

# M.K.GUPTA CA EDUCATION

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## FOUNDATION ACCOUNTING

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**AVERAGE DUE DATE****Question 1.**

The followings are the amounts due on different dates in between the same parties:

Amount ₹	Due Date
500	3rd July
800	2nd August
1,000	11th September

Suggest a date on which all the bills may be paid out without any loss of interest to either party.

**Question 2.**

The following amounts are due to X by Y. Y wants to pay off (a) on 18th March or (b) on 14th July. Interest rate of 8% p.a. is taken into consideration.

Due Dates	₹
10th January	500
26th January (Republic Day)	1,000
23rd March	3,000
18th August (Sunday)	4,000

Determine the amount to be paid in (a) and in (b).

**Question 3.**

Calculate Average Due date from the following information:

Date of the bill	Term	Amount ₹
August 10, 2019	3 months	6,000
October 22, 2019	60 days	5,000
December 4, 2019	2 months	4,000
January 14, 2020	60 days	2,000
March 14, 2020	2 months	3,000

(Assume February of 28 days)

**Question 4.**

A trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date :

Sl. No.	Date of bill	Amount	Usance of the bill
1	1st March 2020	400	2 months
2	10th March 2020	300	3 months
3	5th April 2020	200	2 months
4	20th April 2020	375	1 month
5	11th May 2020	500	2 months

You are required to find the said average due date.

**Question 5.**

Two traders X and Y buy goods from one another, each allowing the other one month's credit. At the end of 3 months the accounts rendered are as follows:

	Goods sold by X to Y ₹		Goods sold by X to Y ₹
April 18	60.00	April 23	52.00
May 15	70.00	May 24	50.00

June 17	80.00		
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Calculate the date upon which the balance should be paid so that no interest is due either to X or Y.

**Question 6.**

Manoj had the following bills receivables and bills payable against Sohan. Calculate the average due date, when the payment can be received or made without any loss of interest.

Date	Bills Receivable ₹	Tenure	Date	Bills Payable ₹	Tenure
01/06/2020	3,000	3 month	29/05/2020	2,000	2 month
05/06/2020	2,500	3 month	03/06/2020	3,000	3 month
09/06/2020	6,000	1 month	9/06/2020	6,000	1 month
12/06/2020	1,000	2 month			
20/06/2020	1,500	3 month			

15 August, 2020 was a Public holiday. However, 6 September, 2020 was also declared as sudden holiday.

**Question 7.**

Mr. Kapoor had the following Bills receivable and Bills payable against Mr. Khan, the details of which has been given as follows-

Bills receivable			Bills Payable		
Date	Amount	Tenure	Date	Amount	Tenure
1.5.2020	400	3 months	11.5.2020	800	60 days
19.6.2020	750	2 months	21.6.2020	950	30 days
25.6.2020	1,000	1 month	28.6.2020	1,150	45 days
7.7.2020	1,250	2 months	10.7.2020	1,800	50 days
14.7.2020	800	2 months	16.7.2020	1,250	55 days

Gazetted holidays in the intervening period

15th August (Independence Day), 24th July (Emergency holiday), 10th September (Sunday)

**Question 8.**

Mr. Green and Mr. Red had the following mutual dealings and desire to settle their account on the average due date:

Purchases by Green from Red:	₹
6th January, 2020	6,000
2nd February, 2020	2,800
31st March, 2020	2,000

Sales by Green to Red:

6th January, 2020	6,600
9th March, 2020	2,400
20th March, 2020	500

You are asked to ascertain the average due date. (28 days in feb.)

**Question 9.**

₹ 10,000 lent by Dass Bros. to Kumar & Sons on 1st January, 2015 is repayable in 5 equal annual instalments commencing on 1st January, 2016. Find the average due date and calculate interest at 5% per annum, which Dass Bros. will recover from Kumar & Sons.

**Question 10.**

₹ 20,000 lent on 1st January 2015, is repaid as follows-

₹ 2500 on 1st January 2016

₹ 5500 on 1st January 2017

₹ 3000 on 1st January 2018

₹ 5000 on 1st January 2019

₹ 4000 on 1st January 2020

Determine the average due date for settling all the above instalments by a single payment and compute interest at the rate of 10% per annum

**Question 11.**

A and B, two partners of a firm, have drawn the following amounts from the firm in the year ending 31st March, 2020:

Date	A	Date	B
	₹		₹
1st July	500	12th June	1,000
30th September	800	11th August	500
1st November	1,000	9th February	400
28th February	400	7th March	900

Interest at 6% p.a. is charged on all drawings. Calculate interest chargeable by using (i) ordinary system (ii) Average due date system. (assume 1 year = 365 days) any function of day should be ignored.

**Question 12.**

A partner in a firm has drawn the following amounts for the half year ended on 31st March 2020:

Date	Amount
9th Sep 2019	9,000
10th Oct 2019	10,000
11th Nov 2019	11,000
12th Dec 2019	12,000
13th Jan 2020	13,000
14th Feb 2020	14,000
15th Mar 2020	15,000

Assume February has 28 days

**TEST YOUR KNOWLEDGE****True and False**

1. The specific due date excludes the addition of grace days to arrive at the due date.
2. Payment made before the average due date entitles rebate to the customer.
3. Average due date results in loss to the party making the payment.
4. It is always the date of any transaction which is considered as base date.
5. Interest has to be paid by the party making payment exactly on the average due date.
6. Where the due date is a Public holiday and the preceding day is a sudden holiday, then the due date falls on the day preceding the sudden holiday.

**THEORETICAL QUESTIONS**

1. Define Average Due Date.
2. List out the various instances when Average Due Date can be used.

**PRACTICAL QUESTIONS**

**Q1** Mr. Yash and Mr. Harsh are partners in a firm. They had drawn the following amounts from the firm during the year ended 31.03.2020:

<b>Date</b>	<b>Amount ₹</b>	<b>Drawn by ₹</b>
01.05.2019	75,000	Mr. Yash
02.07.2019	20,000	Mr. Yash
15.08.2019	60,000	Mr. Harsh
31.12.2019	50,000	Mr. Harsh
04.03.2020	75,000	Mr. Harsh
31.03.2020	15,000	Mr. Yash

Interest is charged @ 10% p.a. on all drawings. Calculate interest chargeable from each partner by using Average due date system. (Consider 1st May as base date) (1 year = 365 days)

**Q2** Anand purchased goods from Amirtha, the average due date for payment in cash is 10.08.2020 and the total amount due is ₹ 67,500. How much amount should be paid by Anand to Amirtha, if total payment is made on following dates and interest is to be considered at the rate of 12% p.a.

- (i) On average due date.
- (ii) On 25th August, 2020.
- (iii) On 30th July, 2020.

## ACCOUNT CURRENT

### INTRODUCTION

An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of an ledger account.

An Account Current has two parties - one who renders the account and the other to whom the account is rendered. This is indicated in the heading of an Account Current, which is like the following: "A in Account Current with B". It implies that A is the customer, and the account is being rendered and prepared to him by B.

### Preparation Of Account Current

There are three ways of preparing an Account Current:

1. With help of interest table
2. By means of products
3. By means of products of balances

### Method 1: Preparation of Account Current with the help of Interest Tables-Individual Method

According to this method, all the transactions are arranged in the form of an account. There are two additional columns on both the sides of such an account.

- (a) One column is meant to indicate the number of days counted from the due date of each transaction to the date of rendering the account. If no specific date is mentioned as the date on which payment is due, the date of the transactions is presumed to be the due date.
- (b) The other column is meant for writing interest.

With the help of ready made tables, interest due on different amounts at given rates for different periods of time is found out and this is entered against each item separately.

**The interest columns of both the sides are totalled up and the balance is drawn.**

### Illustration 1

Prepare Account Current for Nath Brothers in respect of the following transactions with Shyam:

2019		₹	
September 16	Goods sold to Shyam	200	due 1st Oct.
October 1	Cash received from Shyam	90	
October 21	Good purchased from Shyam	500	due 1st Dec.
November 1	Paid to Shyam	330	
December 1	Paid to Shyam	330	
December 5	Goods purchased from Shyam	500	due 1st Jan.
December 10	Goods purchased from Shyam	200	due 1st Jan.
2020			
January 1	Paid to Shyam	600	
January 9	Goods sold to Shyam	20	due 1st Feb.

The account is to be prepared upto 1st February. Calculate interest @ 6% per annum. (1 year = 365 days)

**Solution: To be solved in the class**

### Method 2: Preparation of Account Current by means of Products; Product Method

When this method is followed, the way of preparing the Account Current remains the same. In this method is only the method of calculating interest is different.

Under the previous method, interest columns are provided on both the sides of the Account Current, and interest in respect of each item is found out from the ready-made interest tables. In this method, interest columns are replaced by “product” columns. Product in this case is the amount multiplied by the number of days for which it has been outstanding. Interest on a certain sum of money for a certain number of days is the same thing as interest on the product for one day. In other words, with a view to reduce the period of each transaction to one day, the amount of each transaction is multiplied by the number of days. This product is entered against each transaction the product column.

The remaining steps are as follows:

- Find out the balance of the products on the two sides.
- Calculate interest at the given rate on the balance of the products for a single day.
- Enter interest on the appropriate side in the amount column. This entry is made on the side other than that on which the balance of products appears.

Taking Illustration 1 Account Current by means of Product is explained below:

**Solution: To be solved in the class**

**Illustration 2**

From the following particulars, make up an Account Current to be rendered by Mr. X to Mr. Y on 31st December, 2019 taking interest into account at the rate of 18% p.a.

