

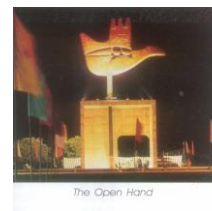


# Accountancy Handbook

**FOR**  
**Induction Training for newly recruited inspectors**



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## Preface

As advised by NADT, Nagpur, RTIs are mandated to conduct 60 days Induction Training course for Newly Recruited Inspectors. During Fiscal 2010-11, DTRTI Chandigarh conducted the training of 91 Inspectors, recruited in 2005-06 who had not undergone any Induction training. The basic idea of this course was to provide an overview of functioning of Income Tax Department and also impart them basic knowledge of various provisions of Accounting, Income Tax Act 1961 and Allied Acts and Income Tax Rules, 1962. The training was conducted in two phases:

- Phase-I from 5th April 2010 to 30th April 2010 and
- Phase-II from 21st June 2010 to 23rd July 2010.

For evaluation of Transfer of Learning, during the induction Training, a need was felt for reference material on Accountancy which could be used by the Direct recruit Inspectors for revision and practice. The present compilation has been put together on the basis of material provided by our Guest Faculties and RTI Officers.

**The bulk of the material has been contributed by Shri Rajesh Kedia Additional CIT.** Acknowledgement must also made of contribution of Shri Naresh Handa CA and Shri Anil Sharma, ITO, and RTI Officers who put together the Test Papers. This is a handy manual designed for easy reference. Errors and Omissions are regretted. Kindly feel free to contact DTRTI, Chandigarh whenever necessary with suggestions for improvement and amendment.

With warm regards

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## Table of Contents of Accountancy Manual

<b>1</b>	<b>ACCOUNTING : A PROGRAMMED LEARNING</b>	<b>5</b>
<b>2</b>	<b>LESSON-1: THE BALANCE SHEET</b>	<b>7</b>
2.1	EXERCISE NO. 1	15
<b>3</b>	<b>LESSON NO : 2 BALANCE SHEET Continued</b>	<b>16</b>
3.1	Exercise No.2	27
<b>4</b>	<b>LESSON : 3: INTRODUCTION TO PROFIT MEASUREMENT</b>	<b>28</b>
<b>5</b>	<b>The Trading and Profit and Loss Account</b>	<b>35</b>
5.1	Exercise No.3	37
<b>6</b>	<b>LESSON - 4: CONVENTIONS OF ACCOUNTING</b>	<b>38</b>
6.1	Exercise No : 4	43
<b>7</b>	<b>LESSON : 5</b>	<b>45</b>
7.1	Exercise No. 5	53
7.2	Exercise 1 of Lesson : 5	55
7.3	Exercise 2 of Lesson 5	56
<b>8</b>	<b>LESSON : 6</b>	<b>57</b>
8.1	Exercise No. : 6	66
8.2	Solution to Lesson 6(1)	70
8.3	Solution to Lesson: 6(2)	71
8.4	SOLUTION TO LESSON 6(3)	73
<b>9</b>	<b>LESSON 7</b>	<b>78</b>
9.1	EXERCISE No. 7	80
9.2	Solution to Exercise 7(1)	81
9.3	Solution to Exercise 7(3)	82

<b>10</b>	<b>LESSON 8</b>	<b>83</b>
10.1	EXERCISE NO. 8	89
10.2	Solution to Exercise 8(5)	90
<b>11</b>	<b>LESSON 9</b>	<b>91</b>
11.1	Exercise No. 9	97
11.2	Solution to Exercise 9(3)	98
<b>12</b>	<b>LESSON 10: MARSHALLING THE ASSETS AND LIABILITIES IN THE BALANCE-SHEET</b>	<b>100</b>
12.1	EXERCISE NO. 10	106
12.2	Solution to Exercise 10	109
<b>13</b>	<b>ACCOUNTANCY PRACTICE TEST PAPER -1</b>	<b>112</b>
13.1	ANSWERS To ACCOUNTANCY PRACTICE TEST_1	126
<b>14</b>	<b>ACCOUNTANCY PRACTICE TEST PAPER -2</b>	<b>127</b>
14.1	Answers to Practice Test -2	139
<b>15</b>	<b>WORKSHOP ON INCOME-TAX LAW-1</b>	<b>140</b>
15.1	Answers to Income Tax Workshop-1	155
15.2	Workshop on Salary-1	156
15.3	Workshop on Salary-2	157



## 1 ACCOUNTING : A PROGRAMMED LEARNING

Instructions for Programmed Learning Lessons :

1. Read carefully each frame.
2. Write your answer to the frame in the space provided. Merely thinking out your answer is not a good substitute for writing down your answer.
3. When your answer is correct proceed to the next frame.
4. The way to write your answer(s) in a frame depends on the way that a space has been left for the answer(s) . These are as follows :-
  - (a) A space in a frame left as \_\_\_\_\_ means that you should fill in the word or words that are missing.
  - (b) A space in a frame which has a Rupee mark Rs. \_\_\_\_\_ means that you should fill in the amount that is missing
  - (c) Where two or more alternatives to complete the frame are shown in brackets, the alternatives being separated by a stroke, e.g. (Yes / No), this means that the alternative selected should be indicated by underlining it.

**Illustrations :**

- 1 The title of this system is Accounting : A Programmed Learning  
[with a frame like this, write your answer here.]
2. If the question had been the same as in frame 1, but part of the answer had been supplied, the frame could have appear as :

The title of this system is

Accounting:                    A            Programmed            Learning.

**[Write your answer here]**

**WHAT IS BOOK KEEPING ?**

A systematic record of the daily (and hourly) events of a business leading to the presentation of complete financial picture is known as accounting or, in its elementary stages , as book keeping.

The financial picture mostly has two parts, one showing how much profit has been earned ( or loss suffered) and other showing assets and liabilities of the proprietor's interest in the firm.

In addition top, the above information, however, a dealer would naturally like that his books should also show the following particulars:-

- (a) How the amount he has gained or loss is made up;
- (b) What amount is owing to him by each of his customers or debtors; and
- (c) What amount is owing by him to each of his customers or creditors.

\*\*\*\*\*

## 2 LESSON- 1: THE BALANCE SHEET

1. Things that are of value are known in accounting language as assets. J Kumar had just put in Rs. 50,000/- cash to start a new business of his own calling the business J.K. Enterprises. What is the value of assets in the business? Rs. 50,000/-.
2. Suppose that the business now borrows Rs. 10,000/- from A Mohan. How much cash will there now be in the business? Rs. 60,000/-.
3. What is the value of the business assets now? Rs. 60,000/-.
4. At present assets are represented only by cash, and the source of the assets can be seen to be Rs. 50,000/- from J. Kumar and Rs. 10,000/- from A. Mohan .
5. When someone lends money to a business, or supplies goods or services to it which will not be paid for until a later date, he acquires a claim against the business for that amount. This is known as liability of the business. The liability of the business to A. Mohan is Rs. 10,000/-.
6. On the other hand, this is J. Kumar's business. He is the owner. He has not just lent money to the business or supplied goods and services to it. The remaining cash that has been put in to the business belongs to him. This could be said to be the amount of the owner's claim against the business which amounts to Rs. 50,000/-  
In a frame like the one given below under line the answer chosen by you.
7. If J. Kumar puts some more cash into J.K. Enterprises then (J. Kumar / J.K. Enterprises ) would possess more cash.
8. If J. Kumar had Rs. 5000/- cash given to him by an uncle, and J. Kumar did not put the cash into J.K. Enterprises, would J. Kumar personally possess more cash? (Yes / No).
9. Would J.K. Enterprises possess more cash because of the gift to J. Kumar (Yes / No.)
10. Therefore, if we are discussing the business, this being J.K. Enterprises, we (do / do not) take into account J. Kumar's other activities.

11. Looking at the frame 10 , you can see that a rule has been established, namely that in considering the business activities, J .Kumar's other activities should be ignored. Such rules are known as concepts. This particular concept is known as the *Business Entity Concept*. This means that we will view the affairs of a business as being an entity separate from J. Kumar as a person. This supports the view that J. Kumar has a claim against the assets of J.K. Enterprises.
12. The claim of the owner is known as Capital or as Owner's equity. J. Kumar's Capital is, therefore, Rs.50,000/-.
13. A business will use its assets to pay off the claims as they become due. In this case, the value of the assets is Rs. 60,000/-.
14. The claims against the business assets are Rs. 10,000/- by A. Mohan and Rs.50,000/- by J. Kumar.
15. You may have noticed that the value of the assets and the total of the claims equal one another, in this case Rs.60,000/-.
16. This introduces the second concept that you have met in accounting, namely the *dual aspect concept*. The two aspects are represented by the business assets on the one hand and the claims against them on the other. The concept states that these two aspects are always equal to each other. Written as an equation it becomes : Assets = Claims against them.
17. It will be shown later that this always holds true even when assets other than cash are introduced. The equation is known as the fundamental accounting equation. The equation can be shown in greater detail as :

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

This must be true as Capital and Liabilities represent the only claims against the assets. So far this has become :

$$\text{Assets Rs. 60,000/-} = \text{Capital Rs.50,000/-} + \text{Liabilities Rs. 10,000/-}$$

18. The equation can be written as :

$$\text{Assets} - \text{Capital} = \text{Liabilities}$$

Which can be checked in this firm as :

$$\text{Assets Rs. 60,000/-} - \text{Capital Rs. 50,000/-} = \text{Liabilities Rs. 10,000/-}$$

19. The alternative form of equation in frame No. 18 will be :

$$\text{Assets} - \text{Liabilities} = \text{Capital}$$

This being checked as:

$$\text{Assets Rs. 60,000/-} - \text{Liabilities Rs. 10,000/-} = \text{Capital Rs. 50,000/-}$$

20. The fundamental accounting equation could have been written in a form which in accounting is called a Balance sheet, This lists the firm's assets on the right hand side, and the left hand side shows capital and liabilities.
21. The Balance sheet for J.K. Enterprises can now be completed as under :

J.K. ENTERPRISES

BALANCE SHEET

Capital	Rs. 50,000/-	Cash	Rs. 60,000/-
Loan	Rs. 10,000/-		
<b>Total</b>	Rs. 60,000/-	<b>Total</b>	Rs. 60,000/-

Will the two sides of the Balance sheet always show totals equal to one another? (Yes / No)

22. However, once the firm starts to trade and to receive and pay out cash daily, the amount of cash in the firm will normally ( Change / stay the same) from day to day.
23. As the firm buys other assets then the assets shown on the Balance sheet will also (Change / stay the same).
24. This means that if you drew up a Balance sheet on one day then it would hold true (for a long period of time / at any point in time / at only that point in time ).
25. This means that each Balance Sheet should be dated. Let us assume that the Balance sheet in frame 21 is in respect of the date 1 May, 2000. It should, therefore, be headed.

**'BALANCE SHEET AS AT 1ST MAY 2000'**

26. If J.K. Enterprises now bought some buildings on 2 May 2000, paying Rs. 20,000/- in cash for them, there would now be a new asset buildings of Rs. 20,000/- and the asset of cash would have been reduced by Rs. 20,000/- .

Complete the following Balance sheet as at 2 May, 2000:

J.K. ENTERPRISES

BALANCE SHEET AS AT 2 MAY , 2000

Capital	Rs.50,000/-	Buildings	<u>Rs 20,000/-</u>
Loan	Rs. 10,000/-	Cash	<u>Rs 40,000/-</u>
<b>Total</b>	Rs. 60,000/-	<b>Total</b>	<u>Rs 60,000/-</u>

27. J.K. Enterprises bought goods, often called merchandise, for Rs. 5,000/- on 3 May 2000 paying for them immediately in Cash. The firm would now have a stock of goods, generally called Stock-in-trade of Rs 5,000/-value. On the other hand the firm would have Rs 5,000/- less cash.

Draw up an amended Balance sheet :

BALANCE SHEET AS AT 3 MAY 2000

Capital	Rs. 50,000/-	Buildings	<u>Rs.20,000/-</u>
Loan	Rs. 10,000/-	Cash	<u>Rs.35,000/-</u>
		Stock - in - Trade	<u>Rs. 5,000/-</u>
		Trade	
<b>Total</b>	Rs. 60,000/-	<b>Total</b>	<u>Rs.60,000/-</u>

Goods can also be bought on credit: that is to take delivery of them now but to pay for them at a later date. A person to whom money is owed for goods is called a Creditor. You are to complete J.K. Enterprises Balance Sheet as at 4 May 2000 after goods of Rs. 12,000/- have been bought to be paid for at a later date.

Stock -in- trade will have increased by Rs. 12,000/-and a new liability, Creditor will have appeared.

## J.K. ENTERPRISES

## BALANCE SHEET AS AT 4 MAY, 2000

Capital	Rs. 50,000/-	Buildings	Rs. 20,000/-
Loan	Rs. 10,000/-	Stock-in-trade	<u>Rs 17,000/-</u>
Creditor	<u>Rs. 12,000/-</u>	Cash	<u>Rs 35,000/-</u>
<b>Total</b>	<u>Rs. 72,000/-</u>	<b>Total</b>	<u>Rs. 72,000/-</u>

29. Each transaction so far can be seen to have affected two items in the Balance sheet. On 5 May, 2000 goods costing Rs. 2,000/- were sold at the same price of Rs. 2,000/-, cash being received immediately. Draw up an amended Balance Sheet :

## J.K. ENTERPRISES

## BALANCE SHEET AS AT 5 MAY, 2000

Capital	Rs 50,000/-	Building	Rs 20,000/-
Loan	Rs 10,000/-	Stock-in-trade	<u>Rs 15,000/-</u>
Creditor	Rs 12,000/-	Cash	<u>Rs 37,000/-</u>
<b>Total</b>	<u>Rs 72,000/-</u>	<b>Total</b>	<u>Rs 72,000/-</u>

30. When goods are sold on credit by a firm, this means that the goods will be given to the buyer but payment will not be received from him until a later date. When money is owing from a customer he is known as a Debtor, the right to collect money from him being something of value owned by the firm and it is, therefore, an asset. On 6 May 2000 goods which had cost Rs. 3,000/- were sold by J.K. Enterprises for the same amount on credit. The Stock-in-Trade will therefore be reduced and a new asset 'Debtor' will appear.

Complete the following Balance Sheet:

**J.K. ENTERPRISES**  
**BALANCE SHEET AS AT 6 MAY,2000**

Capital	Rs 50,000/-	Buildings	Rs 20,000/-
Loan	Rs 10,000/-	Stock-in-Trade	Rs 12,000/-
Creditor	Rs 12,000/-	Debtor	Rs 3,000/-
		Cash	Rs 37,000/-
Total	Rs 72,000/-	Total	Rs 72,000/-

31. It is decided to open an account at the bank. For this purpose Rs. 33,000/- is deposited with the bank on 7 May,2000. To distinguish between cash kept at the firm and the cash that has been put into a bank account, the former is called Cash in Hand whilst the latter is called Cash at Bank. Show the amended Balance Sheet ?

**J.K. ENTERPRISES**  
**BALANCE SHEET AS AT 7 MAY, 2000**

Capital	Rs. 50,000/-	Buildings	Rs. 20,000/-
		Stock-in-trade	Rs. 12,000/-
Loan	Rs. 10,000/-	Debtor	Rs. 3,000/-
		Cash at Bank	Rs 33,000/-
Creditor	Rs. 12,000/-	Cash in Hand	Rs 4,000/-
Total	Rs. 72,000/-	Total	Rs 72,000/-

32. On 8 May, 2000 a cheque of Rs, 4,000/- is paid to the Creditor in part payment of the amount owing to him. Complete the following Balance Sheet.

**J.K. ENTERPRISES**  
**BALANCE SHEET AS AT 8 MAY, 2000**

Capital	Rs. 50,000/-	Buildings	Rs. 20,000/-
		Stock-in-trade	Rs. 12,000/-
Loan	Rs. 10,000/-	Debtor	Rs. 3,000/-
		Cash at Bank	Rs 29,000/-
Creditor	Rs 8,000/-	Cash in Hand	Rs. 4,000/-
Total	Rs 68,000/-	Total	Rs. 68,000/-

33. On 9 May, 2000 Rs. 1,000/- cash is received from the Debtor in part payment of the amount owing by him to J.K. Enterprises. Complete the following:

BALANCE SHEET AS AT 9 MAY, 2000  
J.K. ENTERPRISES

Capital-	Rs. 50,000/-	Buildings	Rs. 20,000/-
		Stock-in-trade	Rs. 12,000/-
Loan	Rs. 10,000/-	Debtor	Rs. <u>2,000/-</u>
		Cash at Bank	Rs. 29,000/-
Creditor	Rs. 8,000/-	Cash in Hand	Rs. <u>5,000/-</u>
Total	Rs. 68,000/-	Total	Rs. 68,000/-

34. On 10th May, 2000 J. Kumar withdrew Rs. 2,000/- cash from J.K. Enterprises for his private use. His claim against the business will therefore, be reduced by Rs. 2,000/-. The Balance sheet now needs completing :

J.K. ENTERPRISES  
BALANCE SHEET AS AT 10th MAY, 2000

Capital	Rs. <u>48,000/-</u>	Buildings	Rs. 20,000/-
		Stock-in-trade	Rs. 12,000/-
Loan	Rs. 10,000/-	Debtor	Rs. 2,000/-
Creditor	Rs. 8,000/-	Cash at Bank	Rs. 29,000/-
		Cash in Hand	Rs. <u>3,000/-</u>
Total	Rs. <u>66,000/-</u>	Total	Rs. <u>66,000/-</u>

35. On 11th May, 2000 J. Kumar meets the Creditor whilst on holiday and pays him Rs. 3,000/- from his own private monies. He does not reimburse himself from J.K. Enterprises. J. Kumar's claim against J.K. Enterprises is, therefore, increased by Rs. 3,000/-. Complete the Balance sheet :

J.K. ENTERPRISES  
BALANCE SHEET AS AT 11 MAY, 2000

Capital	Rs. <u>51,000/-</u>	Buildings	20,000/-
		Stock-in-trade	12,000/-
Loan	Rs. 10,000/-	Debtor	2,000/-
Creditor	Rs. <u>5,000/-</u>	Cash in Bank	29,000/-
		Cash in Hand	3,000/-
Total	Rs. <u>66,000/-</u>	Total	66,000/-

36. We can now summarize the entries that have been made in the Balance sheet of J.K. Enterprises.

## Fundamental Accounting Equation

	Assets =	Capital +	Liabilities
Frame No.	Rs Stock      Trade	Rs.	Rs.
1	+ 50,000/-	+ 50,000/- + 50,000/-	
2	+ 10,000/-		+ 10,000/-
26	+ 20,000/- - 20,000/-		
27	+ 5,000/- - 5,000/-		
28	+ 12,000/-		+ 12,000/-
29	+ 2,000/- - 2,000/-		
30	+ 3,000/- - 3,000/-		
31	+ 33,000/- - 33,000/-		
32	- 4,000/-		- 4,000/-
33	+ 1,000/- - 1,000/-		
34	- 2,000/-	- 2,000/-	
35		+ 3,000/-	- 3,000/-
If added up to show effect of all the transactions	66,000/- =	51,000/- +	15,000/-

It can be seen that the entries must preserve the equality of the two sides of the accounting equation.

**There are two basic positions** (i) That a transaction has an equal effect on both sides of the equation.

Thus, frame 1, 2 and 28 show equal additions to both sides, whilst frames 32 and 34 show equal deductions from both sides. (ii) That an addition to one side of the equation is cancelled out by a deduction of a similar amount on the same side. Thus, frames 26, 27, 29, 30, 31 and 33 show this on the assets side, whilst on the other side of the equation this is shown in frame 35. Under no circumstances should the totals of the balance sheet be other than equal to one another.

## 2.1 EXERCISE NO. 1

Answer the following without referring to contents of Lesson No.1 :

1. 'B' started a business with Rs, 1,00,000/- cash

He then borrowed a sum of Rs. 30,000/- cash from 'I'

He bought fixtures on credit Rs 8,000/-

He bought goods on credit Rs, 23,000/-

He bought goods for cash Rs 3,000/-

He banked Rs 90,000/- of the cash.

Draw up a Balance sheet after the above transactions had been completed.

2. 'F' started a business with Rs 60,000/- cash.

He then bought a motor van, paying in cash Rs, 7,000/-

He banked Rs 50,000/- of the cash.

He bought goods on credit Rs 16,000/-.

He won Rs, 7,000/--cash from a football pools firm, putting the cash immediately into the business.

He bought buildings worth Rs. 30,000/- by cheque.

Some goods which had cost Rs 4,000/- were sold on credit by him at the same price of Rs. 4,000/-.

He paid a creditor Rs 7,000/- by cheque.

Draw up a Balance sheet after the above transactions have been completed.

### Solution to question 1

Balance sheet of B

Liabilities			Assets		
Capital	-	Rs.1,00,000/-	Fixtures	-	Rs. 8,000/-
Loan	-	Rs. 30,000/-	Stock in trade	-	Rs.26,000/-
Creditors for fixtures & goods	-	Rs. 31,000/-	Cash at Bank	-	Rs.90,000/-
			Cash in hand	-	Rs.37,000/
		Rs.1,61,000/-			Rs.1,61,000/-

**Solution to question 2**

## Balance sheet of F

Liabilities			Assets		
Capital	-	Rs. 67,000/-	Buildings	-	Rs. 30,000/-
Creditors	-	Rs. 9,000/-	Motor Van	-	Rs. 7,000/-
			Stock in trade	-	Rs. 12,000/-
			Debtor	-	Rs. 4,000/-
			Cash at Bank	-	Rs. 13,000/-
			Cash in hand	-	Rs.10,000/
		Rs. 76,000/-			Rs.76,000/-

- If one side of the balance sheet adds up to Rs 98,790/-, what should the total of the other side be ? Rs.98,790/-.
- If assets amount to Rs. 68,000/- and Capital is Rs 50,000/- then what will be the figure of liabilities? Rs. 18,000/-.
- Capital is Rs 1,58,000/- and liabilities are Rs. 37,000/-. What is the total of the assets? Rs. 1,95,000/-
- What are the concepts that you have met already?  
Business Entity concept. Dual Aspect Concept.

**3 LESSON NO : 2 BALANCE SHEET Continued**

- All of the items in the Balance sheet have been expressed in (monetary/non-monetary) terms.

2. This is because all the items that appear in a Balance sheet have Money as a common denominator.
3. But by reducing all the items to monetary terms we can deal only with facts which can be expressed in those terms.
4. The use of such a common denominator does however enable us to handle facts concerning dissimilar things such as buildings, cash, stock-in-trade or creditors (arithmetically/ verbally).
5. State which of the following could be found in a Balance Sheet :
  - (a) That the firm owns some machinery.
  - (b) The firm is about to take over another firm.
  - (c) The firm has highly skilled labour force of young, enthusiastic workers.
  - (d) The Managing Director is going to retire shortly.
  - (e) A rival company is about to launch a superior product on to the market.
  - (f) The firm owes money to creditors at the Balance Sheet date.
6. Therefore, a Balance Sheet (does / does not) show all the facts about a business.
7. The concept of showing in a balance sheet only those items which can be measured in terms of money is known as the Money Measurement Concept.

What are the other two concepts that you have met already?

Business Entity Concept

Dual Aspect Concept.

**Asset Measurement**

8. If we are going to show assets in the Balance sheet in money terms, which value should we place on them? Their market- i. e. saleable value? Their original cost? Their use value? The word value can obviously have (only one / more than one) meaning.
9. Suppose that you look at the pile of text books owned by you. Estimate for how much you could sell them to other members of the class. Do you think that you and all the other students would agree as to their market value? (Yes / No) .
10. Now attempt to put a monetary value of their use to you. Would all the class agree to one figure for use value? (Yes / Very unlikely).

11. Do you in fact find it difficult to come to a decision as to their use value? (Yes / No) .
12. Did this also apply to your decision as to market value? (Yes / No)
13. If you had produced the receipts for the prices paid by you for the books, all members of the class would have (agreed / disagreed) as to the original cost of the books.
14. This means that in fact the only time that you managed to get a consensus of opinion was when the value used was that of original cost.
15. Many people such as bankers, Income-tax Officers, creditors and owners use Balance sheets for various reasons. If the use values or the market values as estimated by the owners were used, the other parties (would not / would) trust the valuation implicitly.
16. If all these people are to use the balance sheets they must be able to trust the valuations of assets. This means that (Market value / use value / original cost) will be used for valuation in a Balance Sheet.
17. The use of a measure which will have consensus of opinion, as against one's own measure which might conflict with other people's opinions, is said to be objective. The use of your own measure irrespective of whether other people agree with it or not is said to be subjective . The need for general agreement leads accounting in the direction of (subjectivity/ objectivity) when attempting measuring of asset values.
18. The need to choose the original cost to be objective can be traced to the element of uncertainty. If all market values were certain and all use values were certain then all parties could agree to the figures placed on them. However, the real world is a world of uncertainty. If you had a second-hand car for sale you ( could be/ could not be) absolutely certain how much you would be able to sell it for. Similarly with the sale of a house you would not be certain how much you could sell it for, or if you decided to keep it you (could be/ could not be) absolutely certain how much use you could get out of the house.
19. Accounting therefore uses the value of original cost to try to attain objectivity. The concept of taking the original cost for this purpose is known as the Cost concept. This is the fourth concept that you now know. What were the previous three concepts?

