

YESHAS ACADEMY

QUICK REVISIONARY
NOTE

For CA CPT

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PREFACE

Dear students,

I hope that you all are working hard preparing for your CPT examination and I wish that you all pass with flying colours.

I have additionally prepared this "**Quick Revision Notes**" for quick reference that will help you to revise all that is **relevant and necessary**.

This last minute revision note has been designed keeping in mind the trend of questions asked in the examination. It will give you an edge as far as time management is concerned. In this note all the important points are covered.

If you have any concern with regard to any content covered in this note, feel free to get in touch.

I wish you all the very best of luck, **Give the Best, God will do the Rest.**

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"IF YOU TRY AND LOSE THEN IT ISN'T YOUR FAULT. BUT IF YOU DON'T TRY AND YOU LOSE, THEN IT'S ALL YOUR FAULT."

QUICK REVISIONARY NOTE

FUNDAMENTALS OF ACCOUNTING
A VERY QUICK REVISIONARY NOTE BY CA. CHIRANJEEV JAIN

JUST DEVOTE 2 HRS. BEFORE EXAMS
&
ASSURED MAXIMUM MARKS IN MINIMUM EFFORTS.

BASICS

- 1) An economic event that involves transfer of money or money's worth is **financial transaction**.
- 2) Examples of **event** are closing stock, profit or loss, all assets and liabilities shown in balance sheet.
- 3) Recording, Classifying, Summarizing, Analysing, Interpreting and Communicating are **Procedural aspects (Process) of Accounting**.
- 4) Profit / Loss is calculated at the stage of **Summarising**. Trail balance and final account is prepared during **summarising process**.
- 5) Drawing represents cash withdrawn for personal use and goods withdrawn **for personal use**.
- 6) Owner (Partners, Sole proprietor, Shareholders) and Managers (Board of Directors) are **internal users of accounting**.
- 7) (i) Investors (ii) Lenders (iii) Suppliers (iv) Government Agencies (v) Employees (other than managers) (vi) Customers are **External users of accounting**.
- 8) Measurement, Forecasting, Decision-making, Comparison & Evaluation, Control and Government Regulation and Taxation are **FUNCTIONS OF ACCOUNTING**
- 9) Financial Accounting, Management Accounting, Cost Accounting, Social Responsibility Accounting, Human Resource Accounting are the sub field of accounting.
- 10) **Stewardship accounting** is root cause for financial accounting. Stewardship accounting means that how we are taking care of our business which is shown in our accounts.
- 11) **Inflation accounting is not a sub field of accounting. The problems related to price-rise are handled under Inflation Accounting**
- 12) Profit and Loss Account, Balance Sheet, Cash Flow Statement, Notes forming part of Accounts are part of **financial statements** which are communicated to users through **accounting/financial reports**
- 13) **Book-keeping** is a process concerned with recording of transactions. Financial statements are prepared in **Financial Accounting** on the basis of book-keeping records.
- 14) **The main objectives of Book-Keeping are:** Complete Recording of Transactions and Ascertainment of Financial Effect on the Business
- 15) **Window dressing of Accounts means** presenting accounts in beautiful manner or Showing more losses to avoid Income Tax or Showing more profit to attract Investment. **The practice of window dressing is prohibited due to Conservatism.**
- 16) A person who owes money of the firm is a **debtor**.
- 17) Fundamental accounting assumption as per AS-1 is **Going Concern, Consistency & Accrual**.
- 18) If nothing is written about the Fundamental accounting assumption to be followed it is presumed **that they have been followed**.
- 19) **If Fundamental accounting assumption is not followed, a separate disclosure is required in notes to account.**

ACCOUNTING PRINCIPLES

- 20) **Accounting conventions** refer to the general agreement on the usage and practices in social or economic life. Accounting convention is also known as **Modifying Principles which are Conservatism, Consistency and Materiality.**

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- 21) Economic life of an enterprise is artificially split into periodic intervals in accordance with **Periodicity Principle**.
- 22) **Materiality principle** is an exception to the Full disclosure principle.
- 23) Small items like, pencils, pens, files, etc. are written off within a year according to **Materiality concept**.
- 24) When stock is valued at cost in one accounting period and at lower of cost and NRV in another period Prudence principle conflict with **consistency principle**.
- 25) The **consistency** concept means that similar items in a set of accounts should be given similar accounting treatment and it should be applied from one period to another.
- 26) The comparison of financial statements of one year with that of another year is possible only when **Consistency concept** is followed
- 27) Accrual means **recognition of revenue as it is earned and expenses when they are incurred**.
- 28) Outstanding expenses and accrued income are included in Profit & Loss A/c and Prepaid Expenses and Pre-received Income (Unearned Income) are excluded from Profit & Loss A/c at the yearend according to which **Accrual concept**
- 29) Income is measured on the basis of **accounting period concept**.
- 30) The determination of expenses for an accounting period is based on the principle of **matching concept**.
- 31) For every debit there will be an equal credit according to **Dual aspect concept**
- 32) If Going Concern is valid, all Assets would be valued at its **Historical cost** whereas If Going Concern is no longer valid, all Assets would be valued at its **Net realizable value**
- 33) **Depreciation on Tangible assets and amortization of Intangible assets is charged due to matching concept and Going Concern Concept. The Best Option is Matching Concept.**
- 34) Profit and loss is calculated as per Periodicity, Accrual and Matching Concept. The Best Option is **Matching Concept (If all of the above option is not given)**.
- 35) Prudence (Conservatism) principle is **an exception to the consistency**.
- 36) Personal transactions are distinguished from business transaction, in accordance with **accounting entity principle**.
- 37) The principle which treats all rupee a like whether it is rupee of 1957 or 2007 is **money measurement principle**.
- 38) According to money measurement concept, transactions and events are recorded in the books of accounts in the **ruling currency of the country in which books of accounts are prepared**.
- 39) According to money measurement concept of accounting theory, the value of money will **Remain constant**
- 40) Human assets have no place in accounting records is based on **Money measurement concept**
- 41) Appending notes to the financial statement is in accordance with **full disclosure principle**.
- 42) The policy of anticipate no profit and provide for all possible losses arise due to the concept of **Conservatism (Prudence)**
- 43) The proprietor pays interest on drawings and receive interest on capital as per **Entity concept**
- 44) Revenue from sale of products, is generally realized in the period in which sale is made.
- 45) Fixed assets are held in the business for the purpose of **earning revenue and are not meant for resale**
- 46) **Working capital** is Current assets – current liabilities
- 47) Purchase of machinery for cash retains total assets unchanged.
- 48) The accounting standards deal with the issues of **recognition, measurement, presentation and disclosure requirement** of events and transactions in the financial statements
- 49) **Accounting Standards** provide frame work and accounting policies so that the financial statements of different enterprises become comparable.

