Model Answer/suggested solution **Book Keeping and Accountancy**

B. Com LL.B (First Semester) Examination, 2013

Paper Title: Book Keeping and Accountancy

Paper Code: AS-3036

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Note: These model answers are a depiction of important points which an examinee must have to mention to secure high marks in particular question. The length of the answer may vary as per the examinee's understanding, interpretation and his/her ability to comprehend the content.

Section-A

(Objective Type Questions)

i. (a) Accounting

ii. (c) Matching

iii. (a) Increase in Asset and increase in liability

iv. (d) All of above

v. (a) Debtors account

vi. (d) Not balanced and their balance is transferred to the profit and Loss Account

vii. (a) The debit total will be greater by Rs. 3,000 than the credit total

viii. (c) Sales Book

ix. (c) Petty Cash Book

x. (b) Revenue Receipt

xi. (b) Machine Account

xii. (b) 20,000

xiii. (a) Kept in the business for use over a long time for earning income

xiv. (b) An intangible fixed asset

xv. Two Characteristics of Non-Profit Institutions:

a) Non-Profit institutions are established for the purpose of rendering services to its own members or to the members of the public without any intention of earning profit.
b) The area of service of these institutions is social, educational, religious, charitable and so on without any consideration of caste, creed and colour.

Section-B

(Short Answer Type Questions)

Ans. 2

(i) **Capital:** Any account of money or goods with which business is commenced is called capital. It is treated as liability of the business.

(ii) **Drawings:** Any amount of money or goods which is withdrawn from the business by the proprietor/owner of business for personal use is called drawings.

(iii) **Intangible Assets:** Those assets which have no physical existence, i.e., they can't be seen and touched are termed as intangible assets, namely, trademarks, goodwill, copyrights, etc.

(iv) **Liabilities:** Whatever amount is payable by the business, is the liability of the business. Any amount which business owes is its liability.

Ans. 3 Golden Rules of Accounting:

- **Personal Accounts:** Debit the Receiver and Credit the Giver.
- **Real Accounts:** Debit what comes in and Credit what goes out.
- **Nominal Accounts:** Debit all expenses and losses and Credit all income and gains.

Ans. 4 Capital Expenditure:

1. Capital expenditures are those expenditures which are made;

(a) For acquiring fixed assets of the business,

(b) For making fixed assets serviceable

(d) For increasing earning capacity and for acquiring capital.

2. Capital expenditure is one which increases quality and quantity of fixed assets.

3. Capital expenditure is one which is incurred for making future period beneficial.

Difference between Capital and revenue Expenditure:

Sl. No.	Capital Expenditure	Revenue Expenditure
1.	They are incurred in acquisition or manufacture of fixed assets.	They are incurred in acquisition or manufacture of material or business articles, etc. in which business is carried on.
2.	They increase earning capacity of business.	They maintain earning capacity of business.
3.	An expenditure may be capital expenditure for one who is paying but revenue income for the other who is receiving.	These expenses are revenue expenses for one and revenue income for other.
4.	These expenses are of non-recurring nature	These are of recurring nature.

Ans. 5 Rectification of Error: The process of systematically correcting the accounting errors is known as rectification of errors. The presence of accounting errors affects accuracy of the profit and loss and the financial position of the business shown by the final accounts; therefore, no error should be left uncorrected.

First Stage: If rectification entries are made before preparation of Trail Balance then at the time of rectification, suspense account will not be made use of.

Second Stage: If rectification entries are made after preparation of Trial Balance and the difference of Trial Balance has been transferred to Suspense Account, then use of Suspense Account may be made as per requirements.

Third Stage: If errors are detected after preparation of final accounts, in this case profit and loss adjustment account is used for rectification as per requirements.

Ans. 6 Assets: An asset is something which benefits the future. Those economic resources which are owned by the proprietor, identified and measured in money are assets of the proprietor, e.g., land, buildings, plant and machinery, etc.

Sl. No.	Fixed Assets	Current Assets
1	Fixed assets refer to the assets of permanent character.	Current assets are temporary/flexible/floating in nature.
2	Land and Building, Furniture and Fittings, Tools and tackles, Plant and Machinery Computer .	Cash - in hand and at bank, Inventories Sundry Debtors, Advance and Deposits.
3	Not easily convertible into cash	Easily convertible into cash
4	Depreciation is charged.	Depreciation not charged.