01.07. 2019	Balance owing by Mr. Y	₹ 600
30.07. 2019	Goods sold to Mr. Y (Credit Period allowed 1 month)	₹ 300
01.08. 2019	Good purchased from Mr. Y (Credit Period received 1 month)	₹ 200
01.09. 2019	Cash received from Mr. Y	₹ 100
01.09. 2019	Mr. Y accepted Mr. X's Draft at 3 Months date	₹ 400

You are required to prepare the Account Current according to interest on individual transaction under the Forward and Backward methods.

**Solution: To be solved in the class**

**Illustration 3**

From the following particulars prepare the account current to be rendered by Mr. Singh to Mr. Paul as on 31st August, 2020. Interest must be calculated @ 10% p.a. (1 year = 365 days)

<b>2020</b>		₹
June 11	Goods sent to Mr. Paul	1,020
June 15	Cash received from Mr. Paul	500
June 20	Goods sent to Mr. Paul	650
July 7	Goods sent to Mr. Paul	700
Aug 8	Cash received from Mr. Paul	1,100

**Solution: To be solved in the class**

**Illustration 4**

Following running transactions took place between Me and You during the month of February, 2020.

<b>Feb 2020</b>	<b>Particulars</b>	₹
1	Amount payable by You to Me	5,000
5	Sales made by Me to You (invoice dated 07.04.2020)	8,250

8	Received acceptance of You by Me for 3 months	10,000
10	You sold goods to Me (invoice dated 10.3.2020)	11,000
12	Me received cheque from You dated (12.04.2020)	7,500
16	Cash paid by Me to You	2,500
24	Bills receivable accepted by Me from You on account of sale (due date- 24.03.20)	5,000
28	Cash paid by you to me	2500

**Solution: To be solved in the class**

**Illustration 5**

From the following prepare an account current, to be rendered by Ali to Bali on 31st December, 2020 by means of products method charging interest @ 8% p.a:

2020	Particulars	₹
Oct. 1	Balance due from Bali	2,000
Oct 19	Purchased goods from Bali	3,200
Oct 25	Returned goods to Bali	800
Nov 3	Sold goods to Bali	5,400
Nov 15	Bali accepted a bill drawn by Ali for one month	2,400
Nov. 30	Bills accepted by Bali earlier dishonoured on the due date	3,000
Dec 15	Received cash from Bali	2,000

**Solution: To be solved in the class**

**Illustration 6**

From the following particulars make up an Account Current to be rendered by s. Dasgupta to A. Holder at 31<sup>st</sup> Dec. reckoning interest at 5% p.a. (assume 1year = 365)

2019		₹
June 30	Balance owing by A. Halder	520
July 17	Goods sold to A. Halder	40
Aug. 1	Cash received from A. Halder	500
Aug. 19	Goods sold to A. Halder	720
Aug. 30	Goods sold to A. Halder	50
Sept. 1	Cash received from A. Halder	400
Sept. 1	A. Halder accepted Dasgupta's Bill at 3 month date for	300
Oct. 22	Goods bought from A. Halder	20
Nov. 12	Goods sold to A. Halder	14
Dec. 14	Cash received from A. Halder	50

**Solution: To be solved in the class**

**Illustration 7**

From the following prepare an account current, as sent by A to B on 30th June, 2020 by means of products method charging interest @ 6% p.a:

2020		₹
Jan. 1	Balance due from B	600
Jan.11	Sold goods to B	520
Jan. 18	B returns Goods	125



Feb 11	B Paid by cheque	400
Feb 14	B accepted a bill drawn by A for one month	300
Apr. 29	Goods sold to B	615
May 15	Received cash from B	700

**Solution: To be solved in the class**

**Red - Ink Interest:** In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in “Red-Ink” in the appropriate side of the ‘Account current’. This interest is called Red-Ink interest. This Red Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill X (due date-closing date) is written in ordinary ink in the opposite side on which the bill is entered]. It means interest from future date from date of account current i.e., present date. In earlier periods, it was written in red ink; hence it got the name of red ink interest. It implies that rebate will be allowed on interest paid/ received, if settlement of future due transaction is done on account current date

This can also be understood in a different way. In an account current, interest is calculated on the amount of a bill from the date of transaction to the closing date of the period concerned. In case the due date of the bill falls after the closing date of the accounts, then no interest is allowed for that period. Such interest is customarily written in red ink in the appropriate side of the account current. The interest is called Red-Ink interest and is treated as negative interest.

**Illustration 8**

Following transaction took place between X and Y during the month of April, 2020.

April		₹
1	Amount payable by X to Y	10,000
7	Received acceptance of X to Y for 2 months	5,000
10	Bills receivable (accepted by Y) on 7.2.2020 is honoured on this due date	
10	X sold goods to Y (invoice dated 10.5.2020)	15,000
12	X received cheque form Y dated 15.5.2020	7,500
15	Y sold goods to X (invoice dated 15.5.2020)	6,000
20	X returned goods sold by Y on 15.4.2020	1,000
20	Bill accepted by Y is dishonoured on this due date	5,000

You are required to make out an account current by products method to be rendered by X to Y as on 30.4.2020, taking interest into account @ 10% p.a. (assume 1 year = 365 days)

**Solution: To be solved in the class**

**Method 3: Preparation of Account Current by Means of Product of Balances in case of Banks.**

This method, also known as periodic balance method, is usually adopted in the case of banks where the balance of account is taken out after every transaction. In this case, the number of days written against each transaction are the days counted from its date or due date to the date of the following transaction. In the case of the last transaction, the number of days is counted to the close of the period.

Each amount is multiplied with the number of days. If the amount represents a debit balance, the product is entered in the Dr. Product column; and if it represents a credit balance, the product is written in the Cr. Product column. The Dr. Product and Cr. Product columns are then totalled up. Interest is calculated on each total at the given rate of interest; and the net interest is ascertained. If net interest is payable to the customer, it will appear as “By Interest A/c”, and if it is due from the customer, it will appear as “To Interest A/c”.

**Illustration 9**

On 2nd January, 2020 Vinod opened a current account with the Allahabad Bank Limited; and deposited a sum of ₹ 30,000.

<b>He further deposited the following amounts:</b>	<b>₹</b>
15 <sup>th</sup> January	12,000
12 <sup>th</sup> March	8,000
10 <sup>th</sup> May	16,000

<b>His withdrawals were as follows:</b>	
15 <sup>th</sup> February	26,000
10 <sup>th</sup> April	30,000
15 <sup>th</sup> June	14,000

Show Vinod's a/c in the ledger of the Allahabad Bank. Interest is to be calculated at 5% on the debit balance and 2% on credit balance. The account to be prepared as on 30th June, 2020. Calculation may be made correct to the nearest rupee. (assume 1 year = 365 days)

**Solution: To be solved in the class**

**Illustration 10**

Roshan has a current account with partnership firm. It has debit balance of ₹ 75,000 as on 01-07-2020. He has further deposited the following amounts:

Date	Amount (₹)
14-07-2020	1,38,000
18-08-2020	22,000

He withdrew the following amounts:

Date	Amount (₹)
29-07-2020	97,000
09-09-2020	11,000

Show Roshan's A/c in the ledger of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2020 by means of product of balances method.

**Solution: To be solved in the class**

**Illustration 11**

From the following particulars prepare a account current, as sent by Mr. Ram to Mr. Siva as on 31<sup>st</sup> October 2020 by means of product method charging interest @ 5% p.a.

<b>2020</b>	<b>Particulars</b>	<b>₹</b>
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

**Solution: To be solved in the class**

**True and False**

1. Current account and account current are one and the same.
2. The account current is an extension of the average due date concept.
3. Date of transaction or the due date whichever is earlier is considered for computation of the number of days.
4. A is in account current with B- The person rendering the account current is Mr. A.
5. The honored bills of exchange will not be recorded in the account current.

**EXAMINATION QUESTION****January 2021 Q3(b) (5 marks)**

From the following particulars an account current, as sent by Mr. Amit to Mr. Piyus as on 31<sup>st</sup> December, 2020 by means of product method charging interest @ 8% p.a.

Date	Particulars	₹
01-09-2020	Balance due from Piyush	900
15-10-2020	Sold goods to Piyush	1,450
20-10-2020	Goods returned by Piyush	250
22-11-2020	Piyush paid by Cheque	1,200
15-12-2020	Received cash from Piyush	600

**Solution: To be solved in the class****November 2020 Q 3(b)(i) (5 marks)**

From the following particulars prepare an account current, as sent by Mr. Raju to Mr. Sunil as on 31st October 2020 by means of product method charging interest @ 12% p.a.

2020	Particulars	Amount (₹)
1 <sup>st</sup> July	Balance due from Sunil	840
15 <sup>th</sup> August	Sold goods to Sunil	1,310
20 <sup>th</sup> August	Goods returned by Sunil	240
22 <sup>nd</sup> September	Sunil paid by cheque	830
15 <sup>th</sup> October	Received cash from Sunil	560

**Solution: To be solved in the class****November 2019 Q3(c)(ii) (5 marks)**

Ramesh has a Current Account with Partnership firm. He had a debit balance of ₹ 85,000 as on 01-07-2018. He has further deposited the following amounts:

Date	Amount (₹)
14-07-2018	1,23,000
18-08-2018	21,000

He withdrew the following amounts:

Date	Amount (₹)
29-07-2018	92,000
09-09-2018	11,500

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method.

**Solution: To be solved in the class**

**November 2018 Q2(c)(i) (5 marks)**

From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2018 by means of product method charging interest @ 5% p.a.