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- 50) Accounting standards cannot override the **statute**. Accounting standards apply only to **material items**.
- 51) The accounting standards are mandatory for **Companies**.
- 52) AS in India are issued by the Accounting Standard Board of **ICAI**.
- 53) 32 AS are issued by the ICAI and 31 AS are in force, AS 8 was replaced by AS 26.
- 54) It is essential to standardize the accounting principle and policies in order to **ensure Transparency, Consistency, and Comparability**.
- 55) Accounting Policies refer to **specific accounting principles and method of applying those principles**.
- 56) The major consideration governing the selection and application of accounting policies are **prudence, substance over form and materiality**.
- 57) A change in accounting policy is justified to **comply with AS, to ensure more appropriate presentation of financial statement of the enterprise and to comply with law**.
- 58) There are four generally accepted measurement bases or valuation principles Viz. **Historical Cost, Current Cost, Realisable Value (Market value) and Present Value**.

ACCOUNTING PROCESS

- 59) Generally, under Single Entry System - **Only personal, Cash and Bank Accounts are maintained**
- 60) **ACCOUNT** is a T form statement having two sides. Left side – Debit and Right side - Credit
- 61) In double entry system of book keeping every business transactions **affects two accounts**.
- 62) **DEBIT signifies :** (a) Increase in Assets account (b) Decrease in Liability account (c) Decrease in capital account (d) Increase in Expense/loss account (e)) Decrease in **any Income/gain**
- 63) **CREDIT signifies:** (a) Increase in **Capital** (b) Increase in **Liability** (c) Increase in **any Income/gain** (d) Decrease in Assets account/ Expense/loss account.
- 64) Journal is also called **subsidiary book** or **primary books** or books of **original entry**. Recording of transactions in journal is termed as **journalizing the entries**
- 65) If two or more transactions of the same nature are journalized together it is known as **Compound Journal Entry**.
- 66) **Trade discount is not recorded where as cash discount is recorded.**
- 67) The debts written off as bad, if recovered subsequently then **Cash A/c Debited and Bad Debts Recovered Account Credited**.
- 68) A furniture dealer sold furniture to Sunil for cash. In the books of the dealer **Cash A/c** is debited and **Sales A/c** is credited.
- 69) A Books dealer sold furniture to Sunil for cash. In the books of the dealer **Cash A/c** is debited and **Furniture A/c** is credited.
- 70) Ledger is the book of **secondary entry**. It is a principal book of account. The process of transferring the transactions relating to changes in a particular item at one place in the form of an account is called **posting**.
- 71) Credit balance in the ledger will be Capital, Liabilities or Revenue.
- 72) Debit balance in the ledger will be either Expenses or Assets.
- 73) L.F in the journal is filled at the time of **posting**.
- 74) **Real** Accounts relate to assets of the firm but not **debt**.
- 75) Nominal accounts are **never balanced**; these are **directly transferred to P&L A/c** by passing **closing entry**.
- 76) Only personal and real accounts i.e., assets, liabilities and capital accounts are balanced at the end of the period.

