation charged on furniture @ 10% per annum	
	Received an order for goods ₹ 5,000 from Shyam and received ₹ 1,000 as advance	

Solution:

**In the Books of Gupta Bros.
Journal**

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2010 March 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Capital A/c (Being the business started with cash, goods and furniture)		30,000 15,000 20,000	65,000
March 2	Bank A/c Dr. To Cash A/c (Being the cash paid into bank)		20,000	20,000
March 3	Purchases A/c Dr. To Mohan Bros. (Being the goods purchased from Mohan Bros.)		7,000	7,000
March 4	Goyal Bros. Dr. To Sales A/c (Being the goods sold to Goyal Bros.)		6,000	6,000
March 5	Live Stock A/c Dr. To Cash A/c (Being the purchase of a horse for delivering goods to customers)		10,000	10,000
March 7	Cash A/c Dr. Travelling Expenses A/c Dr. To Sales A/c (Being the cash received from travelling salesman after deducting travelling expenses)		3,000 150	3,150

March 9	Drawings A/c To Bank A/c (Being the cheque drawn out of bank for personal use)	Dr.	800	800
March 10	Bank A/c To Goyal Bros. (Being the cheque received from Goyal Bros., Deposited in bank)	Dr.	6,000	6,000
March 11	Mohan Bros. To Bank A/c To Discount Received A/c (Being the payment made by cheque and discount received)	Dr.	7,000	6,700 3,00
March 13	Repairs A/c To Cash A/c (Being the amount paid for repairs of furniture)	Dr.	200	200
March 13	In receipt of an order or no placing an order or tender, no entry will be passed, because it is not a transaction.			
March 14	Cash A/c To Sundry Receipts A/c (Being the cash received by sale of old newspapers)	Dr.	80	80
	Total c/f		1,25,230	1,25,230
	Total b/f		1,25,230	1,25,230
March 15	Bank A/c To Interest A/c (Being the interest received from bank)	Dr.	400	400
March 16	Goyal Bros. To Cash A/c (Being the expenses paid for goods sold to Goyal Bros.)	Dr.	300	300

March 19	Purchases A/c	Dr.	400	
	Cartage A/c	Dr.	50	
	To Sohan Lal & Sons			400
	To Cash A/c			50
	(Being the goods purchased from Sohan Lal & Sons and paid cartage)			
March 20	Goyal Bros.	Dr.	6,000	
	To Bank A/c			6,000
	(Being the cheque received from Goyal Bros. dishonoured)			
March 21	Cash A/c	Dr.	500	
	Profit and Loss A/c	Dr.	9,500	
	To Livestock A/c			10,000
	(Being the cash received by sale of carcass of dead horse)			
March 22	Rent A/c	Dr.	600	
	To Bank A/c			600
	(Being the rent paid by cheque)			
March 23	Salaries A/c	Dr.	300	
	To Salaries Outstanding A/c			300
	(Being the salaries for the month of February unpaid)			
March 25	Municipal Taxes A/c	Dr.	800	
	To Cash A/c			800
	(Being the amount paid for tax)			
March 31	Depreciation A/c	Dr.	2,000	
	To Furniture A/c			2,000
	(Being the depreciation charged on furniture @ 10% per annum)			
	Cash A/c	Dr.	1,000	
	To Shyam			1,000
	(Being the cash received as advance)			
			1,47,080	1,47,080

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

1999 - May [5] State with reason whether the following statement is true or false:

- (iv) Nominal accounts are balanced in the end of the accounting year. (2 marks)

Answer:

False: Nominal accounts are not balanced; the balances in the end are transferred to the profit and loss account.

2000 - May [5] State with reason whether the following statement is true or false:

- (iii) Outstanding expenditure is a nominal account. (2 marks)

Answer:

False: Outstanding expenditure represents a liability due to some person, therefore, it is a personal account.

2001 - Nov [5] State with reason whether the following statement is true or false:

- (iii) Patent-Right is in the nature of Real Account. (2 marks)

Answer:

True: Patent-right is an intangible asset. So, it is in the nature of real account.

2003 - May [5] State with reason whether the following statement is true or false:

- (ix) $\text{Equity} + \text{LTL} - \text{CL} = \text{FA} + \text{CA}$. (2 marks)

Answer:

False: The basic accounting equation is given by:

$$\text{Equity} + \text{LTL} = \text{FA} + \text{CA} - \text{CL}$$

2003 - Nov [5] State with reason whether the following statement is true or false:

- (v) The balance of an account is always known by the side which is shorter. (2 marks)

Answer:

False: The balance of an account is the difference between the total of debits and total of credits appearing in the account. If the debit side (left hand side) total is higher, it shall be a debit balance and if the credit side (right hand side) total is higher, it shall be a credit balance.

2003 - Nov [5] State with reason whether the following statement is true or false:

- (x) Closing entries are recorded in Journal Proper. (2 marks)

Answer:

True: All the closing entries are recorded in journal proper.

2004 - May [5] State with reason whether the following statement is true or false:

- (viii) Patent-Right is in the nature of Real Account. (2 marks)

Answer:

RAQ same as 2001 - Nov [5] (iii) on page no. 127

2005 - May [5] State with reason whether the following statement is true or false:

- (ii) Rent paid account is a Nominal Account whereas, rent received account is a Real Account. (2 marks)

Answer:

False: Rent paid and rent received – both are nominal accounts as they relate with expenses and incomes.

2005 - Nov [5] State with reason whether the following statement is true or false:

- (i) Salary paid to Ram will be debited to Ram's Personal account.

(2 marks)

Answer:

False: Salary paid to Ram will be debited to Salaries account.

2005 - Nov [5] State with reason whether the following statement is true or false:

- (v) Cash at Bank is a real account.

(2 marks)

Answer:

True: Cash at bank is a real account. Accounts which relate to assets of the firm but not debts are real accounts. Land, Building, investments, cash in hand and cash at bank are examples of real accounts.

2006 - Nov [5] State with reason whether the following statement is true or false:

- (i) 'Rent Outstanding' account comes under the category of Nominal account.

(2 marks)

Answer:

False: This account is personal account representing landlord.

2006 - Nov [5] State with reason whether the following statement is true or false:

- (x) The debit balance in a nominal account shows gains.

(2 marks)

Answer:

False: The debit balance in a nominal account shows expenses. The credit balance of a nominal account shows gain or income.

2019 - Nov [1] {C} (a) State with reason, whether the following statement is true or false.

- (i) Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment.

(2 marks)

Answer:

False: Trade discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

2024 - Sep [1] {C} (a) State with reason, whether the following statement is True or False:

- (i) Nominal Accounts are balanced at the end of the Accounting Year. (2 marks)

Answer:

False: Nominal accounts are not balanced at the end of an accounting year, but instead they are closed and their balances are transferred to Profit and Loss Account.

DESCRIPTIVE QUESTIONS

1997 - Nov [6] (a) Real Account and Nominal Account. (5 marks)

Answer:**Real Account and Nominal Account:**

A Real Account is a account relating to properties and assets, other than personal accounts of the firm. Examples are land, buildings, machinery, cash, investments etc. Nominal accounts relate to expenses or losses, income and gains. Examples are : wages, salaries, rent, depreciation etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are, therefore, temporary. The real accounts are shown in the balance sheet along with personal accounts.

Hint: Real Accounts = Assets/Liabilities; Nominal Accounts = Revenues/Expenses.

Time Required: 7.5 minutes

1999 - Nov [6] (c) Personal and Impersonal Accounts. (5 marks)

Answer:

Personal and Impersonal Accounts:

Personal accounts relate to persons, debtors or creditors. Examples would be the account of Ram & Co., a credit customer or the account of Jhaveri & Co., a supplier of goods. The capital account is the account of the proprietor and, therefore, it is also personal but adjustments on account of profits and losses are made in it.

Accounts which are not personal such as machinery account, cash account, rent account, etc. are called impersonal accounts. These can be further subdivided as: real accounts and nominal accounts. Accounts which relate to assets of the firm but not debts are real accounts. For example, accounts regarding land, buildings, investments, fixed deposits, cash in hand and bank balances etc. are real accounts in nature. Nominal accounts relate to expenses, losses, gains, revenues etc. like salary account, interest paid account, commission received account. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account. Nominal accounts are therefore, temporary.

Hint: Personal Accounts involve people or entities, while Impersonal Accounts include assets (Real) and financial transactions.