1 Business Entity Concept.

- 2      Dual Aspect Concept.
- 3      Money Measurement Concept.
20.    What asset values would the owner be interested in if he was about to sell the firm? (Original cost / Market value).
21.    But in fact we have already stated in frame 19 that the original cost is the value taken for Balance sheet purposes.
22.    This usually means that the Balance sheet values are ( the same / not the same ) as the values at which the owner would want to sell the assets.
23.    The Balance sheet is therefore deemed (to be/ not to be) connected with the sale of the firm.
24.    If the balance sheet does not show assets at market value, it must therefore assume that the firm (is about to be sold / will continue for an indefinite period).
25.    The firm is, therefore, seen as (a concern about to be sold / a continuing concern).
26.    This concept is known as the going concern concept, the word "going" in this context meaning continuing. Besides the going concern concept what are the other four concepts that you have read about .
- 1      Business Entity Concept.
2.      Dual Aspect Concept.
3.      Money Measurement Concept
4.      Cost Concept.
27.    An asset, in the accounting sense of the word, is a thing of value, which must be owned by the firm. By ' value' is meant that the asset will assist the firm to earn profits in the future, or be converted into cash. Therefore, if the firm occupies premises for which it pays rent, the premises ( will / will not) be shown as an asset.
28.    In addition the asset must have cost the firm something which can be measured in money terms. If a firm is set up from scratch and acquires a good reputation over the years, then this reputation ( will not / will be) shown as an asset.

29. But suppose that J.K. Enterprises had bought another business specifically to acquire the benefit of its good reputation, there being no other assets, the price paid for the good reputation ( would / would not ) be shown as an accounting asset.
30. Amar Traders is a business set up 40 years ago. It has assets consisting of building worth Rs, 3,00,000/- and stock worth Rs 50,000/-. J.K. Enterprises is content to pay Rs 5,00,000/- for the assets of Amar Traders because of the benefits expected to flow from the good reputation of the firm. After the purchase J.K. Enterprises will therefore, list in its balance sheet a figure of Rs.1,50,000/- in respect of the excess of the purchase price over the worth of the buildings and stock.
31. The name given to this amount is goodwill. This is a technical term in accounting, and must not be confused with the word in its ordinary usage. The figure of Rs 1,50,000/- will therefore appear in the Balance sheet of J.K. Enterprises as goodwill.
32. There are other items which are treated in the same manner as Goodwill, that is they are not shown as assets unless they have been paid for at a measurable cost. These include such things as patents, trademarks, licences and copy rights. Would they be shown as accounting assets if they had been paid for? (Yes / No)

#### **Asset Classifications and Balance Sheets**

33. In fact assets are normally classified under two heads for Balance sheet purposes :
- a) Current Assets
  - b) Fixed Assets
34. Current assets are the assets at a particular date which are held in the form of cash, or are generally expected to be converted into cash within the near future, usually the next 12 months. Which of the following would you normally expect to be current assets in a firm?
- a) Warehouse buildings.
  - b) Cash itself.
  - c) Storage fixtures
  - d) Goodwill
  - e) Stock-in-trade

- f) Cash at Bank
- g) Debtors
- 35 Fixed assets are those assets, which are of relatively long life. They are held to be used in the business, and are not held primarily for resale or for conversion into cash. Thus in a manufacturing business the factory buildings would be a fixed asset whilst the manufactured goods ready for sale would be a current asset.
- 36 Which of the following are fixed assets in a chemist's business?
- a) Drugs for resale
- b) Buildings
- c) Delivery vans
- d) Office Equipment
- e) Bank Balance
- f) Storage fixtures
- 37 It can be seen that an item could be a fixed asset in one type of business, whereas in another business exactly the same item could be a current asset. For instance, a motor van in a motor dealer's business would normally be a current asset. Whilst in a retail tobacco business it would be a fixed asset.
38. Inconsistencies do arise in the classification between fixed and current assets. The classifications are adhered to in order that the benefits of standardization and stability can be gained.
39. We can now resume looking at the affairs of J.K. Enterprises. The following was the balance sheet as it appeared in frame 35 of lesson one.

J.K. ENTERPRISES

BALANCE SHEET AS AT 11 MAY, 2000

Capital	Rs. 51,000/-	Buildings	Rs. 20,000/-
Loan	Rs. 10,000/-	Stock-in-trade	Rs. 12,000/-
		Debtor	Rs. 2,000/-
Creditor	Rs. 5,000/-	Cash at Bank	Rs. 29,000/-
		Cash in hand	Rs. 3,000/-
Total	Rs. 66,000/-	Total	Rs.66,000/-

- 40 On 12 May 2000 the firm sold goods, which had originally cost the firm Rs 2,000/- for a price of Rs 2,500/- cash being received immediately. Complete the following balance sheet:-

J.K. ENTERPRISES

BALANCE SHEET AS AT 12 MAY, 2000

Capital	Rs <u>51,500/-</u>	Buildings	Rs. 20,000/-
		Stock-in-trade	Rs <u>10,000/-</u>
Loan	Rs. 10,000/-	Debtor	Rs. 2,000/-
Creditor	Rs. 5,000/-	Cash at Bank	Rs. 29,000/-
		Cash in hand	Rs <u>5,500/-</u>
Total	Rs. <u>66,500/-</u>	Total	Rs <u>66,500/-</u>

41. Ignoring totals of the balance sheet, how many items had to be altered on 12th May, 2000 - frame 40? (one/ two/ three).
- 42 In frame 29 of lesson one goods costing Rs 2,000/- had been sold for Rs 2,000/- i.e. they had been sold at the same price as that at which they were bought. How many items were altered in the balance sheet in frame 29? (one / two/ three).
- 43 Why, therefore, does a sale of goods as in frame 40 above need three items to be altered? As the goods were sold on profit .
- 44 Which item was altered in frame 40 which did not need altering in frame 29 of lesson one?  
Capital.
- 45 Does this mean that every time that goods are sold at a profit then the Capital will have altered ( Yes / No)

- 46 On 13th May, 2000 the firm sold goods which had cost Rs. 3,000/- to a customer for Rs 2,800/- on credit. Complete the following balance sheet.

## J.K. ENTERPRISES

## BALANCE SHEET IS AT 13 MAY, 2000

Capital	Rs <u>51,300/-</u>	Buildings	Rs.20,000/-
		Stock-in-trade	Rs. <u>7,000/-</u>
Loan	Rs.10,000/-	Debtor	Rs. <u>4,800/-</u>
Creditor	Rs. 5,000/-	Cash at Bank	Rs.29,000/-
		Cash in Hand	Rs. 5,500/-
Total	Rs <u>66,300/-</u>	Total	Rs <u>66,300/-</u>

- 47 Frame 30 of lesson one shows two changes when goods costing Rs 3,000/- were sold on credit, whereas frame 46 above shows three changes. What is the reason that three changes are needed instead of two? Goods were sold at a loss.
- 48 Does this mean that every time goods are sold at a loss then the Capital will have changed?(Yes / No)
- 49 Suppose that there were sales of goods to 100 customers during a single day (none of the goods being sold at cost price) how many times has the Capital changed? 100times.
- 50 It would be easier ( to draft 100 balance sheets during a single day / merely to list the sales of goods during the day)?
- 51 Balance sheets do not draft themselves. In fact, it would cost quite a lot in terms of time, and in terms of the salary paid to the accountant, to draft 100 balance sheet each day. Ignoring legal needs for the time being, the cost of any part of accounting (should/ should not) exceed the benefits derived from the accounting information.
- 52 Would the benefit to the owner of a firm being told 100 times in a day how much his Capital had changed be worth the cost of drafting 100 balance sheets? (Yes / Not in a normal business)
- 53 We must therefore ask ourselves about the usefulness of the information. Suppose that a particular owner wanted some type of accounting information frequently, but the use of a balance sheet as such was only required once a year. How often should balance sheets be drafted in this particular firm? (Daily/ Ones a month/ Once a year).

- 54 Besides any other purpose, each firm will normally need balance sheet for sending to the Income-tax Officer once a year. Therefore, what is the minimum number of Balance sheets required by a firm. (One a year/ One a month/ One a day).
- 55 If a balance sheet is to be drafted at least once a year then what is the minimum number of times that profit will be calculated?( Once a year /quarterly /monthly)
- 56 Which would be more useful to an owner?
- a) Just the statement that the firm had made Rs 10,000/- profit in the year,
- b) A statement that the firm had made Rs 10,000/- profit in the year giving details of the factors which have been responsible.
- 57 The accounting statement which shows the calculation of the profit ( or loss) for a period is called the Trading and Profit and Loss Account. To understand the principles by which it is prepared it would be useful to consider the transactions of frame 40 more closely.
- 58 On 12 May 2000 J.K. Enterprises sold for Rs 2,500/- some goods which had cost Rs 2,000/-, as a consequence the Capital increased by Rs.500/-.
- 59 This can be looked at in another way by breaking it into two parts.
- a) Rs. 2,500/- sale which brings in Rs 2,500/- of cash, and
- b) The delivery of the goods to the customer of goods which had cost Rs.2,000/-
60. Suppose that we now look at the two parts of the transaction separately, considering the effect of each of them upon the Capital. Taken by itself the Rs 2,500/- sale brings about an (increase /decrease) of Rs 2,500/- in the Capital.
- 61 Also judged on its own the passing of Rs 2,000/- goods to the customer, meaning that they are no longer owned by J.K. Enterprises, brings about (Increase/decrease) of Rs 2,000/- in the Capital.
- 62 By itself, an increase in the Capital resulting from operations is known as a revenue. For J.K. Enterprises sale of goods for Rs 2,500/- resulted in a revenue of Rs 2,500/-.
- 63 By itself, a decrease of Capital because of operations is known as an expense. For J.K. Enterprises delivery of goods which had cost Rs 2,000/- resulted in an expense of Rs 2,000/-.

- 64 The transaction did in fact result in a profit of Rs 500/-. It can thus be seen that  
Revenue Rs 2,500/- less Expense Rs. 2,000/- = Profit 500/-.
- 65 This holds good even when there are more than one transactions, so that Revenue Less Expenses = Profit
- 66 On the other hand where Revenues are less than Expenses the result will be a loss.
- 67 It must be pointed out here that Expenses will be seen to be concerned with more than just the cost of goods sold.
- 68 Concentrating on the expense item " cost of Goods Sold", we can see that frame 58 shows that the Cost of Goods sold for the transaction was Rs 2,000/-.
- 69 1. 'T' started business putting in cash Rs 5,000/-  
2 Bought fixtures on credit for Rs 2,000/-  
3 Bought goods for cash Rs 1,000/-  
4 Bought goods on credit Rs 20,000/-  
5 Paid a debtor Rs 3,000/- cash  
6 Bought a motor van on credit Rs 8,000/-  
7 Bought more fixtures on credit for Rs 700/-  
8 Goods costing Rs 1000/- are sold for Rs 1,600/- on credit  
9 Goods costing Rs 500/- are sold for Rs 800/- cash
- In the above exhibit, have any of the items 2 to 7 affected the Capital?  
(Yes/No)
- 70 But do revenues and expenses affect the Capital? (Yes/No)
- 71 Does item 8 " Goods costing Rs 1000/- sold for Rs 1,600/- on credit " alter the Capital ( Yes/No)
- 72 Does item 9 " Goods costing Rs 500/- sold for Rs 800/- cash" affect the Capital?(Yes/No)
- 73 With item 8 and 9, is the cash immediately affected in both cases? (Yes /No).
- 74 Therefore, an item of revenue (is/ is not) always connected with an increase in cash.
- 75 Likewise an item of expenses( is/ is not) always connected with a decrease in cash.
- 76 Profit or Loss is therefore, measured as the difference between revenue and expenses and not as the difference between cash increases and cash decreases.

77 The fact that net profit is said to be the difference between revenue and expenses rather than between cash receipts and expenditures is known as the Accrual Concept. What are the other concepts that you have met so far?

Business Entity Concept.

Dual Aspect Concept.

Money Measurement Concept.

Cost Concept.

Going Concern Concept.

### 3.1 Exercise No.2

1. What is the common denominator of all of the items which appear in a Balance sheet ?
2. State which of the following could be found in a Balance sheet:
  - a) A debtor owes Rs 50,000/- to the firm.
  - b) The buildings owned by the firm could be used for other purposes.
  - c) The firm has a bad image with its customers.
  - d) A new Director is about to be appointed.
  - e) The firm owns some motor-vans.
  - f) The Government is going to bring a new tax law which will mean that the goods made by the firm will be harder to sell in the future.
3. At which value do we show items in Balance sheets
  - a) Their use value
  - b) Their saleable value
  - c) Their original cost
4. What is goodwill?
5. What are the two main heads under which assets are classified for balance sheet purpose? Give one example for each type. *Fixed & Current.*
6. The nature of a business will determine whether or not an item is a fixed asset or a current asset. For instance, a motor van in a motor dealer's business would be a current asset while in a cloth business it would come under a different asset type heading, it would be a fixed asset instead. (Fill in the missing spaces with an appropriate example.)
7. What is a revenue?
8. What is an expense?
9. Profit or Loss is the difference between revenue and expense.

#### 4 LESSON : 3: INTRODUCTION TO PROFIT MEASUREMENT

- 1 It has been said in frame 55 of lesson 2 that profit will normally be calculated at least once a year. Most business do however carry on operating for more than one year.
2. If the business is to calculate profit once each year, then that year will be called the accounting period. During the life of most businesses there is (one accounting period / more than one accounting period).
- 3 The relevant F.Y. is the accounting period.
4. Thus operations normally carry on for more than one accounting period, but profit is calculated for each accounting period. The end of one accounting period can be seen to be the beginning of the next accounting period.
5. However, a business consists of a stream of events, and like most streams they keep on flowing. They will not stop conveniently at the end of an accounting period so that they can be measured. It is rather like a racing car driver trying to assess the condition of his car half way through a race without stopping it. He will have to make arbitrary assumptions, e.g. that none of his tyres is going to blow-out shortly. Measuring profits is, therefore, (very easy to do / a complex task).
- 6 Just imagine what would happen normally if we were to stop business operations entirely until the profit has been measured, and that this could take several weeks. We would ( lose a lot of customers / make far bigger profits in future).
- 7 It must always be remembered that accounting is the (master/ servant) of a firm not its ( master / servant)
- 8 Profit has been seen to be revenue less expenses. We, therefore, have to be able to measure both expenses and revenue before the profit can be calculated.

### The Measurement of Expenses

- 9 The decrease in Capital resulting from the operations of a business is known as an expense.
- 10 If a business buys an asset and pays for it by cash this ( does / does not ) constitute an expense because there is no decrease in the capital
- 11 Suppose that the business had bought an asset on credit. Would this constitute an expense ?(Yes / No) .Give the reason for your answer. There is no decrease in the capital.
- 12 The acquisition of an asset ( does/ does not) therefore give rise to an expense.
- 13 Assets are bought with the expectation that they will be useful in the operations of a business. Given a long enough period of time, cost of these assets will be used up in the operations of the business.
- 14 The operations of a business are about the using up or consumption of an asset, Thus when such a part - or all - of an asset is used up, an expense is said to have been incurred.
- 15 Suppose that a private college bought a supply of chalk in March 1998 for Rs 3,000/- and needed 1/3rd of it in March 1999 and the remaining 2/3rd in March 2000. There will be an asset of Rs 3000/- in March, 98 and an expense of Rs.1,000/- in March 1999 and expense of Rs. 2,000/- in March ,2000.
- 16 Therefore, the acquisition of the chalk gave rise to an asset and when it was used up it gave rise to an expense.
- 17 If the balance sheet had been drawn up on 31st March in each year how much would have been shown as an asset for chalk:
- a) At 31st March 1998 3000
  - b) At 31st March,1999 2000
  - c) At 31st March, 2000 Nil.
- 18 How much will be shown as the expense for chalk:
- a) In the year ended 31st March 1998 Rs Nil
  - b) In the year ended 31st March, 1999 Rs. 1000/-

- c) In the year ended 31st March 2000 Rs. 2,000/-
- 19 You will have noticed that a balance sheet (covers a period of time/ is at a point of time). While an expense is shown to have occurred (during a period of time/ at a point of time).
- 20 This is why Trading and Profit and Loss Accounts are often known as period statements, while Balance sheets are often known as position statements. It is possible to draw an analogy with a cine-film, which resembles the trading and profit and loss account giving a view of business activities over a period of time. A Balance sheet on the other hand, is like a still photograph which gives a view at just one point of time
- 21 Let us take goods bought as stock in hand. When acquired they give rise to an asset and when they pass to the customer they are an expense. Some types of goods may well stay as Stock-in-trade for quite a long time before they are sold.
- 22 Services which are bought prior to the period in which they are used up are also treated as assets until they are consumed. These are shown on Balance sheets as prepaid expenses
- 23 An example of this is rent prepaid. The payment of rent gives with it a legal right to enjoy the use of buildings, or land, for the period covered by the payment. The asset owned is that of ( the legal right to occupy building or land/ the actual buildings or land).
- 24 Rent of Rs 4,000/- being Rs 2,000/- per annum for the years ended 31st March,1999 and 31st March ,2000, is paid during the year ended 31st March,1998. The amount shown in the Balance sheet as Prepaid Expenses will be
- (a) At 31st March, 1998 Rs. 4,000/-
- (b) At 31st March, 1999 Rs. 2,000/-
- (c) At 31st March, 2000 Rs. Nil
- 25 A purchase of chalk not used up would be treated on the Balance sheet as an asset and would be shown at (cost / market value / use value).
- 26 Assets such as Machinery and Motor Vehicles which have a life of several years are fixed Assets. As they are used up the part of the asset deemed to have been consumed is treated as an expense.

- 27 Because fixed assets normally have a life of several years at least, and the expense is to be calculated each year before it is seen how long the asset will actually be in use The useful life of the asset must be estimated in some way and part of the expenditure charged to Profit & Loss A/c. This is called Depreciation. It does not however apply to current Assets.
- 28 So far we have looked at acquisition of asset being made (before/after) the relevant expenses has been recognized. We saw that the time at which the asset was acquired could (not be/ be) far different from that at which the expense was recognised.
- 29 The reverse can apply. The acquisition of asset (can /cannot) be made in a period after that in which the expense is recognised. (*Expense incurred payment made subsequently*).
- 30 A business having financial period ending 31st March annually occupies premises from 1 April, 1999, agreeing to pay rent of Rs 6,000/- per annum. No rent was paid until 1 April, 2000 when a cheque for Rs 6,000/- was paid to cover the previous year's rent.

When will the rent be recognised as an expense? During 99-2000 i.e. the year ending 31.3.2000.

- 31 The rent expense has been recognised in 1999-2000. The obligation to pay for the expense is shown as a liability until payment occurs. How much will be shown as a liability for rent owing in the Balance sheet as at 31st March, 2000? Rs. 6,000/-. This would be known as Accrued Expense.

#### Measurement of Revenue

- 32 Suppose that you are asked to decide upon the time when revenue can be recognised for a firm that manufactures goods. There are three main possibilities:
- a) When the order for goods is received
  - b) When the goods are acquired
  - c) When the legal title to the goods passes to the customer
- 33 To standardize accounting practice the Realisation concept came into being. This states that revenue from these goods would be recognised when the legal title to the goods passes to the customers i.e. option[ (a) / (b) / (c) ] of the previous frame.

- 34 For firms that sell services instead of goods, your institution will probably tell you that revenue is recognized (at the time that the services are performed /when the order for services is received).
- 35 J.K. Enterprises receives an order of goods from F in January. The goods were not in Stock-in-trade. So J.K. Enterprises ordered more from the manufacturer in February. The manufacturer made the goods in March and shipped them to J.K. Enterprises in April J. K. Enterprises then shipped the goods to F in May. J.K Enterprises would recognize the revenue in May.
- 36 The realization concept is concerned with (when / how) to recognize revenue rather than (when / how) to recognize it.
- 37 As you may have guessed from your consideration of expenses, revenue may be recognized .
- a) Before the cash for it is received
  - b) After the cash for it is received
  - c) At the same time as the cash is received,  
e.g. for a cash sale where goods and cash are exchanged at the same point in time
  - d) All of (a), (b) and (c) are possible
- 38 B orders goods from J.K.Enterprises in April, pays for them in May and receives the goods in June.
- When is the revenue recognised by J.K.Enterprises? June.
- 39 H orders goods in June, receives them in July and pays for them in November. When is the revenue recognised by J.K.Enterprises? July
- 40 N orders goods in October, and receives and pays for them in December.
- When does J.K. Enterprises recognise the Revenue? December
- 41 What are the concepts that you have met so far other than the Realisation concept?
- Business Entity concept
  - Dual Aspect concept
  - Money Measurement concept
  - Cost concept
  - Going concern concept
  - Accrual concept

- 42 Where goods costing Rs 2,000/- have been delivered to a customer at a price of Rs. 3,000/- in the accounting period, but he has not paid for them at the end of the accounting period, how will this have affected the balance sheet items at the end of the year. The stock-in-trade will reduce by Rs. 2,000/-. We will have a new asset. Debtors of Rs.3,000/- and Capital will increase by Rs.1,000/-.
- 43 But suppose that cash of Rs 4,000/- has been paid by another customer in March 1999 in respect of goods which cost J.K. Enterprises Rs 3,000/-, but delivery of the goods will not take place until April, 1999, when will the revenue be recognised? during 99-2000.
- 44 The cash of Rs 4,000/- has been received, therefore, the asset of cash in the Balance sheet as at 31st March 1999 will have increased by Rs 4,000/-. If the revenue is not recognised until April 1999 then the profit will not be recognised until April 1999. But J.K. Enterprises have a duty to deliver the product in April 1999. Therefore, this is a liability as at 31st March, 1999. The Rs 4,000/- will, therefore, appear in the Balance Sheet as at 31st March, 1999 as a liability termed 'Deferred Revenue'.

### **The Matching Principle**

- 45 We have now looked at the timing of the recognition of revenues and of expenses. We also know that revenues less expenses = Profit. It is now appropriate to introduce the matching principle. This states that all of the expenses connected with a given revenue should be recognised in the same period as that of revenue.
- 46 For instance, a salesman of J.K. Enterprises sells some goods costing Rs 12,000/- to G for Rs 20,000/-. The contract is signed in March 1999, but delivery of the goods will not take place until April 1999. The salesman is paid Rs 500/- Commission for this in March 1999. In which year should the Commission be charged as an expense against the revenue in calculating profit? 99 -2000.
- 47 If a garage advertised a car for sale in 1998-99 and as a direct result of the advertisement it sold the car in 1999-2000, when should the advertising expense be matched against the revenue? (1998-99 / 1999-2000)

- 48 But if J. K. Enterprises had paid their salesmen by a fixed salary, without any commission at all, it would not normally be possible to trace the salary expense to any particular sale. Therefore, the 1998-99 salary of a salesman paid as salary alone would be recognised as an expense in 1998-99.
- 49 The advertisements placed by a garage which did not specify the cars to be sold, but merely stated that the garage always had cars for sale, would mean that the cost of advertising could not be traced to any particular sale. Therefore, the cost of the 1998-99 advertisements would be recognised as an expense in 1998-99.

## 5 The Trading and Profit and Loss Account

- 50 In India profit is calculated in an account called a Trading and Profit and Loss Account. Here the expense are matched against revenue for a particular period, the usual period being a financial year, and the Profit deducted. If expenses exceed revenues then the result will be a loss.
51. Profit is calculated in two stages, The first stage being calculated in the Trading Account section. Here the difference between sales and cost of goods sold is called Gross Profit. The second stage is that of deducting the other expenses from the Gross Profit in the section called the Profit and Loss Account. The final profit shown is called Net Profit.
- 52 G started a business on 1 April 1999. The firm bought Rs.22,000/- worth goods during the year ended 31st March, 2000 and at 31st March , 2000 had no unsold goods left. What is the cost of goods sold in 99-2000? Rs. 22,000/-.
- 53 'H' started a business on 1 April,1998 . The firm bought goods worth Rs 22,000/- during the year ended 31st March,1999 and at 31st March ,1999 it had goods unsold which had cost it Rs 3,000/- What is the cost of goods sold in 1998-99? Rs. 19,000/-.
- 54 Why do you get a different answer for frame 53 than for frame 52? Because in first example there were no unsold goods.
- 55 It must be remembered that the closing stock-in-hand for one accounting period is the Opening stock-in-hand of the next accounting period.
- 56 Considering frame No 53, 'H.' started second year of trading with unsold goods of Rs 3,000/- During the year ended 31st March 2000 he bought a further Rs34,000/-goods, and had goods unsold at 31st March 2000 which had cost Rs 5,000/- We can say that :-

Opening stock-in-hand	3000
Add: Purchases	34000
Less: Closing stock-in-hand	<u>5000</u>
Cost of goods sold	<u>32,000</u>

Therefore, the cost of goods sold amounts to Rs. 32,000

57 Are you puzzled? Try it diagrammatically.

Stock in Hand 1.4.99 Rs. 3,000/- Goods bought in	Cost of goods sold Rs 32,000/- Remaining
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Available for sale in 1999-2000. Rs 3,000/- + Rs 34,000/- = Rs 37,000/-

Less: Closing stock in hand Rs 5,000/-

Cost of Goods sold Rs 32,000/-

58 The term given to sales less 'Cost of Goods sold' is Gross Profit. If the Sales had been Rs 50,000/- for the second year then sales Rs 50,000/- less cost of goods sold Rs 32,000/- = Gross Profit Rs. 18,000/-.

59 From the Gross Profit are subtracted all expenses other than 'Cost of goods Sold' These are the administrative, financial and general expenses. The term given to Gross Profit less Expenses is Net Profit. If Gross Profit was Rs 18,000/- and the Expenses amounted to Rs 7,000/- , then Rs 11,000/- would be the figure of net profit

60 In fact it is the Net Profit which increases the owner's capital. The reason that Gross Profit is calculated is because accountants have found it a useful figure for comparative purposes, and so it has become the custom to calculate it.

