

Biyani's Think Tank

Concept based notes

Fundamental of Accounting

[BBA Sem I]

Anubhav Lamba

B.Com., M.Com., ACS, LLB

Lecturer

Deptt. of Science & Management

Biyani Girls College, Jaipur



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Jaipur-302 023 (Rajasthan)

Ph : 0141-2338371, 2338591-95 • Fax : 0141-2338007

E-mail : acad@biyanicolleges.org

Website : www.gurukpo.com; www.biyanicolleges.org

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

This book covers basic concepts related to the microbial understandings about diversity, structure, economic aspects, bacterial and viral reproduction etc.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

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1

Accounting : An Introduction

Very Short: Question-Answer

Q.1. What is meant by Accounting? Give two objectives of Accounting.

Ans. According to the American Institute of Certified Public Accountants (AICPA) in their Accounting Terminology Bulletin No. 1, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

Two objectives of Accounting are:—

- (i) **To keep systematic records:** Its main objective is to keep complete record of business transactions. It avoids the possibility of omission and fraud.
- (ii) **To calculate profit or loss:** Accounting helps to ascertain the net profit earned or loss suffered on account of business transactions during a particular period. To ascertain profit or loss at the end of each accounting period Trading and Profits & Loss of the business is prepared.

Q.2. What do you mean by Accounting Concepts?

Ans. Accounting Concepts provide a base for accounting process every enterprise has to consider basic concepts at the time of preparing its financial statements. According to Kohler concept as, "A series of assumptions constituting the supposed basis of a system of thought or an organized field of an endeavour."

Q.3. What is separate entity concept?

Ans. According to this concept, the business and businessman are two separate and distinct entities. Business is treated as a unit separate and distinct from its owners, managers and others. Therefore, proprietor is treated as a creditor of the business

to the extent of capital invested by him in the business. It is applicable to all forms of business organizations, i.e., sole proprietorship, partnership or a company.

Q.4. What do you understand by going concern concept?

Ans. According to this concept it is assumed that the business will continue to exist for a long period in the future. According to this concept we record fixed assets at their original cost and full cost of the asset would not be treated an expense in the year of its purchase itself.

Q.5. What do you understand by convention of consistency?

Ans. According to this convention accounting principles and methods should remain consistent from one year to another. The rationale for this concept is that changes in accounting treatment would make the Profit & Loss and Balance Sheet unreliable for end users. For example there are several methods of providing depreciation on fixed assets i.e. fixed installment method, diminishing balance method etc., But it is expected that the business entity should be consistent to follow accounting method.

Q.6. Explain Accounting Equation.

Ans. Accounting equation is also termed as balance sheet equation. It signified that the assets of a business are always equal to the total of capital and liabilities.

It can be represented as:

Assets = Liabilities + Capital

Capital = Assets + Liabilities

Short: Question-Answer

Q.1. Give advantages of Accounting.

Ans. Advantages of accounting are:—

- (i) **Provides Complete and Systematic Record:** In business there are so many transactions therefore it is not possible to remember all transactions. Accounting keeps a systematic record of all the business transactions and summarized into financial statements.

- (ii) **Information Regarding Financial Position:** Accounting provides information about the financial position of the business by preparing a balance sheet at the end of each accounting period.
- (iii) **Helpful in Assessment of Tax Liability:** Accounting helps in maintaining proper records. With the help of these records a firm can assessed income tax of sales tax. Such records are trusted by income tax and sales tax authorities.
- (iv) **Information Regarding Profit or Loss:** Profit & Loss Account is prepared at the end of each accounting period to know the net profit earned or net loss suffered at the end of each accounting period.

Q.2. Give limitations of Accounting.

Ans. Limitations of Accounting are:—

- (i) **Possibilities of Manipulation:** Accounts can be manipulated, so that the financial statements may disclose a more favourable position than the actual position for example closing stock may be overvalued in accounts.
- (ii) **It includes only Economic Activities:** Non-monetary transactions are not recorded in accounts. Transactions which can not be expressed in money cannot find place in accounts. Qualitative aspects of business units like management labour relations, efficiency of management etc. are wholly omitted from the books of accounts.
- (iii) **Price Level Changes not Considered:** Fixed assets are recorded in accounts at their original cost. Sometimes assets remain undervalued particularly land and building. Effect of price level changes is not considered at the time of preparing accounts.
- (iv) **Influenced by Personal Judgments:** An accountant has to use his personal judgment in respect of many items. For example, it is very difficult to predict the useful life of an asset.