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- 77) Salary account, Interest received a/c is **nominal account (In fact all income/gain and expenses/loss are nominal account)**
- 78) Prepaid salary a/c, Outstanding salary a/c, Accrued interest, Interest receivable, is a **personal a/c.**
- 79) Bank A/c, bank overdraft A/c are **personal a/c. (In fact all liabilities are personal account)**
- 80) Advance to employee, Advance to suppliers are **personal a/c.**
- 81) Goodwill, Patent, Copyright, Trademark are **real a/c (In fact all fixed assets whether tangible or intangible are real account).**
- 82) Bad debt and Bad debt recovered are **nominal a/c.**
- 83) A free sample a/c is **nominal a/c.**
- 84) Cash book is a type of **subsidiary book** but treated as **principal book of a/c.**
- 85) Cash book is used to record **all receipts and payment of cash.**
- 86) A single transaction which affects the Cash and Bank column of a cash book simultaneously is known as a **contra entry.**
- 87) Discount columns of cash Book are not balanced, they are merely totalled. The Cash/bank columns are balanced. Bank column of the cash book may show **either Dr. Balance or Cr. Balance.** Cash column cash book will show **only debit balance.**
- 88) A cheque which is payable across the bank counter is a **bearer cheque.**
- 89) **Petty cash book** is purely a subsidiary book. The balance in petty cash book represents an **asset.**
- 90) Rate of commission is charged by the bank issuing the credit card is **1% to 4%**
- 91) Purchase book/Sale Book is used to record all **Credit purchase/sale of goods.**
- 92) All subsidiary books are **part of journal.**
- 93) If there is no special subsidiary book meant to record a transaction, it is recorded in the **journal (proper). Opening entries, closing entries, Rectification entries, Transfer entries and Adjusting entries are recorded in journal (proper).**
- 94) Goods taken by proprietor for personal use will be recorded in **journal proper.**
- 95) Total of sales book is posted to credit side of **sales a/c,** Total of Purchase book is posted to Debit side of **Purchase a/c,** Total of sales return book is posted to debit side of **sales return a/c,** Total of Purchase return book is posted to Credit side of **Purchase return a/c.**
- 96) When a customer returns the good a **credit note** is sent to him. Credit notes issued are used to prepare **Sales Returns Book**
- 97) When the goods are sent to supplier a **debit note** is sent to him. Debit notes issued are used to prepare **Purchase Returns Book**
- 98) Credit purchase of stationary by a stationary dealer is to be recorded in **purchase book.**
- 99) Credit purchase of fixed assets is recorded in **journal proper.**
- 100) Cash purchase of goods and fixed assets are recorded in **cash book.**
- 101) BRS is prepared by a **customer of bank i.e., Businessman**
- 102) BRS is statement showing the causes of differences **between bank column of the cash book and pass book.**
- 103) Debit balance in the cash book means credit balance as per pass book (**Favourable balance**)
- 104) Debit balance in the passbook or credit balance as per cash book means **Overdraft (Unfavourable) balance.**
- 105) Bank balance shown in Trial Balance/balance sheet is Balance as per **cash Book or Adjusted cash book.** Best option is Adjusted cash book
- 106) Under Bank reconciliation statement while **adjusting the cash book,** all the errors in the cashbook are taken into consideration. Timing difference and Pass Book error are not considered in adjusted Cash Book.
- 107) Installation charges of machinery purchased is **capital expense.**

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- 108) Expense incurred on trial run of machine is **capital expenditure**.
- 109) Repair of second hand machinery before put to use is **capital expense**.
- 110) Annual maintenance fee of machine is **revenue expense**.
- 111) Cost of ring & pistons of an engine changed to get better fuel efficiency is **capital expense**.
- 112) Interest on term loan for purchase of machinery where the commercial production has not begun till the last day of accounting year is **capital expense**.
- 113) Premium received on issue of shares is **capital receipts**.
- 114) Scrap value of machinery is **capital receipt**.
- 115) Insurance claim for machinery damaged by fire is **capital receipt**.
- 116) Cash received from debtors is **revenue receipt**.
- 117) Fine imposed is **revenue expenditure**.
- 118) Purchase of goodwill is **capital expense**.
- 119) Import duty on purchase of material is **revenue expense**.
- 120) Loss on sale of machinery is **revenue loss**.
- 121) Festival advance to employee is **prepaid expense**.
- 122) Cost incurred on dismantling a machine worn out part is **revenue expense**.
- 123) **Deferred Revenue Expenditure** to the extent not written off is shown in the balance sheet under **miscellaneous expenses**. **Deferred Revenue Expenditure** written off is debited to **Profit and loss account**.
- 124) Revenue expenses are **Expired Cost** where as Capital expenditure are **Unexpired Cost**.
- 125) Amount spent on repainting an old building for first time on purchase is **capital expense**.
- 126) Amount spent on annual repainting of building is **revenue expense**.
- 127) Contingent assets usually arises from unplanned or unexpected event that given rise to the **possibility of an inflow** of economic benefits to the business entity.
- 128) In the financial statement contingent assets and liabilities are **neither recognized nor disclosed**. However it may disclosed in directors report (report of approving authority)
- 129) In the financial statement provisions are **recognized and adjusted**.
- 130) In the financial statement contingent liabilities are not **recognized and not adjusted but disclosed in notes to account**.
- 131) If a contingent liability becomes probable, it has to be **provided in the books of accounts as provision**.
- 132) Liability for bill discounted not at matured is a **Contingent liability**.
- 133) **Any payment under dispute** will be a **Contingent liability**.

INVENTORY

- 134) The inventory of finished goods is valued at **cost or NRV** which is lower as per **Conservatism principles**.
- 135) Inventories are usually written down to net realisable value on an **item-by-item basis**.
- 136) **Costs of inventories include Cost of Purchase + Cost of Conversion + Other costs**
- 137) **Costs of inventories exclude** Abnormal loss, storage costs, administrative overheads and selling and distribution costs and Interest costs
- 138) **Net realisable value** means Sales less cost incurred necessarily to make the sale
- 139) By-product and Damaged inventory is valued at **net realizable value**.
- 140) **As per AS 2**, Cost price of inventory is calculated as per **FIFO method or Weighted Average Price Method**.
- 141) **As per Income tax Act**, **FIFO** method is applicable to calculate cost price of inventory.
- 142) **Last in first out methods** of Inventory Valuation matches current cost with Current Revenues.
- 143) If the closing inventory represents **the latest purchases**, the method of valuation followed is **FIFO**.