### **5.1 Exercise No.3**

1. What is profit?
2. What is depreciation?
3. What treatment is to be given to prepaid expenses?
4. Explain briefly recognition of expense.
5. Explain briefly recognition of revenue.
6. Explain briefly difference between Gross Profit and Net Profit.

## 6 LESSON - 4: CONVENTIONS OF ACCOUNTING

- 1 The concepts of accounting have become accepted in the business world, their assimilation having taken place over many years. The concepts are however capable of being interpreted in many ways. What has therefore also grown up in accounting are generally accepted approaches to the application of the concepts. These approaches are known as the conventions of accounting.
- 2 When comparing transactions in a business, the comparison is made easier if similar events are treated ( in the same way/ in different ways).
- 3 Of course events occur over a period of time, and therefore similar events at different times (should be/ should not be) recorded in the same way.
- 4 This is generally accepted approach to the application of concepts and it is therefore a convention.. This particular convention is that of ' consistency'.
- 5 Imagine that you have applied for a job. You accept the offer made by the firm at Rs 20,000/- per annum, the figure to be confirmed by letter. You receive a letter two days later informing you that the salary stated should have been Rs 12,000/-. Would you not consider it necessary to have the salary revised? (Yes/No)
- 6 Suppose that on receiving the Rs 20,000/- per annum offer you had rushed out and spent quite a lot of money on the strength of the offer. Would the letter revising the salary to Rs 12,000/- upset your plans? (Yes / No )
- 7 If a businessman was initially told that he had made Rs 20,000/- net profit, but later told by the Accountant that the profit would be Rs 12,000/- would the businessman normally be pleased? (Yes / No)

- 8 If the businessman had actually paid Income tax based on Rs 20,000/- and later he was told that the profit should have been calculated at Rs 12,000/- what would the business man be (angry / pleased)?
- 9 A prudent man whose living depended on his giving financial advice to others would therefore tend to ( over estimate / under estimate) Profits.
- 10 The greater the part of the asset that is expended the (greater/smaller) the reported figure of Net Profit.
- 11 The greater the amount treated as expense, the (greater/smaller) will be the figure shown as being the value of the asset in the Balance Sheet at the end of the accounting period.
- 12 The 'convention of conservatism' states that when there is more than one possible figure for Balance sheet values of assets, then observation of the convention will result in the (smaller/larger) figure being chosen.
- 13 Suppose a business starts trading has sales of Rs 60,000/- and purchases of goods costing Rs 40,000/-. What do I need to calculate the Gross Profit? Closing Stock-in - trade.
- 14 If the closing Stock-i n-trade was Rs 8,000/- what would the Gross Profit be ?  
Rs.60,000 - (40,000 - 8,000) = Rs. 28,000/-
- 15 If instead, the closing Stock-in-trade was Rs 6,000/- the Gross Profit would be Rs. 26,000/-
- 16 Suppose the Accountant had the choice of two figures for the same closing Stock-in-trade, which figure would show the lower recorded Gross Profit Rs, 8,000/- or Rs 6,000/- Rs. 6,000/-
- 17 Which one would he choose, bearing in mind the convention of conservatism? Rs.6,000/-.
- 18 If the closing Stock-in-trade cost Rs 8,000/- but the saleable value of it had slumped to Rs 6,000/- i.e. below cost to the firm, then would it be prudent or conservative to show the Stock-in-trade at a value of Rs 8000/- ? (Yes/ No)
- 19 To choose the value of Rs 8,000/- would be to adhere to the cost concept, but to choose the value of Rs 6,000/- would be conservative. The convention of conservatism is taken as being more important and therefore the cost concept is abandoned for this purpose and the figure of Rs. 6,000/- chosen.

- 20 If the end of the following accounting period showed a Stock-in-hand which had cost Rs 11,000/- but which had a saleable value of Rs 15,000/- which figures would the Accountant choose? Rs. 11,000/-.
- 21 In fact the cost concept would normally be adhered to unless the demand of the convention of conservatism over-ruled its use. This illustrates the fact that the concepts of accounting are always subject to the modifying influence of the conventions of accounting.
- 22 Consider the case of a small firm which uses solid fuel in small quantities for heating purposes. The fuel is theoretically an asset until it is used up, when it becomes an expense.
- 23 Again in theory, it is necessary to measure how much of the asset of solid fuel is left at the end of the accounting period, and to deduct how much solid fuel has been used. Shovelling and weighing the fuel seems to be a (worthwhile/ troublesome) job just to calculate the exact amount of a very small expense.

- 24 It has been said previously that the cost of obtaining accounting information should not exceed the benefits which flow from having it. If it took one hour of some one's time being paid at Rs 1 per hour, to calculate that there was Rs 0.99 of solid fuel still unused at the end of the period, do you consider the task worthwhile? (Yes/No)
- 25 This is where another convention, this time called 'materiality' comes into play. To prevent costs exceeding benefits, the recording of such items is done in a cheaper fashion. With the fuel in this case, it is likely that the fuel bought will be treated as an expense in the period in which the fuel was bought regardless of the fact that it was not all used during the period. If however large amounts of fuel were bought and the amounts held unused were quite large, then it would not be treated in this way.
- 26 This is like saying do not waste your time on trivialities. A (similar/dis-similar) instance would be that of treating a typewriter ribbon as an expense in an accounting period, even though it would still be used for a week or so of the next accounting period before being discarded.
- 27 The decision as to what is trivial or not depends on the judgement of the Accountant- and the owners - in each firm. Two similar firms would at times decide differently with identical types of items. Obviously, the judgement of two people (cannot/can) always be the same.
- 28 A much larger firm may decide to treat as an expense immediately any item of, say Rs 1,000/- or less, even though theoretically the item bought is an asset and should be expensed over several years. Thus a large contractor may immediately expense concrete mixers sent on a building site, or an engineering firm may expense immediately portable drill even though some may cost Rs 600/- or Rs 700/- each. The convention of materiality thus (over-rules / is subservient to ) the concepts.
- 29 Each of the larger firms will undoubtedly set out rules to guide its accountants as to the treatment of items as expenses or assets..
- 30 Before the details of recording each event are looked at, there is one assumption that has been made so far, and that is the stability of the currency which we have been using in our Balance Sheets. You will be fully aware that the purchasing power of Rs 1 in 1989 and its purchasing power now ( is/ is not) the same.

- 31 However, in financial accounting it is assumed that the purchasing power or Rs 1 remains stable over time. Any Balance sheets or Trading and Profit and Loss Accounts drawn up to comply with the law are drafted on this basis.
- 32 List now all the concepts and conventions that you have read about in this text
- Business Entity concept.
- Dual Aspect concept.
- Money Measurement concept.
- Cost concept.
- Going concern concept.
- Accrual concept.
- Realisation concept.
- Convention of conservatism
- Convention of Materiality
- Convention of consistency

### 6.1 Exercise No : 4

- 1 Does the acquisition of an asset constitute an expense?
- 2 Suppose that one asset is bought for cash and another asset is bought on credit. The first one (does/ does not) constitute an expense because it is asset whilst the second one (does/does not) constitute an expense because it is an asset.
- 3 A firm buys Rs 18,000/- of stationery in 1997-98. It used Rs 5,000/- of the stationery in 1997-98, Rs 6,000/- in 1998-99 and the remainder in 1999-2000.
  - a) In which year was an asset acquired and how much was it?  
Rs. 18,000/- in 97-98.
  - b) In which years were there expenses and how much were they?  
Rs. 5,000/- in 97-98  
Rs. 6,000/- in 98-99  
Rs. 7,000/- in 99-2000.
  - c) How much would have been shown in the balance sheets as an asset:
    - i) at the end of 97-98 Rs. 13,000/-
    - ii) at the end of 98-99 Rs. 7,000/-
    - iii) at the end of 99-2000 Rs. Nil
- 4 What is the Realisation concept?
- 5 M orders goods in May from our firm. As they are out of stock we order some more from the manufacturer in June. The manufacturer makes them in July and sends them to us in August. We pass them to M in September. When do we recognise the revenue? September
- 6 Moon Traders is a new business which starts trading on 1 April 1999 Goods bought in 1999-2000 amounted Rs 1,68,000/-, and at 31st March 2000 there were goods still in stock-in-trade which were unsold and had cost Rs 19,000/-. What was the cost of Goods sold in the year ?  
1,68,000 - 19,000 = Rs. 1,49,000/-
- 7 You are given the following details of a business :-  
Goods bought in the years ended 31st March 1997 Rs 1,79,000/-  
31st March 1998 Rs 2,55,000/- , 31st March 1999 Rs 3,96,000/-

31st March 2000 Rs 4,21,000/-

Stock-in-trade unsold - at cost - at 31st March 1996 Rs 14,000/-

31st March 1997 Rs 47,000/-; 31st March 1998 Rs 54,000/-,

31st March 1999 Rs 69,000/-, 31st March 2000 Rs. 42,000/-,

What was the Cost of Goods sold in the years ended 31st March 1997, 1998, 1999 and 2000?

Cost of Goods Sold:

31.3.97 O.S. 14000 + P 1,79,000 - C.S. 47,000 = 1,46,000

31.3.98 O.S. 47,000 + P 2,55,000 - C.S. 54,000 = 2,48,000

31.3.99 O.S. 54,000 + P. 3,96,000 - C.S. 69,000 = 3,81,000

31.3.2000 O.S. 69,000 + P. 4,21,000 - C.S. 42,000 = 4,48,000

- 8 Apart from the owner putting in extra capital from his private resources what is it that increases his Capital ? Profit
- 9 What is the matching principle?
10. List and describe briefly the conventions of accounting.

## 7 LESSON : 5

### Recording Transactions

1. So far, when a transaction occurred you recorded it in a Balance sheet.
2. However, as is stated in frame 50 of lesson 2, it would be (easy / difficult) to construct a balance sheet after every transaction of a firm.
3. With all but the very small firm, records(need not/ must) however exist from which the balance sheet is constructed.
4. It would ( also/ not) be useful if one set of records could supply us all the information to construct both the balance sheet and the Trading and Profit and Loss Account.
5. We will first of all concentrate on the records needed just for balance sheet purposes without introducing profit or loss. What are the three types of items found in a balance sheet?(expense/ capital/ liabilities/ revenue/ assets)
6. For every asset some sort of collection point for transactions of that asset are needed. This record, or collection point is called an account. We will need accounts for ( all/ only some) of the assets.
7. Accounts in practice take different forms although the answers obtainable from the accounts will be the same. It is merely the way that they are shown is different, the principles underlying what information is put into each account and how the answers are retrieved from the accounts stay the same no matter whether the accounts are kept on computers, punched card machines or manual methods. From an educational point of view (it is / it is not) the principles underlying accounts which are most important.
8. An account, in its usual form for educational purposes, is like a large letter T. Above the top of the T, and in a central position, the name or title of the account will appear. It is necessary to write the word 'account' on the top of each account. Complete the construction of the following account if it is a cash account.

Cash Account

||  
|

|

- 9 On the left hand side of the central vertical line of account the increases to assets are recorded. The account has been thus debited with the amount of increase. If there were several increases but no decreases, the total of the left hand side (would / would not) equal the total of the asset.
- 10 Following normal arithmetical rules if we wished to deduct 2,367/- from 7,589/- we would show the calculation thus:

$$\begin{array}{r} 7,589 \\ - \quad \underline{2,367} \\ \hline 5,222 \end{array}$$

- 11 But in accounts the increases to assets are shown on the left hand side of each account. This means that if decreases were to be shown as in frame 10 then these could have been shown on the left hand side of the account. It would however be much clearer and fewer mistakes would be made if the left hand side of asset accounts (was confined to showing increase to assets only/ increase and decrease mixed up together).
- 12 The solution is to put decreases in assets on the right hand side of the vertical line of each account. Thus increases and decreases in assets will be shown (separately / together) although they are all under the same account heading.
- 13 This is therefore a form of 'side-ways' arithmetic instead of following normal arithmetical rule. It is like saying that  $7,589/- - 2,367/- = \underline{5,222}$  as in frame 10 even though the sum is presented slightly differently.
- 14 If a proprietor has put in Rs 10,000/- cash to start a business and has paid out Rs 4,000/- since, then the amount of cash in hand after this has happened can be calculated from the following account as Rs. 6,000/-.

**Cash Account**

10,000	4,000
--------	-------

- 15 Now let us look at another business which has been trading a little longer. The proprietor has put Rs 5,000/- cash into the business, and the cash account shows the cash receipts and payments since. What is the amount of cash in hand after these transactions have been completed? Rs. 9,000/-

**Cash Account**

5,000*	3,000
13,000	4,000
2,000	11,000
7,000	

\* This is Rs 5,000/- put in by the proprietor.

- 16 Now enter up the account for Cash-at Bank, usually known as the Bank account, if the account was opened by the proprietor by depositing Rs 20,000/- into the Bank, cheque payments of Rs 1000, Rs 3000/- and Rs 14,000/- were made and then another Rs.4000/- was deposited into the Bank.

**Cash at Bank**

20,000 | 1,000

4,000 | 3,000

|14,000

Rs. 6,000 is cash at Bank

- 17 It (would / would not )be useful if the accounts could also tell us not just how much cash was received, in the case of the cash account, and how much was paid out, but also the dates on which the receipts and payments occurred and what they were for.

{NOTE - For a little while we will omit dates and details until we had more practice at entering the figures in accounts}

- 18 So much for assets. Capital and Liabilities are on the (same/other) side of the accounting equation to Assets.
- 19 As they are on the opposite side of the accounting equation to assets, then accounts for liabilities and capital are used in the opposite way to accounts for assets. Thus an increase in an asset account is put on the left hand side whilst an increase in a liability or capital account is put on the (right / left ) hand side.
- 20 Similarly a decrease in an asset is put on the right hand side of an asset account while a decrease in a liability or capital account is put on the (left/right) hand side of the account.
- 21 Otherwise the accounts are "T" accounts and the titles are shown in a similar fashion. The "sideways" arithmetic takes on a different look. Whereas with assets the right hand side was deducted from the left hand side to find the amount of the asset remaining, as with cash, in a liability or capital account the reverse applies. Therefore, to find the amount of a liability or capital remaining the (right / left ) hand total will be deducted from the ( right / left ) hand total.
- 22 We buy goods costing Rs 7,000/- on credit. This is an increase in a liability. We later pay part of this amount Rs 4,000/-. This is a decrease in a liability. Complete the following account

Creditors Account

<u>4,000</u>	<u>7,000</u>
--------------	--------------

- 23 Let us try a more complex example. With a new business the following goods were bought on credits Rs 5,000/- , Rs 17,000/- and Rs 6,000/- Payments were made to the creditors of Rs 3,000/- and Rs 9,000/-. Complete the account, also how much will we still owe to the creditors ?  
Rs. 16,000/-

Creditors Account

<u>3,000</u>	<u>5,000</u>
<u>9,000</u>	<u>17,000</u>
	<u>6,000</u>

- 124 A man starts a business with Rs 50,000/- cash as capital. He later takes Rs 7,000/- of the capital out of the firm in cash. Draw up the Capital account.

Capital Account

<u>7,000</u>	<u>50,000</u>
...	...

- 25 We can now summarise in diagrammatic form the rules that have been stated for the entry in accounts of increases and decreases of Assets, Capital and Liabilities

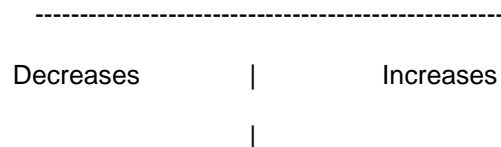
Assets



Liabilities



Capital



26 Now we have seen earlier in the text, and as summarised in frame 36 of lesson one, that every transaction has a two-fold effect. Two items, be they Assets, Liabilities or Capital are affected, and each item has an account. Therefore, a complete transaction will need entering in (one /two /three) accounts.

27 For instance, in frame 1 J Kumar had put Rs 50,000/- cash into the business of J.K. Enterprises. What were the two items affected, and in what way ?

Cash was (increased/decreased) and capital was (increased /decreased).

28 Each of these items has accounts, so show the entries in the two accounts

Capital	Cash
50,000	50,000

29 A loan of Rs 10,000/- cash was then received from A Mohan. The asset of cash was increased by Rs 10,000/- and the liability of Loan: A Mohan was credited (increased ) by Rs. 10,000/-

30 The items would be entered in the accounts :

A Mohan	Cash
10,000	50,000
	<u>10,000</u>

31 Buildings are then bought for cash Rs 20,000/- . Enter this transaction in the requisite accounts.

Building	Cash
20,000	60,000   20,000
	<u>10,000</u>

- 32 Goods are bought for Rs 5,000/- paying for them immediately in cash. The stock-in-trade has been increased and an entry would be made in the stock-in-trade account. Complete the accounts

Stock-in-trade	Cash
5,000	50,000   20,000
	<u>10,000</u>   <u>5,000</u>

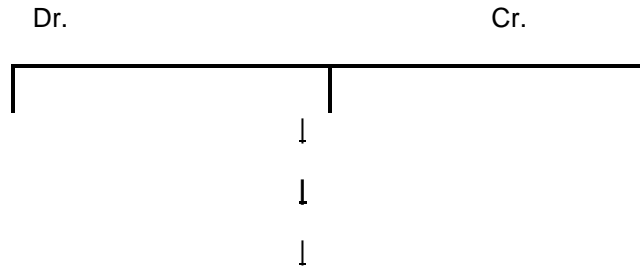
- 33 The two sides of the accounts, whether they are assets, Capital or Liability accounts are not known in accounting as the right-hand side or the left-hand side. Instead technical terms are used. The right-hand side is known as the " credit side, whilst the left-hand side is called the " debit" side. Complete the following :

This side is the <u>debit</u> side.	This side is the <u>credit</u> side.
-------------------------------------	--------------------------------------

- 34 The terms debit and credit are technical terms, they must not be confused with their ordinary language usage. Students very often try to link the ordinary language usage of credit or debit, with its use in accounting language. This should not be done as the usage of the word in the two language forms are very often quite different. This is similar to the case of the word " Goodwill" which you saw in frame 31 of lesson 2. It( did/did not) mean the same in accounting as it did in ordinary language usage. The two terms are often abbreviated as Dr. for debit and Cr. for credit.
- 35 Debit therefore in accounting simply means the left-hand side whilst credit simply means the right hand side. The words are very often used as verbs, so that if you "debited" an account it would mean that you made an entry on the debit side of the account. Similarly if an account is "credited" it would mean that you have made an entry on the credit side of the account.
- 36 You will see that as you enter the various transactions in the records of the business that each transaction:
- i) Affects two items and must therefore be entered in two accounts
  - ii) That the entries needed will be one entry on the debit side of one account, and another entry on the credit side of some other account,

- 37 The name given to this system of recording, or entering, every transaction in two separate accounts is that of "Double Entry System". The double entry system originated with the Venetian merchants some 600 years ago, and although it has been refined over the period but the basic principles of the double entry method have not altered greatly. In India, normally we designate the debit and credit side so that the account looks as under :

Cash Account



### 7.1 Exercise No. 5

1. Without going into dates, narration etc., prepare accounts in respect of the following :

2000

May	1	F started business with Rs 50,000/- cash	
"	2	Bought a motor van for cash Rs 6,000/-	
"	3	Bought goods on credit Rs 13,000/-	
"	5	Put Rs 40,000/- of the remaining cash into the Bank	
"	6	Paid creditor Rs 4,000/- by cheque	
"	8	Received a cheque, banked immediately, being a loan	from G
		Rs 30,000/-	
"	10	Bought goods on credit Rs 19,000/-	
"	12	Bought fixtures on credit Rs 5,000/-	
"	14	Bought buildings, paying by cheque Rs 17,000/-	
"	16	F put an extra Rs 4,000/- cash into the business	
"	18	Repaid G part of his loan by cheque Rs 10,000/-	
"	20	Paid creditor Rs 7,000/- by cheque	
"	21	Bought goods paying by cash Rs 2,500/-	
"	26	Bought more fixtures, paying by cash Rs 2,000/-	
"	31	Bought another motor van, paying by cheque Rs 8,000/-	

2. Showing figures only in the accounts record the following events:

- (A) A started a business by putting Rs 20,000/- into a bank account in the name of the business.
- (B) Bought goods on credit Rs 29,000/-
- (C) Some of the goods Rs 1,000/- were found faulty, and were returned to the suppliers, stating that replacements were not required. The Suppliers i.e. creditors stated that they would make full allowance for the goods returned.
- (D) A took Rs 2,000/- out of the business by taking Rs 2,000/- goods for his own personal use out of the firm's Stock-in-trade.
- (E) F lent the firm Rs 10,000/- in cash
- (F) A took Rs 3,000/- cash for his personal use.
- (G) Bought buildings paying by cheque Rs 16,000/-
- (H) Bought a motor van on credit Rs 20,000/-.

**7.2 Exercise 1 of Lesson : 5**

Cash	
50,000/-	6,000/-
	40,000/-
4,000/-	2,500/-
	2,000/-

Motor Van	
6,000/-	
8,000/-	

Goods	
13,000/-	
19,000/-	
2,500/-	

Creditor	
4,000/-	13,000/-
	19,000/-
5,000/-	5,000/-

Bank	
40,000/-	4,000/-
30,000/-	17,000/-
	10,000/-
	7,000/-
	8,000/-

Fixtures	
5,000/-	
2,000/-	

Buildings	
17,000/-	

Capital	
	50,000/-
	4,000/-

Loan Account	
10,000/-	30,000/-

**7.3 Exercise 2 of Lesson 5**

Capital	
2,000/- 3,000/-	20,000/-

Cash	
10,000/-	3,000/-

Bank	
20,000/-	16,000/-

Purchase (Stock)	
29,000/-	1,000/- 2,000/-

Buildings	
16,000/-	

Motor Van	
20,000/-	

Creditor for Van	
	20,000/-

Creditor for goods	
1,000/-	29,000/-

Loan	
	10,000/-

## 8 LESSON : 6

- 1 Each account is a form of collection point for accounting data and periodically the cumulative effect of the items will need calculating. This is represented by the difference between the two sides. If the following is the cash account for the first month of business, how much cash in hand has the business got at the end of the month? Rs. 17,000/-.

		Cash Account
	23,000/-	!
	4,000/-	!
	9,000/-	!
	10,000/-	!
		6,000/-
		18,000/-
		5,000/-

- 2 That is the cash in hand at (the close of business / at the end of the last day of the \_\_\_\_\_ month). What will be the cash in hand at the start of following day ? **Same**
- 3 Of course, it is like saying that the closing stock in trade at the end of one period is the opening stock in trade at the start of the next period. This will ( be / not be ) true for other assets.
4. Periodically we will want to close off the records to ascertain profits and for other reasons. Therefore, all figures for assets which are still in existence will have to be taken into the next period, as also for those of liabilities and capital.
- 5 What is the amount of cash-in-hand for the following business? Rs. Nil

Cash Account		
Dr		Cr
20,000/-	!	7,000/-
6,000/-	!	14,000/-
	!	5,000/-

- 6 Is any asset shown to exist by this account ? (Yes / No)

- 7 But in frame 1 there was Rs. 17,000/- cash-in-hand and therefore, there( was / was not) an asset in existence at the end of the period.
- 8 In frame 1 an asset ( was/ was not) in existence at the end of the period. However, in frame 5 an asset ( was not/ was) in existence at the end of the period.
- 9 You could tell that an asset was in existence at the end of the period because the total on each side of the account were (equal / unequal ).
- 10 Was it the difference between the two sides that showed the amount of the asset in existence at the end of the period, and therefore, the amount to be taken to the next period ? (Yes /No ).
- 11 If a business had borrowed money from D and F , the following accounts show that at the end of the period Rs. Nil was owing to D and Rs. 30,000/- to F.

Loan Account : D

Dr.		Cr
6,000/-		14,000/-
8,000/-		

Loan Account : F

Dr.		Cr
5,000/-		50,000/-
5,000/-		
10,000/-		

- 12 Here also a liability was shown to be in existence because the totals on the two sides of the account were ( equal / unequal)
13. The amount of the liability in existence at the end of the period, and therefore, in existence at the start of the next period is the amount of the ( difference between the two sides/ the total of the largest side / total of the smallest side).
- 14 The difference between the two sides of the account is given a technical accounting term. It is called a ' balance'. If there is no difference between the two sides then there is no balance.

- 15 The difference or balance needs to be found and carried down into the next accounting period. To do this the balance, if there is one, is inserted on the smaller side so that the two totals will now equal each other. By custom the totals are always shown on a level with one another.
- 16 We must always remember that we are using the double entry method. If we were to put a figure on one side of the books and not put an equal amount on the other side of the books then we would not be observing Double Entry rules.
- 17 These balances do in fact represent assets, liabilities and capital, in existence also at the start of the next period. Entries therefore need making in the accounts relating to next period to show that they belong to the business. Double Entry rules state that each item will be shown once on the debit side of an account and also once on the credit side of another accounts.
- 18 Let us now look at some accounts prior to their being 'balanced off'. What will the balance be in (a) Cash account, (b) Creditors account, (c) Machinery account, (d) Loan account.  
a)Rs. 7,000/- b) Rs. 28,000/- c) Rs. 16,000/- d) Rs. Nil

Cash Account		Creditor Account	
Dr.	Cr.	Dr.	Cr.
2,000/-	1,000/-	3,000/-	14,000/-
4,000/-	3,000/-	26,000/-	35,000/-
5,000/-		1,000/-	9,000/-

Machinery Account		Loan Account	
Dr.	Cr.	Dr.	Cr.
7,000/-		3,000/-	3,000/-
9,000/-			

- 19 Now let us look at them after they have been balanced off. The end result has been to take the balance, representing assets or liabilities, from the end of one accounting period into the start of the next accounting period.