Ans. 7 Diminishing Balance Method of Depreciation: Declining balance method of depreciation is a technique of accelerated depreciation in which the amount of depreciation that is charged to an asset declines over time. In other words, more depreciation is charged during the beginning of the life time and less is charged during the end. More depreciation is charged in beginning years because assets are usually more productive when they are new and their productivity declines gradually. Thus, in the early years of their life time, assets generate more

revenue as compared to the revenue generated in later years of their life. According to the matching principle of accounting, we should depreciate more of the asset's cost in early years to match the depreciation expense with the revenue earned from the use of the asset.

Solved Example: A machine costing Rs. 2 00,000 was purchased on 1st April, 2010. Prepare the Machine Account for 3 years after calculating depreciation @ 10 per cent p.a. on Diminishing Balance Method.

Depreciation Account

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1.4.2010	To Bank A/c		2,00,000	31.3.2011	By Dep. A/c		20,000
				31.3.2011	By Balance c/d		1,80,000
			2,00,000				2,00,000
1.4.2011	To Balance b/d		1,80,000	31.3.2012	By Dep. A/c		18,000
				31.3.2012	By Balance c/d		1,62,000
			1,80,000				1,80,000
1.4.2012	To Balance b/d		1,62,000	31.3.2013	By Dep. A/c		16,200
				31.3.2013	By Balance c/d		1,45,800
			1,62,000				1,62,000
1.4.2013	To Balance b/d		1.45,800				

Ans. 8

Rectified Trial Balance

Particulars	**Dr. (Balance)**	**Cr. (Balance)**
Capital		50,000
Building	60,000	
Loan		30,000
Creditors		40,000
Wages	10,000	
Salaries	15,000	
Machinery	50,000	
Bank Overdraft		20,000
Rent	5,000	
Purchase	10,000	
Sales		30,000
Drawings	20,000	
Total Rs.	**1,70,000**	**1,70,000**

Section- 'C'

Long Answer Type Questions

Ans. 9 Accounting Concept: There are the necessary assumptions or conditions upon which accounting is based. Accounting concepts are postulates, assumptions or conditions upon which accounting records and statement are based. The various accounting concepts are as follows:

1. Entity Concept: For accounting purpose the "business" is treated as a separate entity from the proprietor(s). One can sell goods to himself, but all the transactions are recorded in the book of the business. This concept helps in keeping private affairs of the proprietor away from the business affairs. E.g. If a proprietor invests Rs. 1,00,000/- in the business, it is deemed that the proprietor has given Rs. 1,00,000/- to the "business" and it is shown as a "liability" in the books of the business. Similarly, if the proprietor withdraws Rs. 10,000/- from the business, it is charged to them.

2. Dual Aspect Concept: As per this concept, every business transaction has a dual affect. For example, if Ram starts business with cash Rs. 1,00,000/- there are two aspects of the transaction: "Asset Account" and "Capital Account". The business gets asset (cash) of Rs. 1,00,000/- and on the other hand the business owes Rs. 1,00,000/- to Ram.

3. Going Business Concept (Continuity of Activity): It is assumed that the business concern will continue for a fairly long time, unless and until has entered into a state of liquidation. It is as per this assumption, that the accountant does not take into account the forced sale values of assets while valuing them.

4. Money measurement concept: As per this concept, in accounting everything is recorded in terms of money. Events or transactions which cannot be expressed in terms of money are not recorded in the books of accounts, even if they are very important or useful for the business. Purchase and sale of goods, payment of expenses and receipt of income are monetary transactions which are recorded in the accounting books however events like death of an executive, resignation of a manager are such events which cannot be expressed in money.

5. Cost Concept (Objectivity Concept): This concept does not recognize the realizable value, the replacement value or the real worth of an asset. Thus, as per the cost concept

a) As asset is ordinarily recorded at the price paid to acquire it i.e. at its cost, and

b) This cost is the basis for all subsequent accounting for the asset.

For example, if a machine is purchased for Rs. 10,000/- it is recorded in the books at Rs. 10,000/- and even if its market value at the time of the preparation of the final account is Rs. 20,000/- or Rs. 60,000/- the same will not considered.

6. Accounting Period Concept: An accounting period is the interval of time at the end of which the income statement and financial position statement (balance sheet) are prepared to know the results and resources of the business.

7. Accrual Concept: The accrual system is a method whereby revenue and expenses are identified with specific periods of time like a month, half year or a year. It implies recording of revenues and expenses of a particular accounting period, whether they are received/paid in cash or not.

8. Period Matching of Cost and Revenue Concept: This concept is based on the period concept. Making profit is the most important objective that keeps the proprietor engaged in business activities. That is why most of the accountant's time is spent in evolving techniques for measuring the profit/profitability of the concern. To ascertain the profit made during a period, it is necessary to match "revenues" of the period with the "expenses" of that period. Income (profit) earned by the business during a period is compared with the expenditure incurred to earn the revenue.