Time Required: 7.5 minutes

2023 - June [6] (b) What are the importance of Journal? (5 marks)

Answer:

Advantages of Journal:

Journal helps to record the transactions on double entry system and has the following advantages:

1. Transactions are recorded in chronological order which provides information on time basis.
2. Each journal entry is supported by a "narration" which provides adequate explanation for each transaction.
3. Journal entries help in ledger posting.

4. As both aspects of debit and credit are recorded, it reduces chances of committing errors.
5. All transactions can be easily located at one place.

Hint: Journal provides a chronological record, includes narrations, and serves as the basis for ledger posting.

Time Required: 7.5 minutes

PRACTICAL QUESTIONS

2024 - June [1] {C} (c) Pass journal entries for the following transactions in the books of Mr. Kapil:


- (i) Purchased goods from Sonu for ₹ 1,50,000 at a trade discount of 10% plus CGST and SGST @ 6% each.
- (ii) Sold goods to Mohit for ₹ 50,000 and charged CGST and SGST @ 5% each. Out of the amount due 40% is received by cheque immediately.
- (iii) Goods costing ₹ 25,000 withdrawn for personal use. Such Goods were purchased by paying CGST and SGST @ 6% each.
- (iv) Machinery purchased from M/s Bright Industries for ₹ 2,00,000 plus CGST and SGST @ 9% each. Paid ₹ 1,00,000 immediately by cheque and balance to be paid after two months. (4 × 1 = 4 marks)

Answer:

Journal Entries in the books of Kapil

Particulars	L/F	Debit (₹)	Credit (₹)
Purchases A/c	Dr.	1,35,000	
Input CGST A/c	Dr.	8,100	
Input SGST A/c	Dr.	8,100	
To Sonu A/c			1,51,200
(Being purchases made from Sonu @ 10% trade discount and 6% CGST and SGST each)			

Bank A/c	Dr.		22,000	
Mohit A/c	Dr.		33,000	
To Sales A/c				50,000
To Output CGST A/c				2,500
To Output SGST A/c				2,500
(Being sales made to Mohit @ 5% each CGST and SGST and received 40% by cheque)				
Drawings A/c	Dr.		28,000	
To Purchases A/c				25,000
To Input CGST A/c				1,500
To Input SGST A/c				1,500
(Being goods withdrawn for personal use)				
Machinery A/c	Dr.		2,00,000	
Input CGST A/c	Dr.		18,000	
Input SGST A/c	Dr.		18,000	
To Bank				1,00,000
To M/s Bright A/c				1,36,000
(Being Machinery purchased)				

MEMORIZATION TECHNIQUES	Visualization with Diagrams
	<ul style="list-style-type: none"> • How it Works: Convert written material into diagrams or flowcharts. For example, draw out the tax calculation process or the flow of financial transactions. • Why it Helps: Visual representations make complex processes more digestible and improve long-term retention.

RELAXATION TECHNIQUES

Breath Counting

- How to Do It: Count each breath as you inhale and exhale. Focus on reaching 10 breaths, then start again at 1.
- Benefits: Encourages mindfulness and helps reduce mental chatter.

Palming Technique

- How to Do It: Rub your palms together to generate heat, then place them over your closed eyes. Hold for 1-2 minutes while focusing on the warmth and darkness.
- Benefits: Relieves eye strain and promotes relaxation, especially after long periods of reading or screen use.

Walking Meditation

- How to Do It: Take a short walk, focusing on each step and the sensations in your feet as they touch the ground. Walk slowly and mindfully, paying attention to your breathing and surroundings.
- Benefits: Combines movement with mindfulness, reducing stress and clearing the mind.

Breath of Fire

- How to Do It: Sit comfortably, take a deep breath in, and exhale forcefully through your nose while pulling your belly button toward your spine. The exhalation should be quick and powerful, followed by a quick, passive inhalation. Repeat for 30 seconds.
- Benefits: Increases oxygen flow, energizes the body, and improves focus.

QUICK STUDY TIPS

Use the Pomodoro Technique

- Study for 25 minutes, then take a 5-minute break. Repeat this cycle four times, then take a longer 15-30 minute break.
- Why: This technique helps maintain focus while preventing burnout.

Active Recall

- Instead of just re-reading notes, actively quiz yourself on the material. Close your book and try to recall key points.
- Why: Helps improve long-term memory retention.

Teach What You Learn

- After studying a concept, explain it to someone else (or pretend to). Teaching reinforces understanding.
- Why: It solidifies your grasp of the topic and reveals areas that need more review.

Break Down Complex Topics

- Divide large, complex topics into smaller, manageable sections. Focus on one small section at a time.
- Why: This reduces overwhelm and makes the material easier to absorb.

Use Mnemonics

- Create acronyms, rhymes, or stories to remember complex concepts or lists.
- Why: Mnemonics make recalling information quicker and easier.

FUN FACTS OR ANECDOTES FOR LAW

The Longest Case in History

- **Fact:** The longest legal case ever recorded lasted 117 years! The case, involving a family dispute over land ownership, began in 1202 and ended in 1318 in France.
- **Why it's Fun:** It shows how complicated legal disputes can get, and thankfully, modern cases don't usually last this long!

The Case of the Stolen Pants

- **Anecdote:** In 2005, a Washington, D.C. judge sued a dry cleaner for \$54 million over a pair of missing pants. The case, "Pearson v. Chung," became infamous for its absurdity, but the judge lost the case, and the dry cleaner was awarded legal fees.
- **Why it's Fun:** It highlights how some legal disputes can escalate into over-the-top lawsuits, but the justice system still prevails.

The Origin of the Word "Lawyer"

- **Fact:** The word "lawyer" comes from the Old Norse word "lag," meaning "something laid down or fixed." It later evolved through Middle English as "lawier" and became the term we use today.
- **Why it's Fun:** Language evolves, and it's fascinating how a simple Norse term became such a vital part of modern society!

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



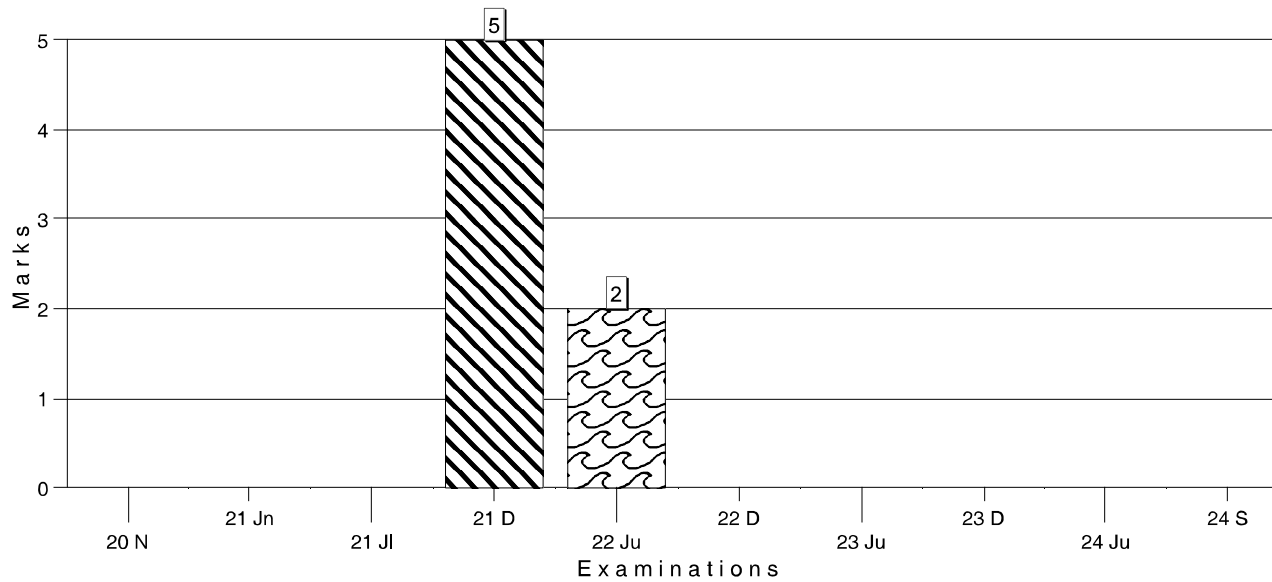
Distinguish



Descriptive



Practical



CHAPTER	ACCOUNTING PROCESS
2.2	Ledger

SELF STUDY QUESTIONS

Q. 1. What is a Ledger?

Answer:

Ledger is the principal book of account. It consists of all the transactions entered in Journal rearranged under various account heads.