Cash account	
Dr.	Cr.
	2,000/-
	1,000/-
The part upto total	4,000/-
represents one period	3,000/-
Balance	
	5,000/-  C/d
	7,000/-
	11,000/
	11,000/-

The part below represents      Balance B/d    7,000/-  
the next period

[NOTES]      Totals are on a level with one another.

C/d means carried down. B/d means brought down

_____ Creditors Account _____	
Dr.	Cr.
	14,000/-
	3,000/-
	35,000/-
	26,000/-
	9,000/-
Balance C/d	1,000/-
	58,000/-
	58,000/-
]Balance B/d 28,000/-	

Machinery Account		Loan account		Dr
	Cr		Dr	Cr
7,000/-	Balance C/d 16,000/-	3,000/-	3,000/-	<u>9,000/-</u>
_____	_____	_____	_____	_____
	<u>16,000/-</u>		<u>16,000/-</u>	<u>3,000/-</u>
<u>3,000/-</u>				

Bal.B/d 16,000/-

[NOTE] There is no balance in the Loan Account. As there is only one figure on each side then each figure is its own total and a line is drawn under each.

20 In the cash account and the Machinery account the amounts originally in the account, before the balance was inserted, were greater on the debit side, and the balance as it first appears in the next period is also on the debit side, This is said to be a debit balance.

21 In the Creditor account the amounts originally in the account, before the balance was inserted, were greater on the credit side, and the balance as it first appears in the next period is also on the credit side. This is said to be a credit balance

22 Balance off each of the following accounts and state what kind of balance you have found on each account.

- |      |                      |                                    |
|------|----------------------|------------------------------------|
| i)   | Capital A/c          | <u>Credit balance Rs.80,000/-</u>  |
| ii)  | Debtors A/c          | <u>Debit balance Rs. 8,000/-</u>   |
| iii) | Loan Account         | <u>Credit balance Rs. 9,000/-</u>  |
| iv)  | Motor Vehicles A/c   | <u>Debit balance Rs. 11,000/-</u>  |
| v)   | Creditor A/c         | <u>Credit balance Rs. 48,000/-</u> |
| vi)  | Office Machinery A/c | <u>Debit balance Rs. 7,000/-</u>   |

Capital A/c_____		Debtors A/c_____	
Dr	Cr	Dr	Cr
	60,000/-	5,000/-	2,000/-
	20,000/-	7,000/-	3,000/-
Bal. C/d 80,000		1,000/-	Bal. C/d 8,000/-
<hr/>		<hr/>	
	80,000   80,000/-	13,000	13,000/-
	Bal. B/d 80,00/-		Bal. B/d 8,000/-

Loan Account_____		Motor Vehicle Account_	
Dr	Cr	Dr	Cr
900/-	10,000/-	4,000/-	Bal. C/d 11,000/-
Bal. C/d 9,100		7,000/-	
<hr/>		<hr/>	
	10,000   10,000/-	11,000/-	11,000/-
	Bal. B/d 9,100/-	Bal. B/d	11,000/-

Creditors Account		Office Machinery Account	
Dr	Cr	Dr	Cr
30,000/-	45,000/-	2,000/-	
3,000/-	23,000/-	5,000/-	Bal. C/d 7,000/-
Bal. C/d 48,000/-	6,000/-		
	7,000/-		
<hr/>		<hr/>	
81,000	81,000____	7,000/-	7,000/-
	Bal. B/d 48,000/-	Bal. B/d	7,000/-

- 23 You may have noticed that all the assets are debit balances, and that the liability and capital balances are credit balances.
24. Without looking at Frame No. 22, put by the side of each item the type of balance that it is :
- Cash account debit balance.
  - Fixtures and Fittings account debit balance.
  - Machinery account debit balance
  - Loan from A Mohan credit balance
  - Capital account credit balance
  - Bank account (assuming there is Rs 10,000/- in the bank) debit balance
  - Bank account (assuming that we have paid out more than has been paid into the bank, i.e. we have a bank overdraft) credit balance.
  - Debtors account debit balance
  - Creditors account credit balance
- 25 All asset balances are debit and all liability and capital balances are credit balances. This is seen especially with the bank account where if it is an overdraft it is a credit balance because it is a liability, and if instead there was money in the bank, it would be a debit balance because it is an asset
- 26 To prove it, balance off the following bank accounts. Bank account No 1 has had a total of Rs 15,000/- put into it and Rs 23,000/- paid out, whilst Bank Account No.2 had Rs 70,000/- put into it and Rs 33,000/- paid out. The asset account is Bank account No.2 whilst the liability account is Bank account No.1.

Bank account No 1		Bank A/c No.2	
Dr	Cr	Dr	Cr
7,000/-	6,000/-	50,000/-	16,000/-
8,000/-	! 17,000/-	20,000/-	! 17,000/-

Bal. C/d      8,000/-      |      |Bal. C/d 37,000/-

\_\_\_\_\_

\_\_\_\_\_

23,000/-    |    23,000/-                      70,000/-    |                      70,000/- \_\_\_\_

[NOTE] Accounts are now introduced which are concerned with profit, or loss,                      calculations.

27      In frame 15 of lesson 3 a college bought a supply of chalk in March 1998 for Rs 3,000/- and used one-third of it in 1998-99 and the remaining two-thirds of it in                      99-2000.

There was an asset of Rs. 3,000/- in March 1998. There was an expense of Rs. 1,000/- in 98-99 and of Rs. 2,000/- in 99-2000. To sum up, the acquisition of the chalk gave rise to an asset and when used up it gave rise to an expense.

28      Acquisition of all assets are entered as increases in asset accounts, and then as they are used up and becomes expenses they are transferred to the debit side of the Profit & Loss account where the profit is calculated at the end of the accounting period.

29      Like items are entered in one account. Firms do however vary in their classifications and will group items in different fashions and by different names.

For instance the item of rent may be entered in various firms in                      (a)

Rent account, (b) Rent and Rates account, (c) Rent, Rates and Insurance account,

(d)Costs of Accommodation account, etc. List a few titles of accounts that you

could find Postage Stamps entered under.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

30      In frame 51 of lesson 3 you have been told that the Gross Profit, made up of Sales less 'Cost of Goods Sold' is calculated in the Trading account. Net profit, made up of Gross Profit less expenses is calculated in the Profit and Loss account.

31      This means that expense items, such as rent expenses, stationery expenses, etc. for the accounting period will have to be transferred to the Profit & Loss account for that period when the gross profit is calculated.

- 32 Normal accounting Language in practice will usually refer to an account such as a Rent Account or Stationery account as an Expense account. While there is no real harm in this, it must be remembered that an item such as stationery or Rent is a an asset until it is used when it becomes an expense.
- 33 Revenues are an increase to Capital. An increase in the Capital account would be shown on the credit side, and so increase in Revenues are shown by credit entries in the relevant Revenue account.
- 34 The revenue accounts are very often dealt through only one account. This is the Sales account. The various Revenue Accounts are seen as temporary collection points holding accounting data until it is time to calculate the net profit or loss for the accounting period.
- 35 The sale of goods for Rs 5,000/- to A on credit therefore means that the Sales account on the credit side should be increased by Rs. 5,000/-. Whilst as A has now become a debtor, then the Debtors account should correspondingly be increased by Rs. 5,000/- and as this is an asset account it will be recorded on the asset side. Enter the transactions in the accounts"

Debtors A/c	Sales A/c

## 8.1 Exercise No. : 6

1. Give details etc. in the accounts in respect of the following events into the relevant accounts and then Balance off every account:

1998

- May 1 B. started a business with Rs 80,000/- cash, of which Rs. 75,000/- was put into the bank later that same day.
- " 2 Bought goods on credit Rs 21,300/-
- " 3 Bought goods, paying by cheque immediately Rs 6,000/-
- " 4 Bought motor van, paying by cheque Rs , 7,800/-
- " 5 Sold goods on credit Rs 18,900/-
- " 6 Sold goods for cash payment Rs 700/-
- " 7 Bought goods on credit Rs 45,800/-
- " 8 Sold goods on credit Rs 27,400/-
- " 9 Received cheques for Rs 19,000/- from debtors
- " 10 Paid a cheque for Rs 17,000/- to a creditor
- " 11 Bought goods paying by cash Rs 1,900/-
- " 12 Bought another motor van paying by cheque Rs 8,000/-
- " 13 Sold motor van bought on May 4 for same price at which it had been bought, receiving cash,.
- " 15 Bought fixtures on credit Rs 10,000/-
- " 16 Sold goods on credit Rs 2,000/-
- " 17 Bought goods on credit Rs 3,900/-
- " 19 B put another Rs 5,000/- cash into the business
- " 20 Debtors paid Rs 1,900/- by cash ( i.e. received by business)
- " 21 Debtors paid Rs 2,900/- by cheque ( i.e. received by business)
- " 25 Paid creditors Rs 3,500/- by cheque
- " 29 B withdrew Rs 10,000/- out of the business by cheque

- " 30 Bought another motor van paying by cheque Rs 6,000/-
2. Giving dates, details and figures, enter the following detail's in the relevant accounts and then balance off every account"

1999

- June 1 R commenced business with Rs 5,000/- in cash
- " 2 Borrowed Rs 1,00,000/- from H which was immediately put into the bank.
- " 2 Bought goods on credit Rs 43,000/-
- " 3 Paid rent for premises Rs 1,000/- by cheque
- " 3 Paid cash Rs 400/- for stationery
- " 4 Bought goods for cash Rs 700/-
- " 5 Sold goods on credit Rs 13,000/-
- " 5 Borrowed a further Rs 2,000/- from H in cash
- " 6 Bought machinery paying by cheque Rs 45,000/-
- " 7 Paid creditors Rs 19,800/- by cheque
- ' 7 Sold goods on credit Rs 17,200/-
- ' 8 Received cash Rs 1,900/- from debtors
- " 9 Received cheques Rs 11,110 from debtors.
- " 10 Paid rent Rs 1,000/- by cash.
- " 11 Bought goods for cash Rs 1,300/-
- " 12 Paid wages in cash Rs 1,200/-
- " 14 Bought stationery on credit Rs 1,400/-
- " 16 Bought Motor car on credit Rs 19,700/-
- " 17 Paid rent by cash Rs 500/-
- " 19 Paid wages in cash Rs 1,400/-
- " 21 Sold goods on credit Rs 5,900/-
- " 22 D lent the business Rs 4,000/- in cash
- " 23 Sold goods on credit Rs 18,000/-

- ' 24 Bought goods on credit Rs 5,100/-
- " 25 Bought goods on credit Rs 29,800/-
- " 26 Paid creditors Rs 20,000/- by cheque
- " 27 Repaid H Rs 40,000/- by cheque
- " 28 R put Rs 70,000/- into the business bank out of his own private fund..
- " 30 Paid Rs 600/- cash for stationery
- " 30 Paid wages in cash Rs 1,800/-
3. On 1st April 2000 Ajmalkhan commenced business with :
- Cash at Bank Rs 4,000/-
- Stock Rs 6,000/-
- Furniture and Fittings Rs 2,000/-
- He owed to Begum Akhtar Rs 3,000/-

The following transactions took place during the month :

2000

April

- 1 Withdrew Rs 300/- from Bank for petty cash purposes
- Sold Yash goods on credit Rs 1,000/-
- Paid by cheque security for obtaining electricity connection Rs 40/-
- 3 Sold Lalji goods on credit Rs 600/-
- 5 Sold Qureshi goods for cash Rs 340/- paid direct into bank
- 6 Sold Yash goods on credit Rs 800/-
- 8 Yash returned goods to the value of R 100/-
- 12 Purchased typewriter (second hand) by cheque Rs 240/-
- 13 Received cheque from Yash in payment for goods purchased on 1.4.2000
- 14 Bought goods on credit from Dayal Rs 2,400/- . Paid wages by cash Rs 100/-
- 15 Bought goods from Gurinder Rs 3,000/-on credit.
- 18 Lalji pays cash Rs 600/- paid into Bank
- 20 Returned goods to Gurinder Rs 1,000/- at cost

- 23 Ajmalkhan drew out of bank Rs 800/- to pay premium on his life policy
- 25 Bought goods by cheque from Rajinder Rs 300/-
- 26 Withdrew from stock Rs 300/- goods for private purposes  
Sold to Lalji goods on credit Rs 400/-
- 27 Paid Begum Akhtar Rs 200/- cheque on account of loan plus Rs 40/- for interest
- 28 Paid electricity bill for the month by cheque Rs 20/-.  
Received ' from Lalji cheque for Rs 400/-.
- 30 Lalji's cheque dishonoured. Acquired second hand car in exchange for furniture  
Rs 100/-, goods Rs 160/- and cheque Rs 2,200/-

At the end of the month the expenses paid out of cash were sundry expenses Rs60/-.

You are required to open the relevant accounts and work out the balances.

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## 8.2 Solution to Lesson 6(1)

Capital	
10,000/-	80,000/-
	5,000/-
Bal. C/d 75,000/-	
85,000/-	85,000/-

Cash in hand	
80,000/-	75,000/-
700/-	1,900/-
7,800/-	
5,000/-	
1,900/-	
9	Bal. C/d 18,500/-
5,400/-	95,400/-

B/d 75,000/-

B/d 18,500/-

Motor Van	
7,800/-	7,800/-
8,000/-	
6,000/-	
	C/d 14,000/-
21,800/-	
21,800/-	

Debtor	
18,900/-	19,000/-
27,400/-	1,900/-
2,000/-	2,900/-
	C/d 24,500/-
48,300/-	
48,300/-	48,300/-

Creditor	
17,000/-	21,300/-
3,500/-	45,800/-
	10,000/-
	3,900/-
	C/d 60,500/-
81,000/-	
81,000/-	81,000/-

Fixtures	
10,000/-	C/d 10,000/-
10,000/-	
10,000/-	10,000/-

B/d 10,000/-

Cash at Bank	
75,000/-	6,000/-
19,000/-	7,800/-
2,900/-	17,000/-
	8,000/-
	3,500/-
	10,000/-
	6,000/-
	C/d 38,600/-
96,900/-	
96,900/-	

Purchase Account	
21,300/-	
6,000/-	
45,800/-	
1,900/-	
3,900/-	
	C/d 78,900/-
78,900/-	
78,900/-	78,900/-

Sales Account	
	18,900/-
	700/-
	27,400/-
	2,000/-
	C/d 49,000/-
49,000/-	
49,000/-	

B/d 38,600/-

B/d 78,900/-

B/d 49,000/-

### 8.3 Solution to Lesson: 6(2)

Capital	
	5,000/- 70,000/-
C/d 75,000/-	
<hr/>	<hr/>
75,000/-	75,000/-

B/d 75,000/-

Purchases	
43,000/- 700/- 1,300/- 5,100/- 29,800/-	
	C/d 79,900/-
<hr/>	<hr/>
79,900/-	79,900/-

B/d 79,900/-

Creditor	
19,800/- 20,000/-	43,000/- 1,400/- 19,700/- 5,100/- 29,800/-
	C/d 59,200/-
<hr/>	<hr/>
99,000/-	99,000/-

B/d 59,200/-

Loan 'H'	
40,000/-	1,00,000/- 2,000/-
C/d 62,000/-	
<hr/>	<hr/>
1,02,000/-	1,02,000/-

Bal. B/d 62,000/-

Machinery	
45,000/-	3,000/-
	C/d 45,000/-
<hr/>	<hr/>
45,000/-	45,000/-

B/d 45,000/-

Debtor	
13,000/- 17,200/- 5,900/- 18,000/-	1,900/- 11,110/-
	C/d 41,090/-
<hr/>	<hr/>
54,100/-	54,100/-

B/d 41,090/-

Sales	
	13,000/- 17,200/- 5,900/- 18,000/-
C/d 54,100/-	
<hr/>	<hr/>
54,100/-	54,100/-

B/d 54,100/-

Cash in hand	
5,000/-	400/-
2,000/-	700/-
1,900/-	1,000/-
4,000/-	1,300/-
	1,200/-
	500/-
	1,400/-
	600/-
	1,800/-
	C/d 4,000/-
<hr/>	<hr/>
12,900/-	12,900/-

Cash at Bank	
1,00,000/-	1,000/-
	45,000/-
	19,800/-
11,110/-	20,000/-
70,000/-	40,000/-
	C/d 55,310/-
<hr/>	<hr/>
1,81,110/-	1,81,110/-

Rent	
1,000/-	
1,000/-	
500/-	
	By P&L
	A/c
	2,500/
	-
<hr/>	<hr/>
2,500/-	2,500/-

B/d 4,000/-

Stationery	
400/-	By P&L
1,400/-	A/c 2,400/-
600/-	
<hr/>	<hr/>
2,400/-	2,400/-

B/d 55,310/-

Wages	
1,200/-	By P&L
1,400/-	A/c 4,400/-
1,800/-	
<hr/>	<hr/>
4,400/-	4,400/-

Car	
19,700/-	
	C/d 19,700/-
<hr/>	<hr/>
19,700/-	19,700/-

B/d 19,700/-

Loan D	
	4,000/-
C/d 4,000/-	
<hr/>	<hr/>
4,000/-	4,000/-

B/d 4,000/-

### 8.4 SOLUTION TO LESSON 6(3)

Balance Sheet as on 1.4.2000

Capital	9,000/-	Furniture & Fixture	2,000/-
Begum Akhtar	<u>3,000/-</u>	Stock	6,000/-
	<b><u>12,000/-</u></b>	Cash at Bank	<u>4,000/-</u>
			<b><u>12,000/-</u></b>

Capital A/c

30.4. To Balance C/d	<u>9,000/-</u>	1.4. By Opening Balance	<u>9,000/-</u>
	<b><u>9,000/-</u></b>		<b><u>9,000/-</u></b>

By Balance B/d 9,000/-

Bank A/c

1.4. To Opening Balance	4,000/-	1.4. By Cash	300/-
5.4. " Sales	340/-	1.4. " Security	40/-
13.4. " Yash	1,000/-	12.4. " Typewriter	240/-
18.4. " Lalji	600/-	23.4. " Drawing	800/-
28.4. " Lalji	400/-	25.4. " Purchase	300/-
		27.4. " Begum Akhtar	200/-
		" Interest	40/-
		28.4 " Eletric Bill	20/-
		30.4 " Lalji	400/-
		30.4. " Car	2,200/-
		30.4 " Balance C/d	<u>1,800/-</u>
	<b><u>6,340/-</u></b>		<b><u>6,340/-</u></b>

To Balance B/d 1,800/-

Furniture A/c

1.4. To Opening Balance	2,000/-	30.4. By Car	100/-
	<u>2,000/-</u>	30.4. " Balance C/d	<u>1,900/-</u>
			<b><u>2,000/-</u></b>

To Balance B/d 1,900/-

Opening Stock

1.4. To Opening Balance	<u>6,000/-</u>	30.4. By Balance C/d	<u>6,000/-</u>
	<b><u>6,000/-</u></b>		<b><u>6,000/-</u></b>

To Balance B/d 6,000/-

Cash A/c

1.4. To Bank	300/-	14.4. By Wages	100/-
		30.4. " Sundry Expenses	60/-
		" " Balance C/d	<u>140/-</u>
	<b><u>300/-</u></b>		<b><u>300/-</u></b>

To Balance B/d Begum Akhtar A/c	140/-		
27.4. To Bank	200/-	By Opening Balance	3,000/-
30.4. " Balance C/d	<u>2,800/-</u>		
	<b><u>3,000/-</u></b>		<b><u>3,000/-</u></b>

By Balance B/d Yash A/c	2,800/-		
1.4. To Sales	1,000/-	8.4. By Sales	100/-
6.4 " Sales	800/-	13.4. " Bank	1,000/-
	<u>1,800/-</u>	30.4. " Balance C/d	<u>700/-</u>
	<b><u>1,800/-</u></b>		<b><u>1,800/-</u></b>

To Balance B/d                      700/-

Security for Electric Connection A/c

1.4. To Bank	<u>40/-</u> <b>40/-</b>	30.4. By Balance C/d	<u>40/-</u> <b>40/-</b>
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To Balance B/d 40/-

Sales A/c

8.4. To Yash	100/-	1.4. By Yash	1,000/-
		3.4. " Lalji	600/-
		5.4. " Bank	340/-
		6.4. " Yash	800/-
30.4. To Balance C/d	<u>3,040/-</u> <b>3,140/-</b>	26.4. " Lalji	<u>400/-</u> <b>3,140/-</b>

To Balance B/d 3,040/-

Lalji A/c

3.4. To Sales	600/-	18.4. By Bank	600/-
26.4 " Sales	400/-	28.4 " Bank	400/-
30.4 " Bank	<u>400/-</u> <b>1,400/-</b>	30.4. " Balance C/d	<u>400/-</u> <b>1,400/-</b>

To Balance B/d 400/-

Typewriter A/c

12.4. To Bank	<u>240/-</u> <b>240/-</b>	30.4. By Balance C/d	<u>240/-</u> <b>240/-</b>
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To Balance B/d 240/-

Dayal A/c

30.4. To Balance C/d	<u>2,400/-</u> <b>2,400/-</b>	14.4 By Purchase	<u>2,400/-</u> <b>2,400/-</b>
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By Balance B/d 2,400/-

Purchase A/c

14.4	To Dayal	2,400/-	20.4	By Gurinder	1,000/-
15.4	" Gurinder	3,000/-	26.4	" Drawing	300/-
25.4	" Bank	300/-	30.4	" Car	160/-
		<u>5,700/-</u>	"	" Balance C/d	<u>4,240/-</u>
					<u>5,700/-</u>

To Balance B/d 4,240/-

Wages A/c

14.4	To Cash	<u>100/-</u>	30.4	By Balance C/d	<u>100/-</u>
		<u>100/-</u>			<u>100/-</u>

To Balance B/d 100/-

Drawings

23.4.	To Bank	800/-	30.4.	By Balance C/d	<u>1,100/-</u>
26.4	" Purchase	<u>300/-</u>			<u>1,100/-</u>
		<u>1,100/-</u>			

To Balance B/d 1,100/-

Gurinder A/c

20.4	To Purchase	1,000/-	14.4	By Purchase	3,000/-
30.4.	" Balance C/d	<u>2,000/-</u>			<u>3,000/-</u>
		<u>3,000/-</u>			

By Balance B/d 2,000/-

Electric Bill A/c

28.4	To Bank	<u>20/-</u>	30.4.	By Balance C/d	<u>20/-</u>
		<u>20/-</u>			<u>20/-</u>

To Balance B/d 20/-

Car A/c

30.4	To Furniture	100/-		
	“ Purchase	160/-		
	“ Bank	<u>2,200/-</u>	30.4.By Balance C/d	<u>2,460/-</u>
		<u>2,460/-</u>	<u>2,460/-</u>	

To Balance B/d 2,460/-

Interest A/c

27.4	To Bank	<u>40/-</u>	30.4. By Balance C/d	<u>40/-</u>
		<u>40/-</u>		<u>40/-</u>

To Balance B/d 40/-

Sundry Expenses A/c

30.4	To Cash	<u>60/-</u>	30.4. By Balance C/d	<u>60/-</u>
		<u>60/-</u>		<u>60/-</u>

To Balance B/d 60/-

## 9 LESSON 7

1. You have now entered up transactions in (1) assets account prior to their transfer to expenses account. (2) in liability accounts and (3) in the capital account. Each transaction has been entered twice using the Double Entry method.
2. For every debit entry there has been a credit entry of the same amount. therefore, if all the debit entries were totalled and the credit entries also totalled, then the two totals should be (different / equal).
3. If in fact this was done and the totals of all the entries were equal then this would be a fair proof that every time that a debit entry was made, a credit entry of the same amount was also made.
4. But suppose that someone wanted to contend that if the two grand totals were equal then the records must be correct. Suppose that an item had never been entered at all neither on the debit nor the credit side then the records would be ( complete / incomplete) for the transactions carried on by the business.
5. Similarly, if an item which should have been credited in the cash account and debited in the rent account had received the opposite treatment, i.e. debited in the cash account and credited in the rent account then would the records be correct ? (Yes / No)
6. It could happen that compensating errors have been made, e.g. if one figure was overstated by Rs 100 on the debit side of an account, and another figure of a different item on the credit side of another account was also overstated by Rs. 100, would the two grand totals agree if there were no other errors ? (Yes / No)  
  
Would the records of the business be correct (Yes / No)

7. Therefore, such an arithmetical proof would ( be/ not be) absolute proof that the records of the business were correct.
8. Would such a a proof be better than not attempting any form of proof ? (Yes/ No)
9. The totals of the Debit and Credit columns in Exercise No.6 equal one another. Now go back to Exercise No.6 and balance of all the accounts. Then draw up a list of balance only with a column for Debit balance and a Credit Balance column. Are those two totals equal to each other? (Yes/No)
10. The method using balances only is the method used in practice. After a business has been operating for a while it is far easier to ascertain the balance on each account than it is to find the total on each side of the account. This is called a Trial Balance. The Trial balance is not part of Double Entry, it is merely an attempt at an arithmetical proof of the records. Remember that it (does / does not) prove that the records are correct.
11. If the grand total of all the debit entries in accounts equals the grand total of all the credit entries before the balancing, then after the balancing the totals of debit and credit balances should also (equal / not equal) each other.
12. The Trial Balance is the statement prepared by listing the debit and credit balances of all accounts. The tallying of totals of debit and credit balances confirms the arithmetical accuracy of the account books.