Date	Particulars	(₹)
1 <sup>st</sup> July	Balance due from XY	1,500
20 <sup>th</sup> August	Sold goods to XY	2,500
28 <sup>th</sup> August	Goods returned by XY	400
25 <sup>th</sup> September	XY paid by cheque	1,600
20 <sup>th</sup> October	Received cash form XY	1,000

**Solution: To be solved in the class**

**May 2018 Q2(c)(ii) (5 marks)**

From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum:

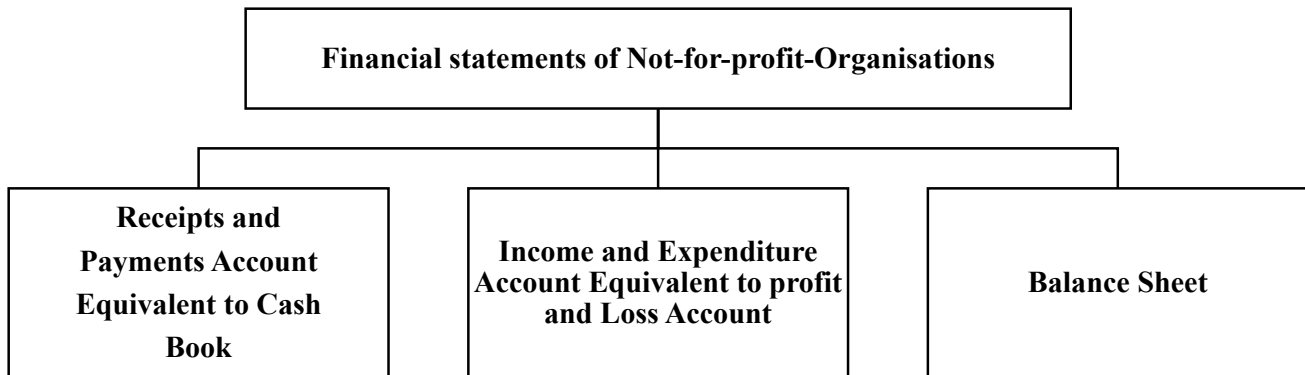
Date	Particulars	Amount (₹)
2018 January 1	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh paid by cheque	1,000
February 20	Bhuvanesh accepted a bill drawn by Avinash for one month	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received cash from Bhuvanesh	800

**Solution: To be solved in the class**

## FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

### 1. Introduction

A non-profit organization is a legal accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. The main motive behind the non-profitable organization is to render service to the society or the members of the organisation.



**Donations, Entrance and Admission Fees, Subscription, Life Membership Fee are some of the sources of incomes for the non-profit organizations which have different treatments based on the nature of the receipts.**

The Income and Expenditure Account (non-profitable organisation) is just similar to Profit and Loss Account prepared for the profit-making organisations but there has been different terminology employed for the word Profit as SURPLUS – excess of income over expenditure or loss as DEFICIT – excess of expenditure over income. In non-profit making organisations, total cash receipts and total cash payments are highlighted through Receipts and Payments Account.

### 2. Nature Of Receipts And Payments Account

#### Features:

- It is the summary of the cash and bank transactions like cash book, all the receipts (capital or revenue) are debited, similarly, all the expenditures (capital or revenue) are credited.
- It starts with opening cash and bank balances and also ends with their closing balances. This account is usually not a part of the double entry system as it includes all cash and bank receipts and payments, whether they are related to present, past or future periods.
- Surplus or deficit for an accounting period cannot be ascertained from this account, since, it shows only the Cash/Bank position and excludes all non cash items.

#### Illustration 1

The receipts and payments for the Swaraj Club for the year ended March 31, 2020 were: Entrance fees ₹300; Membership Fees ₹3,000; Donation for Club Pavilion ₹10,000, Foodstuff sales ₹1,200; Salaries and Wages ₹1,200 Purchase of Foodstuff ₹ 800; Construction of Club Pavilion ₹11,000; General Expenses ₹600; Rent and Taxes ₹400; Bank Charges ₹160.

Cash in hand–April. 1st ₹200, March. 31st ₹350

Cash in Bank–April. 1st ₹400; March. 31st ₹590

You are required to prepare Receipts and Payment Account.

**Solution: To be solved in the class**

### **2.1 Limitations of Receipts and Payments Account**

From the study of the above account, it is apparent that the increase in the cash and bank balances at the end of the year, as compared to those in beginning, does not truly represent the surplus for the year since it does not take into account the other important transactions, such as cost of construction of the pavilion, which is in excess of the donation received, the outstanding subscription or those which were collected in advance, etc.

Another important drawback is that the Receipts and Payments Account includes items relating to all periods and of all types whether capital or revenue. In order to ascertain whether the organisation has made surplus or deficit, there is a need to construct an account which considers all the relevant revenue transactions for the current period.

### **3. Income And Expenditure Account**

The income and expenditure account is equivalent to the Profit and Loss Account of a Profit making business enterprise. It is an account which is widely adopted by most of the non-profit making concerns and is prepared by following accrual principle. Only items of revenue nature pertaining to the current period of account are included. The preparation of the account, therefore, requires adjustments in relevant accounts in respect of both outstanding and advance items of income and expenditure. The only difference is in the terms used to represent the profit and loss. Profit is termed as Surplus- Excess of income over expenditure and loss is termed as Deficit- Excess of expenditure over income.

**Non-profit organizations registered under section 8 of the Companies Act, 2013 are required to prepare their Income and Expenditure account and Balance Sheet as per the Schedule III to the Companies Act, 2013.**

#### **Features:**

- It is a revenue account prepared at the end of the accounting period for finding out the surplus or deficit of that period.
- It is prepared by matching expenses against the revenue of that period concerned.
- Both cash and non-cash items, such as depreciation, are taken into consideration.
- All capital expenditures and incomes are excluded.
- Only current years' income and expenses are considered. This Surplus/deficit is taken to the balance sheet and is added / deducted respectively with the capital fund (opening balance).

#### **3.1 Main Sources of Income**

For a non profit organisation, the sources of income, largely depend on the nature of the activity carried on by them. The income for a charitable hospital is different from that of a income received by a sports club. Broadly for the purposes of solving the illustrations, we can classify the sources of income as subscriptions, ordinary donations, membership fees or entrances fees (if the amount is normal or provided according to bye-laws of the society), recurring grants from local authorities and income from investments, etc.

Any amount raised for a special activity, e.g. on sale of match tickets, is deducted from the expenditure of that activity and net amount is shown in the income and expenditure account. Any receipt of capital nature shall not be shown as income but will be credited to the Capital Fund or special purpose fund e.g. "Building Fund" or if the receipts is on account of sale of a fixed asset, it shall be credited to the asset account. This system of showing the donation towards specific purposes separately is termed as fund accounting.

#### **Examples:**

Hospital - medicines and cost of tests and investigations.

Sports Club - sports materials, tournament expenses, etc.

Drama Club - expenses of staging plays, rent of the hall, payment to artists, etc.

Educational Societies - award of scholarships, organisation of seminars, etc.

Library Societies - newspapers and magazines.

Any expenditure for acquisition of a fixed asset will be capitalised, though the amount of annual depreciation shall be debited to revenue expenditure.

It may be noted that after various accounts have been adjusted as is considered necessary by transferring all the revenue accounts to the income and Expenditure account and all the capital items to the balance sheet. If a regular Trial Balance is available, the preparation of the Income and Expenditure Account and the Balance Sheet is on the lines of final accounts.

### **3.2 Distinction between Receipts and Payments Account and Income and Expenditure Account**

Not for profit organizations such as public hospitals, public educational institutions, clubs, Temples, churches etc., conventionally prepare Receipt and Payment Account and Income and Expenditure Account to show periodic performance for a particular accounting period. The distinguishing features of both the accounts can be summarized as:

<b><u>Receipts and Payments Account</u></b>	<b><u>Income and Expenditure Account</u></b>
Receipt and Payment Account is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period together with cash balances at the beginning and close of the period. The receipts are entered on the left-hand side and payments on the right-hand side i.e. same sides as those on which they appear in cash book. All the receipts and payments whether of revenue or capital nature are included in this account. The receipts and payments pertaining to the current, previous or future periods are also considered here. The balance of the account at the end of a period represents the difference between the amount of cash received and paid up. It is always in debit since it is made up of cash in hand and at bank.	Income and expenditure account resembles and is drawn in the same form of a Profit and loss account in case of profit-making organisations. Expenditure of revenue nature is shown on the debit side, income and gains of revenue nature are shown on the credit side. Income and Expenditure Account contains all the items of income and expenditure relevant to the current accounting period only, whether received or paid as well as that which have fallen due for recovery or payment. Capital Receipts, prepayments of income and capital expenditures, prepaid expenses are excluded. It does not start with any opening balance. The balancing figure represents the amount by which the income exceeds the expenditure or vice versa.

### **3.3 Preparation of Income and Expenditure Account from Receipts and Payments Account**

1. Compute the opening balance of the Accumulated Fund, or Capital Fund of the Institution with the help of making opening balance sheet. It will be excess of the total value of the assets over that of the liabilities at the commencement of the period.
2. Open ledger accounts in respect of various items of income and expenditure (e.g. subscription, rents, printing, purchase of sports materials etc.) in which accruals or outstanding at the beginning or at the end of period have to be adjusted. Enter therein any accrual or outstanding at the end of the period as well as amounts which relate to an earlier period or the following period. The balance of the ledger accounts therefore will represent the amounts or income or expenditure pertaining to the period. These should be transferred to the Income and Expenditure Account.
3. Post from the debit of the Receipts & Payments Account to the credit of the Income and Expenditure Account other items of income wherein accruals and outstanding amount have to be adjusted. Likewise, post item of expenses in which no adjustment is to be made directly to debit of income and Expenditure Account.
4. Transfer the balance of Income and Expenditure Account to the Accumulated Fund/Capital Fund Account.
5. Post the receipts and payments of capital nature from the Receipts and Payments Account to the appropriate asset or liability account for incorporating in the Balance Sheet. If a part or whole of an asset has been sold, the capital profit/loss, if any, is credited / debited in the Income and Expenditure Account. The balance of Income and Expenditure Account should be transferred to the Accumulated Fund/Capital Fund Account.

