Model Answer

B.Com (Hons) First Semester Examination

Guru Ghasidas Vishwavidyalaya

Book-Keeping and Accountancy

AS-2603

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Short Answer

(i) **PERSONAL ACCOUNT -** These are accounts of parties with whom the business is a carried on.

Rules of Accounting: Debit the Receiver, Credit the Giver

Real Account - These are asset accounts that appear in the Balance Sheet. They are referred to as Real Account (or Permanent Accounts) as these are owned by businesses and the balances in these accounts at the end of an accounting period will be carried over to the next period. Ex: Cash Account, Land Account, Building Account etc.

Rules of Accounting: Debit what comes in and Credit what goes out

Nominal Account - These are accounts of expenses and losses which a business incurs and income & gains which a business earn in the course of business. Ex: Rent Account, Interest Account.

Rules of Accounting: Debit all expenses and losses, Credit all income and gains

(ii) A Cash book is a subsidiary book which primarily records all cash receipts and cash payments. Types of Cash Books are; Simple Cash Book, Double Columnar Cash Book, Triple Columns Cash Book and Petty Cash Book.

(iii) **Journal Entry** .

Date	Particulars	L.F	Amount (Dr.)	Amount (Cr.)
			Rs.	**Rs.**
	Cash A/c ….Dr.		50,000	
	Stock A/c ….Dr.		30,000	
	Debtors A/c ….Dr.		50,000	
	Machinery A/c ….Dr.		60,000	
	To, Creditors A/c			30,000
	To, Capital A/c			160,000
	(Being opening entry passed)			

(iv) **Methods Of Preparation Of Trial Balance**

The following are the methods of preparing a trial balance

1. Total Method

Under total method, trial balance is prepared by taking up the total of debits and credit of all ledger accounts.

2. Balance Method

Under balance method, only the balances of all the ledger accounts are taken up to prepare the trial balance.

3. Compound Method

Compound method is the combination of both the methods, total method and balance method. Thus, compound method is also known as total cum balance method.

(v) Adjusting entries are usually made on the last day of an accounting period (year, quarter, month) so that the financial statements reflect the revenues that have been earned and the expenses that were incurred during the accounting period.

Adjustment Entries

for outstanding expenses;

Expenses A/c Dr.

To, Outstanding Expenses A/c

for Prepaid expenses;

Prepaid Expenses A/c Dr.

To, Expenses A/c

(vi) Prepaid Expenses Account is:
(d) an assets

(vii) Differences between Receipts & Payment Account and Income & Expenditure Account

Receipts & Payment Account		**Income & Expenditure Account**	
1	It is a summary of the cash book	1	It takes the place of profit and loss account in non-trading concerns.
2	It begins with an opening balance and ends with a closing balance.	2	Does not commence with any balance
3	It records all sums received and paid whether they relate to revenue or capital items.	3	It includes revenue items only
4	It includes all sums actually received during the year whether they relate to the past, current or next year.	4	It includes the items relating to year for which it is prepared. Provision is made for all outstanding expenses and accrued income.

(viii)

	Rs.
Wages Paid during the year:	**30,000**
Add: Outstanding at the end	4,020
Less: O/S at the beginning	2,280
Add: Advance at the beginning	750
Less: Advance at the end	850
	31,640

Amount to be shown in Income & Expenditure A/c for the year 2012 **Rs. 31,640**

(ix)

Machinery Account

Date	Particular	Amount	Date	Particular	Amount
2005		**Rs.**	**2005**		**Rs.**
Jan 1,	To, Cash A/c	10,000	Dec 31,	By, Depreciation A/c	900
				By, Balance c/d	9,100
		10,000			**10,000**
2006					
Jan 1,	To, Balance b/d	9,100	**2006**	By, Depreciation A/c	900
			Dec 31	By, Balance c/d	8,200
		9,100			**9,100**

(x) Some of the Accounting Errors are as follow;

- Errors Of Omission
  (a) Complete Omission
  (b) Partial Omission
- Errors Of Commission
- Compensating Errors
- Errors Of Principle

*(Brief explanation is required by the student)

Long Answer

Ans. 2 Accounting Concepts and Principles are a set of broad conventions that have been devised to provide a basic framework for financial reporting. As financial reporting involves significant professional judgments by accountants, these concepts and principles ensure that the users of financial information are not mislead by the adoption of accounting policies and practices that go against the spirit of the accountancy profession. Accountants must therefore actively consider whether the accounting treatments adopted are consistent with the accounting concepts and principles.

These principals include: *(Explanation of some of the important points are required)

- Accrual Concept
- Going Concern Concept
- Business Entity Concept
- Monetary Unit Assumption
- Time Period Principle
- Revenue Recognition Principle
- Full Disclosure Principle
- Historical Cost Concept
- Matching Principle
- Relevance and Reliability
- Materiality Concept
- Understandability Concept
- Comparability Principle
- Consistency Concept

Ans. 3 Capital Expenditure

Capital expenditure occurs when a business gets a long term advantage due to that expenditure.

It is usually incurred for accusation of an asset. These expenditures do not occur in the regular day to day transactions of the business.

Common examples:

- Purchase of furniture, office building etc.
- Purchase of additional furniture or machinery

Expenditure incurred in connection with the purchase of a fixed asset. For example, carriage paid of machinery purchased.

Purchase of patent right, copy rights etc.

Revenue Expenditure

Expenditure which is not for increasing the value of fixed assets, but for running the business on a day to day basis, is known as revenue expenditure.

Difference between Capital and Revenue expenditure

Buy a car is capital expenditure because its benefit to the business will be spread over a long time.

Fuel cost for running this care is revenue expenditure and it will be used up in few days and does not add to the value of the fixed asset.