### **9.1 EXERCISE No. 7**

1. Draw up Trial Balance for the accounts in problem 1 of the Exercise No. 6.
  
2. Draw up a Trial Balance for the accounts in problem 2 of Exercise No. 6
  
3. Draw up a Trial Balance for the accounts in problem 3 of Exercise No. 6

## 9.2 Solution to Exercise 7(1)

Trial Balance		Trial Balance	
Dr.		Cr.	
Cash in Hand	18,500/-	Capital	75,000/-
Bank	38,600/-	Creditor	60,500/-
Motor Van	4,000/-	Sales	49,000/-
Debtor	24,500/-		
Fixture	10,000/-		
Purchases	78,900/-		
<b>Total</b>	<b>1,84,500/-</b>	<b>Total</b>	<b>1,84,500/-</b>

## Solution to Exercise 7(2)

Trial Balance		Trial Balance	
Dr.		Cr.	
Purchases	79,900/-	Capital	75,000/-
Machinery	45,000/-	Creditor	59,200/-
Debtors	41,090/-	Loan H	62,000/-
Cash in hand	4,000/-	Loan D	4,000/-
Cash at bank	55,310/-	Sales	54,100/-
Car	19,700/-		
Rent	2,500/-		
Stationery	2,400/-		
Wages	4,400/-		
<b>Total</b>	<b>2,54,300/-</b>	<b>Total</b>	<b>2,54,300/-</b>

**9.3 Solution to Exercise 7(3)**

Ajmal Khan

Trial Balance as on 30.4.2000

S.No.	A/c Name	Debit Balance	Credit Balance
1	Capital		9,000/-
2	Bank	1,800/-	
3	Cash	140/-	
4	Opening Stock	6,000/-	
5	Furniture	1,900/-	
6	Secutiry for Ele.Conn.	40/-	
7	Yash	700/-	
8	Begum Akhtar		2,800/-
9	Wages	100/-	
10	Drawings	1,100/-	
11	Gurinder		2,000/-
12	Electric Bill	20/-	
13	Car	2,460/-	
14	Interest	40/-	
15	Sundry Expenses	60/-	
16	Sales		3,040/-
17	Lalji	400/-	
18	Typewriter	240/-	
19	Dayal		2,400/-
20	Purchase	4,240/-	
		<b>19,240/-</b>	<b>19,240/-</b>

## 10 LESSON 8

### Depreciation: General Considerations

- 1 Fixed assets have been defined in frame 35 of lesson 2 as those assets which have a relatively (short /long /indeterminate) life, and are not held primarily for sale or for conversion into cash.
2. Depreciation can be said to be the part of the cost of the fixed asset consumed during its period of use by the firm. Thus, if a machine cost Rs 6,000/- and when it was put out of use by the firm it was sold for Rs 1,000/- then the depreciation could be said to be Rs. 5,000/- during its period of use by the firm.
3. The verb ' to depreciate' is often used to describe the process of depreciation.
4. With the exception of land the useful life of most fixed assets is limited and they depreciate as they grow older. They depreciate for a number of different reasons. Some of them can be mentioned as under :-
  - a] Physical use or deterioration.
  - b] Economic reasons.
- 5 Most assets depreciate because they wear out through use or because they deteriorate through exposure to the elements. Write down some possible causes of physical depreciation for the following assets:
  - a] Motor vehicle \_\_\_\_\_  
\_\_\_\_\_
  - b] A timber building \_\_\_\_\_  
\_\_\_\_\_
  - c] Machinery \_\_\_\_\_
- 6 Depreciation for economic reasons covers a number of complicated causes and effects. An asset which is performing satisfactorily in terms of its original specification, may become obsolete because a new machine of a slightly different type can do the job faster, better and cheaper, e.g. steam railway engines replaced by diesel and electric locomotives. Write down examples where

this has happened.

- 7 On the other hand, if the resale price rises above the original cost of the asset to the firm then in accounting terms there is no depreciation.
8. In fact this would be called appreciation. In practice accountants always record depreciation but often ignore appreciation. The reason is that these changes in prices, being outside the business are often hard to measure precisely. Also the convention of conservatism indicates that accountants are more concerned with understating assets rather than overstating them.
- 9 Since most fixed assets last for several years the problem arises of allocating depreciation as an expense, when calculating the profits for each of these years. Without the depreciation expenses for a particular year, net profit (could/ could not) be calculated as all of that year's expenses must be charged in the Profit and Loss Account before the net profit can be determined.
- 10 Theoretically, each year should be charged with an expense for depreciation which is connected with the revenue recognised i.e. the matching principle. This is fairly easy for an expense such as sales man's commission where the employee gets commission of a fixed percentage in accordance with sales made. But the tracing of depreciation expense to the sale of particular item is (simple / very often impossible)
- 11 Consider the purchase of a machine now and try to estimate its depreciation for each year of its use with the firm. How long will the machine be kept in use by the firm? The first problem is, therefore, that of estimating the (past / future).
- 12 If a new and better machine is brought on the market, your machine may become obsolete. If demand for your product grows the machine may be incapable of producing sufficient amount of goods and it may be put out of use and a machine with a larger output introduced. You may have a good machine operator who nurses the machine along or a heavy handed operator under whose charge the machine will last for a much shorter time. Alternatively many different workers may use the machine. The demand for the product made on that machine may cease and the machine may be put out of use prematurely because of it. Obviously, estimating how long a fixed asset will be kept in use by a firm is (easy / very difficult) task.

- 13 Once the task of deciding the number of years of expected use is finished, the next task is to estimate the price at which the asset may be sold when it is put out of use, This is very often called ' salvage value' / 'scrap value.' Take an asset which has an extensive second hand market-the motor car. If you had just bought a new Maruti car today, and you decided that you expected to get five years of use out of it before selling it, do you really know the price that you would then get for it?(Yes/No). The price of second-hand cars ( does/does not) fluctuate as the economic climate of the country changes.
- 14 If the above have been difficult to decide and therefore, the total expected amount of depreciation may be quite inaccurate, then trying to determine with any accuracy the amount allocable as an expense for each year is ( easy / difficult).
- 15 The accountant's answer to this complexity has been to make simple basic assumptions about the way to allocate depreciation. The two major methods assume that benefits from a fixed asset arise.
- a] equally each year or
- b] By a given percentage of the reduced value each year.
- 16 Assumption a) which allocates depreciation equally each year is called the "Straight Line Method". If a machine was bought for Rs 6,000/-, the expected use before being sold was 5 years, and the salvage value was estimated at Rs 1,000/-, then the depreciation in total is expected to be Rs. 5,000/- which is allocated as Rs. 1,000/- depreciation expense each year.
17. If the cost had been Rs 78,000/-, estimated salvage value, sometimes called residual value, being Rs 6,000/- and the expected use six years, then the yearly depreciation expense would be Rs. 12,000/-.
- 18 The formula can therefore be expressed as:
- $$\frac{\text{Cost of the Asset - Residual value}}{\text{Expected No. of years of use}} = \text{Annual depreciation}$$
- 19 The other assumption (b), which allocates depreciation by a given percentage of the unallocated cost each year is called the 'Reducing Balance method'. This simply applies a fixed

percentage to the unallocated cost of the asset brought down into each year. This unallocated cost carried forward to the next accounting period is known as the Written Down Value, abbreviated as WDV.

- 20 A car costs Rs 16,000/- at the start of year 1. The Reducing balance method is to be used and the percentage to be applied is 25 percent. Complete the following.

Year 1: Cost	16000	(A)
Less :Depreciation 25 % of (A)	<u>4,000/-</u>	
Written Down Value end year 1	<u>12,000/-</u>	(B)
Year 2 : Less : Depreciation 25 % of (B)	<u>3,000/-</u>	
Written down value end year 2	<u>9,000/-</u>	(C)
Year 3 : Less: Depreciation 25 % of (C)	<u>2,250/-</u>	
Written down value end year 3	<u>6,750/-</u>	

- 21 The fixed percentage that is used is calculated mathematically as being that which will give a figure of written down value to equal the salvage value at the expected date when the asset is put out of use e.g. A machine costs Rs 1,00,000/-. It is expected to be used for four years and then disposed of for Rs 2,560/-. Mathematically the percentage needed is found to be 60 percent.

Year 1: Cost	1,00,000
Less: Depreciation	<u>60,000/-</u>
Written down value end year 1	<u>40,000/-</u>
Year 2 : Less: Depreciation	<u>24,000/-</u>
Written down value end year 2	<u>16,000/-</u>
Year 3 : :Less : Depreciation	<u>9,600/-</u>
Written down value end year 3	<u>6,400/-</u>
Year 4 : Less: Depreciation	<u>3,840/-</u>
Written down value end year 4	<u>2,560/-</u>

The written down value at the end of year 4 equals the salvage value expected.

- 22 This means that in the Profit and Loss Account of year 1 Rs. 60,000/- would be charged as depreciation expense, in year 2 Rs. 24,000/- in the year 3 Rs. 9,600/- and in the year 4 Rs. 3,840/-.
- 23 If in year 5 the machine was sold for Rs 2,560/- then all of the entries which had already been made would have ( been / not been) in accordance with plans.
- 24 On the other hand if it was sold for Rs 2,000/- in year 5, the depreciation expenses have been (understated /overstated) i.e. over the 4 years Rs 1,00,000 - Rs 2,560 = Rs 97,440/- will have been charged instead of, as is now seen Rs 1,00,000 - Rs 2,000 = Rs. 98,000/-.
- 25 We cannot go back to past years and tear up the Trading and Profit and Loss Accounts just because one of our estimates had been proved, in the fullness of time, to be wrong. An error caused by a wrong estimate in a previous year can only be put right in this year's Final Accounts. Therefore, a further Rs. 560/- will be charged for the depreciation expense for this machine in year 5.
- 26 If it had been sold for Rs 4,000/- instead of Rs 2,000/- then the depreciation charged against profits of years 1 to 4 has been 97,440/- but it should have been Rs. 96,000/-. Depreciation has been (overstated/ understand) by Rs. 1,440/-. To correct this in year 5 a gain of Rs. 1,440/- will be shown in the Profit and Loss Account of year 5.
- 27 The charging of depreciation expense and the recording of it is the same whether the Reducing Balance Method or the Straight Line Method is in use. These two methods are really concerned with the A R I T H M E T I C of calculating the expense. There is no difference as to how the expense is treated after the amount of it has been calculated.
- 28 Fixed assets will often be purchased during an accounting year. For instance, a business whose accounts are prepared on the Financial Year basis buys a fixed asset on 1st Oct. The cost is Rs 6,000/-, the estimated life 6 years and the residual value nil. The depreciation for the accounting year in which it is bought will be ( Rs 1000 / Rs500 / Rs 600) by Straight Line Method.
- 29 Although the asset's life is 6 years and annual depreciation, therefore, Rs. 1,000/- Since it was bought half-way through the accounting year, only half a year's depreciation should be charged,

i.e.  $\text{Rs } 1000 \times \frac{1}{2} = \text{Rs } 500$ . Similarly only half a year's depreciation should be charged in the accounting period when the asset is disposed of, assuming that the asset is disposed of at the end of six years which will be half way through an accounting year. It must be stressed that in fact assets are not necessarily disposed of as soon as the estimated life has expired.

- 30 In practice, firms often do not go to the trouble of splitting depreciation charges and assume that all assets in use at the end of an accounting year have been owned for a full year. In the example just looked at, the charge in the first accounting period would have been Rs. 1,000/-. Under this system no depreciation is written off for assets sold during an accounting period.

### **10.1 EXERCISE NO. 8**

1. Attempt a definition of "Fixed Assets."
2. Give main causes of depreciation.
3. Why do accountants often ignore ' appreciation' ?
4. What are the two main methods of calculating annual depreciation ?
5. In firm A, a machine costs Rs 32,000/-. It is to be depreciated at the rate of 25 % using the Reducing Balance method. Show the annual calculations of depreciation and find the written down value after 3 years. In firm B a similar machine also costs Rs 32,000/-. It is expected to be in use for 5 years and then to be sold for Rs 2,000/-. Use the Straight Line Method of depreciation, show the calculations for the first three years and show the Written Down Value after 3 years.

### 10.2 Solution to Exercise 8(5)

Firm A

Reducing Balance Method

Original Cost	-	Rs. 32,000/-
<u>Less</u> Deprn. for the I year @25%	-	<u>Rs. 8,000/-</u>
		Rs. 24,000/-
<u>Less</u> Deprn. for the II year @25%	-	<u>Rs. 6,000/-</u>
		Rs. 18,000/-
<u>Less</u> Deprn. for the III year @25%	-	<u>Rs. 4,500/-</u>
WDV at the end of 3rd year	-	<u><b>Rs. 13,500/-</b></u>

Firm B

Straight Line Method

Depreciation in each year	=	Cost - Salvage value	
		-----	
		Expected years of use	
		32,000 - 2,000	
	=	-----	= Rs. 6,000/-
		5	
1WDV at the end of the 3rd year	=	Rs. 32,000/- - Rs. 18,000/-	= <b>Rs. 14,000/-</b> .

## 11 LESSON 9

The construction of Trading & Profit & Loss Accounts and Balance Sheets from Double Entry Records

- 1 The term ' Final Accounts' is usually given to mean the Trading and Profit and Loss Account and the Balance sheet. This term will be used sometimes as " Shorthand", even though in fact the Balance sheet is not an account. After the trial balance at the end of a period has been drawn and not before then, the Final Accounts for the period can be drawn up.
- 2 The Trading and Profit and Loss Account is, as you can see from the name "Account", part of the double entry system. These two accounts are where the Gross profit and the Net profit, or loss, are calculated. If, therefore, figures are to be put into these two accounts they must be transferred there using Double Entry Methods.
- 3 We will start by considering the Trading Account. You read earlier that Sales revenue less Cost of Goods Sold = Gross profit. In which account do we find the sales revenue? Sales A/c. In the exposition of Double Entry have we used a Cost of Goods Sold account? (Yes / No)
- 4 Before we look at Final Accounts for the first year of operating for a business, turn back to frame 53 of lesson 3 , for the method of calculating Cost of Goods Sold in this case. It can be said to be the purchases less the closing stock of goods.
5. In which account have goods bought been entered? ***Purchase a/c.***
- 6 By merely looking at the Double Entry financial records can we calculate usually what the closing stock-in-trade is at the end of the year? (Yes/ No/ Don't know)
- 7 At first sight many people think that it is quite simple to calculate it by looking at the Double Entry records. However, it is not usually so simple. The amount of goods bought is known, but when sold they are sold at a profit ( even loss sometimes) and the exact amount of profit (or loss) on every single item is very rarely known. This thwarts the attempt to make the calculation ' Goods Bought' - 'Cost of Goods sold' = C.S. because the cost of goods sold is not easily calculable.

- 8 The way that it is done is so simple in concept that it is hardly believable at first. Thus if goods bought are known and the closing stock in trade is known, then the Cost of goods sold must be the difference. For instance if goods bought amounted to Rs 5000/- and closing stock-in-trade at cost amounted to Rs 600/- then the cost of Goods Sold would be Rs 5000 - Rs.600/- = 4,400/-
- 9 The question then is as to whether the closing Stock-in-Trade figure can be found. The answer is that the figure ( is / is not yet) shown anywhere in the Double Entry records, but by going into the ware house, shop, factory or wherever the business is, and actually counting, weighing, etc. the items in the firm's possession will give the physical amount of closing Stock-in-Trade.
- 10 In some business there will be adequate records of the individual items of Stock-in-Trade received and sold kept on a perpetual basis. The information contained in these records rarely forms an integral part of the financial double entry system. While these records may be used at times in the valuation of Stock-in-Trade, there has to be, in addition a physical check of actual stock-in-trade against the figures shown in such records.
- 11 Once the physical amounts are known, the cost of each item can be found, subject to various considerations mentioned later, and so the cost of the closing stock is found. The purchase less C.S. will show us Cost of goods Sold.
- 12 Let us now look at an extract from the Trial Balance of H Enterprises as on 31st March, 2000, the end of the first year of operation.

Hill Enterprises

Trial Balance as on 31st March, 2000

	Dr		Cr
Purchases	13200	Sales	18000

The closing stock in trade as on 31st March, 2000 was counted and found to have cost Rs 2,200/-. The cost of goods sold during 1999-2000 was therefore Rs 11,000/ and as the Sales were Rs 18,000, the Gross Profit was Rs 7,000. This has to be done in double entry however. Transfers are , therefore, made from the sales account and the cost of goods sold is transferred to the Trading account.

Sales Account

Dr.	Cr.
Trading Account      18,000	18,000

Hill Enterprises

Trading and Profit and Loss Account For the year ended 31st March, 2000

Cost of Goods Sold	Rs. 11,000	Sales	Rs. 18,000
Gross Profit C/D	Rs 7,000		
	<b>Rs. 18,000</b>		<b>Rs. 18,000</b>
		Gross Profit B/d	Rs 7,000

Stock-in-Trade Account

Purchases	Rs. 13,200	Cost of goods Sold to Trading Account	Rs. 11,000
		Balance C/d	Rs. 2,200
	<b>Rs 13,200</b>		<b>Rs. 13,200</b>
Balance B/d	Rs. 2,200		

Alternatively the calculation of the cost of goods sold can actually be shown in the Trading Account.

Trading Account.

Purchases of goods	Rs. 13,200	Sales	Rs. 18,000
		T ccccbvbbbbbnmm	
		Closing stock	Rs. 2,200/-
Gross profit C/d	Rs. 7,000		
<b>Total</b>	<b>Rs. 20,200/-</b>	<b>Total</b>	<b>Rs. 20,200/-</b>
		Gross Profit B/d	Rs. 7,000

- 13 The Gross Profit has been calculated in the Trading account section of the Trading and Profit and Loss Account. It has been brought down into the Profit & Loss Account section.



price. No entry had been made for depreciation expense before the Trial Balance was drawn up, Accordingly, there could not in this case be an entry in the Trial Balance for depreciation expense.

17. As there are no other expense the difference between the two sides, if the Gross Profit exceeds the expenses, is Net Profit. If the expenses exceed Gross Profit then the difference would be a Net Loss.
18. The completed Trading and Profit & Loss Account showing the depreciation expense entry can now be shown. In addition the Net Profit on the debit side of the Profit & Loss Account has no corresponding credit entry. What does Net Profit increase ? **Capital**. Therefore, if the capital has increased by Rs. 3,900/- then the capital a/c needs increasing by Rs. 3,900/-. An increase in this account is shown by a credit entry, and this is therefore the credit entry for net profit. The amount of cash put in as Capital on 1st April 1999 was Rs. 10000.

Provision for Depreciation of Fixtures A/c

Dr

Cr

---

By. Profit & Loss      A/c	Rs. 400

HILL ENTERPRISES

TRADING AND PROFIT & LOSS ACCOUNT

FOR THE PERIOD 99 - 2000

Purchases	13,200	Sales	18,000
Gross Profit c/d	7,000	C.S.	2,200
Total	<b>20,200</b>	Total	<b>20,200</b>
Rent	200	Gross Profit b/d	7,000
Salaries	2,300		
Stationery	200		
Depreciation [Fixtures]	400		
Net Profit	3,900		
Total	<b>7,000</b>	Total	<b>7,000</b>

Dr. Capital Account Cr.

	Opening balance	-	10,000
	Net profit	-	3,900
	Total	-	<b>13,900</b>

19. Now that the Trading & Profit and Loss Account has been drawn up then double entry for 99-2000 is finished. The next double entry items to be recorded will be in April 2000. So before any transactions are recorded in double entry in April 2000 the only outstanding items are the balances that have been carried down into 2000-2001 accounts. These are the Opening Balances for 2000-2001 but they were also the closing balances for 99-2000. If they were listed in two columns, with one column head "Asset" and the other headed "Capital and Liabilities", which accounting statement would they resemble. ? **Balance Sheet**

### 11.1 Exercise No. 9

1. What does the term " Final Accounts" mean ?
2. How is the figure of closing stock in trade found ?
3. In the year ended 31st March 1999 various accounts had entries made in them and showed the following balance in the Trial Balance as at 31st March 1999

Trial Balance as at 31st March 1999.

	Dr.	Cr.
Stationery	5,600	
Rent	9,000	
Rates	3,800	
Lighting & Heating	5,900	
Insurance	2,600	
Wages & Salaries	29,700	

There was stationery still in hand at 31st March 1999 which had cost Rs. 150/-. The rent of Rs. 3000 for the last 3 months of 98-99 had not been paid and no entry had been made in the books at all for it.

- 1 Out of the rates, Rs. 2800 was for the year ended 31st March 2000. The remaining Rs. 1000 was for the year ended 31st March 1999.

Rs. 700 of the insurance paid was in respect of insurance cover benefits in respect of the year 1999-2000.

Nothing was owing to employees for wages and salaries at the close of March 1999.

Show all the accounts balanced off, with the relevant transfers to the Profit and Loss Account for the year ended 31st March 1999. The profit & Loss account should be drawn.

### 11.2 Solution to Exercise 9(3)

Stationery			Rent			
5,600	By P&L A/c	5,450	Rent	9,000	By P&L A/c	12,000
	By balance	150	To Outstand-			
			ing Rent A/c	3,000		
5,600		5,600		12,000		12,000

Outstanding Rent A/c			Rates		
To balance	3,000	3,000	3,800	By P&L A/c	1,000
				By Pre-paid rates A/c	2,800
	3,000	3,000	3,800		3,800

Prepaid Rates A/c			Insurance A/c		
2,800	By Balance	2,800	2,600	By P&L A/c	1,900
				By Pre-paid Ins. A/c	700
2,800		2,800	2,600		2,600

Pre-paid Insurance A/c	P & L A/c
------------------------	-----------

700	By Balance	700	Stationary	5,450	Rent
			12,000		Rates
			1,000		
			Lighting		5,900
			Insurance		1,900
			Wages	29,700	
700		700			

## 12 LESSON 10: MARSHALLING THE ASSETS AND LIABILITIES IN THE BALANCE-SHEET

- 1 It (would/ would not) be useful if the layout of balance sheets could be standardised. This would make it easier for different balance sheets to be compared with each other.
2. Therefore, in India certain customs are observed in the drafting of balance sheets. It must not be thought that they are imposed by law, but are (generally/ sometimes) adopted by accountants.
3. Looking first the assets side of the Balance sheet, the Fixed Assets are shown first, the assets which are neither Fixed nor Current, although there are not many of this type of asset, are shown next and the Current Assets are shown last. Under each of these headings there is also a defined order. The order is that the assets are listed starting with the most permanent assets, or to put it another way the most difficult to turn into cash quickly, progressing to the least permanent or easiest to turn into cash, finishing final with cash itself.

An illustration may now be seen for the order :

### FIXED ASSETS

Land & Buildings  
Fixtures & Fittings  
Machinery  
Motor Vehicles.

### CURRENT ASSETS

Stock-in-Trade  
Debtors  
Prepaid Expenses  
Cash at Bank  
Cash in Hand

Current Assets originating as Stock-in-Trade are sold on credit and becomes Debtors. When debtors pay, usually by cheque, the asset change into Cash at Bank, which when withdrawn becomes cash.

Usually prepaid expenses are shown added to Debtors or also shown between Debtors and Cash at Bank.

The reader of Balance sheets would find it( easier / more difficult) to read balance sheets which were in a standardised form instead of those where the layout did not conform to any accepted pattern.

4. On the Capital and liabilities side of the Balance sheet the Capital is shown first, followed by Long term liabilities and finishing with current liabilities.
- 5 Under the heading of Fixed Assets the provision for accumulated depreciation is shown as a reduction from the cost of fixed assets. You will recall that fixed assets are usually shown in the accounts at cost price, the provisions for depreciation being shown in (the same / a separate) account. Therefore, the balance sheet will show the fixed asset at ( cost / selling) price less the depreciation provision on the asset which is a part of the cost price of the asset that has been debited to the Profit and Loss Account as expense for each year of use.

6. As the fixed asset accounts are kept at cost, the accumulated depreciation shown in the Depreciation account for a fixed asset will (decrease / increase).
7. Balance sheet extracts for years 1 to 3 for a machine which had cost Rs 10,000/- and was being depreciated at 20 % using the Straight Line Method would show as:

Balance - sheet extracts

End of:

Year 1: Machinery at Cost	..	10,000/-
Less: Depreciation to date		<u>2,000/-</u>
Year 2: Machinery at Cost	..	10,000/-
Less: Depreciation to date		<u>4,000/-</u>
Year 3: Machinery at Cost	..	10,000/-
Less: Depreciation to date		<u>6,000/-</u>

8. A motor lorry bought for Rs 48,000/- is being depreciated using the W.D.V. method at the rate of 25 per cent. The asset would appear in the first 3 years balance-sheet as:

Balance sheet extracts

End of:

Year1: Motor Lorry at Cost		48,000/-
Less: Depreciation on date		<u>12,000/-</u>
Year2: Motor Lorry at Cost		48,000/-
Less: Depreciation to date		<u>21,000/-</u>
Year3: Motor Lorry at Cost		48,000/-
Less : Depreciation to date		<u>27,750/-</u> -----

- 9 We will now look at a completed assets side of a balance sheet. Notice that each group of assets has a heading to indicate what that group is.