6. Prepare a Balance Sheet by including therein all the balances left over after transfers to the Income and Expenditure Account have been made.

### **Illustration 2**

During 2020, subscription received in cash is ₹42,000. It includes ₹1,600 for 2019 and ₹600 for 2021. Also ₹3,000 has still to be received for 2020.

#### **Required**

Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

#### **Solution: To be solved in the class**

### **Illustration 3**

Suppose salaries paid during 2020 were ₹23,000. The following further information is available:

					₹
Salaries unpaid on 31 <sup>st</sup> March,				2019	1,400
“	pre-paid on	“	“	2019	400
“	un-paid on	“	“	2020	1,800
“	pre-paid	“	“	2020	600

#### **Required**

Calculate the amount to be debited to Income and expenditure account in respect of salaries and also show necessary ledger accounts.

#### **Solution: To be solved in the class**

## **4. Balance Sheet**

A Balance Sheet is the statement of assets and liabilities of an accounting unit at a given date. It is generally prepared at the end of an accounting period after the Income and Expenditure Account has been prepared. It is classified summary of the ledger balances left over, after accounts of all the revenue items have been closed by transfer to the Income and Expenditure Account. In not for profit organizations, the excess of total assets over total outside liabilities is known as **Capital Fund**. The Capital fund represents the amount contributed by members, through legacies, special donations, entrance fees and accumulated surplus over the years. If however, members have not contributed any amount, it shall be termed as "Accumulated fund" instead of "Capital fund". The surplus or deficit, if any, on the year's working as disclosed by the Income and Expenditure Account is shown either as an addition to or deduction from the Capital / Accumulated Fund brought forward from the previous period respectively.

### **4.1 Accounting Treatment of Some Special Items**

**4.1.1 Donations:** These may have been raised either for meeting some revenue or capital expenditure; those intended for the first mentioned purpose are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, then they are credited to special are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired therefrom, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. **The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc.** In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

**4.1.2 Entrance and Admission Fees:** Such fees which are payable by a member on admission to club or society are normally considered capital receipts and credited to Capital Fund. This is because these do not



give rise to any special obligation towards the member who is entitled to the same privileges as others who have paid only their annual subscription. Nevertheless, where the amount is small, meant to cover expenses concerning admission, or the rules of the society provided that such fees could be treated as income of the society, these amounts may be included in the Income and Expenditure Account. The treatment depends upon the requirement of question. **If the question is silent then always take it to be capital receipt.**

**4.1.3 Subscription:** Subscriptions being an income should be allocated over the period of their accrual. For testing the knowledge of candidates of this important accounting principle, questions are often set in examinations wherein figures of subscription collected by a society during the year as well as those outstanding at the beginning of the year and at its close are given. If some subscriptions have been received in advance, their amount is also indicated. In such cases, it is always desirable to set up a Subscription Account for determining the amount of subscription pertaining for the period for which accounts are being prepared. For example, if it is stated that subscriptions collected by a society during the year 2020 amounted to ₹1,850 out of which ₹200 represented subscription for the year 2019; ₹100 were subscriptions collected in advance for the year 2021, and subscriptions amounting to ₹500 were outstanding for recovery at the end of 2020, the adjusting journal entries and the Subscription Account should be set up as follows:

		₹	₹
Subscription Outstanding Account	Dr.	500	
To Subscriptions Account			
(The amount outstanding for this year credited to Subscription Account)			
Subscription A/c	Dr.	300	
To Outstanding Subscription A/c			200
To Subscriptions Received in Advance A/c			100
(Subscription received ₹200 for the previous year and ₹100 for the next year, adjusted)			

#### Subscription Account

Dr. 2020		₹	2020		Cr. ₹
Jan. 1	To Balance b/d (Outstanding Subscriptions)	200	Dec.	By Cash A/c	1,850
Dec. 31	To Subscriptions received in advance	100		By Balance c/d	
	To Income and Expenditure Account, transfer			(Subscriptions Outstanding)	500
		2,050			
		2,350			2,350

The amount of outstanding subscription is adjusted in the subscription Account by debit to outstanding subscription Account and that balance is shown as an asset in Balance Sheet. The Subscription Account is closed off by transferring its balance at the end of the year to the income and Expenditure Account.

**4.1.4 Life Membership Fee:** Fees received for life membership is a **capital receipt** as it is of non-recurring nature. It is **directly added to capital fund** or general fund.

For adjusting lump sum subscription collected from the life members, one of the following methods can be adopted:

1. The entire amount may be carried forward in a special account until the member dies, after which the same may be transferred to the credit of the Accumulated Fund.
2. An amount equal to the normal annual subscription may be transferred every year to the Income and Expenditure Account and balance carried forward till it is exhausted. If, however, the life member dies

before the whole of the amount paid by him has been transferred in this way, the balance should be transferred to the Accumulated Fund on the date of his death.

3. An amount, calculated according to the age and average life of the member, may annually be transferred to the credit of Income and Expenditure Account.

### **Treatment of Important Items in Not For Profit Organization**

1. **Donation:** it is gift in cash or kind from some person. It may be of two types:
  - (a) **Specific Donation:** It is received for certain specific purpose like Building Donation, Library Books donation etc. It should be capitalized and shown on the liabilities side of the balance sheet.
  - (b) **General Donation:** It is not received for any specific purpose and shown on the credit side of Income and Expenditure Account.
2. **Entrance Fees:** It may also be known as admission fees. Entrance Fees should be capitalized and added to the capital fund for all organization. If the question gives any specific treatment of Entrance fees, then it should be followed accordingly.
3. **Legacy:** It is an amount received by an organization as per the will of the person after the death of the person. It should be capitalized and shown on the liabilities side of the balance sheet by adding to the Capital Fund.
4. **Life Membership Fees:** It should be capitalized and shown on the liabilities side of the balance sheet. If the question gives any specific treatment of Life membership Fees, then it should be followed accordingly.
5. **Endowment Fund Donation:** It is a donation received and only income from that donation is to be used for certain specific purpose. In such cases income relating to special funds should be added to these funds on the liabilities side of the Balance Sheet. All the expenses should be deducted from that fund on the liabilities side of the Balance Sheet.
6. **Treatment of Sale of Old Newspaper and Periodicals:** The amount received on such sale is shown as Income on the credit side of income and expenditure account.
7. **Sale of old Fixed Assets:** The Sale proceeds of old Fixed Assets are treated as capital receipts. The profit or loss on sale of fixed asset is shown in the Income and Expenditure A/c
8. **Honorarium:** It is paid to someone for receiving any services from person who are not the employees of the Not for Profit Organisation.

### **4.2 Preparation of Balance Sheet**

- Preparation of opening balance sheet and calculation of surplus: If capital fund or accumulated surplus in the beginning of the year is not given, it is calculated by deducting liabilities from assets in the beginning of year. While calculating opening capital fund, care should be taken to include prepaid expenses and accrued incomes as assets and outstanding expenses and advance incomes as liabilities. Any surplus earned during the year is added to the opening capital fund and deficit suffered during the year is deducted from the opening capital fund.
- Cash and bank balance: Closing cash and bank balance as disclosed in Receipt and Payment Account is shown in the assets side of Balance Sheet. If there is a bank overdraft, it is to be shown on the liabilities side of the balance sheet.
- **Fixed assets:** Opening balances of Fixed Assets (Furniture, building, equipment, etc.) are increased by the amount of purchases and reduced by sales of the same and depreciation on the same.
- **Liabilities:** Opening balances of liabilities should be adjusted for any increase or decrease in the same.

**Note:** The illustrations explained in this chapter comprise of clubs not registered under the Companies Act, 2013. Therefore, Income & Expenditure Account and Balance Sheet are not prepared as per Schedule III of the Companies Act, 2013.

**Illustration 4**

Following is the Receipts and Payments Account of New bird Forty Club for the year ended 31st March, 2020:

Dr		Receipts and payments A/c for the year ended on 31st March 2020		Cr	
Receipts	Amount (₹)	Payments	Amount (₹)		
To balance b/d	2,50,000	By Salaries and wages	1,65,000		
To Subscription-		By Office expenses	35,000		
2018-2019	65,000	By Sports equipment	3,42,000		
2019-2020	3,55,000	By Telephone Charges	28,000		
To Donations	55,000	By Electricity charges	32,000		
To Entrance fees	85,000	By Travelling and conveyance	65,000		
		By balance c/d	1,43,000		
	8,10,000		8,10,000		

**Additional information:**

- Outstanding Subscriptions for the year ended 31st March, 2020 – ₹ 55,000.
- Outstanding Salaries and Wages – ₹ 40,000 for the year ended on 31st March 2020.
- Depreciate Sports equipment by 25% for the year ended on 31st March 2020.
- Capitalize 50% of the entrance fees

Prepare Income and Expenditure Account of the club from the above particulars for the year ended on 31st March 2020.

**Solution: To be solved in the class****Illustration 5**

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2020:

Details	Amount (₹)
Match expenses paid during the year ended 31 <sup>st</sup> March 2020	1,10,000
Match fund as on 01.04.2019	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

**Solution: To be solved in the class****Illustration 6**

During the year ended 31st March, 2020, the subscriptions received by the Jaipur Literary Society were ₹ 4,50,000. These subscriptions include ₹ 20,000 received for the year ended 31st March, 2019. On 31st March, 2020, subscriptions due but not received were ₹ 15,000. Advance subscription received for the year ending 31st March 2020 but pertaining to year 2021 amounted to ₹ 26,000. The Subscriptions received for the year 31st March 2020, include the advance received for the year ending 31st March 2019 amounted to ₹ 18,000. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2020 as income from subscriptions. Show the subscription account in book of the society?