It shows account balance of each accounting head.

Specimen of Ledger Accounts:

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)

Q. 2. What do you understand by Posting?

Answer:

Transferring of journal entries to the respective accounts in ledger.

Rules regarding posting of entries in the ledger.

1. Open the respective ledger account for recording entries recorded in Journal.
2. Use of words 'To' and 'By' on Debit and Credit side respectively.
3. If the account debited in journal then the ledger of such account of it will be debited with the reference of the account which has been credited in same entry, on the left side of the account as 'To'.
Similarly, if the account is credited in journal, then ledger of such account will have reference of entry of the account debited in same entry on the right side of the account as 'By'.

Example:

If an entry in Journal is written as

Cash A/c	Dr. 2,000	
To Commission A/c		2,000

(Being commission received)

Posting:**Cash A/c**

Dr.	Cr.						
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Commission A/c		2,000				

Commission A/c

Dr.	Cr.						
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
					By Cash A/c		2,000

Q. 3. How is Balancing an Account done?**Answer:**

- Total both the sides of account and check which side has greater total.
- Now put the greater total at bottom on both the sides of the account.
- Add all the individual amounts of the side having lesser total and find the difference between the amount calculated and the amount written below.
- If the credit side has higher total then the difference balance is called as credit balance and is written on left side as 'To Balance c/d'. Similarly if debit side has higher total then the difference is called debit balance and written on right side as 'By Balance c/d'.
- In the next period these balances are carried down, debit balance on debit side as 'To balance b/d' and credit balance on credit side as 'By Balance c/d'.
- The balances of nominal accounts are transferred to profit and loss A/c at the end of accounting period and not carried forward.

Example:

Journalise following transaction and Prepare Bank Account.

April 1	Opening Balance	3,000
April 2	Goods sold	1,200
April 10	Purchase of goods on credit from Mr. A	2,000
April 15	Salary paid to staff	160
April 20	Drawings for personal use	400
April 25	Further capital introduced	3,760
April 30	Goods sold on credit to Mr. X	3,200

Solution:**Journal**

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
April 2	Bank/Cash A/c Dr. To Sales A/c (Being Goods sold for cash)		1,200	1,200
April 10	Purchases A/c Dr. To A's A/c (Being goods purchased from Mr. A)		2,000	2,000
April 15	Salary A/c Dr. To Bank A/c (Being salary paid to staff)		160	160
April 20	Drawings A/c Dr. To Bank A/c (Being cash withdrew for personal use)		400	400
April 25	Bank A/c Dr. To Capital A/c (Being cash introduced as further capital)		3,760	3,760

April 30	Mr. X A/c To Sales A/c (Being goods sold on credit to Mr. X)	Dr.	3,200	3,200
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Bank A/c

Dr.				Cr.			
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
April 1	To Balance b/d		3,000	April 15	By Salary A/c		160
April 2	To Sales A/c		1,200	April 20	By Drawings A/c		400
April 25	To Capital A/c		3,760		By Balance c/d		7,400
			7,960				7,960
May 1	To Balance b/d		7,400				

SHORT PRACTICE QUESTIONS

1. What do you understand by Balancing of an Account?
2. Enumerate the rules of posting in Ledger Account.

LEGAL MAXIMS CORPORATE LAW

Lex loci solutionis

- Meaning: The law of the place of performance.
- Usage: This principle is used in corporate contracts to determine which jurisdiction's laws govern the obligations of the parties based on where the contract is to be performed.

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

2022 - June [1] {C} (a) State with reasons, whether the following statement is **True or False**:

- (ii) At the end of the accounting year, all the nominal accounts of the ledger book are balanced. (2 marks)

Answer:

False: Nominal accounts are not balanced, the balance in the end is transferred to the profit and loss account. Only personal and real accounts, ultimately show balances.

DISTINGUISH BETWEEN

2001 - Nov [6] (a) Difference between Journal and Ledger. (5 marks)

Answer:

Journal and Ledger:

Transactions are first entered in a book called 'Journal' to show which account should be debited and which credited. Journal creates preliminary records and, is also called subsidiary book. All transactions are first recorded in the journal as and when they occur, the record is chronological, otherwise it would be difficult to maintain the records in an orderly manner. Journal gives details regarding any transaction. Thus Journal tells the amounts to be debited and credited and also the accounts involved.

On the basis of entries made in the Journal, accounts are prepared; the book which contains the accounts is called 'Ledger'. Ledger creates final record and is also known as principle book. Ledger can not give details of any

particular transaction. On the basis of the entries recorded in the journal, the postings to the required accounts are done in the ledger. After posting the accounts in the ledger, the trial balance can be prepared to show separately the debit and credit balances.

Hint: Journal is the initial, detailed record; Ledger is the summarized, classified account.

Time Required: 7.5 minutes

DESCRIPTIVE QUESTIONS

2021 - Dec [6] (b) Discuss the following:

- (i) What do you mean by principal books of accounts?
- (ii) What are the rules of posting of journal entries into the Ledger?

(5 marks)

Answer:

- (i) Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz personal, real and nominal accounts)
- (ii) Rules regarding posting of entries in the ledger:
 - (a) Separate account is opened in ledger book for each account and entries from ledger posted to respective account accordingly.
 - (b) It is a practice to use words 'to' and 'by' while posting transactions in the ledger. The word 'To' is used in the particulars column with the accounts written on the debit side while 'By' is used with the accounts written in the particulars column of the credit side. These 'To' and 'by' do not have any meanings but are used to the account debited and credited.

- (c) The concerned account debited in the journal should also be debited in the ledger but reference should be of respective credit account.

Hint: Ledger is the principal book, Posting uses "To" for debit and "By" for credit.

Time Required: 7.5 minutes

RELAXATION TECHNIQUES

Visualization (Guided Imagery)

- How to Do It: Close your eyes and imagine yourself in a peaceful, relaxing environment, like a beach or forest. Focus on the sights, sounds, and smells of this place for 2-3 minutes.
- Benefits: Reduces stress by shifting your mind to a calm and happy place.

4-7-8 Breathing Technique

- How to Do It: Inhale for 4 seconds, hold your breath for 7 seconds, and exhale slowly for 8 seconds. Repeat for 4 cycles.
- Benefits: Promotes relaxation, helps manage anxiety, and can even improve sleep.

Finger Breathing

- How to Do It: Trace the fingers of one hand with the index finger of the other hand. Inhale as you trace up the side of each finger, and exhale as you trace down the other side. Repeat for all fingers.
- Benefits: Helps focus attention and calms the nervous system with gentle rhythmic movement.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



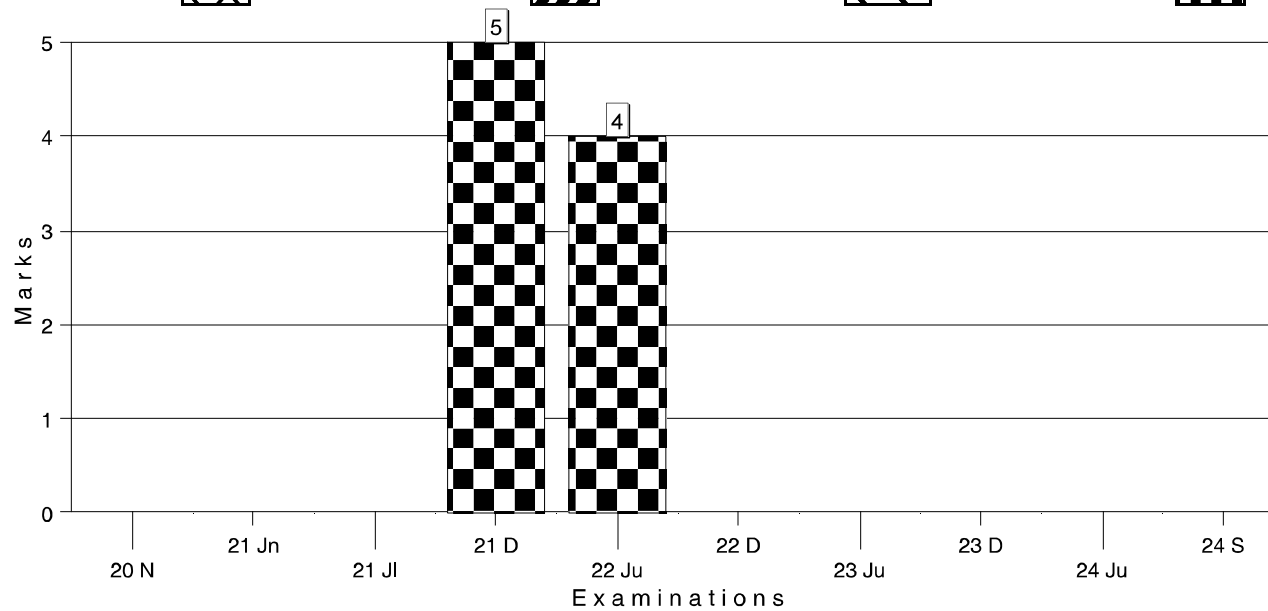
Distinguish



Descriptive



Practical



CHAPTER	ACCOUNTING PROCESS
2.3	Trial Balance

SELF STUDY QUESTIONS

Q. 1. What is a Trial Balance?

Answer:

A trial balance is the list of all account balances after recording of all transactions in respective ledger accounts. It helps to verify the arithmetical accuracy of the ledger accounts.