9. Realization Concept: According to this concept profit, should be accounted for only when it is actually realized. Revenue is recognized only when sale is affected or the services are rendered. However, in order to recognize revenue, receipt of cash is not essential. Even credit sale results in realization as it creates a definite asset called "Account Receivable". Similarly

incomes like commission interest rent etc. are shown in Profit and Loss A/c on accrual basis though they may not be realized in cash on the date of preparing accounts.

10. Verifiable Objective Evidence Concept: According to this concept all accounting transactions should be evidenced and supported by objective documents. These documents include invoices, contract, correspondence, vouchers, bills, passbooks, cheque etc.

11. Accounting Equivalence Concept: The proprietor provides the funds for acquisition of assets; hence the assets owned by the business must be equal to the funds provided by the proprietor which is technically called 'Equity'. Whatever properties or things are owned by the proprietor, they are termed as assets of the proprietor. These days in addition to own funds, money is borrowed which is known as liability. Hence, assets are acquired through equity and liability. Hence, accounting equivalence concept is: Assets = Owner's Equity + Liabilities or Outsiders' equities.

12. Capital Concept: This concept is that record for capital be made separately. Proprietor may contribute capital either in cash or in goods or partly in cash and partly in goods. In sole trading and partnership concerns profit of each accounting period is transferred to capital account but in case of limited companies, profit is not transferred to capital account. Accountant must keep this concept in view while recording capital and profit. This concept helps to ascertain earning capacity of business easily. It also helps in comparing the earning capacity of various periods and thus efficiency of business can be ascertained.

Ans. 10 Cash Book: Cash Book serves dual role of a ledger as well as journal. Cash book is the account which keeps track of all the cash transactions of the business. Because of the enormously large amount of cash transactions in a typical business, this Cash Account is maintained as a separate book known as CASH BOOK. Cash book is also a **book of original entry**. Cash book consists of Cash Account and Bank Account. Cash Account is an **Asset account or Real Account** and thus, any **increase in Cash** or Bank Account is **debited to the account** and; any **decrease in Cash** or Bank account is **credited to the account**. Cash Book **always shows a debit balance**.

Specimen of Three Column Cash Book

Date 2008	Particulars	L.F	Amount			Date 2008	Particulars	L.F	Amount		
			Dis.	**Cash**	**Bank**				**Dis.**	**Cash**	**Bank**
Mar. 01	To Bal. b/d			415	2530	Mar. 02	By Wages A/c				950
Mar. 15	To Krishna A/c		20	530		Mar. 05	By Purchases A/c			150	
Mar. 18	To Sales A/c			150		Mar. 16	By Mohan A/c		15		400
Mar. 22	To Interest A/c				200	Mar. 20	By Furniture A/c				300
Mar. 25	To Suresh A/c		10	250		Mar. 30	By Bank A/c	**C**		300	
Mar. 30	To Cash A/c	**C**			300	Mar. 31	By Bal. c/d			895	1380
			30	**1,345**	**3,030**				**15**	**1,345**	**3,030**
Apr. 1	To Bal. b/d			895	1,380						

Ans. 11 **Machinery Account**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1.10.2009	To Bank A/c		20,000	31.3.2010	By Dep. A/c		1,000
				31.3.2010	By Balance c/d		19,000
			20,000				20,000
1.4.2010	To Balance b/d		19,000	31.3.2011	By Dep. A/c (Mach. 1) 1900 (Mach. 2) 1200		3,100
1.4.2010	To Bank A/c		12,000	31.3.2011	By Balance c/d (Mach. 1) 17,100 (Mach. 2) 10,800		27,900
			31,000				31,000
1.4.2011	To Balance b/d (Mach. 1) 17,100 (Mach. 2) 10,800		27,900	1.7.2011	By Dep. A/c (Mach. 1)		427.5
					By Bank A/c (Sale proceed)		16,500
1.4.2011	To Bank A/c		10,000	31.3.2012	By P& L A/c		172.50
					By Dep. A/c (Mach. 2) 1,080 (Mach. 3) 750		1,830
					By Balance c/d (Mach. 2) 9,720 (Mach. 3) 9,250		18,970
			37,900				37,900
1.4.2012	By Balance b/d (Mach. 2) 9,720 (Mach. 3) 9,250		18,970	31.3.2013	By Bank A/c (Sale proceed)		8,900
31.3.2013	By P& L A/c		152		By Dep. A/c (Mach. 2) 972 (Mach. 3) 925		1,897
					By Balance c/d (Mach. 3)		8,325
			19,122				19,122