**Solution: To be solved in the class**

**Illustration 7**

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2020

A club has 350 members each paying an annual subscription of ₹ 1,050. The Receipts and Payments Account for the year showed a sum of ₹ 4,10,000 received as subscriptions. The following additional information is provided:

Subscriptions Outstanding on 31st March, 2019 – ₹ 45,000

Subscriptions Received in Advance on 31st March, 2020 – ₹ 62,000

Subscriptions Received in Advance on 31st March, 2019 – ₹ 30,000

**Solution: To be solved in the class****Illustration 8**

The following was the receipts and Payments Account of Exe Club for the ended March, 31, 2020

All the figures in thousands

Receipts	₹	Payments	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2019	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2019 ₹	March, 31, 2020 ₹
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unrepresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1,750
Interest not yet entered in the Pass book		20
Bonus to Groundsman o/s.		300

For the year ended March. 31, 2020, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹200.

**Required**

Prepare the income and Expenditure Account for period ending 31-03-2020 and the relevant Balance sheet.

**Solution: To be solved in the class**

**Illustration 9**

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2020:

Receipts		₹	Payments		₹
To	Balance b/d	4,820	By	Salaries	12,000
To	Subscriptions	28,600	By	Rent and electricity	7,220
To	Miscellaneous income	700	By	Library books	1,000
To	Interest on Fixed deposit	2,000	By	Magazines and newspapers	2,172
			By	Sundry expenses	10,278
			By	Sports equipments	1,000
			By	Balance c/d	2,450
		36,120			36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	₹	₹
	2019	2020
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Sports equipments	417	620
Furniture	9,600	
Prepaid expenses	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2020 was ₹ 5,250.

**Required**

From the above information you are required to prepare:

- The Club's Balance Sheet as at March 31, 2019;
- The Club's Income and Expenditure Account for the year ended March 31, 2020.
- The Club's Closing Balance Sheet as at March 31, 2020.

**Solution: To be solved in the class****Illustration 10**

The Income and Expenditure Account of the Youth Club for the Year 2020 is as follows:

Expenditure		₹	Income		₹
To	Salaries	4,750	By	Subscription	7,500
To	General Expenses	500	By	Entrance Fees	250
To	Audit Fee	250	By	Contribution for	
To	Secretary's Honorarium	1,000		annual dinner	1,000
To	Stationery & Printing	450		Annual Sport meet	

To	Annual Dinner Expenses	1,500	By	receipts	750
To	Interest & Bank Charges	150			
To	Depreciation	300			
To	Surplus	600			
		9,500			9,500

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2019	600
Subscription received in Advance on 31st December, 2019	450
Subscription received in advance on 31st December, 2020	270
Subscription outstanding on 31st December, 2020	750

Salaries Outstanding at the beginning and the end of 2020 were respectively ₹400 and General Expenses include insurance prepaid to the extent of ₹60. Audit fee for 2020 is as yet unpaid. During 2020 audit fee for 2019 was paid amounting to ₹200.

The club owned a freehold lease of ground valued at ₹10,000. The club had sport equipment of 1<sup>st</sup> January, 2020 valued at ₹2,600. At the end of the year, after depreciation, this equipment on amounted to ₹2,700. In 2019, the club has raised a bank loan of ₹2,000. This was outstanding throughout 2020. 31<sup>st</sup> December, 2020 cash in hand amounted to ₹1,600.

### Required

Prepare the Receipts and Payment Account for 2020 and Balance sheet as at the end of the year.

### Solution: To be solved in the class

### Illustration 11

From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31st March, 2020:

### Income & Expenditure Account for the year 2019-20

	₹		₹	
To	Upkeep of Ground	10,000	By Subscriptions	17,320
To	Printing	1,000	By Sale of Newspapers (Old)	260
To	Salaries	11,000	By Lectures	1,500
To	Depreciation on Furniture	1,000	By Entrance Fee	1,300
To	Rent	600	By Miscellaneous Income	400
			By Deficit	2,820
		23,600		23,600

### Balance sheet as at 31<sup>st</sup> March, 2020

<b>Liabilities</b>		₹	<b>Assets</b>	₹
Subscription in Advance (2020-21)		100	Furniture	9,000
Prize Fund :			Ground and Building	47,000
Opening Balance	25,000		Prize Fund Investment	20,000
Add : Interest	1,000		Cash in Hand	2,300
	26,000		Subscription (outstanding) (2019-20)	700
Less : Prizes	(2,000)	24,000		

General Fund :			
Opening Balance	56,420		
Less : Deficit	(2,820)		
	53,600		
Add : Entrance Fee	1,300	54,900	
		79,000	79,000

The following adjustments have been made in the above accounts:

- (1) Upkeep of ground ₹ 600 and Printing ₹ 240 relating to 2018-2019 were paid in 2019-20.
- (2) One-half of entrance fee has been capitalised by transfer to General Fund.
- (3) Subscription outstanding in 2018-19 was ₹ 800 and for 2019-20 ₹700.
- (4) Subscription received in advance in 2018-19 was ₹200 and in 2019-20 for 2020-21 ₹ 100.

### **Solution: To be solved in the class**

## **5. Educational Institutions**

### **Registration**

The educational institutions which are functioning in India are mostly registered as Societies under the Indian Societies Registration Act of 1860, in some of the States, where Public Trust Acts have been passed all the Societies registered under the Indian Societies Registration Act, 1860 are required to be simultaneously registered under the Trust Act. Accordingly, in the State of Maharashtra, all the Societies have simultaneously been registered under the Bombay Public Trust Act, 1950.

### **5.1 Sources of Finance for Running the Educational Institution**

There are three main sources through which amounts are collected by the educational institutions. These are:

- (1) Donation from Public;
- (2) Fees in the form of annual tuition fees, term fees, admission fees, laboratory fee etc., and
- (3) Grants received from the Government.

The Government grants are of four kinds namely Maintenance Grant, Equipment grant, Building Grant and such other grants as may be sanctioned by the Government from time to time.

### **5.2 Specific items**

#### **5.2.1 Donation from Public**

These are received either for recurring or non-recurring purposes. Donations are received either in cash or in kind. The 'in kind' donations are in the form of land and building, shares and securities, utensils, furniture and fixtures and the like, generally with a desire to perpetuate the memory of a distinguished member of the family of the donor.

#### **5.2 Capitation fees or admission fees**

Amounts are collected from parents/guardians of the students who seek admission in the educational institution. These are either in the form of capitation fees or admission fees and are generally collected by the Parent Body which runs the institution. In recent times, such collections have been a matter of severe attack and ban.

#### **5.2.1 Laboratory and Library deposit**

These are generally collected by schools and colleges and they remain with the institution till the student finally leaves it.

The School Code prescribes the rates of tuition and other fees, to be charged from the students.

### 5.2.2 Use of Term Fees

A separate account of receipts and expenditures shall be maintained and surplus carried over to the next year. The following are main items on which term fee can be used:

- (1) Medical Inspection.
- (2) School Magazine-manuscript and/or printing.
- (3) Examination expenses i.e. printing, of question papers and supply of answer books if there is sufficient balance.
- (4) Contribution to athletic and cultural associations, connected with school activities.
- (5) School functions and festivals.
- (6) Inter-class and Inter-school tournaments.
- (7) Sports and Games-major and minor.
- (8) Newspapers and magazines.
- (9) Extra-curricular excursion and visits.
- (10) School competition such as elocution competition etc.
- (11) Scouting and Guiding.
- (12) School Band.
- (13) Social and Cultural activities and equipment required for the same.
- (14) Vocational Guidance in general.
- (15) Prizes for Co-curricular activities.
- (16) Any other extra-curricular or co-curricular activities.
- (17) Maintenance of playground.
- (18) Purchase of books for Pupils Library.
- (19) Drawing and Craft material.
- (20) Audio-Visual Education.
- (21) Curricular visits and excursions.
- (22) Equipment for Physical education.

### 5.2.5 Recurring grants

Recurring grant in the form of maintenance Grants are received in instalments spread out throughout the year

### 5.2.6 Use of grant-in-aid

The school code provides a detailed list of items of expenditure which are admissible for grant-in-aid:

- (1) Staff salaries and allowances
- (2) Leave Allowance
- (3) Bad Climate Allowance
- (4) Water Allowance
- (5) Leave Salary
- (6) Expenditure on Training of teachers.
- (7) Pension and Gratuity as may be applicable
- (8) Expenditure on the appointment of Librarian
- (9) Rent, Taxes and Insurance.
- (10) Other Contingencies: expenditure of printing and stationery, conveyance expenditure, expenditure on purchase of books and furniture equipment.
- (11) Current repairs.
- (12) Miscellaneous Expenses: e.g. School Garden, Physical Education.
- (13) Prizes.
- (14) Expenditure on co-operative stores.
- (15) Registration fee paid to the Board for recognition.
- (16) Maintenance of Tin Rooms.
- (17) Bonus to Teachers.
- (18) Electrical charges.
- (19) Telephone Charges.
- (20) Expenditure in connection with Conferences.
- (21) Subscription to educational Association etc.



- (22) Medical charges.  
 (23) Audit fees of the auditors in accordance with prescribed scale.  
 (24) Sales-tax and General tax on purchase of the school requirements.  
 (25) Payments for merit scholarships.