10

## Z ENTERPRISES

## BALANCE SHEET AS AT 31ST MARCH 2000 (Extract)

## FIXED ASSETS

Land at cost			50,000
Building at cost	1,50,000		
Less: Dep. to date	60,000	90,000	
Machinery at cost	60,000		
Less: Depreciation to date	24,000	36,000	
Motor Vehicle at cost	50,000		
Less: Depreciation to date	19,000	31,000	
			2,07,000

## CURRENT ASSETS

Stock-in-Trade	79,000		
Debtors	43,000		
Prepaid expenses	9,000		
Cash at Bank	32,000		
Cash in Hand	1,000	1,64,000	
			3,71,000/-

- What is the total of
- (a) Fixed Assets ? Rs. 2,07,000/-
- (b) Current Assets? Rs. 1,64,000/-
- (c) The other side of the Balance sheet ? Rs.3,71,000/-

- 11 On the other side of the balance sheet the Capital and the liabilities will appear. First, at the top will appear the Capital. Remember that the amounts taken out of the business for the private use are a reduction of capital and are given the technical accounting name of 'drawing'.
- 12 Drawings are a reduction of capital and are not treated as an expense. Now an expense will (increase/decrease) the net profit and as the net profit (increases /decreases) the capital it can be said that both drawings and expenses (increase/ decrease) the Capital.
- 13 However, while both are a reduction of Capital, Expenses are deducted before the net profit is calculated whereas Drawings are not so deducted and therefore, have nothing to do with the calculation of the net profit.
- 14 It would probably seem logical to the reader that a working owner should charge something for his own services to the business when calculating net profit. This is however not accounting practice. For instance, if we can invoke the idea of two businesses with the same sales, rent, cost of goods sold, etc. but in business (A) the owner devotes all his time to the business and

draws Rs. 20,000/- a year he (will /will not) charge his drawings as an expense. Imagine that his net profit is Rs 50,000/-. In business (B) the owner does not work in it, he has a manager who runs it for a salary of Rs 20,000/- a year. This salary will be shown as an expense, and as all the other expenses and revenue are the same except for this item, then instead of Rs 50,000/- net profit as shown in Business 'A' the business ' B ' will show a net profit of Rs. 30,000/-.

15 Therefore, net profit means net profit (before/after) charging for the services of the owner.

16 A balance sheet is a list of balances of the assets, liabilities and capital accounts as at a certain date. Therefore, the following Capital Account for the year ended 31st March 1999 would be :

Capital Account

Dr.		Cr.	
Drawings for 1998-99	18,500	Balance b/d from last year	57,890
Balance C/d 1999-2000	<u>64,230</u>	Net profit for the year 1998-99	<u>24,840</u>
	82,730		82,730

Theoretically the balance sheet could just show as at 31st March, 1999:

Capital - Rs.64,230/-

Now the owner may ask how you had calculated the figure of Rs 64,230. To save endless enquiries accountants show, in sole trader's balance sheets, exactly why the capital has changed. It would appear as:

Capital as at 1 April 1998	Rs	57,890	
Add: Net Profit for the year	Rs	<u>24,840</u>	
	Rs.	82,730	
Less: Drawings	Rs.	<u>18,500</u>	Rs. 64,230

17 So as to try to avoid minus quantities the profit is always added before the deduction of the drawings. With an opening balance of Rs 6,890/-, a net profit of Rs 27,990 and drawings of Rs 16930, it is easier to show :

Capital as at 1 April 1999	Rs	6,890	
Add: Net Profit for the year	Rs	<u>27,990</u>	
	Rs.	34,880	
Less: Drawings	Rs.	<u>16,930</u>	Rs 17,950

than it is to show :

Capital as at 1 April 1999	Rs	6,890
Less: Drawings	Rs	<u>16,930</u>

Rs.(-) 10,040

Add : Net profit Rs. 27,990 Rs 17,950

The reader would be (less/far more) likely to become confused with the top statement than with the bottom one.

18. We can now look at the Capital and Liabilities side of the Balance sheet of 'Z' Enterprises which would show capital first, then Long-term liabilities and then current liabilities.

'Z' Enterprises

Balance sheet as at 31st March 2000

Capital as at 1 April 1999 Rs 3,14,200

Add: Net Profit for the year Rs 52,500

Rs. 3,66,700

Less: Drawings Rs. 36,800 Rs 3,29,900

LONG TERM LIABILITY

Loan Rs. 20,000

CURRENT LIABILITY

Creditors Rs. 16,100

Deferred Revenue Rs. 5,000 Rs. 21,100

Rs. 3,71,000

### 12.1 EXERCISE NO. 10

- 1 Under the headings of FIXED ASSETS and CURRENT ASSETS list the following assets in the correct order.  
Debtors, Land and Buildings, Stock-in-Trade, cash in hand, machinery, fixtures and fittings, cash at bank, motor vehicles.
2. A Motor Lorry cost Rs 50,000 on the first April of 1997. The expected years of use is 6 & the estimated scrap value at the end of its use is Rs.2,000/-. Show the extracts from the Balance sheets at the end of the first year, second year and third year, using the Straight Line Method.
3. A machine cost Rs 40,000 on the first April 1997. Show the balance sheet extracts as at 31st March 1998, 1999 and 2000 (Depreciation percentage rate 20 %).Use WDV Method.
- 4 What is the technical name given to cash, or goods withdrawn from the business by the owner for his own private use ?
5. Show the capital account as it would appear (a) as an account and (b) as it would appear in the balance sheet as at 31st March, 2000 from the following details.

Net profit for the year ended 31st March 2000	Rs 43,900
Drawings for the year ended 31st March 2000	Rs 27,900
Balance on Capital a/c at 31st March 1999	Rs 1,56,000

- 6 From the following Trial Balance of 'H' extracted from his records at the end of his first year of trading, draft Trading and Profit and Loss Accounts for the year ended 31st March, 1999 and a Balance sheet as at the Date (i.e. 31st March 1999)

Trial Balance as at 31st March 1999

Sales	..		90,000
Purchases	..	69,000	
Rent	..	4,000	
Stationery	..	700	
Insurance	..	500	
Fixtures & Fittings	..	7,000	
Debtors	..	25,000	
Creditors	..		9,000
Cash at bank	..	11,000	
Drawings	..	10,200	
Outstanding Rent A/c			1,000
Capital (cash introduced on 1 April 1998)	..		27,400
		<b>1,27,400</b>	<b>1,27,400</b>

Notes :

- At 31st March 1999 there was Rs. 120 stationery still in hand.
- Rent was Rs. 1000 per quarter of a year. The property had been taken on rent since 1st April 1998. Only Rs. 3000 was paid in the year leaving Rs. 1000 owing on 31st March 1999.
- Rs. 100 of the insurance paid covered the period of 1999-2000.
- The goods still unsold at 31st March 1999 had cost the firm Rs. 7500/-.
- Depreciation on fixtures and fittings is to be provided at the rate of 10 % on w.d.v. method.

7. From the following Trial Balance of G as on 31st March 1999, drawn up a Trading and Profit & Loss Account for the year ended 31st March 1999 and a balance sheet as at that date.

Trial Balance as at 31st March 1999

Purchases	..	197,000	
Sales	..		2,95,000
Wages & Salaries	..	25,700	
Drawings	..	19,700	
Rent	..	2,800	
Lighting & Heating	..	1,100	
Motor Running Expenses	..	3,700	
Motor Van (bought 1 April 1997)	..	12,000	
Provision for depreciation of Motor Van ( does not include the Deprn. for 1998-99)			2,400
Fixtures (bought 1 April 97)		5,000	
Provision for Depreciation of fixtures(does not include the Deprn for 1998-99)			500
Debtors		54,000	
Creditors			12,900
Cash at Bank		48,700	
Cash in Hand		1,100	
Loan from C			7,000
Capital (Balance as brought forward from the year ended 31 March 1998)			53,000
		<b>3,70,800</b>	<b>3,70,800</b>

Notes : at 31 March 1999

- 1 Goods unsold had cost Rs 18,600/-
- 2 Rent for the months of December 1998, January, February & March, 1999 was outstanding at the rate of Rs 350/- per month.
- 3 The motor van is being depreciated as the rate of 20 per cent per annum using the Straight Line Method while the fixtures are being depreciated at the rate of 10 per cent per annum using the Reducing Balance Method.

## 12.2 Solution to Exercise 10

- [2]  $50,000 - 2,000 = 8,000$   
 $\frac{6}{100}$   
 I)  $50,000 - 8,000 = 42,000$   
 II)  $50,000 - 16,000 = 34,000$   
 III)  $50,000 - 24,000 = 26,000$
- [3]  $40,000 \times \frac{20}{100} = 8,000$   
 $\frac{(-)8,000}{32,000}$  31.3.98
- $32,000 \times \frac{20}{100} = 6,400$   
 $(-)6,400$   
 25,600  
 $40,000 - 14,400 = 25,600$  31.3.99
- $25,600 \times \frac{20}{100} = 5,120$   
 $(-)5,120$   
 20,480  
 $40,000 - 19,520 = 20,480$  31.3.2000

[4] Drawings

[5] (a)

Capital	
Drawings	27,900/-
To C/d	<u>1,72,000/-</u>
	<u>1,99,900/-</u>
Op Bal	1,56,000/-
Profit	<u>43,900/-</u>
	1,99,900/-
By B/d	1,72,000/-

(b)

Capital	
Opening Capital	1,56,000/-
Add: Profits	<u>43,900/-</u>
	1,99,900/-
Less: Drawings	<u>27,900/-</u>
	<u>1,72,000/-</u>

[6]

Trading A/c			
Purchase	69,000/-	Sales	90,000/-
To G.P. C/d	<u>28,500/-</u>	Closing Stock	<u>7,500/-</u>
	<u>97,500/-</u>		<u>97,500/-</u>

Profit & Loss A/c			
Rent	4,000/-	By Gross Profit B/d	28,500/-
Stationery	580/-		
Insurance	400/-		
Depreciation	700/-		
To Net Profit	<u>22,820/-</u>		
	<u>28,500/-</u>		<u>28,500/-</u>

Balance Sheet			
Capital	40,020/-	Fix	7,000
(27,400 + 22,820 - 10,200)		Less: Depreciation <u>700</u>	6,300/-
Creditor	9,000/-	Stock-in-trade	7,500/-
Outstanding rent	1,000/-	Prepaid Exp. [120+100]	220/-
		Debtors	25,000/-
		Cash at Bank	<u>11,000/-</u>
	<u>50,020/-</u>		<u>50,020/-</u>

[7]

Trading A/c			
Purchases	1,97,000/-	Sales	2,95,000/-
Wages & salaries	25,700/-	Closing Stock	18,600/-
Gross Profit	<u>90,900/-</u>		
	<u>3,13,600/-</u>		<u>3,13,600/-</u>

[7]

Profit & Loss A/c			
Rent	4,200/-	Gross Profit	90,900/-
Lighting	1,100/-		
Motor Exp.	3,700/-		
Dep. on Motor Van	2,400/-		
Dep. on fixture	450/-		
Net Profit	<u>79,050/-</u>		

<b><u>90,900/-</u></b>	<b><u>90,900/-</u></b>
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Capital A/c			
Drawing	19,700/-	Opening balance	53,000/-
Balance C/d	<u>1,12,350/-</u> <b><u>1,32,050/-</u></b>	Add: Profit	<u>79,050/-</u> <b><u>1,32,050/-</u></b>

Balance Sheet			
Capital	1,12,350/-	Motor Van (12000 - 4800)	7,200/-
Loan	7,000/-	Fixtures (5000 - 950)	4,050/-
Creditors	12,900/-	Stock-in-trade	18,600/-
Outstanding Rent	1,400/-	Debtors	54,000/-
		Cash in Bank	48,700/-
		Cash in hand	1,100/-
	<u>1,33,650/-</u>		<u>1,33,650/-</u>

**13 ACCOUNTANCY PRACTICE TEST PAPER -1**

Name of the Trainee: _____	Date of Examination _____
Office where posted: _____	Time allowed : 3 hours.
Signature of Trainee: _____	<b>Signature of Invigilator</b> _____

**Instructions.:**

1. Use of Books or any other written material is not allowed
2. Please tick mark (✓) the one correct answer out of the given four options (a) or (b) or (c) or (d).
3. The marking (✓) of more than one option will invalidate the answer for that question.

	Text in English	Text in Hindi
1	Who is creditor not owner of the company: a) Debenture holder b) Equity shareholder c) Preference shareholder d) Both b & c	
2.	Return on which security is paid irrespective of the profit: a) Debenture b) Equity share c) Preference share d) Both a & c	
3.	Profit on reissue of shares if transferred to : a) Shares forfeited a/c b) Share capital a/c c) Capital reserve a/c d) Securities a/c	
4.	Maximum discount on reissue of share originally issued at par or premium is : a) 10% b) Amount forfeited on such shares c) 10% or such higher rate as sanctioned by company law board d) None of these	
5.	Amount due but not received is known as :	

<p>6.</p> <p>7.</p> <p>8.</p> <p>9.</p> <p>10.</p> <p>11.</p> <p>12.</p>	<p>a) Calls in advance b) Calls in arrears c) Share capital d) Non of these</p> <p>Discount of issue of shares is adjusted along with : a) Application b) Allotment c) Call d) None of these</p> <p>If the number of shares subscribed are less than the issued it implies: a) Fully subscribed b) Under subscribed c) Over subscribed d) Non of these</p> <p>Minimum application money to be paid by applicant is : a) 5% of face value b) 25% of face value c) 25% of issue price d) 5% of issue price</p> <p>Minimum subscription to declare an issue of share successful is : a) 90% b) 95% c) 10% d) 5%</p> <p>Unless specifically mentioned, preference shares are : a) Redeemable b) Non cumulative c) Non participating d) All of above</p> <p>The portion of uncalled capital which can be called only on winding up of a company. a) Capital reserve b) Uncalled capital c) Reserve capital d) Non of these</p> <p>A company should follow which basis of accounting? a) Accrual b) Cash c) Mercantile d) Hybrid</p>	
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<p>13.</p> <p>14.</p> <p>15.</p> <p>16.</p> <p>17.</p> <p>18.</p> <p>19.</p>	<p>Minimum number of members to form a private company is :</p> <p>a) 2 b) 10 c) 50 d) Non of these</p> <p>How much %age of shares are to held by government in a government company :</p> <p>a) More than 50% b) More than 51% c) More than or equal to 51% d) Less than 50%</p> <p>A b &amp; c are partners if a retires , calculate new ratio:</p> <p>a) 2:1 b) 3:1 c) 3:2 d) 1:2</p> <p>When a partner retires his share of goodwill is :</p> <p>a) Cr to his a/c b) Dr to his a/c c) Either a or b d) Neither a or b</p> <p>When a partner dies his share of profit for the year of death is credited to :</p> <p>a) Profit &amp; loss appropriation a/c b) Profit &amp; loss suspense a/c c) Profit &amp; loss a/c d) Non of these</p> <p>If A &amp; B are partners sharing profits in the ratio of 3:1. C comes with 1/8<sup>th</sup> of the profit. Sacrificing ratio will be :</p> <p>a) 5:4 b) 7:1 c) 3:2 d) 3:1</p> <p>Revaluation of assets to present value is violation of which concept:</p> <p>a) Consistency b) Going concern c) Cost d) Matching</p>	
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<p>20.</p>	<p>In absence of agreement to contrary : interest on loan taken from the firm will be:                  a) At market rate                  b) 6% pa                  c) Nil                  d) Neither of above</p>	
<p>21.</p>	<p>Relation of partner is that of :                  a) Co-owners                  b) Agents                  c) Both a &amp; b                  d) Non of these</p>	
<p>22.</p>	<p>In absence of agreement between partners are entitled to :                  a) Salary                  b) Commission                  c) Interest on capital                  d) Non of the above</p>	
<p>23.</p>	<p>If drawings are made at the beginning of each month then interest will be calculated for :                  a) 6 months                  b) 5.5 month                  c) 6.5 months                  d) 13 months</p>	
<p>24.</p>	<p>Capital account of partners can be:                  a) Fixed                  b) Fluctuating                  c) Either a or b                  d) None of these</p>	
<p>25.</p>	<p>Which of the following Is not appropriation of profit:                  a) Interest on capital                  b) Interest on loan                  c) Salary                  d) Commission</p>	
<p>26.</p>	<p>A bill of exchange before its acceptance is also called:                  a) Promissory note                  b) Cheque                  c) Draft                  d) Acceptance</p>	
<p>27.</p>	<p>Journal entry to record salaries will include:                  a) Dr. Salaries : Cr. Cash                  b) Dr. capital : Cr. cash</p>	

	<p>c) Dr. cash : credit salary d) Dr. Salary, credit purchases</p>	
28.	<p>The maker of bill of exchange is called: a) Drawer b) Drawee c) Third person d) None of these</p>	
29.	<p>Which of the following is not a public holiday? a) 26<sup>th</sup> January b) 15<sup>th</sup> August c) 30<sup>th</sup> April d) 30<sup>th</sup> September</p>	
30.	<p>If due date of bill falls on public holiday then bill is payable on : a) Next day from the due date b) Preceding day from due date c) Three days after due date d) Three days before due date</p>	
31.	<p>Notary charges are paid by : a) Drawer b) Holder c) Acceptor d) Both a &amp; b</p>	
32.	<p>Bill of exchange can be : a) Endorsed b) Held till maturity c) Discounted d) All of these</p>	
33.	<p>When a discounted B/R is dishonoured, which of the following accounts will be debited: a) Drawee b) Bank c) Bills receivable d) Drawer</p>	
34.	<p>If any co venturer is to be given commission which a/c will be debited: a) Joint bank b) Joint venture c) Co-venturer d) Non of these</p>	
35.	<p>Good purchased for joint venture is debited to : a) Purchases a/c b) Venture`s personal a/c c) Joint venture a/c d) Non of these</p>	

36.	Which a/out of following prepared a memoranda: a) Joint bank b) Joint venture c) Memorandum joint venture a/c d) Co-venturer a/c	
37.	Which of the following is a financial statement? a) Cash book b) Purchase book c) Ledger d) Balance sheet	
38.	Which of the following is direct expense? a) Advertisement b) Carriage outward c) Office rent d) None of above	
39.	Balance sheet determines: a) Operating efficiency b) Profitability c) Liquidity & solvency d) Both a & b	
40.	Bank overdraft is : a) Non current liability b) Current liability c) Capital d) Contingent liability	
41.	General reserve is : a) Outsider`s liability b) Owner`s fund c) Current liability d) None of above	
42.	Interest on capital will be shown on : a) Debit side of capital a/c b) Debit side of trading a/c c) Credit side of profit & loss a/c d) Debit side of profit & loss a/c	
43.	Which of the following is yet to be received: a) Accrued income b) Income received in advance c) Both a & b d) Neither a nor b	
44.	If provision for depreciation is not	

45.	<p>given in trial balance, it implies that asset account is appearing in trial balance at:</p> <ul style="list-style-type: none"> <li>a) WDU</li> <li>b) SLM</li> <li>c) Gross value</li> <li>d) Purchase value</li> </ul>	
46.	<p>What will be interest on drawing if Rs.1000 pm is withdrawn at the beginning of each month , interest rate 10%:</p> <ul style="list-style-type: none"> <li>a) 600</li> <li>b) 650</li> <li>c) 550</li> <li>d) 700</li> </ul>	
47.	<p>Goods withdrawn by proprietor for personal use , will be:</p> <ul style="list-style-type: none"> <li>a) Added to purchases</li> <li>b) Will be added to capital</li> <li>c) Both statements are correct</li> <li>d) Both statements are incorrect</li> </ul>	
48.	<p>Calculate general manager`s commission @ 10% on net profit if profit before charging commission are 11000:</p> <ul style="list-style-type: none"> <li>a) 1050</li> <li>b) 1000</li> <li>c) 1100</li> <li>d) None the these</li> </ul>	
49.	<p>Obsolescence mean the process of becoming :</p> <ul style="list-style-type: none"> <li>a) Out of date</li> <li>b) Termination of the use of an asset</li> <li>c) Non the above</li> <li>d) Asset is scrapped</li> </ul>	
50.	<p>When provision for depreciation is not maintained, depreciation is :</p> <ul style="list-style-type: none"> <li>a) Credited to asset a/c</li> <li>b) Debited to the asset a/c</li> <li>c) None the above</li> <li>d) Debited to profit &amp; loss a/c</li> </ul>	
51.	<p>Depreciation on office building is transferred to :</p> <ul style="list-style-type: none"> <li>a) Trading a/c</li> <li>b) Manufacturing a/c</li> <li>c) Profit &amp; loss a/c</li> <li>d) Balance sheet</li> </ul>	
	<p>The word amortization relates to :</p>	

52.	<p>a) Goodwill b) Plant &amp; machinery c) Land d) Vehicles</p> <p>Which of the following are depreciable asset:</p> <p>a) Antique b) Gold c) Motor vehicle d) Land</p>	
53.	<p>Depreciation a/c Is in the nature of :</p> <p>a) Real b) Nominal c) Personal d) Non of the above</p>	
54.	<p>Which method is fully recognized by income tax department:</p> <p>a) Revaluation method b) Fixed installment c) Insurance policy method d) Diminishing balance method</p>	
55.	<p>The term depletion is used in relation to:</p> <p>a) Fixed assets b) Current assets c) Wasting assets d) Intangible assets</p>	
56.	<p>Find closing stock if sales is Rs.300000;gross profit is 20%;cost of goods available for sales is Rs.280000:</p> <p>a) 40000 b) 80000 c) 120000 d) None the above</p>	
57.	<p>Which equation best describes cost of goods sold:</p> <p>a) Op stock +purchases+ direct expenses – closing stock b) Net sales – gross profit c) Op stock + net purchases + direct expenses – closing stock d) Both b &amp; c</p>	
58.	<p>Which of the following errors will affect trial balance?</p> <p>a) Error of principle</p>	

59.	b) Compensating error c) Error of omission d) None of these	
60.	Difference in trial balance is posted to : a) Miscellaneous expenses a/c b) Rebate a/c c) Sundry charges a/c d) Suspense a/c	
61.	Which accounting standard relates to prior period items? a) AS-1 b) AS-5 c) AS-6 d) AS-10	
62.	The total of sales book has been under cast by Rs.100. because of this error> a) Profit are overstated by Rs.100 b) Profits are understated by Rs.100 c) Assets will be understated by Rs.100 d) Both b & c	
63.	Received one bill from X Rs.500, passed through bills payable book, because of this error: a) Assets are overstated by Rs.1000 b) Assets are understated by Rs.1000 c) Neither a nor b d) Both a & b	
64.	Paid wages for construction of a room, debited to wages account Rs.890. Because of error: a) Profit are overstated by Rs.890 b) Assets are understated by Rs.890 c) Both a or b d) Neither a no b	
65.	Mark out kind or error that a trial balance can help detect: a) Wrong amount entered in the book of original entry b) Wrong amount entered in a ledger account	

	<p>c) Complete omission of an entry from the journal d) All of above</p>	
66.	<p>Which column of triple column cash book is not balanced? a) Cash b) Bank c) Discount d) None of above</p>	
67.	<p>Cash sale will be recorded in : a) Cash book b) Sales book c) Journal proper d) None of above</p>	
68.	<p>Credit note no columns will appear in : a) Sale return book b) Purchase return book c) Cash book d) Sales book</p>	
69.	<p>Sales book is part of : a) Journal b) Balance sheet c) Ledger d) None of above</p>	
70.	<p>Bad debt is which type of a/c a) Real b) Nominal c) personal d) valuation a/c</p>	
71.	<p>What comes first of the following? a) Preparation of voucher b) Journal entry c) Posting d) Balancing</p>	
72.	<p>Sohan Lal is a : a) Natural person a/c b) Artificial person a/c c) Representative person a/c d) None of these</p>	
73.	<p>Rule of accounting in case of nominal account is : a) Debit the receiver credit the giver b) Debit what comes in credit what goes out c) Debit all losses &amp; expenses and credit all incomes &amp; gains</p>	

	d) None of these	
74.	For the credit purchase which account will be credited: a) Purchase b) Creditor c) Cash d) Capital a/c	
75.	Nikhil the proprietor transfers his own care into his business, which account will be credited? a) Cash a/c b) Nikhil a/c c) Capital a/c d) Car a/c	
76.	Wages paid for erection of machinery are debited to : a) Profit & loss a/c b) Trading account c) Manufacturing account d) None of these	
77,	Heavy advertisement to introduce a new product is: a) Capital expenditure b) Revenue expenditure c) Deferred revenue expenditure d) None of the above	
78.	Which of the following is not a capital expenditure? a) Cost of issuing shares & debenture b) Wages paid for construction of new office c) Purchase of a new spark plug for office car. d) Repair on a secondhand vehicle newly purchased.	
79.	Which of the following is of revenue in nature? a) Cost of acquiring land b) Cost of painting an old building c) Purchase of freehold land d) Cost of extension of factory building	
80.	Security premium is a : a) Capital receipt b) Revenue receipt c) Both a & b d) Non of the above	

81.	Charging of capital expenditure to revenue results in : a) Capital reserve b) Secret reserve c) Revenue reserve d) Non of the above	
82.	Extension of railway track in factory is: a) Capital expenditure b) Revenue expenditure c) Deferred revenue expenditure d) None of the above	
83.	Another name for convention of conservatism is : a) Accrual b) Consistency c) Prudence d) Materiality	
84.	When stock is recorded in books at year end which concept is followed? a) Conservatism b) Cost c) Full disclosure d) Materiality	
85.	Window dressing is prohibited by the : a) Accrual concept b) Convention of materiality c) Convention of disclosure d) Convention of conservatism	
86.	Qualitative transaction are not recorded in accounts due to the concept: a) Realization b) Accrual c) Dual d) Money measurement	
87.	According to going concern concept: Business has a/an: a) Limited life b) Indefinite life c) Very long life d) Life in foreseeable future	
88.	Making provision for doubtful debts is based on the convention of : a) Consistency b) Disclosure	

	<p>c) Materiality d) Conservatism</p>	
89.	<p>A member of the joint venture is known as :</p> <p>a) Partner b) Member c) Shareholder d) Co-venturer</p>	
90.	<p>Which liability is not included in the balance sheet?</p> <p>a) Current b) Contingent c) Fixed d) All of above</p>	
91.	<p>Accounting standard are :</p> <p>a) Basis for selection of accounting policy b) Basis for establishing and managing entity c) Set of broad accounting policies to be followed by an entity d) All of above</p>	
92.	<p>Loss on issue of debenture is treated as:</p> <p>a) Miscellaneous expenditure b) Current assets c) Intangible assets d) Current liabilities</p>	
93.	<p>Which of the following a/c normally has credit balance?</p> <p>a) Drawing b) Capital c) Cash d) Premises</p>	
94.	<p>If debt become bad , the amount should be debited to :</p> <p>a) Debtor's a/c b) Bad debts a/c c) Sales account d) Commission a/c</p>	
95,	<p>Find the correct statement:</p> <p>a) Credit a decrease in asses b) Credit the increase in expenses c) Debit the increase in revenue d) Credit the increase in capital</p>	
96.		