In double entry system, each account has two aspects debit and credit. Hence, after recording all account balances both the sides must agree. If there is a difference in two sides, then there exists an arithmetical error in any account balance. Trial balance can not be said as an account. It is simply a list of all account balances.

Q. 2. What are the Objectives of preparing a Trial Balance?

Answer:

- To check arithmetical accuracy of transactions recorded in books of accounts.
- Helps in preparation of Profit and Loss account and Balance Sheet.
- Acts as a summary of various ledger accounts.

Specimen of Trial Balance

S.No.	Ledger Accounts	L.F.	Debit side	Credit side
			Total	Total
			Amount (₹)	Amount (₹)

Q. 3. What are the Limitations of a Trial Balance?**Answer:**

Agreement of Trial Balance is not a conclusive proof of accuracy. In other words, in spite of the agreement of the trial balance some errors may remain. These may be of the following types:

1. Transaction has not been entered at all in the journal.
2. A wrong amount has been written in both columns of the journal.
3. A wrong account has been mentioned in the journal.
4. An entry has not at all been posted in the ledger.
5. Entry is posted twice in the ledger.

Q. 4. What are the Methods of Preparation of a Trial Balance?**Answer:****1. Total Method**

Total of debit and credit side of each ledger account is straightaway transferred to the Trial Balance it is also called as Gross Trial Balance.

This method is inconvenient and not popular since financial statements cannot be prepared through it.

2. Balance Method

Differential balance of each ledger account is transferred to Trial Balance. It is also called as Net Trial Balance.

This method is simple and scientific and helps in preparation of financial statements.

3. Total and Balance Method

Combination of above two methods is called Total and Balance Method.

Under this method Trial Balance contains 7 columns.

Example:

From the following ledger extracts relating to the business of X and Co. as on March 31, 2016, prepare the trial balance as per:

1. Total Method
2. Balance Method
3. Total and Balance Method.

Dr.		Cash Account		Cr.	
Particulars	₹	Particulars	₹		
To Capital A/c	10,000	By Furniture A/c	3,000		
To Ram's A/c	25,000	By Salaries A/c	2,500		
To Cash Sales	500	By Shyam's A/c	21,000		
		By Cash Purchases	1,000		
		By Capital A/c	500		
		By Balance c/d	7,500		
	35,500				35,500

Dr.		Furniture Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	3,000	By Balance c/d	3,000		
	3,000				3,000

Dr.		Salaries Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	2,500	By Balance c/d	2,500		
	2,500				2,500

Dr.		Shyam's Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	21,000	By Balance c/d	25,000		
To Purchase Returns A/c	500	(Credit Purchases)			
To Balance c/d	3,500				-
	25,000				25,000

Dr.		Purchases Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c (Cash Purchases)	1,000	By Balance c/d	26,000		
To Sundries as per Purchases Book (Credit Purchases)	25,000				-
	26,000				26,000

Dr.		Purchases Return Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance c/d	500	By Sundries as per Purchase Return Book	500		
	500				500

Dr.		Ram's Account		Cr.	
Particulars	₹	Particulars	₹		
To Sales A/c (Credit Sales)	30,000	By Sales Return A/c	100		
		By Cash A/c	25,000		
		By Balance c/d	4,900		
	30,000				30,000

Dr.		Sales Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance c/d	30,500	By Cash A/c (Cash Sales)	500		
		By Sundries as per Sales Book (Credit Sales)	30,000		
	30,500				30,500

Dr.		Sales Returns Account		Cr.	
Particulars	₹	Particulars	₹		
To Sundries as per Sales Return Book	100	By Balance c/d	100		
	100				100

Dr.		Capital Account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c	500	By Cash A/c	10,000		
To Balance c/d	9,500				
	10,000				10,000

Answer:

1. Total Method

Trial Balance of X and Co. as at 31.03.2016

Sl. No.	Name of Account	Total Debit Items ₹	Total Credit Items ₹
1.	Cash A/c	35,500	28,000
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shayam's A/c	21,500	25,000
5.	Purchase A/c	26,000	
6.	Purchase Returns A/c		500
7.	Ram's A/c	30,000	25,100
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c	500	10,000
		1,19,100	1,19,100

2. Balance Method**Trial Balance of X and Co. as at 31.03.2016**

Sl. No.	Name of Account	Debit Balance ₹	Credit Balance ₹
1.	Cash A/c	7,500	
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shayam's A/c		3,500
5.	Purchase A/c	26,000	
6.	Purchase Returns A/c		500
7.	Ram's A/c	4,900	
8.	Sales A/c		30,500
9.	Sales Return A/c	100	
10.	Capital A/c	-	9,500
		44,000	44,000

3. Total and Balance Method**Trial Balance of X as at 31.03.2016**

Sl. No.	Name of Account	L.F.	Debit Balance (₹)	Credit Balance (₹)	Debit Balance (₹)	Credit Balance (₹)
1.	Cash A/c		7,500		35,500	28,000
2.	Furniture A/c		3,000		3,000	
3.	Salaries A/c		2,500		2,500	
4.	Shayam's A/c			3,500	21,500	25,000
5.	Purchase A/c		26,000		26,000	

6.	Purchase Returns A/c		500		500
7.	Ram's A/c	4,900		30,000	25,100
8.	Sales A/c		30,500		30,500
9.	Sales Returns A/c	100		100	
10.	Capital A/c		9,500	500	10,000
	Total	44,000	44,000	1,19,000	1,19,000

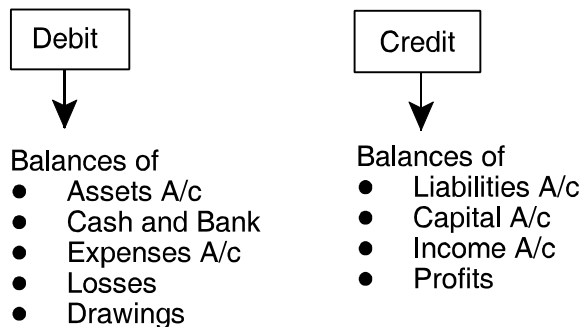
Q. 5. What is a adjusted Trial Balance (Through Suspense Account)?

Answer:

- If the two sides of Trial Balance do not agree, it implies that there are certain one sided errors in recording of transactions in books of account.
- In such case the difference in Trial Balance is passed in a separate Account called Suspense Account until the errors are located.
- When all the errors are located suspense account automatically closes. Hence, it is treated as a temporary Account created to avoid delay in preparation of statements.

Q. 6. What are the rules of preparing the Trial Balance?

Answer:



Example: A bookkeeper extracted the following Trial Balance as on 31st March, 2009:

Heads of Account	Dr. Balance ₹	Cr. Balance ₹
Furniture	20,000	—
Capital	—	2,00,000
Debtors	2,00,000	—
Stock (1 st April, 2008)	1,04,000	—
Creditors	—	80,000
Trade Expenses	50,000	—
Sales	—	8,58,000
Wages	30,000	—
Stock (31 st March, 2009)	98,000	—
Machinery	—	50,000
Purchases	6,25,000	—
Wife's loan to the business	50,000	—
Discount Allowed	—	4,000
Drawings made by the Proprietor	—	45,000
Motor Van	60,000	—
	12,37,000	12,37,000

You are required to:

1. State the errors giving reasons;
2. Redraft the Trial Balance correctly.

Solution:

1. (a) Stock on 31st March, 2009, will not appear in the Trial Balance because it has not yet been brought into account.
(b) Machinery is an asset and thus will appear in the debit column.