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- 217) The term of **BILL AFTER SIGHT** commences from the date of **acceptance of the bill** and the term of **BILL AFTER DATE** commences from the date of **drawing a bill**. **Three** Days of grace are added to calculate maturity for such types of bill.
- 218) When the maturity date is a public holiday or Sunday then the preceding business day will be the maturity date.
- 219) When the maturity date is an emergency/unforeseen holiday, then the next following business day will be the maturity date.
- 220) When the bill is honoured at the maturity date, the drawee debits **B/P a/c**.
- 221) In case of dishonour of a bill, **noting charges are initially paid by holder of bill** i.e., by drawer (if he hold the bill), or by Bank (if bill is discounted) or by creditor of drawer (if bill is endorsed).
- 222) However noting charges paid in case of dishonour of a bill is recovered from **drawee**.
- 223) If bill is Dishonoured,
Amount receivable from drawee = Bill amount + Noting charges (If any)
Amount Payable to creditor (if bill was endorsed) = Bill amount + Noting charges (If any)
Amount Payable to Bank (if bill was discounted) = Bill amount + Noting charges (If any)
- 224) When the bill is endorsed, Entry in the book of drawer
Endorsee/Creditor a/c Dr. To Bills receivable a/c
- 225) When the bill is endorsed or discounted by drawer, there will be **no entry** in the books of drawee.
- 226) When the drawer endorses the Bill, journal entry recorded by Endorsee
Bills Receivable A/c Dr. To Endorser
When such bill is dishonoured, journal entry recorded by Endorsee
Endorser A/c Dr. To Bills Receivable A/c
- 227) When an accommodation bill is discounted and amount received is shared by the two parties, the discount is borne by the drawer and drawee in agreed ratio.
- 228) Discount/rebate at the time of retirement of a bill is a **gain for the drawee** and **loss for the drawer**.
- 229) In **RENEWAL OF BILL** a new bill will be drawn and the old bill will be **cancelled**.
- 230) In the books of drawee of the bill, the amount not ultimately paid by him due to insolvency, should be credited to **deficiency account**.
- 231) A foreign bill is generally drawn in **triplicate copy**.
- 232) The purpose of accommodation is when both parties are in **need of funds**.
- 233) Bills Payable A/c is shown in the balance sheet under the head **Current liabilities** whereas Bills receivable A/c is shown in the balance sheet under the head **Current assets**.
- 234) **Bill discounted or endorsed (not yet matured)** will not be shown in the balance sheet of Drawer but will be disclosed as **contingent liability in foot note** due to disclosure concept.

PARTNERSHIP ACCOUNTS

- 235) The law relating to partnership firms is contained in the partnership Act 1932 which came in to force on 1.10.1932; it applies to whole of India excluding J&K.
- 236) To constitute a partnership, the agreement between parties may be in writing or an oral Agreement.
- 237) Mutual Agency is conclusive evidence of partnership.
- 238) Sharing of profits is prima facie evidence of partnership.
- 239) Registration of a firm is **optional**. Partnership deed is registered in the court of law whereas partnership agreement is not registered.
- 240) A partner act **Agent** for a firm.
- 241) The maximum number of partners =100. (This limit is specified in Companies Act)

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- 242) The liability of a partner in a firm to outside is **unlimited**.
- 243) If partnership deed/agreement is silent for particular point, in that case the following provisions of the Partnership Act will apply.
1. no partner has the right to a salary,
 2. no interest is to be allowed on capital,
 3. no interest is to be charged on the drawings,
 4. interest at the rate of 6% is to be allowed on a partner's loan to the firm, and
 5. profits and losses are to be shared equally.
- 244) An incoming partner is liable for all the acts of the firm done after his admission.
- 245) **Profit & Loss appropriation account** is prepared to show the distribution of profits among the partners.
- 246) Interest on partners' drawings is a **Gain** to the business therefore credited to **Profit & Loss appropriation account**.
- 247) Where in a partnership firm the partners are entitled to interest on their capitals, such interest is payable **only out of profits of the firm**. Therefore, in case of insufficient profits, the amount of profit is distributed **in the ratio of capital as partners** get profit by way of interest on capital only.
- 248) If drawing are made evenly in the beginning of each month, interest can be calculated for the whole of the amount for - 6.5 months
If drawing is made evenly at the end of each month, interest can be calculated for the whole of the amount for - 5.5 months
If drawing is made evenly at the middle of each month, interest can be calculated for the whole of the amount for - 6 months
- 249) If drawing are made evenly in the beginning of each quarter, interest can be calculated for the whole of the amount for - 7.5 months
If drawing is made evenly at the end of each quarter, interest can be calculated for the whole of the amount for - 4.5 months
If drawing is made evenly at the middle of each quarter, interest can be calculated for the whole of the amount for - 6 months
- 250) There are four methods for valuation of goodwill
- 1) Average profit basis - $\text{Goodwill} = \text{Average Profit} \times \text{Nos. of Year purchase}$
 - 2) Super profit basis - $\text{Goodwill} = \text{Super Profit} \times \text{Nos. of Year Purchase}$
 - 3) Capitalisation basis - $\text{Goodwill} = [\text{Super Profit} / \text{NROR}]$
 - 4) Annuity basis - $\text{Goodwill} = \text{Super Profit} \times \text{Annuity factor for Nos. of year purchase}$
- Where,
- a) Average profit can be simple average or weighted average profit.
 - b) Super Profit = Average Profit - Normal Profit.
 - c) Normal profit = Capital Employed X Normal Rate of Return.
 - d) Capital Employed = All assets - All External Liabilities.
- 251) Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their **sacrificing Ratio**.
- 252) **ACCOUNTING TREATMENT FOR GOODWILL**
- Gaining partners Capital a/c Dr. [In gaining Ratio]**
To Sacrificing Partners Capital A/c [In Sacrificing Ratio]
- 253) **In case of incoming partner, Sacrificing Ratio** = Old Ratio - New Ratio
- 254) **In case of outgoing partner, Gaining Ratio** = New Ratio - Old Ratio
- 255) P/L on revaluation of assets & liabilities is shared by **old partners in their old PSR**.
- 256) Accumulated P/L & Reserve are shared by the **old partners in their old PSR**.