**Illustration 12**

From the following balance and particulars of Republic College, prepare income & Expenditure Account for the year ended March 2020 and a Balance Sheet as on the date:

	₹	₹
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit - Students		1,50,000
Capital Fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee Received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies (opening)	3,00,000	
Purchases - Stores & Supplies	8,00,000	
Salaries - Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	

**Adjustments:**

		₹
(1)	Materials & Supplies consumed: (From college stores)	
	Teaching	50,000
	Research	1,50,000
	Students Welfare	75,000
	Games or Sports	25,000
(2)	Tuition fee receivable from Government for backward class Scholars	80,000
(3)	Stores selling prices are fixed to give a net profit of 10% on selling price	
(4)	Depreciation is provided on straight line basis at the following rates:	
	(1) Building	5%
	(2) Plant & Equipment	10%
	(3) Furniture & Fixtures	10%
	(4) Motor Vehicle	20%

**Solution: To be solved in the class**

**Illustration 13**

The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2020.

Receipts	₹	Payments	₹
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephones and telex	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at		Garden upkeep	8,000
Coffee room	10,70,000	Membership fees	4,000
Soft drinks	5,10,000	Insurance	5,000
Swimming pool	80,000	Electricity	28,000
Tennis court	1,02,000	Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

The assets and liabilities as on 1.4.2019 were as follows:

	₹
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

The following adjustments are to be made while drawing up the accounts:

- (i) Subscription received in advance as on 31st March, 2020 was ₹ 18,000.
- (ii) Outstanding subscription as on 31st March, 2020 was ₹ 7,000.
- (iii) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.
- (iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31<sup>st</sup> March, 2020.
- (v) The cost of assets sold net as on 1.4.2019 was ₹ 10,000.
- (vi) Depreciation is to be provided at the rate of 10% on assets.
- (vii) A sum of ₹ 20,000 received in October 2019 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2016.
- (viii) Purchases made during the year amounted ₹ 15,00,000.
- (ix) The value of closing stock was ₹ 2,10,000.
- (x) The club as a matter of policy, charges off to income and expenditure account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2020 and the Balance Sheet as on 31st March, 2020 along with necessary workings.

**Solution: To be solved in the class**

**Illustration 14**

During the year ended 31st March, 2020, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2019	12,000
For year ending 31st March, 2020	6,15,000
For year ending 31st March, 2021	<u>18,000</u>
Total	<u>6,45,000</u>

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2020, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2019.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2020. Also show how the items would appear in the Balance Sheet as on 31st March, 2019 and the Balance Sheet as on 31st March, 2021.

**Solution: To be solved in the class****Illustration 15**

Summary of receipts and payments of Bombay Medical Aid society for the year ended 31.12.2020 are as follows:

Opening cash balance in hand ₹ 8,000, subscription ₹ 50,000, donation ₹ 15,000 (raised for meeting revenue expenditure), interest on investments @ 9% p.a. ₹ 9000, payments for medicine supply ₹ 30,000 Honorarium to doctor ₹ 10,000, salaries ₹ 28,000, sundry expenses ₹ 1,000, equipment purchase ₹ 15,000, charity show expenses ₹ 1,500, charity show collections ₹ 12,500.

Additional information:

	1.1.2020	31.12.2020
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare receipt and payments account and income and expenditure account for the year ended 31.12.2020 and balance sheet as on 31.12.2020.

**Solution: To be solved in the class****True and False**

**State with reasons whether the following is true or false:**

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.
3. Sale of grass by a sports club is to be treated as sale of an asset.
4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.
5. Receipts and payments account gives the details about the expenses outstanding for the year.
6. Adjustments in the form of additional information shall be adjusted in the final accounts of an Non-profit organisation only in one place.
7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.

8. For an Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
9. Surplus of non-profit organizations is distributed among its members.
10. Tournament fund, building fund, library fund is based on the fund-based accounting.
11. Subscription fees refers to the one-time fees paid by the memberships to get admission to the benefits of the club.
12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
13. An Insurance company is an example of non-profit organization.
14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
15. Both the income and expenditure of the current and the previous year are recorded in the income and expenditure account.
16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy.
17. Where a Non-profit organisation has a separate trading activity, the profit/ loss from the trading account shall be transferred to income and expenditure account at the time of consolidation.
18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.
19. All the receipt are of revenue nature is case of Non-profit organisation.
20. There is opening balance of income and expenditure account.

### Examination Question

#### January 2021 Question 5 (c) (10 marks)

From the following Income and Expenditure Account and additional information of ATK Club, prepare Receipts and Payments Accounts and Balance Sheet of the club as on 31st March, 2020.

#### *Income and Expenditure Account for the year ending 31st March, 2020*

<b>Expenditure</b>	<b>₹</b>	<b>Income</b>	<b>₹</b>
To Salaries	4,80,000	By Subscription	6,80,000
To Printing and Stationery	24,000	By Entrance Fees	16,000
To Postage	2,000	By Misc. Income	1,44,000
To Telephone	6,000		
To Office expenses	48,000		
To Bank Interest	22,000		
To Audit Fees	10,000		
To Annual General Meeting Exp.	1,00,000		
To Depreciation (Sports Equipment)	28,000		
To Surplus	1,20,000		
	8,40,000		8,40,000

#### ***Additional Information:***

<b>Particulars</b>	<b>As on 31<sup>st</sup> March, 2019</b>	<b>As on 31<sup>st</sup> March, 2020</b>
Subscription Outstanding	64,000	72,000
Subscription Received in advance	52,000	33,600
Salaries Outstanding	24,000	32,000
Audit Fees Payable	8,000	10,000
Bank Loan	1,20,000	1,20,000

Value of Sports Equipment	2,08,000	2,52,000
Value of Club Premises	7,60,000	7,60,000
Cash in Hand	?	1,14,000

**Solution: To be solved in the class**

**November 2020 Question 4 (b) (10 marks)**

From the following balances and particulars of AS College, prepare Income & Expenditure Account for the year ended March, 2020 and a Balance Sheet as on the date :

Particulars	Amount (₹)	Amount (₹)
Security Deposit - Students	-	1,55,000
Capital Fund	-	13,08,000
Building Fund	-	19,10,000
Tuition Fee Received	-	8,10,000
Government Grants	-	5,01,000
Interest & Dividends on Investments	-	1,75,000
Hostel Room Rent	-	1,65,000
Mess Receipts (Net)	-	2,05,000
College Stores - Sales	-	7,60,000
Outstanding expenses	-	2,35,000
Stock of Stores and Supplies (opening)	3,10,000	-
Purchases - Stores & Supplies	8,20,000	-
Salaries - Teaching	8,75,000	-
Salaries - Research	1,25,000	-
Scholarships	85,000	-
Students Welfare expenses	37,000	-
Games & Sports expenses	52,000	-
Other investments	12,75,000	-
Land	1,50,000	-
Building	15,50,000	-
Plant and Machinery	8,50,000	-
Furniture and Fittings	5,40,000	-
Motor Vehicle	2,40,000	-
Provision for Depreciation :		-
Building	-	4,90,000
Plant & Equipment	-	5,05,000
Furniture & Fittings	-	3,26,000
Cash at Bank	3,16,000	-
Library	3,20,000	-
	<b>75,45,000</b>	<b>75,45,000</b>

Adjustments :

(a) Materials & Supplies consumed (From college stores):

Teaching                    ₹ 52,000.

Research -                    ₹ 1,45,000

Students Welfare - ₹ 78,000  
Games or Sports - ₹ 24,000

(b) Tuition fee receivable from Government for backward class Scholars ₹ 82,000.

(c) Stores selling prices are fixed to give a net profit of 15% on selling price:

(d) Depreciation is provided on straight line basis at the following rates:

Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

**Solution: To be solved in the class**

**November 2019 Question 4 (b) (10 marks)**

From the following Income and Expenditure account and the Balance sheet of a club, prepare its Receipts and Payments Account and subscription account for the year ended 31st March, 2019:

**Income & Expenditure Account for the year 2018-19**

Particulars	₹	Particulars	₹
To Upkeep of ground	11,000	By Subscriptions	19,052
To Printing	1,100	By Sale of Newspapers (Old)	286
To Salaries	11,100	By Lectures (Fee)	1,650
To Depreciation on furniture	1,100	By Entrance Fee	2,145
To Rent	1,660	By Misc. Income	440
		By Deficit	<u>2,387</u>
	25,960		25,960

**Balance sheet as at 31st March 2019**

Liabilities		₹	Assets	₹
Subscription in advance (2019-20)		110	Furniture	9,900
Prize fund:			Ground and Building	51,700
Opening balance	27,500		Prize Fund Investment	22,000
Add: Interest	<u>1,100</u>		Cash in Hand	2,530
	28,600		Subscription (outstanding) (2018-2019)	770
Less: Prizes given	<u>2,200</u>	26,400		
General Fund:				
Opening balance	62,062			
Less: Deficit	<u>2,387</u>			
	59,675			
Add: Entrance Fee	<u>715</u>	<u>60,390</u>		
		86,900		86,900

The following adjustments have been made in the above accounts:

- Upkeep of ground ₹ 660 and printing ₹ 264 relating to 2017-18 were paid in 2018-19.
- One fourth of entrance fee has been capitalized by transfer to General Fund.
- Subscription outstanding in 2017-18 was ₹ 880 and for 2018-19 ₹ 770.

- (iv) Subscription received in advance in 2017-18 was ₹ 220 and in 2018-19 for 2019-20 was ₹ 110.  
 (v) Furniture was purchased during the year.