- (c) Wife's loan to the business is a liability. It will appear in the credit column.
- (d) Discount allowed, being an expense, will appear in the debit column.
- (e) Drawings made by the proprietor is a decrease of capital (i.e., decrease of proprietor's claim from the business). It will appear in the debit column.

2.

Trial Balance
as on 31st March, 2009


Heads of Account	L.F.	Dr. Balance ₹	Cr. Balance ₹
Furniture		20,000	
Capital			2,00,000
Debtors		2,00,000	
Stock (1 st April, 2008)		1,04,000	
Creditors			80,000
Trade Expenses		50,000	
Sales			8,58,000
Wages		30,000	
Machinery		50,000	
Purchases		6,25,000	
Wife's loan to the business			50,000
Discount Allowed		4,000	
Drawings made by the Proprietor		45,000	
Motor Van		60,000	
		11,88,000	11,88,000

Notes: At the time of correction of the Trial Balance, students should note the following:

1. All assets and expense account will show a debit balance.
2. All liabilities and income account will show a credit balance.

SHORT PRACTICE QUESTIONS

1. What is Trial Balance. Explain any two method of preparing of Trial Balance.
2. Does the Trial Balance prove that the books are absolutely correct?

MEMORIZATION TECHNIQUES	Handwritten Notes
	<ul style="list-style-type: none"> • How it Works: Write important concepts or summaries by hand rather than typing. The process of writing helps engage the brain more deeply than typing. • Why it Helps: Handwriting improves comprehension and memory retention by reinforcing information through active engagement.

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

1997 - Nov [5] State with reasons whether following statement is true false:
(2) The Trial balance ensures the arithmetical accuracy of the books.

(2 marks)

Answer:

True: The Trial Balance helps to establish the arithmetical accuracy of ledger balances.

1999 - Nov [5] State with reasons whether following statement is true false:
(ii) Tallying of the trial balance only proves arithmetical accuracy.

(2 marks)

Answer:

True: Trial balance helps to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal errors of principle and compensating errors.

2000 - May [5] State with reasons whether following statement is true false:
(vi) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

(2 marks)

Answer:

False: Trial balance only checks the arithmetical accuracy of books. Errors of principles and errors of omissions will not affect the agreement of the Trial Balance.

2001 - Nov [5] State with reasons whether following statement is true false:
(ix) The Trial Balance does not ensure the arithmetical accuracy of the books.

(2 marks)

Answer:

False: Trial balance helps to establish the arithmetical accuracy of ledger balances. However, a tallied trial balance will not reveal errors of principle and compensating errors.

2003 - May [5] State with reasons whether following statement is true false:
(viii) A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles. (2 marks)

Answer:

False: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

2004 - May [5] State with reasons whether following statement is true false:
(ii) The Trial Balance does not ensure the arithmetical accuracy of the books (2 marks)

Answer:

False: Trial Balance helps to establish the arithmetical accuracy of ledger balances. However, a tallied trial balance will not reveal errors of principle and compensating errors.

2004 - Nov [5] State with reasons whether following statement is true false:
(ii) Trial Balance is an absolute proof of the accuracy of the books of accounts. (2 marks)

Answer:

False: Agreement of trial 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 effect the agreement of trial balance.

2006 - May [5] State with reasons whether following statement is true false:
(iv) Closing Stock will never appear in the Trial Balance. (2 marks)

Answer:

False: When cost of goods sold or gross profit are given in Trial Balance, closing stock will appear in the Trial Balance.

SHORT NOTES

2006 - May [6] (ii) Objectives of preparing Trial Balance. (5 marks)

Answer:

Objectives of preparing Trial Balance:

The preparation of Trial Balance has the following objectives:

1. Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books.
2. Financial statements are normally prepared on the basis of agreed trial balance; otherwise the work may be cumbersome. Preparation of financial statements, therefore, is the second objective.
3. The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.

Hint: Trial Balance checks accuracy, forms the basis for financial statements and summarizes the ledger.

Required Time: 7.5 minutes

PRACTICAL QUESTIONS

2019 - Nov [5] (a) An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	250	–
Cash Credit Account	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Due from customers	2,983	–
Discount Received	252	–
Discount Allowed	–	733

Drawings	1,200	–
Office Furniture	2,155	–
Carriage Inward	–	829
Purchases	10,923	–
Returns Inward	–	330
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	25,033	25,002

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a Suspense account. (5 marks)

Answer:

**Trial Balance
as on 31st March, 2019**

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	–	250
Cash Credit Account	–	1,654
Capital	–	4,591
Trade Payables	–	1,637
Due from Customers	2,983	–
Discount Received	–	252
Discount Allowed	733	–
Drawings	1,200	–
Office Furniture	2,155	–
Carriage Inward	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–

Sales	-	16,882
Inventory	2,418	-
Provision for Depreciation on Furniture	-	364
Suspense Account (Balancing Figure)	1,225	-
Total	25,630	25,630

2021 - Dec [2] (a) From the following information, draw up a Trial Balance in the books of Shri M as on 31st March, 2021:

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital	1,40,000	Purchases	36,000
Discount Allowed	1,200	Carriage Inward	8,700
Carriage Outwards	2,300	Sales	60,000
Return Inward	300	Return Outwards	700
Rent and Taxes	1,200	Plant and Machinery	80,700
Stock on 1 st April, 2020	15,500	Sundry Debtors	20,200
Sundry Creditors	12,000	Investments	3,600
Commission Received	1,800	Cash in Hand	100
Cash at Bank	10,100	Motor Cycle	34,600
Stock on 31 st March, 2021	20,500		

(5 marks)

Answer:

Trial Balance
In the books of Shri M
(as on 31st March, 2021)

Heads of Accounts	L.f.	(₹)	(₹)
		Dr.	Cr.
Capital		-	140,000
Purchases		36,000	-

Discount allowed		1,200	-
Carriage Inward		8,700	-
Carriage Outward		2,300	-
Sales		-	60,000
Return Inward		300	-
Return Outward		-	700
Rent & taxes		1,200	-
Plant & Machine		80,700	
Stock on 1.4.2020		15,500	
Sundry debtor		20,200	
Sundry Creditors		-	12,000
Investment		3,600	
Commission received			1,800
Cash in hand		100	
Cash at Bank		10,100	
Motor cycle		34,600	
Total		2,14,500	2,14,500

Value of Closing stock on 31st March, 2021 is ₹ 20,500.

2022 - June [1] {C} (c) One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. As a basis for audit, Mr. X furnished you with the following statement:

	Dr.	Cr.
X's Capital		4,668
X's Drawings	1,692	
Leasehold Premises	2,250	
Sales		8,250
Due from Customers		1,590
Purchases	3,777	

Purchase Return	792	
Loan from Bank		768
Trade Expense	2,100	
Trade Payable	1,584	
Bills Payable	300	
Salaries and Wages	1,800	
Cash at Bank	678	
Opening Inventory		792
Rent and Rates	1,389	
Sales Return		294
	16,362	16,362

The closing inventory was ₹ 1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any. (4 marks)

Answer:


**Corrected Trial Balance of Mr. X.
as on 31.03.2022**


Name of Account	Dr. (₹)	Cr. (₹)
X's Capital		4,668
X's Drawings	1,692	
Leasehold premises	2,250	
Sales		8,250
Due from customers	1,590	
Purchases	3,777	
Purchase Return		792
Loan from Bank		768


Trade Expense	2,100	
Trade Payable		1,584
Bills Payable		300
Salaries and wages	1,800	
Cash at Bank	678	
Opening Inventory	792	
Rent and Rates	1,389	
Sales Return	294	
	16,362	16,362

Reasons:

1. Due from customer is an asset, so its balance will be a debit balance.
2. Purchase return has a credit balance as goods are going out.
3. Trade payable is a liability, hence it has a credit balance.
4. Bills payable is a liability, so its balance is a credit balance.
5. Opening inventory, represents an asset, so it has a debit balance.
6. Sales Return account has a debit balance as goods are coming in.