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- 257) In case Revaluation a/c is prepared, the assets and liabilities appear in the books of reconstituted firm at their **Revalued figure**.
- 258) In case memorandum Revaluation a/c is prepared, the assets and liabilities appear in the books of reconstituted firm at their **OLD book value**.
- 259) Public notice of retirement must be given **by retiring partner or any of the other partners**.
- 260) The rate of interest allowed on the outstanding loan of retiring partner as per partnership Act, 1932 is **6%**
- 261) Death of partner has the effect of dissolving the firm.
- 262) Retiring partner's share of goodwill is debited to remaining partner in their **gaining ratio**.
- 263) On the death of a partner, his executor is paid the share of profits of the dying partner for the relevant period. This payment is recorded in **Profit & Loss Suspense Account**.
- 264) As per **Section 37** of the Indian Partnership Act, 1932, the executors would be entitled at their choice to the interest calculated from the date of death till the date of payment on the final amount due to the dead partner at **6 percent per annum**.
- 265) JLP is taken by the firm on the life of all the partners **jointly or all the partners severally**.
- 266) At the time of retirement of a partner, Firm gets **surrender value** from the insurance company against JLP policy for all the partners.
- 267) At the time of death of a partner, Firm gets **policy value** for all the partners from insurance company against JLP taken severally for each partner.
- 268) On the death of a partner the amount of JLP should be credited to all partners including the deceased partner capital accounts of in **old profit sharing ratio**
- 269) Insurance premium paid by a firm on the life insurance policy of the partners will be **Debited to Profit and Loss A/c**
- 270) **Dissolution of partnership automatically takes place**
- if the business becomes unlawful
 - if anyone of the partners became insolvent
 - if all the partners became insolvent

CONSIGNMENT

- 271) Common point between the consignment and sale is the **stock outflow**.
- 272) The person who send the goods to be sold on consignment is known as **consignor**
- 273) The person to whom goods are sent to be sold on consignment is known as **consignee**.
- 274) The relationship between the consignor and consignee is of **principal and agent**.
- 275) Risk of goods remains with the **consignor**. The profit or loss on consignment belongs with the **consignor**.
- 276) The revenue for transaction of consignment sale is recognized, **when goods are sold to customers by consignee**.
- 277) An account sale is a statement sent by the **consignee to the consignor**.
- 278) A Performa invoice is sent by the **consignor to the consignee**.
- 279) **DEL-CREDERE COMMISSION** is an additional commission paid by the consignor to consignee for bearing the loss on account of bad debt arising due to credit sale. If such commission is offered the consignee will bear the bad debt.
- 280) **OVER-RIDING COMMISSION** is an extra commission allowed by the consignor to the consignee to promote sales at higher price than specified selling price or to encourage the consignee to introduce a new product in the market. If such commission is offered the consignor will bear the bad debt.
- 281) When any type of commission is allowed by consignor to consignee, then amount of **abnormal loss will be always borne by consignor**.

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- 282) Consignment account is a **nominal account**.
- 283) The profit of consignment will be transferred to **General profit & loss account**.
- 284) Goods sent on consignment are transferred to **Trading Account**. Goods sent on consignment account is a **Nominal account**
- 285) Abnormal loss is credited to consignment account.
- 286) The closing stock is valued at Original cost plus non-recurring expenses incurred by both consignor and consignee i.e., closing stock of consignment includes promotional share of **all direct expenses**.
- 287) If Goods are sent to consignee at Invoice Price then,
Invoice Price = Cost price + Load
Sale price = Invoice Price + profit.
Example:
If load = $\frac{1}{2}$ of cost price = $\frac{1}{3}$ of invoice price
If Profit = $\frac{1}{2}$ of invoice price = $\frac{1}{3}$ of sale price
- 288) If Goods are sent to consignee at Invoice Price, Consignment account is prepared at Invoice value.

COMPANY ACCOUNTS

- 289) A company has a separate legal entity from its member.
- 290) An authorized capital refers to that amount which is stated in the **capital clause of the memorandum of association**. It is also referred to as '**Registered Capital**' or '**Nominal Capital**'. It is **DISCLOSED** in the balance sheet at face value.
- 291) Reserve capital is **not disclosed** in the balance sheet of the company. Uncalled capital may be converted into reserve capital. Reserve capital is part of uncalled capital which will be called in the event of liquidation of company.
- 292) Minimum members of a private company – **2** and Maximum members of a private company – **200** and minimum paid up share capital shall be – **1,00,000**
- 293) Minimum members of a public company – **7** and Maximum members of a public company – **No Limit** and minimum paid up share capital shall be – **5,00,000**,
- 294) "Small company" means a company, other than a public company, whose paid-up share capital of which does not exceed **fifty lakh rupees** or turnover of which as per its last profit and loss account does not exceed **two crore rupees**.
- 295) "One Person Company" as a company which has only one person as a member.
- 296) Shares may be issued for cash or for consideration other than cash.
- 297) Shares may be issued for private placement or public offer. Private companies cannot issue shares through public offer.
- 298) Equity shares can be issued with the differential rights as to **dividend and voting**.
- 299) **Prospectus** of a company is an invitation to make an offer to subscribe the share or debenture of the company.
- 300) **SEBI guidelines** are applicable in case of public issue of shares of listed companies.
- 301) Issued capital can never be more than **authorized capital**.
- 302) In case of Over subscription, issued capital will be less than the subscribed capital where as in case of under subscription, issued capital will be more than the subscribed capital
- 303) In Case of over subscription, if shares are allotted to an applicant for lower number of shares than applied for, it is known as **pro-rata allotment**.
- 304) Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include -
(i) a balance sheet as at the end of the financial year;
(ii) a profit and loss account;