	<p>Accounting enables the management in:</p> <ol style="list-style-type: none"> <li>Planning</li> <li>Control</li> <li>Decision making</li> <li>All of the above</li> </ol> <p>97. The policy of anticipate no profit and provide for all the possible losses arises due to convention of :</p> <ol style="list-style-type: none"> <li>Consistency</li> <li>Disclosure</li> <li>Conservatism</li> <li>Matching</li> </ol> <p>98. Which of the following is recorded in the books of accounts?</p> <ol style="list-style-type: none"> <li>Cash discount</li> <li>Rebate</li> <li>Allowance</li> <li>Trade discount</li> </ol> <p>99. Journal entry to record salaries will include:</p> <ol style="list-style-type: none"> <li>Dr. salaries a/c, Cr. Cash a/c</li> <li>Dr. capital a/c , Cr. Cash a/c</li> <li>Dr. cash a/c, Cr. Salary a/c</li> <li>Debit Salary, Cr. Creditors a/c</li> </ol> <p>100. Which factors to be considered to find out annual depreciation under straight line method :</p> <ol style="list-style-type: none"> <li>Cost of asset</li> <li>Life in years</li> <li>Residual value</li> <li>All of above</li> </ol> <p>Provision for outstanding expense is :</p> <ol style="list-style-type: none"> <li>Non current liability</li> <li>Current liability</li> <li>Capital</li> <li>Contingent liability</li> </ol>	
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### 13.1 ANSWERS To ACCOUNTANCY PRACTICE TEST\_1

1	D	31	C	61	D	91	A
2	A	32	D	62	C	92	B
3	C	33	A	63	B	93	B
4	B	34	B	64	B	94	A
5	B	35	C	65	C	95	D
6	B	36	C	66	A	96	C
7	B	37	D	67	A	97	D
8	A	38	D	68	A	98	A
9	A	39	C	69	B	99	D
10	C	40	B	70	A	100	B
11	C	41	B	71	A		
12	A	42	D	72	C		
13	A	43	A	73	B		
14	C	44	A	74	C		
15	A	45	B	75	A		
16	A	46	D	76	C		
17	B	47	C	77	C		
18	D	48	A	78	B		
19	C	49	A	79	A		
20	B	50	C	80	B		
21	B	51	A	81	A		
22	D	52	C	82	C		
23	C	53	B	83	C		
24	C	54	D	84	C		
25	B	55	C	85	D		
26	C	56	D	86	D		
27	A	57	D	87	D		
28	A	58	D	88	D		
29	C	59	C	89	B		
30	B	60	B	90	D		

## 14 ACCOUNTANCY PRACTICE TEST PAPER -2

Name of the Trainee: _____	Date of Examination _____
Office where posted: _____	Time allowed : 3 hours.
Signature of Trainee: _____	<b>Signature of Invigilator</b> _____

**Instructions.:**

4. Use of Books or any other written material is not allowed
5. Please tick mark (√) the one correct answer out of the given four options (a) or (b) or (c) or (d).
6. The marking (√) of more than one option will invalidate the answer for that question.

<b>Q. No.</b>	<b>Questions with four options for answers</b>
1	Who is creditor not owner of the company: e) Debenture holder f) Equity shareholder g) Preference shareholder h) Both b & c
2.	Return on which security is paid irrespective of the profit: e) Debenture f) Equity share g) Preference share h) Both a & c
3.	Profit on reissue of shares if transferred to : e) Shares forfeited a/c f) Share capital a/c g) Capital reserve a/c h) Securities a/c
4.	Maximum discount on reissue of share originally issued at par or premium is : e) 10% f) Amount forfeited on such shares g) 10% or such higher rate as sanctioned by company law board h) None of these
5.	Amount due but not received is known as : e) Calls in advance f) Calls in arrears g) Share capital h) Non of these

6.	Discount of issue of shares is adjusted along with : e) Application f) Allotment g) Call h) None of these
7.	If the number of shares subscribed are less than the issued it implies: e) Fully subscribed f) Under subscribed g) Over subscribed h) Non of these
8.	Minimum application money to be paid by applicant is : e) 5% of face value f) 25% of face value g) 25% of issue price h) 5% of issue price
9.	Minimum subscription to declare an issue of share successful is : e) 90% f) 95% g) 10% h) 5%
10.	Unless specifically mentioned, preference shares are : e) Redeemable f) Non cumulative g) Non participating h) All of above
11.	The portion of uncalled capital which can be called only on winding up of a company. e) Capital reserve f) Uncalled capital g) Reserve capital h) Non of these
12.	A company should follow which basis of accounting? e) Accrual f) Cash g) Mercantile h) Hybrid
13.	Minimum number of members to form a private company is : e) 2 f) 10 g) 50 h) Non of these
14.	How much %age of shares are to held by government in a government company : e) More than 50% f) More than 51% g) More than or equal to 51% h) Less than 50%
15.	A b & c are partners with ratio of shares at 3:2:1, If a retires , calculate new ratio:

	<p>e) 2:1 f) 3:1 g) 3:2 h) 1:2</p>
16.	<p>When a partner retires his share of goodwill is : e) Cr to his a/c f) Dr to his a/c g) Either a or b h) Neither a or b</p>
17.	<p>When a partner dies his share of profit for the year of death is credited to : e) Profit &amp; loss appropriation a/c f) Profit &amp; loss suspense a/c g) Profit &amp; loss a/c h) Non of these</p>
18.	<p>If A &amp; B are partners sharing profits in the ratio of 3:1. C comes with <math>\frac{1}{8}</math><sup>th</sup> of the profit. Sacrificing ratio will be : e) 5:4 f) 7:1 g) 3:2 h) 3:1</p>
19.	<p>Revaluation of assets to present value is violation of which concept: e) Consistency f) Going concern g) Cost h) Matching</p>
20.	<p>In absence of agreement to contrary : interest on loan taken from the firm will be: e) At market rate f) 6% pa g) Nil h) Neither of above</p>
21.	<p>Relation of partner is that of : e) Co-owners f) Agents g) Both a &amp; b h) Non of these</p>
22.	<p>In absence of agreement between partners are entitled to : e) Salary f) Commission g) Interest on capital h) Non of the above</p>
23.	<p>If drawings are made at the beginning of each month then interest will be calculated for : e) 6 months f) 5.5 month g) 6.5 months h) 13 months</p>
24.	<p>Capital account of partners can be: e) Fixed</p>

	<p>f) Fluctuating g) Either a or b h) None of these</p> <p>25. Which of the following is not appropriation of profit: e) Interest on capital f) Interest on loan g) Salary h) Commission</p> <p>26. A bill of exchange before its acceptance is also called: e) Promissory note f) Cheque g) Draft h) Acceptance</p> <p>27. Journal entry to record salaries will include: e) Dr. Salaries : Cr. Cash f) Dr. capital : Cr. cash g) Dr. cash : credit salary h) Dr. Salary, credit purchases</p> <p>28. The maker of bill of exchange is called: e) Drawer f) Drawee g) Third person h) None of these</p> <p>29. Which of the following is not a public holiday? e) 26<sup>th</sup> January f) 15<sup>th</sup> August g) 30<sup>th</sup> April h) 30<sup>th</sup> September</p> <p>30. If due date of bill falls on public holiday then bill is payable on : e) Next day from the due date f) Preceding day from due date g) Three days after due date h) Three days before due date</p> <p>31. Notary charges are paid by : e) Drawer f) Holder g) Acceptor h) Both a &amp; b</p> <p>32. Bill of exchange can be : e) Endorsed f) Held till maturity g) Discounted h) All of these</p> <p>33. When a discounted B/R is dishonoured, which of the following accounts will be debited: e) Drawee f) Bank g) Bills receivable</p>
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	h) Drawer
34.	If any co venturer is to be given commission which a/c will be debited: e) Joint bank f) Joint venture g) Co-venturer h) Non of these
35.	Good purchased for joint venture is debited to : e) Purchases a/c f) Venture`s personal a/c g) Joint venture a/c h) Non of these
36.	Which a/out of following prepared a memoranda: e) Joint bank f) Joint venture g) Memorandum joint venture a/c h) Co-venturer a/c
37.	Which of the following is a financial statement? e) Cash book f) Purchase book g) Ledger h) Balance sheet
38.	Which of the following is direct expense? e) Advertisement f) Carriage outward g) Office rent h) None of above
39.	Balance sheet determines: e) Operating efficiency f) Profitability g) Liquidity & solvency h) Both a & b
40.	Bank overdraft is : e) Non current liability f) Current liability g) Capital h) Contingent liability
41.	General reserve is : e) Outsider`s liability f) Owner`s fund g) Current liability h) None of above
42.	Interest on capital will be shown on : e) Debit side of capital a/c f) Debit side of trading a/c g) Credit side of profit & loss a/c h) Debit side of profit & loss a/c
43.	Which of the following is yet to be received:

	<p>e) Accrued income                  f) Income received in advance                  g) Both a &amp; b                  h) Neither a nor b</p>
44.	<p>If provision for depreciation is not given in trial balance, it implies that asset account is appearing in trial balance at:                  e) WDU                  f) SLM                  g) Gross value                  h) Purchase value</p>
45.	<p>What will be interest on drawing if Rs.1000 pm is withdrawn at the beginning of each month , interest rate 10%:                  e) 600                  f) 650                  g) 550                  h) 700</p>
46.	<p>Goods withdrawn by proprietor for personal use , will be:                  e) Added to purchases                  f) Will be added to capital                  g) Both statements are correct                  h) Both statements are incorrect</p>
47.	<p>Calculate general manager`s commission @ 10% on net profit if profit before charging commission are 11000:                  e) 1050                  f) 1000                  g) 1100                  h) None the these</p>
48.	<p>Obsolescence mean the process of becoming :                  e) Out of date                  f) Termination of the use of an asset                  g) Non the above                  h) Asset is scrapped</p>
49.	<p>When provision for depreciation is not maintained, depreciation is :                  e) Credited to asset a/c                  f) Debited to the asset a/c                  g) None the above                  h) Debited to profit &amp; loss a/c</p>
50.	<p>Depreciation on office building is transferred to :                  e) Trading a/c                  f) Manufacturing a/c                  g) Profit &amp; loss a/c                  h) Balance sheet</p>
51.	<p>The word amortization relates to :                  e) Goodwill                  f) Plant &amp; machinery                  g) Land                  h) Vehicles</p>

52.	<p>Which of the following are depreciable asset:</p> <ul style="list-style-type: none"> <li>e) Antique</li> <li>f) Gold</li> <li>g) Motor vehicle</li> <li>h) Land</li> </ul>
53.	<p>Depreciation a/c Is in the nature of :</p> <ul style="list-style-type: none"> <li>e) Real</li> <li>f) Nominal</li> <li>g) Personal</li> <li>h) Non of the above</li> </ul>
54.	<p>Which method is fully recognized by income tax department:</p> <ul style="list-style-type: none"> <li>e) Revaluation method</li> <li>f) Fixed installment</li> <li>g) Insurance policy method</li> <li>h) Diminishing balance method</li> </ul>
55.	<p>The term depletion is used in relation to:</p> <ul style="list-style-type: none"> <li>e) Fixed assets</li> <li>f) Current assets</li> <li>g) Wasting assets</li> <li>h) Intangible assets</li> </ul>
56.	<p>Find closing stock if sales is Rs.300000;gross profit is 20%;cost of goods available for sales is Rs.280000:</p> <ul style="list-style-type: none"> <li>e) 40000</li> <li>f) 80000</li> <li>g) 120000</li> <li>h) None the above</li> </ul>
57.	<p>Which equation best describes cost of goods sold:</p> <ul style="list-style-type: none"> <li>e) Op stock +purchases+ direct expenses – closing stock</li> <li>f) Net sales – gross profit</li> <li>g) Op stock + net purchases + direct expenses – closing stock</li> <li>h) Both b &amp; c</li> </ul>
58.	<p>Which of the following errors will affect trial balance?</p> <ul style="list-style-type: none"> <li>e) Error of principle</li> <li>f) Compensating error</li> <li>g) Error of omission</li> <li>h) None of these</li> </ul>
59.	<p>Difference in trial balance is posted to :</p> <ul style="list-style-type: none"> <li>e) Miscellaneous expenses a/c</li> <li>f) Rebate a/c</li> <li>g) Sundry charges a/c</li> <li>h) Suspense a/c</li> </ul>
60.	<p>Which accounting standard relates to prior period items?</p> <ul style="list-style-type: none"> <li>e) AS-1</li> <li>f) AS-5</li> <li>g) AS-6</li> <li>h) AS-10</li> </ul>

61.	<p>The total of sales book has been under cast by Rs.100. because of this error&gt;</p> <p>e) Profit are overstated by Rs.100                  f) Profits are understated by Rs.100                  g) Assets will be understated by Rs.100                  h) Both b &amp; c</p>
62.	<p>Received one bill from X Rs.500, passed through bills payable book, because of this error:</p> <p>e) Assets are overstated by Rs.1000                  f) Assets are understated by Rs.1000                  g) Neither a nor b                  h) Both a &amp; b</p>
63.	<p>Paid wages for construction of a room, debited to wages account Rs.890. Because of error:</p> <p>e) Profit are overstated by Rs.890                  f) Assets are understated by Rs.890                  g) Both a or b                  h) Neither a no b</p>
64.	<p>Mark out kind or error that a trial balance can help detect:</p> <p>e) Wrong amount entered in the book of original entry                  f) Wrong amount entered in a ledger account                  g) Complete omission of an entry from the journal                  h) All of above</p>
65.	<p>Which column of triple column cash book is not balanced?</p> <p>e) Cash                  f) Bank                  g) Discount                  h) None of above</p>
66.	<p>Cash sale will be recorded in :</p> <p>e) Cash book                  f) Sales book                  g) Journal proper                  h) None of above</p>
67.	<p>Credit note no columns will appear in :</p> <p>e) Sale return book                  f) Purchase return book                  g) Cash book                  h) Sales book</p>
68.	<p>Sales book is part of :</p> <p>e) Journal                  f) Balance sheet                  g) Ledger                  h) None of above</p>
69.	<p>Bad debt is which type of a/c</p> <p>e) Real                  f) Nominal                  g) personal                  h) valuation a/c</p>

70.	<p>What comes first of the following?</p> <p>e) Preparation of voucher f) Journal entry g) Posting h) Balancing</p>
71.	<p>Sohan Lal is a :</p> <p>e) Natural person a/c f) Artificial person a/c g) Representative person a/c h) None of these</p>
72.	<p>Rule of accounting in case of nominal account is :</p> <p>e) Debit the receiver credit the giver f) Debit what comes in credit what goes out g) Debit all losses &amp; expenses and credit all incomes &amp; gains h) None of these</p>
73.	<p>For the credit purchase which account will be credited:</p> <p>e) Purchase f) Creditor g) Cash h) Capital a/c</p>
74.	<p>Nikhil the proprietor transfers his own car into his business, which account will be credited?</p> <p>e) Cash a/c f) Nikhil a/c g) Capital a/c h) Car a/c</p>
75.	<p>Wages paid for erection of machinery are debited to :</p> <p>e) Profit &amp; loss a/c f) Trading account g) Manufacturing account h) None of these</p>
76.	<p>Heavy advertisement to introduce a new product is:</p> <p>e) Capital expenditure f) Revenue expenditure g) Deferred revenue expenditure h) None of the above</p>
77.	<p>Which of the following is not a capital expenditure?</p> <p>e) Cost of issuing shares &amp; debenture f) Wages paid for construction of new office g) Purchase of a new spark plug for office car. h) Repair on a secondhand vehicle newly purchased.</p>
78.	<p>Which of the following is of revenue in nature?</p> <p>e) Cost of acquiring land f) Cost of painting an old building g) Purchase of freehold land h) Cost of extension of factory building</p>
79.	<p>Security premium is a :</p> <p>e) Capital receipt f) Revenue receipt g) Both a &amp; b</p>

	h) Non of the above
80.	Charging of capital expenditure to revenue results in : e) Capital reserve f) Secret reserve g) Revenue reserve h) Non of the above
81.	Extension of railway track in factory is: e) Capital expenditure f) Revenue expenditure g) Deferred revenue expenditure h) None of the above
82.	Another name for convention of conservation is : e) Accrual f) Consistency g) Prudence h) Materiality
83.	When stock is recorded in books at year end which concept is followed? e) Conservatism f) Cost g) Full disclosure h) Materiality
84.	Window dressing is prohibited by the : e) Accrual concept f) Convention of materiality g) Convention of disclosure h) Convention of conservatism
85.	Qualitative transaction are not recoded in accounts due to the concept: e) Realization f) Accrual g) Dual h) Money measurement
86.	According to going concern concept: Business has a/an: e) Limited life f) Indefinite life g) Very long life h) Life in foreseeable future
87.	Making provision for doubtful debts is based on the convention of : e) Consistency f) Disclosure g) Materiality h) Conservatism
88.	A member of the joint venture is known as : e) Partner f) Member g) Shareholder h) Co-venturer

89.	Which liability is not included in the balance sheet? e) Current f) Contingent g) Fixed h) All of above
90.	Accounting standard are : e) Basis for selection of accounting policy f) Basis for establishing and managing entity g) Set of broad accounting policies to be followed by an entity h) All of above
91.	Loss on issue of debenture is treated as: e) Miscellaneous expenditure f) Current assets g) Intangible assets h) Current liabilities
92.	Which of the following a/c normally has credit balance? e) Drawing f) Capital g) Cash h) Premises
93.	If debt become bad , the amount should be debited to : e) Debtor`s a/c f) Bad debts a/c g) Sales account h) Commission a/c
94.	Find the correct statement: e) Credit a decrease in asses f) Credit the increase in expenses g) Debit the increase in revenue h) Credit the increase in capital
95,	Accounting enables the management in: e) Planning f) Control g) Decision making h) All of the above
96.	The policy of anticipate no profit and provide for all the possible losses arises due to convention of : e) Consistency f) Disclosure g) Conservatism h) Matching
97.	Which of the following is recorded in the books of accounts? e) Cash discount f) Rebate g) Allowance h) Trade discount

98.	Journal entry to record salaries will include: e) Dr. salaries a/c, Cr. Cash a/c f) Dr. capital a/c , Cr. Cash a/c g) Dr. cash a/c, Cr. Salary a/c h) Debit Salary, Cr. Creditors a/c
99.	Which factors to be considered to find out annual depreciation under straight line method : e) Cost of asset f) Life in years g) Residual value h) All of above
100.	Provision for outstanding expense is : e) Non current liability f) Current liability g) Capital h) Contingent liability

**14.1 Answers to Practice Test -2**

1	D	31	C	61	D	91	A
2	A	32	D	62	C	92	B
3	C	33	A	63	B	93	B
4	B	34	B	64	B	94	A
5	B	35	C	65	C	95	D
6	B	36	C	66	A	96	C
7	B	37	D	67	A	97	D
8	A	38	D	68	A	98	A
9	A	39	C	69	B	99	D
10	C	40	B	70	A	100	B
11	C	41	B	71	A		
12	A	42	D	72	C		
13	A	43	A	73	B		
14	C	44	A	74	C		
15	A	45	B	75	A		
16	A	46	D	76	C		
17	B	47	C	77	C		
18	D	48	A	78	B		
19	C	49	A	79	A		
20	B	50	C	80	B		
21	B	51	A	81	A		
22	D	52	C	82	C		
23	C	53	B	83	C		
24	C	54	D	84	C		
25	B	55	C	85	D		
26	C	56	D	86	D		
27	A	57	D	87	D		
28	A	58	D	88	D		
29	C	59	C	89	B		
30	A	60	B	90	D		

## 15 WORKSHOP ON INCOME-TAX LAW-1

Q.No.1 Which of the following has been defined in Section 2(24) of the Income-tax Act, 1961-

- (a) Person
- (b) Charitable purpose
- (c) Income
- (d) Total income

Q.No.2 Which statement is false with reference to agricultural income of a resident of India-

- (a) Agricultural income from land situated in India is taxable
- (b) Agricultural income from land situated in Pakistan is taxable
- (c) Agricultural income from land situated in India is not taxable
- (d) Rent received from land used for residential purposes is taxable

Q.3. A Central Govt. employee receives salary of Rs.500000/- during the year 2009-10 including House Rent Allowance of Rs.12000/-. He pays rent of Rs.42000/- in respect of house taken on rent. Which of the following amount will be exempt under section 10(13A) of the Act-

- (a) Rs.12000/-
- (b) Rs.42000/-
- (c) Rs.6000/-
- (d) None of the above

Q.4 An assessee has repaired his self occupied house during F.Y. 2009-10 after taking loan from bank and paid interest of Rs.200000/- during the year 2009-10. Which of the following amount will be deductible from his income-

- (a) Rs.200000/-
- (b) Rs.150000/-
- (c) Rs.30000/-
- (d) None of the above

Q.5 Which of the following is not included in the income from salary –

- (a) Pension
- (b) salary to director who is also an employee of the Company
- (c) salary from a firm to an employee
- (d) Family pension

Q.6 Appeal against the order of the ITAT is required to be filed within-

- (a) 60 days of receipt of order by ITO
- (b) 120 days of receipt of order by CIT
- (c) 120 days from the date of order of ITAT
- (d) 60 days from receipt of order by CIT

Q.7 Income-tax on interest payment to resident individual is deducted by the bank @ 10% plus Surcharge if applicable under section 194A of the Act. Where this rate of 10% and surcharge is given

- (a) Section 194A
- (b) Part-II of First Schedule of Finance Act of relevant year
- (c) Section 4 of the Act
- (d) First Schedule of the Income-tax Act

Q.8 An assessee has deducted tax at source from contract payment in the month of March and claimed such payment as expenditure, but deposited the TDS so deducted on 31<sup>st</sup> may of next year. Which statement is true with reference to the consequences-

- (a) Whole amount of the expenditure will be disallowable
- (b) Penalty under section 271C will be leviable
- (c) Interest u/s 201(1A) will be chargeable
- (d) Prosecution u/s 276B

Q.9 Which of the following statement is true with reference to the processing of return for A.Y. 2010-11 under section 143(1)-

- (a) A return can not be processed after the expiry of one year from the end of the relevant Assessment year
- (b) No adjustment can be made to the returned income or loss
- (c) Only arithmetical error in the return can be adjusted
- (d) A return can be processed within one year from the end of the financial year in which return has been filed.

Q.10. An assessee has not furnished his return of income within time prescribed under section 139(1) of the Act. Still he can claim benefit of carried forward of loss under one head. Which is that head of income-

- (a) Loss from business or profession
- (b) loss from house property
- (c) capital loss
- (b) loss from speculation business

Q.11 A return of income for a particular Assessment year filed after which of the following dates will be considered as filed out of time-

- (a) After due dates as per section 139(1)
- (b) After the end of the relevant assessment year
- (c) After the expiry of one year from the end of the relevant Assessment year
- (d) After nine months from the end of the relevant Assessment year

Q.12. Which statement is not true with reference to set off of losses during the same year-

- (a) Business loss can be set off against capital gain
- (b) Long-term capital gain can not be set off against the short-term capital loss
- (c) Short-term capital loss can be set off against income from house property
- (d) Loss from house property can be set off against salary income.