MEMORIZATION TECHNIQUES	Spaced Repetition
	<ul style="list-style-type: none"> • How it Works: Review the material at gradually increasing intervals-1 day, 3 days, 1 week, 2 weeks, etc. • Why it Helps: Revisiting information at spaced intervals strengthens long-term retention.

MEMORIZATION TECHNIQUES	Association Technique
	<ul style="list-style-type: none"> • How it Works: Associate new information with something you already know. For example, link the concept of depreciation methods with real-life examples, such as equipment aging. • Why it Helps: It builds connections between new and existing knowledge, making recall smoother.

MEMORIZATION TECHNIQUES	Visual Imagery
	<ul style="list-style-type: none"> • How it Works: Visualize abstract concepts into vivid mental images. For example, visualize financial statements as a balancing scale with assets on one side and liabilities on the other. • Why it Helps: Visualizing information makes it easier to retrieve when needed.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



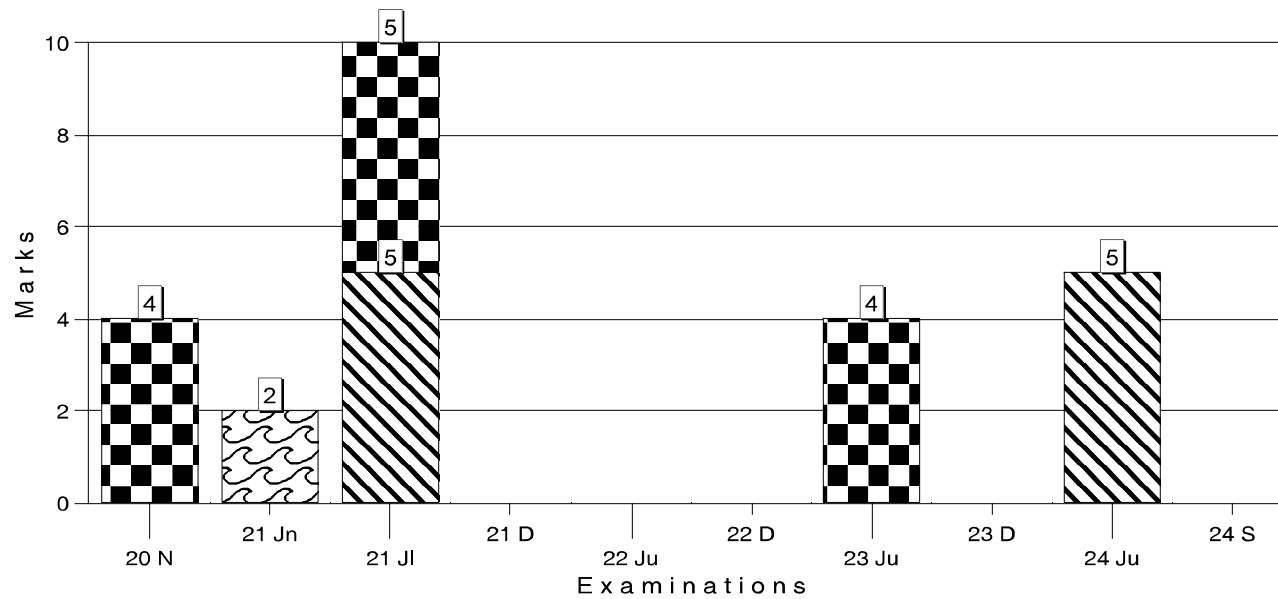
Distinguish



Descriptive



Practical



CHAPTER	ACCOUNTING PROCESS
2.4	Subsidiary Books

SELF STUDY QUESTIONS

Q. 1. What are Subsidiary Books and what are their advantages?

Answer:

In a business organisation, there are innumerable transactions in an accounting period. For recording all these transactions, Journal is subdivided into Books of Original Entries.

These are:

1. Cash Book
2. Purchase Daybook
3. Sales Daybook
4. Purchase Return Book
5. Sales Return Book
6. Bills Receivable Book
7. Bills Payable Book
8. Journal (Proper)

Advantages

1. **Division of work:** Posting of primary records can be assigned to different accounting clerks, hence processing is done faster and accurately.
2. **Specialisation and Efficiency:** Persons entrusted with particular portion of accounting work becomes efficient in handling the same.
3. **Saving of time:** Many persons perform the work at same time, hence the recording is done quickly.
4. **Availability of Information:** All information about particular class of transactions can be kept at a single place.

- 5. Facilitates checking:** It makes easy to track transactions with extended details. Also, accounting work can be divided in such manner that the work of one person is automatically checked by another hence errors can easily be found.

Q. 2. Difference between Subsidiary Books and Principal Books.

Answer:

In subsidiary books all the details of particular transaction are recorded while the principal book will contain only the consolidated entry to facilitate the preparation of final accounts (financial statements)

Various Financial Books	
Principal Books	Subsidiary Books
↓	↓
<ul style="list-style-type: none"> • Ledgers 	<ul style="list-style-type: none"> • Purchase Book • Sales Book • Purchase Return Book • Sales Return Book • Bills Receivable Book • Bills Payable Book • Journal Proper • Cash Book <ul style="list-style-type: none"> – Simple Cash Book – Two column Cash Book – Three column Cash Book – Petty Cash Book

Q. 3. What do you mean by Purchases Book/Purchases Journal?

Answer:

It keeps the chronological record of all credit purchases made by the business.

Any property or asset not intended for sale is not recorded in this book.

Format

Date	Particulars		Amount (₹)

Posting the Purchase Book

At the end of a period, the total of Purchase Journal is posted to the debit side of Purchase Account to complete the double entry for all transaction which were earlier credited to Supplier's Account.

Q. 4. What do you understand by Sales Book/Sales Journal?

Answer:

It keeps the chronological record of all credit sales of goods made by the business.

Cash sales and sale of assets are not recorded in this book. The format of Sales Journal is almost identical to Purchase Journal.

Posting the Sales Book

The amount of every item is posted separately to debit side of customer Accounts and at the end of the period, the total is posted to credit side of sales Account to complete the double entry for all the transactions.

Q. 5. What do you mean by Sales Return Book or Return Inward Book?

Answer:

It keeps the record of goods previously sold which are returned due to various reasons by the customers. The method of recording is similar to Purchase Journal.

Q. 6. What do you mean by Purchase Returns or Return Outward Book?

Answer:

It keeps record of goods previously purchased which are returned to the supplier due to various reasons such as defective, wrong supplies, etc.

Posting of the Return Books

Purchase Return Book

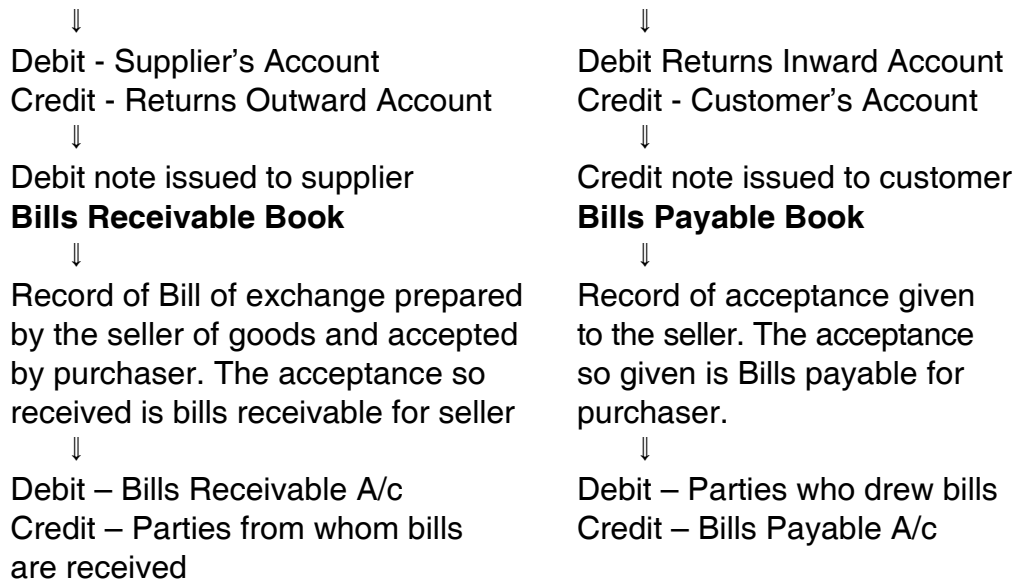


Total Returns made to suppliers

Sales Return Book



Total Returns made by customers

**Q. 7. What is the Importance of Journal?****Answer:**

For all the residual entries for which no special books are maintained Journal (Proper) is made.