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- (iii) cash flow statement for the financial year;
 - (iv) a statement of changes in equity, if applicable; and
 - (v) any explanatory note
- 305) Final accounts of a company are prepared according to **Schedule III** of the company's act 2013.
- 306) Balance sheet of a company should be prepared as per **Part I of Schedule III** and Statement of Profit and Loss should be in format set out in **Part II of Schedule III**. It prescribes only **vertical format**.
- 307) The format prescribed in Schedule III is not Applicable to
- (a) insurance company
 - (b) banking company
 - (c) any company engaged in generation or supply of electricity
- 308) The financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.
- 309) According to Companies Act, a company cannot proceed to allot shares unless minimum subscription is received by the company which is **90% as per guidelines of SEBI**.
- 310) If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within **15 days** after the date of closure of issue in case of non underwritten issue and **7 days** after the date of closure of issue in case of underwritten. In case of delay interest @ 15% p.a. is applicable.
- 311) The companies Act, requires that the period of **at least one month** must be there between two calls.
- 312) According to **Section 53** of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.
- 313) As per **Co. Act 2013**, the amount payable on application on each share must be at least **5% of the nominal amount of share**.
- 314) As per **SEBI Guidelines**, the amount payable on application on each share must be at least **25% of the issue amount of shares**.
- 315) As per Companies Act, the amount of call on a share must not exceed **25% of the nominal amount of share**.
- 316) A company can issue share at premium even in the absence of any **express authority in its articles** where as the issue of shares at a discount is must be **authorised by a resolution passed by the company at its general meeting**.
- 317) Securities premium A/c appears in the Balance Sheet under the heading **Reserves & Surplus**.
- 318) Securities Premium Account may be **used** (as per section 52) by the company:
- (i) For issue of bonus shares.
 - (ii) To write off preliminary expenses.
 - (iii) To write off the commission paid, or discount on issue of shares or debentures.
 - (iv) To pay premium on the redemption of preference shares or debentures.
 - (v) For the purchase (buy back) of own shares or other securities.
- 319) Securities premium is **not used** for the purpose of Dividends and revenue losses and other capital loss.
- 320) The maximum rate of interest which can be charged on calls in arrears (As per Table-F) is **10% P.a.**
- 321) The maximum rate of interest which can be paid on calls in advance (As per Table-F) is **12% P.a.**

QUICK REVISIONARY NOTE

- 322) The **directors** have the authority to waive the payment of interest at their discretion or charge at a higher rate of interest.
- 323) The power of forfeiture of shares is exercised by **Directors** as per the provisions of Articles of Association
- 324) If shares are forfeited, share capital account is debited with the amount of **called up value of shares**.
- 325) If shares are forfeited, forfeited shares account is credited **with the amount received (Paid up value) (Excluding Securities Premium)**
- 326) If forfeited shares are reissued, amount transferred to **capital reserve account** =
No. of forfeited shares Reissued x [Paid up value per share (excluding premium) – Loss on reissue per share]
Loss on reissue per share = called up value per share – discount (if any) – Reissue price.
- 327) **Loss (discount) on re-issue** of forfeited shares should not exceed the forfeited amount.
- 328) After re-issue of forfeited shares, the profit remaining in the Share forfeiture A/c is transferred to **Capital Reserve A/c**.
- 329) If the company has already received the premium on issue of shares and the shares are forfeited, then **Securities premium A/c will not be debited**.
- 330) If the company has not received the premium on issue of shares and the shares are forfeited, then **Securities premium A/c will be debited**.
- 331) Balance in **Share Forfeiture A/c** is shown in the Balance Sheet under the head Share Capital by adding to **paid up capital**.
- 332) When equity shares are issued to promoters for the services rendered by them **Good will a/c** is debited.
- 333) Calls in arrears **should be deducted** from the CALLED UP SHARE CAPITAL to find out the paid up capital. Dividend is paid on **Paid up capital**.
- 334) Capital Reserves are created out of **capital profits**. Capital Reserve is **not divisible profit/FREE RESERVE**. **Examples:** Profit prior to incorporation, Profit on acquisition of business, Profit on redemption/cancellation of debentures and Profit on reissue of forfeited shares.
- 335) Underwriting commission cannot exceed **5% of issue price in case of shares and 2.5% in case of debentures**.
- 336) **Right issue of shares** means offering shares to existing shareholders at a price lower than market price.
- 337) **Bonus issue of shares** means offering shares to existing shareholders at free of cost i.e., without consideration. When bonus shares are issued, **Reserves and surplus are capitalized**.
- 338) Preference shareholder must be paid dividend, before any dividend is paid to the holders of equity shares.
- 339) A company can not issue any preference shares that are **irredeemable**.
- 340) A company cannot issue any preference share redeemable after the expiry of a period of **20 years from the date of its issue**.
- 341) Unless otherwise stated Preference Shares are treated as Cumulative, Non participating, redeemable and Non convertible.
- 342) Preference Share can be redeemed only if these are **fully paid**.
- 343) Preference Share can be redeemed **out of divisible profits or proceeds of fresh issue of SHARES**.
- 344) The premium if any payable on redemption must be provided out of **securities premium or ANY DIVISIBLE PROFIT**.