**May 2019 Question 5 (b) (10 marks)**

From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	<b>01.04.2018</b> ₹	<b>31.03.2019</b> ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	₹ 50,000
Rent:	₹ 24,000 out of which ₹ 2,000 outstanding
Misc. Expenses:	₹ 5,000

## **CHAPTER 1: THEORETICAL FRAMEWORK**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

#### **Unit -1 Meaning and Scope of Accounting**

1. There is no difference between book keeping and accounting, both are same.
2. Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3. Financial accounting is concerned with internal reporting to the managers of a business unit.
4. Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business
5. Summarising is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.
6. Balance sheet shows the position of the business on the day of its preparation and not on the future date.
7. Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.

#### **Unit -2 Accounting Concepts, Principles And Conventions**

1. The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept.
2. Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.
3. Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred.
4. The Conservatism Concept also states that no change should be counted unless it has materialized.
5. The concept of consistency implies non-fl exibility as not to allow the introduction of improved method of accounting.
6. The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc.

#### **Unit -3 Accounting Terminology – Glossary**

1. The drawer's signed assent on bill of exchange, to the order of the drawee is called an acceptance:
2. That portion of an expenditure whose benefit has been exhausted is called Unexpired Expenditure.
3. Accrual basis of accounting is the method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
4. Authorised Share capital is sometimes referred to as nominal share capital.
5. Fixed assets less interest on obligations undertaken to purchase asset less accumulated depreciation thereon up-to-date are called Net Fixed Assets.
6. The credit balance in the profit and loss statement is called a deficit.

#### **Unit -4 Capital And Revenue Expenditures and Receipts**

1. The nature of business is not an important criteria in separating an expenditure between capital and revenue.
2. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature
3. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.
4. Amount spent for replacement of worn out part of machine is Capital Expenditure.
5. Legal fees to acquire property is Capital Expenditure.



6. 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.

#### **Unit -5 Contingent Assets and Contingent Liabilities**

1. A contingent liability need not be disclosed in the financial statements.
2. A Provision fails to meet the recognition criteria.
3. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability.
4. When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability.

#### **Unit -6 Accounting Policies**

1. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.
2. Selection of accounting policy doesn't impact financial performance and financial position of the business
3. A change in accounting policies should be made as and when business like to show result as per their choice.
4. Choosing FIFO or weighted average method for inventory valuation is an accounting policy choice.
5. Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time.

#### **Unit -7 Accounting as a Measurement Discipline – Valuation Principles, Accounting Estimates**

1. There are four generally accepted measurement bases or valuation principles
  - (i) Historical Cost;
  - (ii) Current Cost;
  - (iii) Realizable Value;
  - (iv) Future Value.
2. Historical Cost means price paid at time acquisition.
3. As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
4. At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.
5. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Historical cost of machine is 20,00,000
6. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Current cost of machine is 20,00,000

#### **Unit -8 Accounting Standards**

1. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2. Accounting standards can override the statute.
3. Difficulties in making choice between different treatments is one of the benefits of accounting standards.
4. Requirements for additional disclosures is limitation of accounting standards.
5. ASB stands for Accounting standardisation benchmarking.
6. There are no limitation to accounting standards.

#### **Unit -9 Indian Accounting Standards**

1. The Government of India in consultation with the ICAI decided to adopt IFRSs issued by the IASB.
2. There are many beneficiaries of convergence with IFRSs such as the economy, investors, industry etc.
3. There was no need to converge to global accounting standards.
4. International Financial Reporting Standards (IFRSs) are considered a “rules-based” set of standards.
5. Govt of India has taken IASB support to develop Ind AS standards.
6. IASC stands for International Accounting Standards Council.

## **CHAPTER 2: ACCOUNTING PROCESS**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

#### **Unit -1 Basic Accounting Procedures - Journal Entries**

1. In accounting equation approach,  $\text{equity} + \text{Long-term liabilities} = \text{fixed asset} + \text{current assets} - \text{current liabilities}$ .
2. In the traditional approach a debtor becomes receiver.
3. The rule of nominal account states that all expenses & losses are recorded on credit side.
4. Journal proper is also called a subsidiary book.
5. Capital account has a debit balance.
6. Purchase account is a nominal account.
7. All the personal & real account are recorded in P&L A/c.
8. Asset side of balance sheet contains all the personal & nominal accounts.
9. Capital account is a personal account.
10. Journal is also known as the book of original entry.

#### **Unit -2 Ledgers**

1. A ledger is also known as the principal book of accounts.
2. Cash account has a debit balance.
3. Posting is the process of transferring the accounts from ledger to journal.
4. At the end of the accounting year, all the nominal accounts of the ledger book are balanced.
5. Ledger records the transactions in a chronological order.
6. If the total debit side is greater than the total of credit side, we get a credit balance.
7. Ledger accounts of assets will always be debited when they are increased.

#### **Unit -3 Trial Balance**

1. Preparing trial balance is the third phase of accounting process.
2. Trial balance forms a base for the preparation of Financial statements.
3. Agreement of Trial balance is a conclusive proof of accuracy.
4. A trial balance will tally in case of compensating errors.
5. A Trial balance can find the missing entry from the journal.
6. Suspense account opened in a trial balance is a permanent account.
7. The balance of purchase returns account has a credit balance.

#### **Unit -4 Subsidiary Books**

1. Transactions recorded in the purchase book include only purchases on credit transactions.
2. Transactions regarding the purchase of fixed asset are recorded in the purchase book.
3. Cash sales are recorded in the sales book.
4. Subsidiary books are also known as the books of original entry.
5. Bills receivable book is a subsidiary book.
6. Return inward book is also known as purchase return book.
7. Purchase of a second hand machinery will be recorded in purchase book.
8. Total of sales return book is posted to the debit side of sales return account.
9. If the sales are on a frequent basis, the transactions are recorded in the sales book.

**Unit -5 Cash Book**

1. Cash book is a subsidiary book as well as a principal book.
2. Two column cash book consists of two columns cash column & bank column.
3. Discount column of cash book is never balanced.
4. Contra entry is passed in a two column cash book.
5. If the bank column is showing the opening balance on credit side, it is an overdraft.
6. A cash book records cash transactions as well as credit transactions.
7. Discount column of cash book records the trade discount.

**Unit -6 Rectification of Errors**

1. The method of rectification of errors depends on the stage at which the errors are detected.
2. In case of error of complete omission, the trial balance does not tally.
3. When errors are detected after preparation of trial balance, suspense account is opened.
4. When purchase of an asset is treated as an expense, it is known as error of principle.
5. Trial balance agrees in case of compensating errors.
6. When amount is written on wrong side, it is known as an error of principle.
7. On purchase of furniture, the amount spent on repairs should be debited to repairs account.
8. 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.
9. Rent paid to land lord of the proprietors house, must be debited to 'Rent account'.
10. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

## **CHAPTER 3: BANK RECONCILIATION STATEMENT**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

1. Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.
2. There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.
3. Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.
4. Debit balance in cash book is same as overdraft as per pass book.
5. Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.
6. Overcasting of the debit side of the cash book is an example of a difference that is due to Error.
7. When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.
8. The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.
9. When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets.
10. While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.
11. Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000.
12. Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.
13. A cheque for ₹ 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of ₹ 50,000 from the balance in pass book.
14. A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.
15. Bank Reconciliation Statement can be prepared in two formats – “Balance” presentation and “Plus & Minus” presentation.
16. The difference between cash book & pass book that relates to errors are those mostly made by Bank.
17. A cheque for ₹ 80,000 that was discounted from bank was dishonoured and the bank charged ₹ 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct ₹ 78,400 to reconcile with pass book.
18. Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.
19. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.
20. Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.

## **CHAPTER 4: INVENTORIES**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

1. Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation.
2. A building is considered inventory in a construction business.
3. Inventory is valued as carrying cost less percentage decreases.
4. Management has daily information about the quantity and valuation of closing stock under Physical Inventory System.
5. Periodic Inventory System is more suitable for small enterprises.
6. When closing inventory is overstated, net income for the accounting period will be understated.
7.  $\text{Closing inventory} = \text{Opening inventory} + \text{Purchases} + \text{Direct expenses} + \text{Cost of goods sold}$ .
8. Cost of inventories should comprise all cost of purchase.
9. Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only.
10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
11. Perpetual system requires closure of business for counting of inventory.
12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
13. The value of ending inventory under simple average price method is realistic as compare to LIFO.
14. The value of stock is shown on the assets side of the balance-sheet as fixed assets.
15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.
16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism.
18. Finished goods are normally valued at cost or market price whichever is higher.

## **CHAPTER 5: CONCEPT AND ACCOUNTING OF DEPRECIATION**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

1. Increase in market value of a fixed asset is one of the reasons for depreciation being charged.
2. Depreciation of an asset begins when it is available for use in the location & condition necessary for it to be capable of being operated.
3. Cost of property, plant and equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.
4. Cost of fixed asset should also include cost of opening a new facility such as inauguration costs.
5. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.
6. In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.
7. In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.
8. Akash purchased a machine for ₹ 12,00,000. Estimated useful life is 10 years and scrap value is ₹ 1,00,000. Depreciation for the first year using sum of the years digit method shall be ₹ 2,00,000.
9. Depletion is the allocation of the cost of intangible assets such as patents and copyrights.
10. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.
11. If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.
12. Sum of the years digit method is an example of accelerated method of charging depreciation.
13. Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expense in early years and more depreciation in later years of its life.
14. While depreciating Land cost, Straight line method shall give more depreciation than the written down value.
15. Provision for depreciation account is debited at the time of recording the depreciation on an asset.
16. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.
17. When a property, plant or equipment is sold then provision for depreciation account is debited, asset account is credited and any gain or loss is recorded to profit and loss account.
18. While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life is reduced from its cost.
19. Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.
20. Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year.