Types of Journal Entries Passed

- 1. Opening Entries:** Entries recorded at the beginning of the accounting year. These includes opening balances of business assets, liabilities and capital.

Sundry Assets A/c	Dr.
To Sundry Liabilities A/c	
To Capital A/c	

- 2. Closing Entries:** Entries passed at the end of the accounting year to transfer the balance of nominal accounts to Profit and Loss A/c.
- 3. Rectification Entries:** Entries passed to rectify the error in books of accounts.
- 4. Transfer Entries:** From one account to another.

5. **Adjusting entries:** Adjustment related to Outstanding expenses, Prepaid Expenses, Depreciation, Interest on capital, etc.
6. **Entries on dishonour of Bills:** Journal entry to be passed when the person who earlier accepted the bill has shown inability to pay it.
7. **Miscellaneous Entries:** Other entries such as discount allowed or discount received, transfer of Net Profit to capital A/c, bad debts, etc.

SHORT PRACTICE QUESTIONS

1. Which entries can be passed through Journal?
2. What do you mean by subsidiary books and list out its advantages?

FUN FACTS OR ANECDOTES FOR LAW

The Longest Case in History

- **Fact:** The longest legal case ever recorded lasted 117 years! The case, involving a family dispute over land ownership, began in 1202 and ended in 1318 in France.
- **Why it's Fun:** It shows how complicated legal disputes can get, and thankfully, modern cases don't usually last this long!

The Case of the Stolen Pants

- **Anecdote:** In 2005, a Washington, D.C. judge sued a dry cleaner for \$54 million over a pair of missing pants. The case, "Pearson v. Chung," became infamous for its absurdity, but the judge lost the case, and the dry cleaner was awarded legal fees.
- **Why it's Fun:** It highlights how some legal disputes can escalate into over-the-top lawsuits, but the justice system still prevails.

PAST YEAR QUESTIONS AND ANSWERS**OBJECTIVE QUESTIONS**

2000 - Nov [5] State with reason whether following statement is true or false:
(6) The Purchase Day-Book is a part of the Ledger. (2 marks)

Answer:

False: Purchase Day-Book is a book of prime entry and hence it is a part of the journal.

2001 - Nov [5] State with reason whether following statement is true or false:
(vii) The Sales Day-book is a part of the Ledger. (2 marks)

Answer:

False: Sales Day-Book is a book of prime entry and hence it is a part of the Journal.

2002 - May [5] State with reason whether following statement is true or false:
(4) Purchases Book records all credit purchases of goods. (2 marks)

Answer:

True: All credit purchases of goods dealt in or of materials and stores used in the factory are recorded in purchases book.

2002 - Nov [5] State with reason whether following statement is true or false:
(f) Wrong casting of subsidiary books does not affect the Trial Balance. (2 marks)

Answer:

False: Wrong costing of subsidiary books affects the agreement of trial balance.

2003 - May [5] State with reasons whether the following statement is true or false:

(v) The debit notes issued are to prepare Sales Return Book. (2 marks)

Answer:

False: The source document for this book is credit note. When goods are received along with the debit note, the seller acknowledges the same by sending the credit note to the customer.

2003 - Nov [5] State with reason whether following statement is true or false:

- (iv) The return of goods by a customer should be debited to Return Outward Account. (2 marks)

Answer:

False: It is debited to Return Inwards A/c.

2004 - May [5] State with reason whether following statement is true or false:

- (iv) The Sales Day-book is a part of the Ledger. (2 marks)

Answer:

False: Sales Day-Book is a book of prime entry and hence it is a part of the Journal.

2005 - May [5] State with reason whether following statement is true or false:

- (xi) Where subsidiary books are maintained, journal is not required. (2 marks)

Answer:

False: Journal is required even when subsidiary books are maintained. This is so because many entries such as opening and closing entry, rectification entry etc. are recorded in journal.

2005 - Nov [5] State with reason whether following statement is true or false:

- (iii) Sales day book is the summary of both cash and credit sales of the concern. (2 marks)

Answer:

False: The sales book is a register specifically kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book.

2006 - Nov [5] State with reason whether following statement is true or false:

- (ii) The transaction of 'Return of goods by a customer' to whom money is refunded immediately will not be recorded in "Sales Return Book".

(2 marks)

Answer:

True: The transaction will be recorded in the Cash Book.

2006 - Nov [5] State with reason whether following statement is true or false:

- (xii) The total of purchase return-book is posted to the debit side of purchase return account.

(2 marks)

Answer:

False: The total of purchase return book is posted to the credit side of purchase return account.

2021 - Jan [1] {C} (a) State **with reasons**, whether the following statement is **True** or **False**:

- (iii) The Sale Book is kept to record both the cash and credit sales.

(2 marks)

Answer:

False: Sales book records only goods sold on credit basis. Cash sales will be recorded in Cash book (if maintained) or Journal Proper (If not maintained)

DISTINGUISH BETWEEN

2001 - Nov [6] Briefly explain the difference between the following:

- (b) Sales Day-book and Sales Account.

(5 marks)

Answer:

The Sales Day-Book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Day Book. Credit sales of things other than the goods dealt in by the firm are not entered in the Sales Day Book; they are journalised. It is a subsidiary book and posting is made from it to the sales account and

accounts of the customers. The total of the Sales Day Book shows the credit sales made during any particular day; the amount is credited to the sales account.

Sales Account is a final record and postings are made to it from Cash Book (cash sales) and Sales Day Book (credit sales). Sales Account is maintained in the ledger in the manner, the other accounts are maintained. Sales Account is a nominal account and its balance is used for ascertaining gross profit or gross loss.

Hint: Sales Day-Book records credit sales; Sales Account summarizes all sales.

Time Required: 7.5 minutes

DESCRIPTIVE QUESTIONS

2021 - July [6] (b) What are the advantages of Subsidiary Books?

(5 marks)

Answer:

The use of subsidiary books affords the under mentioned advantages:

1. Division of work:

Accounting work will be divided amongst a number of clerks as in place of one journal there will be many subsidiary books.

2. Specialization and efficiency:

When a person does the same work over a period of time, he acquires full knowledge of it and becomes efficient in it. Thus, work gets done efficiently.

3. Saving of the time:

Various processes can be taken simultaneously because of the number of books. Thus, work gets completed quickly.

4. Availability of information:

All information gets available at one place as a separate register is kept for each class of transaction.

5. Facility in checking:

When trial balance does not agree, locating errors becomes easy with the existence of separate books. Errors of commission can also be traced quickly.

Hint: Subsidiary Books enhance work division, efficiency, speed, organized information and error detection.

Time Required: 7.5 minutes

2024 - June [6] (b) What are the advantages of Subsidiary Books?

(5 marks)

Answer:

RAQ same as 2021 - July [6] (b) on page no. 174

PRACTICAL QUESTIONS

2020 - Nov [1] {C} (c) The following are some of the transactions of M/s. Kamal & Sons for the year ended 31st March, 2020. You are required to make out their Sales Book.

- (i) Sold to M/s. Ashok & Mukesh on Credit:
40 Shirts @ ₹ 900 per shirt
30 trousers @ ₹ 1,000 per trouser
Less: Trade discount @ 10%
- (ii) Sold furniture to M/s. XYZ & Co. on credit ₹ 8,000
- (iii) Sold 15 shirts to Aman @ ₹ 750 each for cash. (4 marks)

Answer:

Sales Book					
M/s Kamal & Sons					
Date	Invoice No.	Name of Customers	LF	Details	Amount ₹
		M/s Ashok & Mahesh			
		40 shirts @ 900 per			36,000

	30 trousers @ 1000 per	30,000	
		66,000	
	Less: Trade Dis. 10%	6,600	59,400
31-3	Sales A/c	Cr.	59,400

Note: II transaction not to be record because related to sale of an asset
III transaction related to cash hence, not to record.