QUICK REVISIONARY NOTE

- 345) A transfer to Capital Redemption Reserve is required u/s 55 **when the preference shares are redeemed out of divisible profit i.e.**, General Reserve, Dividend Equalisation Reserve and Credit balance of Profit and Loss A/c.
- 346) CRR can be used only for issue of bonus shares.
- 347) Redemption of preference share **does not constitute reduction of PAID UP share capital.**
- 348) To sum up, as per section 55, **Nominal Value of preference shares to be redeemed** = Capital Redemption Reserve (CRR) + Proceeds on fresh issue of shares.
- 349) **Proceeds** means amount actually received on fresh issue of shares (both equity and preference shares) i.e., **[F.V. of new shares]**. Premium on issue of shares will not be considered at all. Proceeds will not include Issue of debentures.
- 350) Debenture is a written instrument **acknowledging a debt written by a co.**
- 351) Debenture interest is payable **whether there are profits or not. Interest on Debenture is a charge against profit i.e., it will be debited to profit and loss account.**
- 352) Debenture trust deed is **created by the company.**
- 353) Debenture trustees are to be appointed in case of issue of debenture with maturity of **more than 18 Months**
- 354) A company cannot issue **debenture with voting rights.**
- 355) Debentures are classified in Balance Sheet at liabilities side **under the head Non-current Liability (Long Term borrowing)**
- 356) Interest accrued but not yet due and Interest accrued and due appears under the head **OTHER CURRENT LIABILITIES** in liabilities.
- 357) Debenture account is **personal account.**
- 358) Discount on issue of debenture and loss on issue debenture are **nominal accounts.**
- 359) In Balance Sheet Debenture Premium account appears under the head **Reserve & Surplus.**
- 360) Debentures may be issued for **a) cash; b) consideration other than cash or c) as collateral security.**
- 361) When the debentures are issued at discount and are redeemable at premium, **Loss on issue of debentures accounts** is debited at the time of issue
- 362) If debentures are redeemable at premium, such premium will be recognised at the time of issue by recording following entry
Loss on issue of debentures accounts Dr.
To Debenture Redemption Premium (Premium on redemption on Debentures)
- 363) Debenture Redemption Premium (Premium on redemption on Debentures) account is **personal account and** appears on the **Liability** side of the Balance Sheet under the heading **Long term provision.**
- 364) In Balance Sheet Loss on issue of debenture account appears on the **Asset** side under the head **Other Non-current assets.**
- 365) Discount on issue of shares A/c appears on the **Assets** side of the Balance Sheet under the heading **other non- current Assets.**
- 366) Preliminary expenses, Underwriting commission on issue of shares, Discount/loss on issue of debenture and debenture suspense account appears on the **Assets** side of the Balance Sheet under the heading **other non- current Assets.** All the above accounts are treated as **miscellaneous expenditure.**
- 367) **Proposed dividend** appears on the **Liability** side of the Balance Sheet under the heading **short term provision.**
- 368) **Unclaimed/unpaid/declared dividend** appears on the **Liability** side of the Balance Sheet under the heading **other current liability.**
- 369) Capital work in progress is shown in the balance sheet under **Fixed Assets.**
- 370) **When debentures are issued as collateral security, either following entry is passed**

QUICK REVISIONARY NOTE

- 396) If Revenue expenditure is wrongly written as capital expenditure it will result in Overstatement of profit and overstatement of Assets.
- 397) While rectifying error, if any nominal account is debited, it implies decrease in profit and if any nominal account is credited, it implies increase in profit.

TRAIL BALANCE

- 398) The trial balance checks the **arithmetical accuracy** of the books of account.
- 399) Agreement of Trial balance is not a **conclusive proof** of accuracy
- 400) Trial balance is not an account, it is a **statement**, it is prepared on a **particular date**.
- 401) Any difference in trial balance is adjusted through **Suspense Account**; this account may either have debit balance or credit balance. The object of opening suspense account is **to avoid the delay in preparation of financial statement**.
- 402) **Suspense Account** is a neither Nominal a/c nor Real a/c nor Personal a/c. Balance of Suspense a/c if not rectified is transferred to **Balance Sheet**
- 403) **METHODS OF PREPARATION OF TRIAL BALANCE:** (1) *Total Method (Gross Method; Balance Method (Net Method) & Total and Balance Method.*
- 404) A **Trial Balance** contains the balance of Nominal, Personal and Real accounts i.e, all accounts.
- 405) If **Purchase accounts** appear in Trail Balance, then opening stock will appear in debit side and closing stock will not appear in trail balance.
- 406) If **Purchase adjusted (Cost of goods sold) accounts** appear in Trail Balance, then opening stock will not appear and closing stock will appear in debit side of trail balance.

Calculation of Joint Venture profit:

Joint venture account			
To Purchase by Co-venturer		By Sales by Co-venturer	
To Expenses paid by Co-venturer		By Stock taken by Co-venturer	
To Commission payable Co venture			
To discount on bill (if any)			
To profit		By Loss	

Calculation of final settlement with co-venturer

Co-venturer account (Say A)			
To sales by A		By Purchase by A	
To Stock taken by A		By Expenses paid by A	
		By Commission payable to A	
To Share of loss (A)		By Share of profit of A	
To Balance Payable to A		By Balance receivable from A	

Note:

- a) Income received in kind (example shares) will not be recorded in JV.
- b) Normal and abnormal loss both are not recorded in JV.