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2

Journal and Ledger

Very Short: Question-Answer

Q.1. What is Journal?

Ans. A Journal is a book of original entry in which transactions are recorded in the order in which they occur i.e., in chronological order.

It is a basic book of original entry in which transactions are analyzed before they are posted in the ledger.

Q.2. Give four advantages of Journal.

Ans. Advantages of Journal:—

- (i) As transactions in journal are entered as and when they take place, the possibility of omission of a transaction in the books of accounts is minimized.
- (ii) Journal provides a chronological record of all transactions.
- (iii) Along with the entry in the journal, a complete explanation is written so that it is possible to understand the entry properly later.
- (iv) Journal facilitates cross checking of ledger accounts in case a trial balance does not agree.

Q.3. Give two limitations of Journal.

Ans. Limitations of Journal:—

- (i) When the number of transactions is large, it is not possible to record all the transactions in journal. Therefore, the usual practice is to have separate journals or books for different classes of transactions.
- (ii) Cash transactions are generally recorded in a separate book called Cash Book. Thus cash transactions need not be recorded in Journal.

Q.4. What is Double Entry System of Book-Keeping?

Ans. According to William Pickles, “The Double Entry System seeks to record every transaction in money or money’s worth in its double aspect-The receipt of a benefit by one account and the surrender of a like benefit by another account, the former entry being to the debit of the account receiving and the latter to the credit of that account surrendering.”

Q.5. Give two advantages of Ledger.

Ans. Advantages of Ledger:—

- (i) It is difficult to prepare the final accounts in the absence of a ledger as it provides necessary information regarding various accounts.
- (ii) All the transactions related to an account are collected at one place, which will provide a complete information of all the transactions related to a particular account.

Q.6. Differentiate between Journal and Ledger.

- Ans.
- (i) Journal is the book of original entry while a ledger is the book of secondary entry because all transactions are recorded first in the journal and then posted to the ledger.
 - (ii) The process of recording transactions in a journal is termed ‘Journalizing’ while the process of recording transactions in a ledger is called a posting’.

Q.7. Distinguish between Cash Discount and Trade Discount.

Ans. Difference between Cash Discount and Trade Discount are:—

Basic of Difference	Cash Discount	Trade Discount
1. Meaning	Cash discount is allowed when payment is received and cash discount is received when payment is made.	Trade discount is allowed at the time of sale to the customers at a fixed percentage on the marked price.
2. Purpose	The purpose is to encourage prompt payment from customers.	The purpose is to increase sales and to enable retailers to sell the goods to their customers at list price.
3. Recording in the books	It is recorded in the books of accounts.	It is not recorded in the books of accounts.
4. Deduction from Invoice	This discount is not deducted from the invoice.	It is deducted from the invoice.

3

Subsidiary Books

Very Short: Question-Answer

Q.1. Define subsidiary books and give names of subsidiary books.

Ans. Subsidiary book is meant for recording all the transactions of a similar nature. They are also known as special journals.

It may be defined as books where the transactions are entered first and then ledger accounts are prepared on their basis.

Journal is divided into a number of subsidiary books. These are:—

- | | |
|------------------------|----------------------------|
| (i) Cash Book | (ii) Purchase Book |
| (ii) Sales Book | (iii) Purchase Return Book |
| (iv) Sales Return Book | (iv) Bills Receivable Book |
| (v) Bills Payable Book | (vi) Journal Proper |

Q.2. Why Cash Book is called a book of original entry?

Ans. The number of cash transactions in a firm is generally larger, therefore, it becomes inconvenient to record all cash transactions in the journal. Since all cash

transactions are recorded for the first time in the cash book, it is therefore called a book of original entry. Only cash transactions are recorded in the cash book.

Q.3. Give four advantages of Petty Cash Book.

- Ans.
- (i) It saves the time of chief cashier.
 - (ii) Maintenance of petty cash book does not require any specialized knowledge of accounting.
 - (iii) It provides control over small payments.
 - (iv) It minimizes the chances of fraud.

Q.4. What is a purchase book?

Ans. It is a subsidiary book which records transactions of credit purchases of goods. Cash purchases are not recorded in the purchases book since they are recorded in the cash book.

Q.5. What is a sales book?

Ans. It is a subsidiary book which records transactions of credit sales of goods. Cash sales will be recorded in the cash book and not in the sales book. Sale of assets is not recorded in the sales books.