Q.13. Which Chapter of the Income-tax Act deals with the deductions from gross total income-

- (a) Chapter IV
- (b) Chapter VIA
- (c) Chapter VI
- (d) Chapter XVII

Q.14 Which of the following falls under the definition of "work" for the purpose of TDS-

- (a) Advertising
- (b) carriage of goods
- (c) manufacturing or supplying a product to the customer by using material from third person
- (d) Annual maintenance contract

Q15. Which is false statement with reference to time limits for furnishing TDS certificates-

- (a) TDS certificate shall be furnished within one month from the end of the month in which payment is made
- (b) TDS certificate shall be issued within 14 days from the end of the month in which deduction is made
- (c) In respect of salary, TDS certificate shall be issued by 30<sup>th</sup> April of the following year
- (d) A consolidated certificate can be issued as per request of the payee within one month from the end of the financial year

Q16. An employee of a company has been provided rent free unfurnished accommodation in a city having population of 10 lacs as per 2001 census. What %age of the salary will be perquisite in the hands of the employee\_

- (a) 10%
- (b) 15%
- (c) 7.5%
- (d) None of the above

Q.17. A charitable trust created after 1-06-2007 can apply for registration under section 12AA

- (a) at any time
- (b) within six month from the date of creation of trust
- (c) Before the end of the financial year in which trust is created
- (d) within one year from the date of creation of trust

Q.18. In case of non resident person, which of the following income is taxable in India-

- (a) His global income
- (b) Income received or deemed to be received in India
- (c) Income accrued or arised outside India
- (d) Income received or deemed to be received outside India

Q19 Approval to educational institutions for exemption under section 10(23C)(vi) of the Act granted after 1-06-2007 is valid for

- (a) three years
- (b) two years
- (c) Forever unless the same is withdrawn
- (d) Five years

Q.20. Which one of the following payments is not covered under section 43B under which claims can be allowed only on the basis of actual payment-

- (a) Any amount payable by way of tax, duty or cess
- (b) Any amount payable as bonus to the employees
- (c) Employees contribution to any provident fund
- (d) Interest on any loan raised from banks

Q.21. An assessee makes payment of Rs.50000/- in respect of expenditure claimed as deduction to a person in a day during F.Y. 2009-10 otherwise than account payee cheque or draft. Which of the following amount of expenditure will be disallowable-

- (a) 20% of the expenditure
- (b) Whole of the expenditure
- (c) whole of the expenditure in excess of Rs.20000/-
- (d) 20% of the expenditure in excess of Rs.20000/-

Q.22 A partnership firm paid salary of Rs.300000/- to its two working partners and its profit after salary to partners was Rs.100000/- during F.Y. 2009-10. Which amount of salary will be allowable as deduction-

- (a) Whole of the salary paid to the partners
- (b) Rs.200000/-
- (c) Rs.210000/-
- (d) None of the above

Q.23. During Financial Year 2009-10, total tax payable by an individual assessee on his current income was Rs.50000/- and he paid Rs.45000/- as advance tax on 15<sup>th</sup> March. Which will be the amount of interest chargeable under section 234C of the Act-

- (a) Rs.1400/-
- (b) Rs.2000/-
- (c) Rs.1500/-
- (d) None of the above

Q.24. Which of the following is not a condition for claiming deduction under section 80IB(10) of the Act in the case of an undertaking developing and building housing projects-

- (a) The project should be approved by the Local authority
- (b) The project should be on the size of plot which has a minimum area of one acre
- (c) the residential unit should have maximum built-up area of 2000 sq feet.
- (d) The built-up area of shops and other commercial establishments included in the project should not exceed 3% of total built up area of project or 5000 sq. feet whichever is higher

Q.25. Which one of the following is not a capital asset-

- (a) self occupied building for his business
- (b) residential house given on rent
- (c) land situated outside the distance of 8 kilometres from the municipal limits of a city
- (d) shares held as stock in trade

Q.26. The transfer for the purpose of capital gain does not include-

- (a) Sale of capital asset
- (b) compulsory acquisition of asset
- (c) distribution of assets on the dissolution of a firm
- (d) distribution of assets on partition of a HUF

Q.27. In which of the following situations, Leave Travel concession is not exempt-

- (a) The person undertake journey with his son not dependent on him
- (b) He undertakes journey with his parents not dependent on him
- (c) He proceeds on journey once in the block of four years
- (d) He has received the amount actually incurred by him for the purpose of journey

Q.28 . Which one is not a condition for claiming exemption under section 10(23C)(vi) and (vi) of the Act-

- (a) The institution must be existing for educational or philanthropic purposes and not for the purpose of profit
- (b) the institution must be approved by the Chief Commissioner of Income-tax
- (c) The institution must apply its whole income towards its objects during the year
- (d) The institution must get its accounts audited if its income before giving effect to the above clauses exceeds exemption limits of income for the relevant year

Q.29. Which one of the following is not a specified mode of investment under section 11(5) of the Act-

- (a) deposit in any account with Post Office
- (b) Deposit in any account with a schedule bank
- (c) investment or deposit in a company which is not a public sector company
- (d) Deposit in any account with Co-operative Land Develop Bank

Q.30. Salary for the purposes of valuation of perquisite does not include-

- (a) Basic pay
- (b) Allowance which are exempt from tax
- (c) Bonus
- (d) Dearness Allowance as it enters into the computation of retirement benefits

Q.31. In which situation, transferor will be deemed to the owner of the house property for the purpose of taxation of income under House Property-

- (a) Property transferred to spouse for adequate consideration
- (b) property transferred to minor son otherwise than for adequate consideration
- (c) property transferred to minor married daughter otherwise than for adequate consideration
- (d) cash transferred to spouse and the spouse acquires property out of that cash

Q.32 Which statement is not true in case all the assets of a Block are transferred during the year-

- (a) The WDV of the block will be taken as Nil and no depreciation will be allowed
- (b) If the sale consideration of the block exceeds WDV of the block, the difference will be taxed at short term capital gain
- (c) If the sale consideration is less than WDV of the block, the difference will be considered as short-term capital loss
- (d) Depreciation will be allowed on the WDV of the block proportionately upto the date of transfer of block of assets.

Q.33 For how many years the unabsorbed depreciation can be carried forward-

- (a) 8 years
- (b) 4 years
- (c) No limit
- (d) None of the above

Q.34 In which situation interest paid on borrowed capital is not allowable-

- (a) Interest paid on money borrowed after commencement of business
- (b) Interest paid by firm to its partners @10%
- (c) Interest paid on money borrowed for meeting income-tax liability
- (d) None of the above

Q.35. Which of the following expenditure will not be allowable as deduction from business income-

- (a) salary on which tax was not deducted
- (b) salary to partner not authorized by partnership deed.
- (c) Rent on which tax was deducted and paid before filing the return of income
- (d) All of the above

Q.36 For invoking provisions of section 68 of the Act regarding treatment of cash credits as undisclosed income, which is not the basic condition-

- (a) There must be a credit entry in the books of the assessee
- (b) The assessee offers no explanation with regard to nature and source of that entry or explanation offered by the assessee is not found satisfactory by the Assessing officer
- (c) The assessee could not produce the creditor
- (d) All of the above

Q.37. Section 44AA of the Act deals with-

- (a) Maintenance of accounts by person carrying on profession or business
- (b) Compulsory audit of account
- (c) computation of profit of business of civil construction
- (d) None of the above

Q.38. In the case of firm having total sales exceeding Rs.40 lacs, Report of audit along with prescribed details is prepared in-

- (a) 3CA and 3CD
- (b) 3CB and 3CD
- (c) 3CA and 3CB
- (d) None of the above

Q.39. Which of the following is not taxable as Capital gain-

- (a) profit arising from the transfer of capital asset
- (b) profit arising from receipt of any insurance claim from an insurer on account of damage or destruction of stock in trade
- (c) profit arising from transfer of capital asset after converting the same as stock-in trade of a business
- (d) profit arising from transfer of a capital asset by a partner to the firm

Q.40. Capital gain arises in the previous year in which transfer of capital asset takes place. But, this rule does not apply to which of the following transfer-

- (a) transfer by way of conversion of capital asset into stock-in trade
- (b) transfer by way of compulsory acquisition of capital asset
- (c) damage or destruction of any capital asset by fire or other calamities.
- (d) all of the above

Q.41 Which statement is true with reference to charge of tax on long-term capital gain in the case of resident individual-

- (a) Tax is chargeable at the flat rate of 20% on entire capital gain.
- (b) Tax is chargeable on the capital gain at the normal rates in force for concerned year
- (c) Tax is chargeable @20% on capital gain after giving benefit of exemption limit available for the concerned year
- (d) Tax is chargeable at the flat rate of 30% on entire capital gain.

Q.42. Which of the following is not taxable as income from other sources-

- (a) Dividend
- (b) Family pension
- (c) Aggregate amount of Rs.20000/- received without consideration in a previous year on or after 1-04-2006
- (d) None of the above

Q.43. The assessee makes an application to the ITO for rectification of mistake under section 154 in the assessment order dated 31-12-2008 on 6-01-2010. The ITO will have to pass order u/s 154 within the following periods from end of the month of receipt of application-

- (a) 4 months
- (b) 4 years
- (c) 6 months
- (d) None of the above

Q.44. Which of the following is eligible for deduction under section 80C-

- (a) Tuition fees paid to the educational institution situated outside India
- (b) NSC purchased in the name of his son
- (c) Payment of insurance premium where the amount of premium paid is more than 20% of the sum assured
- (d) None of the above

Q.45. For claiming deduction under section 80IC of the Act, which of the following conditions is not necessary-

- (a) It manufactures or produces articles or thing
- (b) It is not formed by splitting up or the reconstruction of a business already in existence
- (c) It should employ more than 10 workers in the manufacturing process with the aid of power
- (d) All of the above

Q.46. The Commissioner of Income-tax can not invoke the provisions of section 263 in the following circumstances-

- (a) by examining the record on his own
- (b) at the instance of the Assessing officer
- (c) after expiry of two years from the end of the financial year in which order sought to be revised was passed.
- (d) All of the above

Q.47. While disposing the appeal, the CIT(A) has not the power to

- (a) enhance the assessment
- (b) confirm the assessment
- (c) Cancel the penalty
- (d) restore back the case to the AO

Q.48. Penalty under section 271C for non deduction of tax at source can be levied by

- (a) ITO(TDS)
- (b) ITO(TDS) with the approval of JCIT/AddlCIT
- (c) JCIT/Addl.CIT
- (d) none of the above

- Q.49. Exemption of capital gain under section 54 of the Act is available in the following circumstances-
- (a) The capital asset should be a residential house
  - (b) The capital asset should be long-term capital asset
  - (c) Whole of the capital gain should have been invested in purchase of residential house one year before or two years after the date of transfer of original asset
  - (d) All of the above.
- Q.50. Second schedule to the Income-tax Act deals with
- (a) rates of taxes for a particular assessment year
  - (b) procedure for recovery of tax
  - (c) recognized provident fund
  - (d) None of the above
- Q.51. The Inspector of Income-tax is an authority for the purposes of the following functions during with reference to section 133A of the Act-
- (a) To inspect books of accounts or other documents and place marks of identification thereon
  - (b) To check or verify cash, stock or other valuable articles or things and make inventory of the same
  - (c) To record statements of the assessee in connection with the enquiry regarding expenditure incurred on any function, event etc. as contemplated in section 133A(5) of the Act.
  - (d) All of the above
- Q.52. Which statement is true with reference to the power given to the ITO under section 133A-
- (a) He can enter any place even outside his area of jurisdiction
  - (b) He can remove or cause to be removed any cash, stock or other valuable articles or things from the place wherein he has entered
  - (c) He can impound books of accounts or other documents without recording any reason
  - (d) None of the above
- Q.53. Section 80DD of the Income-tax Act deals with-
- (a) Deduction in respect of health insurance premium
  - (b) Deduction in respect of treatment of a dependent who is a person with disability
  - (c) Deduction in respect of medical treatment of specified diseases
  - (d) All of the above
- Q.54. Who is the Transfer Pricing Officer with reference to computation of income from international transactions-
- (a) Joint Commissioner
  - (b) Deputy Commissioner/Asstt. Commissioner
  - (c) Any of the above
  - (d) None of the above
- Q.55. With effect from 01-04-2009, income from transfer of short-term capital asset, being shares of a company on which Security Transaction Tax has been paid, is taxed-
- (a) at the rate of 10% of such capital gain
  - (b) at the rate of 15% of such capital gain
  - (c) at the rate of 20% of such capital gain
  - (d) at the normal slab rate applicable for relevant A.Y.

Q.56. As per section 115JB of the Act, under which circumstances a company is required to pay MAT for Assessment year 2010-11-

- (a) If total income declared is 15% less than book profit
- (b) If tax payable on total income is less than 15% of book profit
- (c) If tax payable on the total income is less than 15% of profit as per P and L Account
- (d) If tax payable on total income is 15% of book profit

Q.57. No tax is required to be deducted at source on payment of compensation or enhanced compensation on account of compulsory acquisition in respect

- (a) agricultural land
- (b) any building
- (c) any immovable property in respect of which total compensation paid during a year exceed Rs.1.00 lacs
- (d) industrial land

Q.58. Penalty for accepting loan or deposit of Rs.20000/- or more otherwise than through account payee cheque or draft has been given in –

- (a) Section 269SS
- (b) 271D
- (c) 271E
- (d) None of the above

Q.59. Who is compulsorily required to maintain specified books of accounts-

- (a) A doctor doing medical practice whose receipts in the year preceeding the previous year exceeded Rs. 1.5 lacs
- (b) A lawyer doing practice in court and whose receipts during the preceding years did not exceed Rs.1.50 lacs.
- (c) A cloth merchant whose receipts were more than 40 lacs during the relevant year, but gross receipts in the preceding year were less than 10 lacs
- (d) All of the above

Q.60. Which statement is true with reference to notice under section 143(2)-

- (a) No notice shall be issued after the expiry of 12 months from the end of the month in which return is filed
- (b) No notice shall be issued after the expiry of 3 months from the end of the financial year in which return is furnished
- (c) No notice shall be served on the assessee after the expiry of 6 months from the end of the financial year in which return is furnished
- (d) No notice shall be served on the assessee after the expiry of 12 months from the date of filing of return.

Q.61. The directions issued by the Joint Commissioner of income-tax under section 144A of the Act is for the guidance of the Assessing Officer and is-

- (a) Advisory in nature
- (b) Binding on the A.O.
- (c) Suggestive in nature
- (d) None of the above

Q.62. Any person responsible for deducting or collecting tax at source has not taken tax deduction and collection account number or after allotment, has not mentioned the same in TDS certificates issued by him, he will be liable for penalty of Rs.10000/- under section-

- (a) 271A
- (b) 272A
- (c) 272AA
- (d) 272BB

Q.63. Which statement is true with reference to charging of interest under section 234B of the Act-

- (a) Interest u/s 234B is chargeable if the advance tax paid is less than 90% of assessed tax
- (b) Interest is chargeable @1% per month
- (c) Interest is chargeable from 1<sup>st</sup> April of the following year upto the date of processing u/s 143(1)
- (d) All of above

Q.64. Which one of the following is not a mode of recovery of tax by TRO under section 222 of the Act-

- (a) Attachment and sale of immovable property
- (b) Arrest of the assessee and his detention
- (c) Attachment of salary
- (d) None of the above

Q.65. With reference to the charging of interest u/s 234A, which is not considered as regular assessment-

- (a) Assessment u/s 143(3)
- (b) Assessment u/s 144
- (c) Assessment u/s 147 made for the first time
- (d) None of the above

Q.66. In a case, assessment was completed on 31-12-2008 and penalty u/s 271(1)(c) was initiated. The CIT(A) passed an order on 31-12-2009 dismissing the appeal of the assessee and order was received by CIT on 10-04-2010. Penalty order u/s 271(1)(c) in this shall be passed-

- (a) on or Before 30-03-2011
- (b) on or before 31-03-2011
- (c) on or before 31-10-2010
- (d) on or before 31-03-2012

Q.67. Which of the section of the Act deals with provisional attachment of property-

- (a) Section 281
- (b) Section 281B
- (c) 226(4)
- (d) None of the above

Q.68. Which of the following is not valid service

- (a) Service by ordinary post
- (b) Service by notice-server
- (c) service by affixture
- (d) None of the above

Q.69. Which of the following is not a specified transaction required to be reported in Annual Information return under section 285BA-

- (a) Cash deposit of Rs.10.00 lacs or more in saving account in a bank
- (b) Purchase of Bank Draft of Rs. 5 lacs or above
- (c) Investment of Rs.100000/- or more in shares issued a company

- (d) Purchase and sale of immovable property valued at Rs.30.00 lacs or more.

Q.70. Which section of the Act gives power to the Board to make rules for carrying out purposes of Income-tax Act-

- (a) Section 119  
(b) section 127  
(c) Section 295  
(d) None of the above

Q 71. Survey u/s 133A of the Income Tax Act 1961 can be conducted by an Assessing Officer only after obtaining approval of

- (a) Commissioner of Income Tax  
(b) Chief Commissioner of Income Tax  
(c) Joint Commissioner of Income Tax  
(d) None of the above

Q72. Appeal before the CIT (A) can be filed by the 'A' only if

- (a) Tax effect exceed Rs. 50,000/-  
(b) Tax effect exceed Rs. 1,00,000/-  
(c) Tax effect exceed Rs. 2,00,000/-  
(d) No monetary limits has been prescribed

Q73. It is not included in the definition of person u/s 2(31) of the Income Tax Act 1961

- (a) Association of person  
(b) Body of Individuals  
(c) Firm  
(d) Society

Q74. This section of Income Tax Act 1961 provide for joint and several liability of Director of a Private Company for any tax due from the country

- (a) 176  
(b) 178  
(c) 179  
(d) 189

Q75 MAT in the Income Tax Department is abbreviation of

- (a) Maximum Applicable Tax  
(b) Mumbai Appellate Tribunal  
(c) Maturity Added Tax  
(d) Minimum Alternative Tax

Q76 Following head of Income has not been mentioned as one of the Heads of Income under section 14 of the Income Tax Act.

- (a) Capital Gain  
(b) Income from other sources  
(c) Interest on Securities  
(d) Income from House Property

Q77 Person who has a substantial interest in the company means a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) carrying not less than \_\_\_\_\_ of the voting powers

- (a) 10 percent
- (b) 20 percent
- (c) 50 percent
- (d)  $\frac{2}{3}$ <sup>rd</sup>

Q78 An individual has received Rs. 70,000/- from a friend on his (individual's) birthday as birthday present on 31.10.2009. What is the treatment of Rs. 70,000/- for charging it to Income Tax under the Income Tax Act.

- (a) Rs. 20,000/- shall be added to total income
- (b) Rs. 70,000/- shall be added total income
- (c) No addition shall be made to income
- (d) None of above

Q79 A resident individual has gross total income of Rs. 1,20,000/- for Assessment Year 2010-11. He is a person with severe disability u/s 80U of the Income Tax Act. He has made deposits in PPF for Rs. 70,000/- what shall be his total income

- (a) Minimum 50,000/-
- (b) Rs. 20,000/-
- (c) Rs. 1,20,000/-
- (d) Nil

Q80 Return form ITR-4 is applicable

- (a) For individuals & HUFs having income from a proprietary business or profession.
- (b) For individuals & HUFs being partners in firms and not carrying out business as profession under any proprietorship.
- (c) For individuals & HUFs not having income from Business as profession.
- (d) For individuals being income from salary/pension/family pension and interest.

Q81 For survey to be conducted u/s 133B of the Income Tax Act 1961 the form prescribed under Income Tax Rules 1962 is

- (a) Form No. 45A
- (b) Form No. 45B
- (c) Form No. 45C
- (d) Form No. 45D

Q82 Section 10(23C)(vi) of the Income Tax Act 1961 pertain to

- (a) University or Educational Institution
- (b) Hospitals
- (c) Fund or institution established for charitable purposes
- (d) All the above

Q83 U/s 24(a) of the Income Tax Act 1961 the deduction prescribed for computing income from house property for AY 2010-11 is

- (a) 30% of Annual value
- (b)  $33\frac{1}{3}$ % of Annual value
- (c) 40% of Annual value
- (d) 25% of Annual value

- Q84. As per provisions of section 44AE or the Income Tax Act 1961 the minimum Income from a Heavy Goods vehicle for A.Y. 2010-11, without requirement of maintaining books of account, is to be shown at
- (a) 3500/- p.m or part of a month
  - (b) 4000/- p.m or part of a month
  - (c) 3600/- p.m or part of a month
  - (d) 3000/- p.m or part of a month
- Q85. Section 44AD of Income Tax Act 1961 relates to computation of income from
- (a) Business of Life Insurance
  - (b) Civil Contract work
  - (c) General merchandise
  - (d) Retail Trading
- Q86. If a person fails to quote his correct Permanent Account Number in any document referred to in section 139A(5)(c), penalty of Rs.\_\_\_\_\_ may be imposed in his case u/s 272B
- (a) Rs. 5,000/-
  - (b) Rs. 10,000/-
  - (c) Rs.15,000/-
  - (d) Rs. 20,000/-
- Q87. Rent from a vacant piece of land shall be chargeable under the head
- (a) Income from House Property.
  - (b) Income from Other Sources.
  - (c) Income from Business & profession.
  - (d) None of above.
- Q88. Remuneration received from partnership firm by a partner shall be charged under the head.
- (a) Business & profession.
  - (b) Income from Other sources.
  - (c) Income from Salary.
  - (d) None of the above.
- Q89. Long term capital loss can be set off against the income from
- (a) Business & profession only.
  - (b) Long term capital gain only.
  - (c) Either (a) or (b)
  - (d) None of the above.
- Q90. Loss incurred by an assessee from a source, income from which is exempt, can be set off against income from.
- (a) Business and profession.
  - (b) Capital gains.
  - (c) Income from house property.
  - (d) None of the above
- Q91. Charitable purpose is defined in section
- (a) Section 80G of the Income Tax Act 1961

- (b) Section 2(15) of the Income Tax Act 1961  
(c) Section 12AA of the Income Tax Act 1961  
(d) None of the above
- Q92. In the Income Tax Rule 1962 form 10E has been prescribed for
- (a) claiming deduction u/s 80DD  
(b) claiming exemption u/s 10  
(c) claiming relief u/s 89(1) by an employee  
(d) None of the above
- Q93. Form prescribed for Notice of demand u/s 156 of the Income Tax Act, 1961 is
- (a) Form No. 6  
(b) Form No. 7  
(c) Form No. 8  
(d) Form No. 9
- Q94. Deduction available u/s 80G for contribution made to Prime Minister National Relief fund is
- (a) 50 percent of the donation  
(b) 75 percent of the donation  
(c) 100 percent of the donation  
(d) 150 percent of the donation
- Q95. Registration to a charitable institution granted u/s 12AA is for maximum period of
- (a) Three year  
(b) Five year  
(c) Till cancellation of registration by the CIT  
(d) None of above.
- Q96. This is not an eligible investment for obtaining deduction u/s 80C
- (a) Public Provident Fund  
(b) National Saving Certificate  
(c) Term Deposit for three years  
(d) Premium paid for life insurance policy for self
- Q97. Books impounded u/s 133A of the Income Tax Act 1961 can be retained by an Assessing officer in custody beyond a period of 10 working days only with the approval of
- (a) Joint Commissioner of Income Tax  
(b) Additional Commissioner of Income Tax  
(c) Commissioner of Income Tax  
(d) Chief Commissioner of Income Tax
- Q98. Under section 206C of the Income Tax Act, 1961 collection of tax at source is required to be done by
- (a) Seller of prescribed goods  
(b) Buyer of prescribed goods  
(c) Either (a) or (b)  
(d) None of the above
- Q99. Depreciation is an allowable expense as per the provisions of section

- (a) Section 30 of Income Tax Act, 1961
- (b) Section 31 of Income Tax Act, 1961
- (c) Section 32 of Income Tax Act, 1961
- (d) Section 33 of Income Tax Act, 1961

Q100. Section 271F of the Income Tax Act, 1961 prescribed penalty for

- (a) Failure to mention books of accounts
- (b) Failure to deduct tax at source
- (c) Failure to file return of income
- (d) Failure to comply with the provisions of section 269SS

**15.1 Answers to Income Tax Workshop-1**

Sr No.	Answer	Sr No.	Answer	Sr No.	Answer
1	C	41	C	81	D
2	A	42	C	82	A
3	D	43	C	83	A
4	C	44	D	84	A
5	D	45	C	85	B
6	B	46	C	86	B
7	B	47	D	87	B
8	C	48	C	88	A
9	D	49	D	89	B
10	B	50	B	90	D
11	C	51	A	91	B
12	C	52	D	92	C
13	B	53	B	93	B
14	C	54	C	94	C
15	B	55	B	95	C
16	C	56	B	96	C
17	A	57	A	97	D
18	B	58	B	98	A
19	C	59	A	99	C
20	C	60	C	100	C
21	B	61	B		
22	A	62	D		
23	A	63	D		
24	C	64	C		
25	D	65	D		
26	D	66	D		
27	B	67	B		
28	C	68	A		
29	C	69	B		
30	B	70	C		
31	B	71	C		
32	D	72	D		
33	C	73	D		
34	C	74	C		
35	B	75	D		
36	C	76	C		
37	A	77	B		
38	B	78	B		
39	B	79	D		
40	D	80	A		

## 15.2 Workshop on Salary-1

Mr. A is an employee in a Public Sector Undertaking at Delhi. During F.Y. 2009-10, the following are the details of emoluments received by him-

1. Basic pay 20000/- PM
2. DA 4000/- PM(50-% includes in retirement benefit)
3. Transport Allowance 2000/-PM
4. HRA 5000/- PM ( He paid rent of Rs. 5000 per month for the House taken on rent.)
5. From 1-09-2009, he was allotted rent free accommodation at Delhi for which an amount of Rs.1500/- PM was recovered from him .
6. He was provided with a car to commute between residence and office.
7. He was reimbursed an amount of Rs. One lakh expended for his medical treatment in Govt. approved Hospital.
8. Bonus Twenty Thousand
9. He was granted house building loan off Rs. Five lakhs on 01.07.2009 at the interest rate of 6%. SBI charges interest at the rate of 8 % on same loan.
10. His three children was provided education facilities in a school maintained by the employer and cost of such facility was Rs. One Thousand per month per child.

Compute his taxable income from salary for assessment year 2010-11.

### 15.3 Workshop on Salary-2

Mr. A is an employee in a Public Sector Undertaking at Delhi. During F.Y. 2009-10, the following are the details of emoluments received by him-

1. Basic pay 20000/- PM
2. DA 4000/- PM(50-% includes in retirement benefit)
3. Transport Allowance 2000/-PM
4. HRA 5000/- PM ( He paid rent of Rs. 5000 per monthfor the House taken on rent.)
5. From 1-09-2009, he was allotted rent free accommodation at Delhi for which an amount of Rs.1500/- PM was recovered from him .
6. He was provided with a car to commute between residence and office.
7. He was reimbursed an amount of Rs. One lakh expended for his medical treatment in Govt. approved Hospital.
8. Bonus Twenty Thousand
9. He was granted house building loan off Rs. Five lakhs on 01.07.2009 at the interest rate of 6%. SBI charges interst at the rate of 8 % on same loan.
10. His three children was provided education facilities in a school maintained by the employer and cost of such facility was Rs. One Thousand per month per child.

Compute his taxable income from salary for assessment year 2010-11.