Calculation of Consignment profit:

Consignment account			
To goods sent on consignment-CP		By Sales by Consignee	
To consignor expenses		- Cash sales	
To consignee expenses		- Credit Sales	
- Non recurring expenses			

QUICK REVISIONARY NOTE

- Recurring expenses		By Abnormal loss	
To Bad debt	Note1	- Goods lost in transit	Note2
To Commission to consignee		- Goods lost in consignee premises	Note3
- Ordinary commission		By Closing stock	Note3
- Del-credere commission			
- Over-riding commission			
To Profit (General P/L Account)		By Loss (General P/L Account)	

Note:

1. If DEL-CREDERE COMMISSION is provided Bad debt will not be debited account

2. The value of Goods lost in transit

Purchase price	XXX	
Add: proportional share of non-recurring expenses of consignor	XXX	XXX

3. The value of Goods lost in consignee premises and closing stock

Purchase price	XXX	
Add: proportional share of non-recurring expenses of consignor		XXX
Add: proportional share of non-recurring expenses of consignee	XXX	XXX

4. Normal loss is not recorded. If there is normal loss

Cost price per unit = $\frac{\text{Purchase price of goods sent} + \text{Consignor Direct expenses}}{\text{Total unit}}$

Normal loss (in unit)

CALCULATION OF GROSS PROFIT/CLOSING STOCK/ABNORMAL LOSS

Trading Account			
To Opening Stock		By Sales less sales return	
To Purchase less Purchase return		By Goods sent on consignment	
To Direct expenses		By Goods sent on JV	
- Wages		By Abnormal Loss	
- Carriage/freight inward		By Duty drawback	
- Import duty		By Closing Stock	
- Clearing charges		- (CP or NRV which is lower)	
- Sales tax			
To Gross profit		By Gross Loss	

CALCULATION OF SALES

Debtor Account			
To Opening Balance		By Cash collection from debtor	
To Credit Sales		By Bills receivable received	
To Bills receivable dishonour		By Sales return	
		By Bad debt	
		By Discount allowed	
		By Closing balance	

TOTAL/GROSS SALES = CREDIT SALES + CASH SALES

NET SALES = CREDIT SALES + CASH SALES – SALES RETURN

Note: Provision for doubtful debt will not be recorded in debtor account.

CALCULATION OF PURCHASE

QUICK REVISIONARY NOTE

Creditor Account			
To Cash Paid		By Opening Balance	
To bill payable accepted		By Credit purchase	
To purchase return		By bill payable dishonoured	
To discount received			
To Bill receivable endorsed			
To Closing balance			

TOTAL/GROSS PURCHASE = CREDIT PURCHASE + CASH PURCHASE

NET PURCHASE = CREDIT PURCHASE + CASH PURCHASE – PURCHASE RETURN

CALCULATION OF NET PROFIT BY CAPITAL ACCOUNT

Capital Account			
To drawing		By Opening Balance	
To Interest on Drawing		By cash introduced	
To Income tax – drawing		By Interest on Capital	
To net Loss		By Net profit	
To closing Balance			

CALCULATION OF AMOUNT OF DEBTOR TO BE SHOWN IN BALANCE SHEET

Debtor as per trail Balance		XXX
Less: Bad debt (Only if given outside trail balance)		XXX
Less: Provision for doubt full debt (New PFDD)	←	XXX
Less: Provision for discount on debtor (New PFDOD)	←	XXX
Debtor shown in balance sheet		XXX

CALCULATION OF AMOUNT PROVISION FOR DOUBT FULL DEBT DEBITED TO PROFIT AND LOSS ACCOUNT

NEW Provision for doubt full debt		XXX
Add: bad debt (whether given in or outside trail balance)		XXX
LESS : OLD Provision for doubt full debt (opening balance)		XXX
AMOUNT TO BE DEBITED TO PROFIT AND LOSS ACCOUNT		XXX

CALCULATION OF EXPENSES DEBITED TO PROFIT AND LOSS ACCOUNT

EXPENSES PAID DURING THE YEAR		XXX
Add: Outstanding expenses at the end of year		XXX
Less: Outstanding expenses at the beginning of year		XXX
Add: Prepaid expense at the beginning of the year		XXX
Less: Prepaid expense at the end of the year		XXX
		XXX

QUICK REVISIONARY NOTE

CALCULATION CORRECT NET PROFITS AFTER TAKING THE ADJUSTMENT

Net profit before adjustment	XXX
Less: Outstanding expenses	XXX
Add: Prepaid expenses	XXX
Add: Accrued income/income receivable	XXX
Less: Income received in advance.	XXX
Add: Capital expenditure debited to P/L account	XXX
CORRECT NET PROFITS AFTER TAKING THE ADJUSTMENT	<u>XXX</u>

CALCULATION OF REVALUATION PROFIT IN CASE OF PARTNERSHIP

Revaluation Account			
To decrease in assets		By increase in assets	
To increase in liability		By decrease in liability	
To Unrecorded liability		By Unrecorded assets	
To Revaluation profit (B/f)		By revaluation loss (b/f)	

CALCULATION OF DIVISIBLE PROFIT IN CASE OF PARTNERSHIP

A) THROUGH PROFIT AND LOSS APPROPRIATION ACCOUNT

Profit and loss appropriation account			
To Inteset on capital		By Net profit	
To partners salary		By interest on drawing	
To partners commission			
To General reserve			
To divisible profit (In PSR)			

A) THROUGH PARTNERS CAPITAL OR CURRENT ACCOUNT*

Partner Capital or current Account			
To Drawing		By Opening Balance	
To Interest on Drawing		By cash introduced	
		By Interest on Capital	
		By partner salary	
		By partner commission	
To Closing Balance		By Divisible profit (In PSR)	

NOTE: IN case of fixed capital, divisible profit is calculated from partners current account and in case of fluctuating capital divisible profit is calculated from partners capital account.

******ALL THE BEST******