## **CHAPTER 6: ACCOUNTING FOR SPECIAL TRANSACTIONS**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

#### **Unit -1 Bill Of Exchange and Promissory Notes**

1. Bills payable account is a nominal account.
2. Promise to pay is included in a bill of exchange.
3. Days of rebate are added to the due date to arrive at the maturity date.
4. There are always 2 parties to the bills of exchange.
5. Foreign bill is drawn in the country and payable outside the country.
6. Promissory note is different from that of a bill of exchange where the amount is paid by the maker in case of former and by the acceptor in the latter.

#### **Unit -2 Sale of Goods on Approval or Return Basis**

1. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out.
2. The customer retains the goods even after the expiry of the mentioned term, but this act does not confirm to sale of goods as there is no express consent given.
3. At the end of the year- those goods on approval basis awaiting approval from the customer are shown as part of sales in the books of the seller.
4. No entry needs to be passed in the books of the seller, when the customer rejects the goods awaiting approval after the closing of the books of the seller.
5. The period within which the customer has to reject or accept is fixed by the buyer.
6. Mere transfer of the possession of the goods from the seller to the customer under sale on approval basis, also ensure transfer of ownership to customer.

#### **Unit -3 Consignment**

1. Value of the abnormal loss is debited to the consignment account.
2. Sales account and account sales are one and the same.
3. The consignment stock is at the risk of the consignor.
4. Normal commission is paid to the consignee to bear the risk of the bad debts on sale of the consigned stock.
5. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.
6. Consignment account is a representative personal account.
7. Proforma invoice is sent by the consignee to the consignor giving details about the stock of goods sent on consignment and their cost, invoice price, etc.
8. The bad debts in case of del credere commission shall be debited to the Consignment account
9. Abnormal loss is created out of uncontrollable situations and circumstances.
10. The relationship between the consignor and his consignee is that of a seller and a buyer.

#### **Unit -4 Average Due Date**

1. The specific due date excludes the addition of grace days to arrive at the due date.
2. Payment made before the average due date entitles rebate to the customer.
3. Average due date results in loss to the party making the payment.
4. It is always the date of any transaction which is considered as base date.
5. Interest has to be paid by the party making payment exactly on the average due date.
6. Where the due date is a Public holiday and the preceding day is a sudden holiday, then the due date falls on the day preceding the sudden holiday.

**Unit -5 Account Current**

1. Current account and account current are one and the same.
2. The account current is an extension of the average due date concept.
3. Date of transaction or the due date whichever is earlier is considered for computation of the number of days.
4. A is in account current with B- The person rendering the account current is Mr. A.
5. The honored bills of exchange will not be recorded in the account current.



## **CHAPTER 7: PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORS**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

#### **Unit -1 Final Accounts of Non-Manufacturing Entities**

1. The income statement shows either net profit or net loss for a particular period.
2. Gains from the sale or exchange of assets are not considered as the revenue of the business.
3. The salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities.
4. A loss is an expenditure which does not bring any benefit to the concern.
5. All liabilities which become due for payment in one year are classified as long-term liabilities.
6. The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.
7. An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.
8. If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.
9. Sales less cost of goods sold = gross profit.
10. If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.
11. The provision for bad debts is debited to Sundry Debtors Account.
12. The provision for discount on creditors is often not provided in keeping with the principle of conservatism.
13. The debts written off as bad, if recovered subsequently are credited to Debtors Account.
14. The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account.
15. Premium paid on the life policy of a proprietor is debited to profit and loss account.
16. Depreciation account appear in the trial balance is taken only to profit and loss account.
17. Personal purchases included in the purchases day book are added to the sales account in the Trading account.
18. Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.
19. Goods worth ₹600 taken by the proprietor for personal use should be credited to Capital Account.
20. If Closing Stock appears in the Trial Balance, the Closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet.

#### **Unit -2 Final Accounts of Non-Manufacturing Entities**

1. By-products valued at cost or net realisable value whichever is lower.
2. The manufacturing account is prepared to ascertain the profit or loss on the goods produced.
3. If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.
4. Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.
5. The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.
6. Overhead is defined as total cost of direct material, direct wages and direct expenses.

## **CHAPTER 8: PARTNERSHIP ACCOUNTS**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

#### **Unit -1 Introduction to Partnership Accounts**

1. In absence of any agreement partners share profits of the business in the ratio of their capital contribution.
2. Profit sharing ratio and capital contribution ratio need not be same.
3. Every partnership firm must register itself with Registrar of firms.
4. A partner can advance loan to the partnership firm in addition to capital contributed by him.
5. A partner can demand interest on capital even if it is not provided in the partnership deed.
6. If a partner does not take part in day to day business activities of the firm then he is not entitled to any share of profit.
7. Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed.
8. Husband and wife can not be partners in the same firm.
9. One senior partner is Principal and other partners are his agents.
10. Partners are the agents of the firm and each other.

#### **Unit -2 Treatment of Goodwill in Partnership Accounts**

1. Goodwill is intangible asset therefore it cannot be valued.
2. Goodwill is valued whenever there is change in the constitution of the business.
3. Goodwill is excess earning capacity of the business attributable to many reasons.
4. At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.
5. Only simple average method can be used for valuation of goodwill.
6. Super profit means excess of actual average profit over normal profit.
7. Normal profit means profit earned by similar companies in the same industry.
8. Normal profit depends upon Normal Rate of Return and past profits.
9. At the time of admission/retirement of a partner, since goodwill can not be raised in the books of accounts is recorded through capital accounts of the partners.
10. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.

#### **Unit -3 Admission of a New Partner**

1. A newly admitted partner does not have same rights as old partners.
2. When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.
3. Revaluation account is also called as Profit and Loss Adjustment Account.
4. Any appreciation in the value of an asset is credited to Revaluation account.
5. All the partners may decide not to change the values of assets and liabilities in the books of accounts.
6. New partner is entitled to have share in Reserves appearing in the balance sheet prior to his admission.
7. Any Reserve appearing in the Balance Sheet is credited to existing partners equally.
8. If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally.
9. New partner brings in necessary amount as his capital.
10. New partner is entitled to share in revaluation profit.

**Unit -4 Retirement of a Partner**

1. Business of a partnership has to be closed if any one partner retires.
2. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.
3. After retirement of a partner, profit sharing ratio of continuing partners remains the same.
4. If any partner wants to retire from the business, he must retire on 1st day of the accounting year.
5. Retiring partner has to forego his share of goodwill in the firm.
6. If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement.
7. If the firm has taken any joint life policy then it is to be surrendered on retirement of a partner.
8. Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio.
9. No revaluation account is necessary on retirement of a partner.
10. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.

**Unit -5 Death of a Partner**

1. Business of partnership comes to an end on death of a partner.
2. Legal heir of a deceased partner automatically becomes partner in the firm.
3. A revaluation account is opened in the books of accounts on death of a partner.
4. Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners capital account in their profit sharing ratio.
5. Legal heirs of a deceased partner are entitled to his capital account balance only.
6. It is not necessary to adjust goodwill on death of a partner.
7. On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio.
8. On death of a partner, the firm gets surrender value of the joint life policy.
9. Only legal heirs of deceased partner are entitled to amount received from joint life policy.

## **CHAPTER 9: FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.
2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.
3. Sale of grass by a sports club is to be treated as sale of an asset.
4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.
5. Receipts and payments account gives the details about the expenses outstanding for the year.
6. Adjustments in the form of additional information shall be adjusted in the final accounts of an Non-profit organisation only in one place.
7. Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.
8. For an Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.
9. Surplus of non-profit organizations is distributed among its members.
10. Tournament fund, building fund, library fund is based on the fund based accounting.
11. Subscription fees refers to the one-time fees paid by the memberships to get admission to the benefits of the club.
12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.
13. An Insurance company is an example of non-profit organization.
14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.
15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.
16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy.
17. Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.
18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.
19. All the receipts are of revenue nature in case of Non-profit organisation.
20. There is opening balance of Income and expenditure account.

## **CHAPTER 10: COMPANY ACCOUNTS**

### **TEST YOUR KNOWLEDGE**

#### **True and False**

**State True or False for each of the following, with reason for the same.**

#### **Unit -1 Introduction to Company Accounts**

1. Every public company is a listed company.
2. Shares of a private company are not listed on stock exchange.
3. It is not mandatory to incorporate a company under the companies act.
4. Company is an artificial, legal person created by law.
5. Death, insolvency or change of members affects the existence of a company.
6. If the shares are fully paid-up by the shareholder, he is subject to no further liability.
7. Public limited company has restrictions on transferability of shares.
8. Financial statements of company show the financial position of the business.
9. Schedule I gives proforma of Balance Sheet.

#### **Unit -2 Issue, Forfeiture and Re-Issue of Shares**

1. Liability of a holder of shares is limited to the face value of shares acquired by them.
2. Authorised capital appears in the balance sheet at face value.
3. The rate of dividend on preference shares may vary From year to year.
4. A company may issue shares at a discount to the public in general.
5. Sweat equity shares are those which are issued to employees & directors at a discount.
6. As per table F, rate of interest on calls in arrears is 12%.
7. As per Table F, rate of interest on calls in advance is 10%.
8. Non-participating preference shareholders enjoy voting rights.
9. A forfeited shares is available to the company for the purpose of resale.
10. Loss on reissue should exceed the forfeited amount.

#### **Unit -3 Issue of Debentures**

1. Debenture holder are the owners of the company.
2. Perpetual debentures are payable at the time of liquidation of the company.
3. Registered debentures are transferable by delivery.
4. When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures.
5. Debentures suspense account appears on liability side of balance sheet.
6. If a company incurs loss, then it does not pay interest to the debenture holders.
7. At the time of liquidation, debenture holders are paid off after the shareholders.
8. Convertible debentures can be converted into equity shares.
9. Redeemable debentures are not payable during the life time of the company.
10. Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.