Capital receipts

Capital receipts consist of

additional payments made to the business either by owner or shareholder of the business; or

from sale of fixed assets of the business.

Revenue receipts

Any receipt in the normal running or through day to day transactions of the business is categorized as Revenue receipt.

Sales receipts of the business are revenue receipts.

***(Point wise differentiation with suitable example required)**

Ans. 4

DEPRECIATION- A noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time (in other words, they depreciate), and must be replaced once the end of their useful life is reached. There are several accounting methods that are used in order to write off an asset's depreciation cost over the period of its useful life.

Because it is a non-cash expense, depreciation lowers the company's reported earnings while increasing free cash flow.

Some of the important methods of charging depreciation are as follow;

(i) Fixed Installment or Straight Line Method
(ii) Fixed Percentage on Diminishing Balance Method
(iii) Sum of the years Digits Method.
(iv) Annuity Method.
(v) Depreciation Fund Method.
(vi) Insurance Policy Method.
(vii) Revaluation Method.
(viii) Machine Hour Rate Method.
(ix) Depletion Method.
(x) Repairs Provision Method.

***(Explanation required by the student)**

Ans 5. Prepare triple column cash book having Cash, Bank and Discount Column after posting of all relevant data students are required to balance it.

Ans 6.

Rectification of Errors
Journal Entries

S.N	Particulars	L.F	Amount (Dr.)	Amount (Cr.)
			Rs.	***Rs.***
(i)	Suspense A/c ... Dr. To Commision A/c (Being excess debit of Commission Account, rectified now)		100	100
(ii)	RJ ... Dr. To Suspense A/c (Being excess posting of Rs. 50 rectified now)		50	50
(iii)	Wages A/c ... Dr. To Cash A/c (Being rectification of omitted amount of wages paid)		75	75
(iv)	Suspense A/c ... Dr. To Aarohi's A/c (Being amount received was wrongly debited, rectified now)		400	400
(v)	Suspense A/c ... Dr. To Drawings A/c (Being rectification related to drawings account passed)		200	200
(vi)	B/R A/c ... Dr. To Customer's A/c (Being rectifying entry passed for under posting of Rs.180)		180	180
(vii)	Suspense A/c ... Dr. To Wages A/c (Being amount of wages wrongly posted twice, rectified now)		75	75
(viii)	Khurana ... Dr. To Suspense A/c (Being excess debit of Commission Account, rectified now)		840	840

Suspense Account

Particular	Amount	Particular	Amount
	Rs.		**Rs.**
To Balance b/d	115	By, RJ	50
To Commision A/c	100	By, Khurana	840
To, Aarohi	400		
To, Drawings A/c	200		
To, Wages A/c	75		
	890		**890**

Ans 7. **Trading and Profit and Loss A/c**

(For the year ending 31st Dec 2008)

Particular		Amount	Particular	Amount
		Rs.		Rs.
To Opening Stock		16200	By Sales	65360
To Purchases		47000	By Closing Stock	23500
To Wages		7200		
To Coal & Power		2240		
To Gross Profit c/d		16220		
		88860		**88860**
To General Expenses		2500	By Gross Profit b/d	16220
To Taxes & Insurance		1315	By Commission	1320
To Discount		550	By Provision for Bad Debts	900
To Car Expenses(2/3)		1200		
To Donation		105		
To Charity Fund		250		
To Bad Debts	160			
Add: New Provision	306	466		
To Depreciation on:				
Machinery	934			
Motor car (240 X2/3)	160	1094		
To Interest on Loan		750		
To Net profit transferred to capital A/C		10210		
		18440		**18440**

Balance Sheet

(as on 31st March, 2008)

Capital & Liabilities		Amount	Assets & Properties		Amount
		Rs.			***Rs.***
Creditors		2500	Cash		80
Loan	7880		Closing Stock		23500
Add: Interest on Loan	750	8630	Debtors	6280	
B/P		3850	Less: Provision		
Bank Overdraft		3300	(160+306)	466	5814
Charity Fund		250	Building		11000
Capital	24500		Machinery	9340	
Add: Net Profit	10210		Less: Dep	934	8406
Less: Drawings			Car	2000	
(2000+600+80)	2680	32030	Less: Dep	240	1760
		50560			50560

Ans. 8 **In the Books of Bilasa Club, C.G**

Balance Sheet

(As on 1st Jan 2011)

Capital & Liabilities	Amount	Assests and Properites	Amount
	Rs.		**Rs.**
Sports Fund	30,000	Cash in Hand	5,000
		10% Sports Fund Investment	30,000
		Furniture	2,000
Capital Fund		Subscription Outstanding	
(Balancing Figure)	7,950	(500+450)	950
	37,950		**37,950**

Income and Expenditure Account

(for the year ending 31st December, 2011)

Expenditure	Amount	Income		Amount
	Rs.			**Rs.**
To, Affiliation Fees	1,000	By, Subscriptions		
To, Sundry Expenses	15,200	(1600x10)		16,000
To, Depreciation on Furniture	700	By, Sale of Scrap		200
		By Interest on sports fund investment	2,000	
To, Surplus	2,300	Add: Accrued	1,000	3,000
	19,200			**19,200**

Balance Sheet

(As on 31st December, 2011)

Capital & Liabilities		Amount	Assests and Properites		Amount
		Rs.			**Rs.**
Sports Fund	30,000		Cash in hand		14,000
Less: Sports Expenses	2,500	27,500	Furniture	5000	
Life Membership Fee		12,000	Less: Depreciation	700	4,300
Capital Fund	7,950		10% Sports Fund Investment		30,000
Add: Surplus	2,300	10,250	Accrued Interst on Investment		1,000
Subscription Received in Advance		1,000	Subscription Outstanding		
			2010:	450	
			2011:	1,000	1,450
		50,750			**50,750**

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