Q.6. Define purchase return book.

Ans. Purchase return or return outward book is maintained to record the goods or materials returned to the suppliers that have been purchased on credit. When the goods are returned, a debit note is prepared and is sent to the supplier with the returned goods.

Q.7. What is a credit note?

Ans. When the goods are received back, a credit note is prepared in duplicate and the original copy of the same is sent to the party from whom goods were received. A credit note contains details relating to the name of the customer, details of the goods received back and the amount of return.

Short: Question-Answer

Q.1. State the four advantages of sub-dividing a Journal.

Ans. Advantages of sub-dividing a Journal are:—

- (i) **Division of Work:** There are eight subsidiary books, in place of one journal, accounting work can be divided among a number of persons. Different persons do the accounting work in different books, therefore, the work will be completed in a very short time.

- (ii) **Time Saving:** Various accounting processes can be undertaken simultaneously because of the use of number of books. This leads to the work being completed quickly.
- (iii) **Increase in Efficiency:** Work of a particular book is handled by a particular person, therefore he acquires full knowledge of it and becomes efficient in handling it.
- (iv) **Flexible:** Maintenance of all the eight books is not necessary for every business firm. Any business firm can increase or decrease the number of books according to the needs of the business.

Q.2. Explain the meaning of Imprest System of Petty Cash Book.

Ans. Under this system, a definite sum of money is given to the petty cashier at the beginning of a period. The petty cashier goes on paying all petty expenses like expenses on telegram, newspaper, taxi fare etc. Out of this amount and records them in the petty cash book maintained by him. At the end of the certain period, the petty cashier submits the account to the chief cashier who, after having examined the petty cash book, reimburses the amount actually spent by the petty cashier. Thus, petty cashier will again have the fixed amount at the beginning of the new period. Such a system is known as the 'Imprest System of Petty Cash'.

Q.3. What is Journal Proper?

Ans. In journal proper only those transactions are recorded which cannot be recorded in any other subsidiary book. For example, if fixed asset is purchased on credit, it can neither be recorded in cash book nor in purchase book, it will be recorded in the journal proper.

Following types of transactions are recorded in journal proper:

- (i) Opening Entry
- (ii) Closing Entries
- (iii) Adjustment Entries
- (iv) Transfer Entries
- (v) Rectifying Entries
- (vi) Entries for dishonour of bills (not discounted with the bank)

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4

Trial Balance

Very Short: Question-Answer

Q.1. What is Trial Balance?

Ans. It is a statement of accounts which appears in the ledger showing either the balances or the total amounts of debit and credit items. It can be prepared on any date. It is neither a part of double entry system, nor does it appear in the actual books of accounts. It is only a working paper.

Q.2. Give four objectives of Trial Balance.

- Ans.
- (i) To ascertain the arithmetical accuracy of the ledger accounts.
 - (ii) To help in locating errors.
 - (iii) To provide help for the preparation of Final Accounts.
 - (iv) To obtain a summary of the ledger accounts.

Q.3. Give the name of errors which does not affect the Trial Balance.

- Ans.
- (i) Errors of Omission.
 - (ii) Errors of Commission.
 - (v) Compensating Errors.
 - (vi) Errors of Principle.

Q.4. What do you mean by errors of Omission?

Ans. If transaction is completely or partially omitted from being recorded in the books of account, constitutes an error of omission. For example, Goods for Rs. 5000.00 have been purchased from Mohan on credit and the transaction was omitted to be recorded in the books.

Q.5. Define errors of Commission.

Ans. Errors which arise due to wrong recording, wrong carrying forward, wrong balancing, wrong posting etc. are known as errors of commission. Errors of commission does not affect Trial Balance because the same amount (though wrong) will be posted in both the accounts affected by the transaction.

Q.6. What do you mean by compensatory error?

Ans. If the effect of one error is nullified by the effect of some other error, such errors are called compensating errors. For example: Reena's Account was debited with Rs. 30 instead of Rs. 300 while Anju's Account was debited with Rs. 300 instead of Rs. 30. These two mistakes will neutralize the effect of each other.

Q.7. What do you mean by errors of principle?

Ans. When a transaction is recorded in violation of accounting principles, it is known as an error of principle. For example, purchase of plant and machinery is treated as an ordinary purchase and is thus debited to purchase account instead of plant and machinery.

Short: Question-Answer

Q.1. Explain any three major differences between Trial Balance and Balance Sheet.

Ans. Three major differences between Trial Balance and Balance Sheet:—

Basis of Difference	Trial Balance	Balance Sheet
(i) Object	It is prepared to check the arithmetical accuracy of the	It is prepared to know the true financial position of the firm.

	books of accounts.	
(ii) Period	It is prepared whenever needed.	Normally, it is prepared at the end of the accounting period.
(iii) Types of Accounts	It includes all types of accounts, whether personal, real and nominal accounts.	It includes only personal and real accounts.

Q.2. Define the two methods of preparing Trial Balance.

Ans. The two methods are:—

- (i) **Balance Method:** It is the commonly used method of preparing a Trial Balance. It shows the balances of all the accounts in the ledger. Under this method, accounts showing debit balances in the ledger are put on the debit side of the Trial Balance and the accounts showing credit balances are put on its credit side.
- (ii) **Total Method:** It shows the total amounts of the debit and credit sides in each ledger account. Under this method, trial balance can be prepared immediately after the completion of posting to the ledger. It considers all accounts of the ledger.

Q.3. What is suspense account? When and why it is prepared?

Ans. In spite of the best efforts if the both sides of trial balance do not tally, then the amount of difference of both sides is put to a specific account which is known as suspense account. If the debit side of the Trial Balance exceeds the credit side, the difference will be put on the credit side of the suspense account and vice-versa. When all the errors have been located and rectified, the suspense account will automatically stand closed. If suspense account shows a credit balance then it will be shown on the Assets side of the Balance Sheet and in the case of credit balance then it will be shown on the Liabilities side of the Balance Sheet.

It is prepared to avoid the delay in the preparation of final accounts.

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Depreciation, Provision and Reserve

Very Short: Question-Answer

Q.1. What is Depreciation?

Ans. According to R.N. Carter, “Depreciation is the gradual and permanent decrease in the value of an asset from any cause.”

It is a continuing process because the book value is reduced either due to use or with the passage of time.

Q.2. Give two characteristics of depreciation.

- Ans. (i) Depreciation is a reduction in the book value of fixed assets.
- (ii) The term depreciation is used only in respect of tangible fixed assets. The term is not used for wasting assets such as mines.

Q.3. Give two causes of depreciation.

- Ans. (i) Constant use of asset leads to its wear and tear and thus fall in value.
- (ii) Due to new inventions and improved techniques the old assets become obsolete and may have to be discarded even if they can be put to use physically.

Q.4. Name the various methods of providing depreciation.

- Ans. (i) Straight line method.
- (ii) Written down value method.
- (iii) Annuity method.

- (iv) Depreciation fund method.
- (v) Insurance policy method.
- (vi) Revaluation method.
- (vii) Depletion method.
- (viii) Machine hour rate method.

Q.5. What is residual or scrap value of an asset?

Ans. Scrap value is an estimated sale value of the asset at the end of its economic life to the firm. It is also known as break-up value.

Q.6. Distinguish between Fixed Installment Method and Reducing Balance Method.

Ans. Distinguish between Fixed Installment Method and Reducing Balance Method are:

Basis of Difference	Straight Line Method	Written Down Value Method
(i) Amount of Depreciation	Equal amount of depreciation is charged every year.	The amount of depreciation decreases year after year.
(ii) Basis of calculation of depreciation	Depreciation is calculated on the original cost of a fixed asset.	Depreciation is calculated on the diminishing balance or written down value of a fixed asset.
(iii) Zero Balance	The book value of the asset can be reduced to zero.	The book value of the asset can never be reduced to zero.

Short: Question-Answer

Q.1. State any four needs of providing depreciation. s

Ans. Needs of providing depreciation are:—

- (i) For ascertaining the true profit or loss: The true profit can be ascertained only when, depreciation have been debited to the profit and loss account.
- (ii) To show a true and fair view of the financial position: If the depreciation is not charged, the assets will be shown in the balance sheet at an amount which is in excess of their true values.
- (iii) To provide funds for replacement of assets: Depreciation though debited to profit and loss account, is not paid in cash like other expenses. Hence, the amount debited in the profit and loss account are retained in the business and it is used for the replacement of fixed assets when its life is over.
- (iv) Compliance of legal provisions: It is necessary to charge depreciation to comply with the provisions of the Companies Act and the Income Tax Act.

Q.2. Give two advantages and disadvantages of straight line method.

Ans. Advantages of straight line method are:

- (i) It is a simple method of calculating depreciation.
- (ii) Under this method, the book value of an asset can be reduced to net scrap value or zero value, which is not possible under other methods.

Disadvantages of straight line method are:

- (i) Under this method, it is quite difficult to assess the true scrap value of the asset after a long period, say 15 or 20 years from the date of its installation.
- (ii) There is no arrangement of interest on capital invested in assets in this method.

Q.3. Distinguish between Provisions and Reserves.

Ans. Distinguish between Provisions and Reserves are:

Basis of	Provision	Reserve
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Difference		
(i) Meaning	It is created to meet a known liability.	It is created to meet an unknown liability.
(ii) Investment	It is not invested outside the business.	It may be invested outside the business.
(iii) Distribution	It cannot be distributed as divided among shareholders.	It can be distributed as dividends among shareholders.
(iv) Charge	It is debited to the profit and loss account.	It is debited to the profit and loss appropriation account.

Q.4. Define Revenue Reserves.

Ans. Revenue reserves are created out of revenue profits which are available for distribution as dividend. The main object of creation of revenue reserve is to strengthen the financial position and meeting the unforeseen contingencies or some specific purpose.

It is of two types:

- (i) General Reserve.
- (ii) Specific Reserve.
- (i) General Reserve: It is the amount set aside out of profits for no specific purpose.
It is created for meeting unforeseen losses. It is voluntary for, a business enterprise to maintain general reserve.
- (ii) Specific Reserve: It is created for a specific purpose and can be utilized only for that purpose. For example, Dividend Equalization Reserve, Reserve for Replacement of Asset.

Q.5. Define Capital Reserve.

Ans. Capital reserves are created out of capital profits and are normally not available for distribution as cash dividend. Business enterprise earns normal profits as well

as capital profits from many sources. Reserves created out of such capital profits are known as capital reserves. Examples of capital reserves are:

- (i) Profit on the revaluation of fixed assets and liabilities.
- (ii) Profit on sale of fixed assets.
- (iii) Profit on redemption of debentures.
- (iv) Profit from the reissue of forfeited shares.
- (v) Profit prior to incorporation.
- (vi) Premiums received on issue of shares or debentures.

Generally these reserves cannot be utilized for distribution of dividends to shareholders. However, some capital reserves can be utilized to distribute dividends subject to fulfillment of certain conditions laid down by Companies Act.

Q.6. Define Secret Reserves. How it is created?

Ans. A secret reserve is one, the amount of which is not disclosed in the balance sheet. It is also called a 'Hidden Reserve'. Such reserves are created by showing the assets at a lower amount and liabilities at a higher amount. When secret reserve exist, the actual position of the firm may be much better or worse than what is disclosed by the balance sheet. Secret reserves are allowed in concerns like banking companies, insurance companies, public utility companies etc.

The methods of creating secret reserve are:

- (i) Under valuation of closing stock.
- (ii) Showing a contingent liability as an actual liability.
- (iii) Creation of excessive provision for bad debts.
- (iv) Charging excessive depreciation.
- (v) Charging capital expenditure to the profit and loss account.
- (vi) Inclusion of fictitious assets.

6

Rectification of Errors**Very Short: Question-Answer****Q.1. What is meant by rectifying entry?**

Ans. When an error is rectified by passing a journal entry, one account being debited and the other account being credited, it is called a rectifying entry. An error can be corrected by passing a suitable journal entry, called rectifying entry. The procedure of rectification is different at every stage therefore before passing a rectifying entry it should be noticed that at which stage errors are being rectified.

Q.2. State any four points related to the need of rectification of errors.

Ans. (i) To maintain reliability and authenticity of accounts.
(ii) To find out correct profit or loss and financial position.
(iii) To prevent fraud in business.
(iv) To make a correct entry of transaction on the both sides according to double entry system.

Q.3. What are the stages of rectification of errors?

Ans. There are three stages of rectification of errors:
(i) Rectification of errors before preparing Trial Balance.
(ii) Rectification of errors after preparing Trial Balance but before preparing Final Accounts.
(iii) Rectification of errors after preparing Final Accounts.

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7

Final Accounts

Very Short: Question-Answer

Q.1. What do you mean by Final Accounts?

Ans. Final Accounts are those accounts which provide information about the profitability and the financial position of a business. The term 'Final Account' includes at least two statements which are:

- (i) Balance Sheet
- (ii) Trading and Profit & Loss A/c

Q.2. What is a Trading Account?

Ans. Trading account shows the result of buying and selling of goods and services of an accounting period. It is prepared for calculating the gross profit or gross loss arising or incurred as a result of the trading activities of a business.

According to J.R. Batlidoi, "The Trading Account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included."

Q.3. What is a Profit and Loss Accounts?

Ans. Profit and Loss Account reveals the net profit or net loss of an undertaking of a certain period. A business man has to incur a number of expenses which are not taken to trading account. Hence, a business man is more interested in knowing the net profit earned or net loss incurred during the year.

Q.4. What is a Balance Sheet?

Ans. Balance sheet is not an account. It is a statement of assets and liabilities of an enterprise on a certain fixed date. It is prepared on a particular date and not for a particular period. It is prepared after the preparation of trading and profit and loss account.

Q.5. Distinguish between gross profit and net profit.

Ans. Gross profit is the excess of selling price of the goods over the cost of goods sold while net profit means the excess of all revenue over all expenses and losses of a business enterprise.

Q.6. Distinguish between Trial Balance and Balance Sheet.

Ans. Trial Balance is prepared for testing the arithmetical accuracy of ledger accounts, it is not a part of final accounts while balance sheet is a statement prepared for presentation of financial position of a business, it is an important part of final accounts.

Q.7. In which order the assets and liabilities are shown in balance sheet?

Ans. Balance sheet may be prepared in two orders:

- (i) Liquidity order (ii) Permanency order

(i) **Order of Liquidity:** According to this method, an assets which is most easily convertible into cash such as cash in hand is written first and then will follow those assets which are comparatively less easily convertible, so that the least liquid assets such as goodwill, is shown last.

In the same way, those liabilities which are to be paid at the earliest will be written first.

(ii) **Order of permanency:** According to this method, assets which are most difficult to be converted into cash such as Goodwill are written first and the assets which are most liquid such s cash in hand are written first.

In the same way liabilities which are to be paid last will be written first.

Q.8. Why is closing stock valued at lower of cost or relisable value?

Ans. It is based on the principle of prudence (or conservation) according to which all anticipated losses should be taken into account, but all unrealized gains should be ignored.

Short: Question-Answer

Q.1. What is the difference between accrued income and unearned income? Explain.

Ans. Accrued income means income which has accrued in the current year in the business or it has been earned but not receive till the end of the accounting year. In other words, the income which is earned at the time of preparing final accounts but not received is known as accrued income.

Unearned income means the income concerned with the next financial year is received in the current financial year. In the other words, the income which is not earned while preparing the final accounts but received in advance is known as unearned income.

Example—

- (i) A loan of Rs. 20000.00 has been given 15% p.a. and interest is payable monthly, if interest for two month, i.e. Rs. 500, has been received by the business, then this income will be termed as an accrued income since interest has become due it has not yet been received by the business.
- (ii) Ram has given his building on 1st January 2008 @ Rs. 200000 p.a. and received Rs. 20000 in advance on that date. The accounts are closed on 31st March 2008. in this transaction the rent of three months (1st Jan. to 31st March) is the income of current year and remaining nine months rent Rs. 150000 is unearned income.

Q.2. What do you mean by fictitious assets? Explain with example.

Ans. These are the assets which cannot be realized in cash or no further benefit can be derived from these assets. Such assets include debit balance of Profit and loss A/c and the expenditure not yet written off such as advertisement expenses,

preliminary expenses etc. since these items have debit balance so these are shown in assets side of balance sheet for the purpose of transferring them to the profit and loss account gradually over a period of time.

Q.3. Write notes on the following—

- (i) Deferred Revenue Expenditure
- (ii) Tangible and Intangible Assets

Ans. (i) **Deferred Revenue Expenditure:** There are certain expenditures which are revenue in nature but the benefit of which is likely to be derived over a number of years, such expenditures are termed as 'Deferred Revenue Expenditure'. The benefit of such an expenditure generally lasts between 3 to 7 years. The whole of such expenditure is not debited to the Profit and Loss A/c of the current year but spread over the year for which the benefit is likely to last. Thus, only a part of such expenditure is taken to Profit and Loss account every year and the unwritten off portion is allowed to stand on the assets side of the Balance Sheet.

(ii) **Tangible and Intangible Assets:** Assets which have a physical existence or which can be seen and felt like plant and machinery, furniture, stock, cash etc. are tangible assets. Assets which do not have any physical existence such as goodwill, patents, trade mark etc. are intangible assets.

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