2021 - July [5] (a) From the following information prepare the Purchase Book of M/s. Shyam & Company:

- (i) Purchased from Red & Company on Credit:
 - 10 pair of black shoes @ ₹ 800 per pair
 - 5 pair of brown shoes @ 900 per pair
 - Less: Trade Discount @ 10%
- (ii) Purchased Computer from M/s. Rahul Enterprises on credit for ₹ 40,000.
- (iii) Purchased from Blue & Company in cash:
 - 5 pair of black shoes @ ₹ 700 per pair
 - 15 pair of brown shoes @ 100 per pair
 - Less: Trade Discount @ 15%

(5 marks)

Answer:

**Books of M/s Shyam & Co.
Purchase Book**

S. No.	Particulars	L/F	Details	Amount (₹)
(i)	Red & Company per			
	10 pair of black shoes @ 800 per pair		8,000	
	5 pair brown shoes @ 900 per pair		4,500	
			12,500	
	Less: Trade Discount @ 10%		1,250	
	Total			11,250

Notes:

- (a) Purchase of computer from M/s. Rahul Enterprises on credit for ₹ 40,000 will be recorded in journal proper and not in Purchase Book.
- (b) Purchase from Blue & Company in cash will be recorded in cash book and not in purchase book. In purchase book, only credit purchase of goods are recorded.

2023 - June [1] {C} (c) Enter the following transactions in Sales Book of Gurgaon Engineers, Gurgaon for January 2022:

2022 January	
5	Sold to Praneet Electricals 10 pieces of microwaves @ ₹ 8,500/each less trade discount 15%
10	Sold to Ajanta plaza 8 pieces of Mixer grinders @ ₹ 12,500/each less trade discount 10%
20	Sold to Naveen traders, 15 pieces of juicers @ ₹ 5,500/each less trade discount 5%

(4 marks)

Answer:

**Books of Gurgaon Engineers
Sales Journal**

Date	Particulars	Invoice No.	L/F	Details	Amount (₹)
2022 Jan. 5	Praneet Electrical: 10 pieces of Micro Wave (10 × 8,500) <i>Less: Trade Discount @ 15%</i>			85,000 (12,750)	 72,250
Jan. 10	Ajanta Plaza: 8 pieces of Mixer Grinder (8 × 12,500) <i>Less: Trade Discount @ 10%</i>			1,00,000 <u>10,000</u>	 90,000

Jan. 20	Naveen Traders:				
	15 pieces of Juicer (15 × 5,500)			82,500	
	<i>Less: Trade Discount @ 5%</i>			(4,125)	78,375
	Total				2,40,625

QUICK STUDY TIPS

Use the Pomodoro Technique

- Study for 25 minutes, then take a 5-minute break. Repeat this cycle four times, then take a longer 15-30 minute break.
- Why: This technique helps maintain focus while preventing burnout.

Active Recall

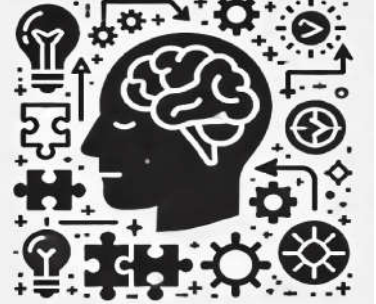

- Instead of just re-reading notes, actively quiz yourself on the material. Close your book and try to recall key points.
- Why: Helps improve long-term memory retention.

Teach What You Learn

- After studying a concept, explain it to someone else (or pretend to). Teaching reinforces understanding.
- Why: It solidifies your grasp of the topic and reveals areas that need more review.

Break Down Complex Topics

- Divide large, complex topics into smaller, manageable sections. Focus on one small section at a time.
- Why: This reduces overwhelm and makes the material easier to absorb.

<p style="text-align: center;">MEMORIZATION TECHNIQUES</p>	<p style="text-align: center;">Spaced Repetition</p>
	<ul style="list-style-type: none"> • How it Works: Review the material at gradually increasing intervals-1 day, 3 days, 1 week, 2 weeks, etc. • Why it Helps: Revisiting information at spaced intervals strengthens long-term retention.
<p style="text-align: center;">MEMORIZATION TECHNIQUES</p>	<p style="text-align: center;">Chunking</p>
	<ul style="list-style-type: none"> • How it Works: Break down large amounts of information into smaller, manageable chunks. For instance, break a complex topic into three or four main ideas, then expand on each. • Why it Helps: Chunking helps reduce cognitive overload and makes recalling easier.

HOW DREAMS COME TRUE

1. **Define Your Dream:** Clearly define your goal to avoid vagueness.
2. **Set Clear, Achievable Goals:** Break dreams into smaller, measurable goals to create a roadmap for success.
3. **Believe in Yourself:** Cultivate confidence and a growth mindset to reinforce self-belief.
4. **Take Consistent Action:** Small, daily steps lead to progress.
5. **Overcome Fear and Obstacles:** Challenges are part of the journey and offer learning opportunities.
6. **Learn from Failures:** Treat failure as a stepping stone and learn from setbacks.
7. **Stay Focused and Avoid Distractions:** Discipline and focus are crucial to staying on track.
8. **Seek Support and Guidance:** Surround yourself with a supportive network.
9. **Visualize Success:** Regularly visualise your dream as a reality to stay motivated.
10. **Adapt and Stay Flexible:** Be open to changes and adjust your plans as needed.
11. **Celebrate Small Wins:** Acknowledge progress to boost motivation.
12. **Stay Patient and Persistent:** Achieving big dreams takes time; persistence is essential.

Define Your Dream

- **Why it Matters:** A dream without clarity remains vague. Consider what you truly want to achieve in life-becoming a successful Chartered Accountant, starting a business, or reaching personal milestones.

THE GRAPH

Chapter Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Objective



Short Notes



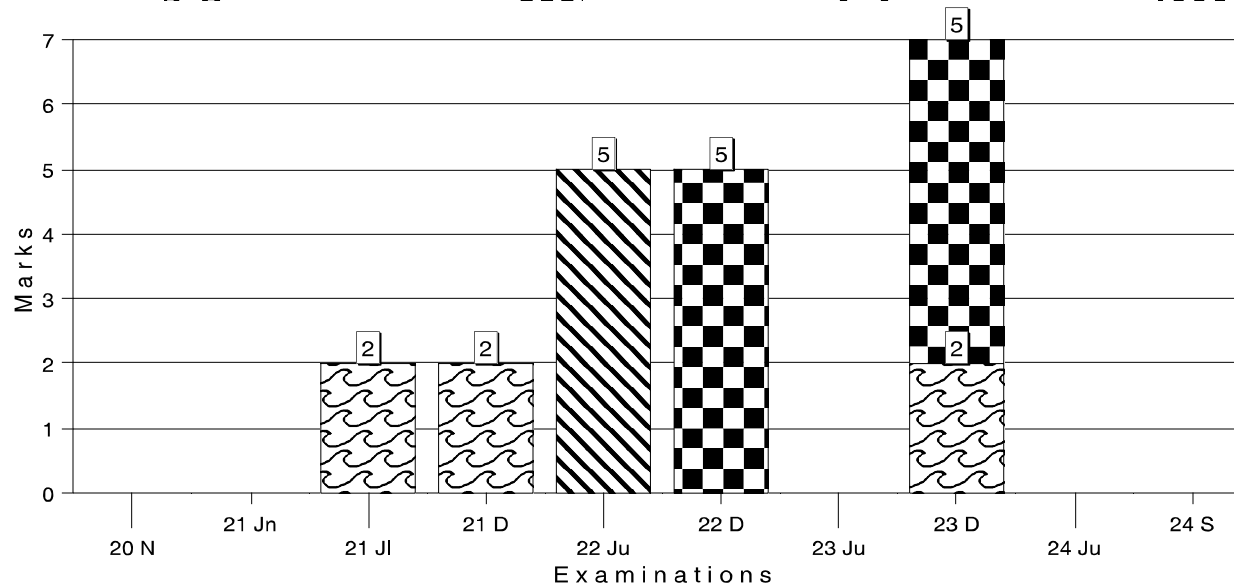
Distinguish



Descriptive



Practical



CHAPTER	ACCOUNTING PROCESS
2.5	Cash Book

SELF STUDY QUESTIONS

Q. 1. What is a Cash Book? It is a Subsidiary Book as well as a Principal Book?

Answer:

- It is a book of primary entry in which cash and bank transactions of a business are recorded in a chronological order.
- Cash book acts as a both - a book of original entry and a ledger [Cash A/c and Bank A/c]. It records transactions concerning cash receipts and payments.
- A cash book has two sides:
 - Debit - Records cash and cheque received,
 - Credit - Records cash and cheque payments.

Q. 2. What are the Kinds of Cash Book? How is the posting done in Cash Book?

Answer:

