IMPORTANT DISTINCTIONS

1.0 DISTINGUISH BETWEEN ACCRUAL BASIS OF ACCOUNTING AND CASH BASIS OF ACCOUNTING

[JUNE 1993, MAY 2003, NOV. 2005]

Accrual basis of accounting differs from Cash basis of accounting in the following respects:

Basis of Distinction	Accrual Basis of Accounting	Cash Basis of Accounting
1. Prepaid/Outstanding Expenses/accrued/unaccrued Income in Balance Sheet	Under this, there may be Prepaid/Outstanding Expenses and Accrued/ Unaccured Incomes in the Balance Sheet.	Under this, there is no Prepaid/Outstanding Expenses *or* Accrued/ Unaccrued Incomes.
2. Higher/lower Income in case of Prepaid Expenses and Accrued Income	Income Statement will show a relatively higher income.	Income Statement will show lower income.
3. Higher/Lower Income in case of outstanding expenses and Unaccrued Income	Income Statement will show a relatively lower income.	Income Statement will show higher Income.
4. Recognition under the Companies Act, 2013	This basis is **recognised** under the Companies Act, 2013.	This basis is **not recognised** under the Companies Act, 2013.
5. Availability of options to an accountant to manipulate the accounts by way of choosing the most suitable method out of several alternative methods of accounting e.g. FIFO/LIFO/SLM/WDV	Under this, an accountant has **options.**	Under this an accountant has **no option** to make a choice as such.

2.0 DISTINGUISH BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE

[JUNE 1993, NOV. 1996, MAY 1997, NOV. 2001, NOV. 2004]

Basis of Distinction	Capital Expenditure	Revenue Expenditure
1. Meaning	It is an expenditure which is incurred: (a) to acquire *or* bring into existence an asset, or (b) to acquire *or* bring into existence an advantage *or* benefit of an enduring nature, or (c) to increase the productivity *or* earning capacity.	It is an expenditure which is incurred: (a) to maintain the productivity *or* earning capacity of a business, or (b) to carry out operating activities in the normal course of business.

2. Benefits	It normally yields benefits during current accounting period.	It normally does not yield benefits during current accounting period.
3. Accounting Treatment	It is debited to the Respective Asset Account.	It is debited to Respective Expense Account.
4. Examples	(a) Cost of Land and Building (b) Cost of Plant and Machinery (c) Cost of Furniture & Fixtures	(a) Depreciation on Land and Building (b) Rent of Machines (c) Repairs of Building (d) Insurance of Building

3.0 DISTINGUISH BETWEEN CAPITAL RECEIPTS AND REVENUE RECEIPTS

[NOV. 1994, MAY 1996, MAY 1998]

Basis of Distinction	Capital Receipts	Revenue Receipts
1. Meaning	Capital receipts refer to those receipts which are not revenue in nature.	Revenue receipts refer to those receipts which arise in the normal course of business.
2. Accounting Treatment	These are credited to the respective account of capital nature.	These are credited to Respective Revenue Account which appears in the Income Statement.
3. Examples	(a) Sale of Land and Building by a person other than a dealer in real estate. (b) Raising of Loan by a person other than one engaged in the business of finance/banking. (c) Raising of Capital.	(a) Sale of Land and Building by a dealer in real estate. (b) Sale of Securities by a dealer in securities

4.0 DISTINGUISH BETWEEN DEFERRED REVENUE EXPENSES & PREPAID EXPENSES [MAY 1995]

The Guidance Note on 'Terms used in Financial Statement" issued by the Institute of Chartered Accountants of India (ICAI), defines deferred revenue expenditure as that expenditure for which payment has been made or a liability incurred, but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. "In short, it refers to that expenditure that is, for the time being, deferred from being charged to income. Such suspension of 'charging off' operation may be due to the nature of expenses and the benefit expected therefrom.

Deferred revenue expenditure should be revenue expenditure by nature in the first instance, for example, advertisement. But its matching with revenue may be deferred considering the benefit to be accrued in future.

A thin line of difference exists between deferred revenue expenses and prepaid expenses. The benefits available from prepaid expenses can be precisely estimated but that is not so in case of deferred revenue expenses. Heavy advertising to launch a new product is a deferred expense since the benefit from it will be available over the next three to five years but one cannot say precisely how long. On the other hand, insurance premium paid say, for the year ending 30th June 2018, when the accounting year ends on 31 st March 2018, will be an example of prepaid expense to the extent of premium relating to three months period, i.e., from 1st April 2018 to 30th June 2018. Thus, the insurance protection will be available precisely for three months after the close of the year and the amount of the premium to be carried forward can be calculated exactly.

Deferred expenses are considered fictitious assets but prepaid expenses are considered as current assets.

5.0 DISTINGUISH BETWEEN CONTINGENT LIABILITY AND OTHER LIABILITIES

Basis of Distinction	Contingent Liability	Other Liabilities
1. Meaning	It is an obligation which may or may not arise depending on the happening or non-happening of an uncertain future event.	These are financial obligations of an enterprise other than owners' equity.
2. Disclosure	It is disclosed by way of foot note to the Balance Sheet.	These are disclosed on the liabilities side of the Balance Sheet.
3. Example	1. Bills discounted but not yet matured 2. Arrears of dividend on Cum-Pref- Shares	1. Creditors for Goods 2. Outstanding Expenses

6.0 DISTINGUISH BETWEEN PROVISION AND CONTINGENT LIABILITY

Basis of Distinction	Provision	Contingent Liability
1. Meaning	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation..	It is an obligation which may or may not arise depending on the happening or non-happening of an uncertain future event.
2. Recognition criteria	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
3. Conditions for Recognition	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources emobodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligatioins will require outflow of economic benefits, or the amount cannot be reliably estimated.

EXAMPLE TO UNDERSTAND THE DISTINGUISH BETWEEN PROVISIONS AND CONTINGENT LIABILITIES.

The GST officer imposes a penalty on X Ltd. for violation of a provision in the GST Act. The company files an appeal. If the management of the company estimates that it is probable that the company will have to pay the penalty, it recognises a provision for the liability. On the other hand, if the management anticipates that the judgement of the appellate authority will be in its favour and it is less likely that the company will have to pay the penalty, it will disclose the obligation as a contingent liability instead of recognising a provision for the same.

7.0 DISTINCTION BETWEEN FUNDAMENTAL ACCOUNTING ASSUMPTIONS AND ACCOUNTING POLICIES

The Fundamental accounting assumptions differ from Accounting policies in the following respects:

Basis of Distinction	Fundamental Accounting Assumptions	Accounting Policies
1. Number	There are only three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There in no single list of accounting policies which are applied in all circumstances. As a result, there may be different accounting policies adopted by different enterprises.
2. Disclosure if followed	No disclosure is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed
3. Disclosure if not followed	In case the fundamental assumptions are not followed; the fact has to be disclosed in the financial statements together with the reasons.	In case, the policy is changed in subsequent year, the reasons for such change and the resulting financial consequences have to be disclosed.
4. Choice	There is no choice.	The firm has a choice to select a particular policy

8.0 DISTINGUISH BETWEEN PERSONAL ACCOUNTS AND IMPERSONAL ACCOUNTS.

[NOV. 1997, NOV. 1999, NOV. 2002]

Types of Accounts	Meaning	Examples
(a) Personal Accounts	These accounts relate to natural persons, artificial persons and representative persons.	Natural-Ram's A/c Artificial-Ram & Co.'s etc Representative-Outstanding Salary A/c, Prepaid Insurance
(b) Impersonal Accounts (i) Real Accounts	These accounts relate to the tangible or intangible real assets.	Tangible-Land A/c Intangible-Goodwill A/c
(ii) Nominal Accounts	These accounts relate to losses, profit & gains.	Expenses-Purchases A/c Loss-Loss by fire A/c Profits & Gains-Sales A/c, Discount Received A/c

9.0 DISTINGUISH BETWEEN JOURNAL AND LEDGER [NOV. 2001]

Journal differs from the Ledger in the following respects:

Basis of Distinction	Journal	Ledger
1. Nature of Book	It is book of original or **prime entry.**	It is book of final or **secondary entry.**
2. Basis for Preparation	It is prepared on the basis of **source documents** of transactions.	It is prepared on the basis of **journal.**
3. Stage of Recording	Recording in the journal is the **first** stage.	Recording in the ledger is the **second** stage.
4. Object	**It** is prepared **to record all transactions in chronological order.**	It is prepared **to know the net effect** of various transactions affecting a particular account.
5. Format	In Journal, there are **five column** 1.Date 2.Particulars 3.Ledger Folio 4.Debit Amount 5.Credit Amount	In ledger, there are identical **four column** on debit side and credit side. 1.Date 2.Particulars 3.Folio 4.Amount
6. **Balancing**	Journal is **not balanced.**	All ledger accounts (except nominal account) are **balanced** in the ledger.
7. Narration	Narration is **written** for each entry.	**No** narration is given.
8. **Name of the Process of recording entries**	The process of recording in journal is called **Journalising.**	The process of recording in the ledger is called **Posting.**
9. Basis for Preparation of Final Accounts	Journal directly does **not serve as basis** for the preparation of final accounts.	Ledger **serves the basis** for the preparations of final accounts.

10.0 DISTINGUISH BETWEEN BOOKS OF ORIGINAL ENTRY AND LEDGER

Books of Original Entry and Ledger can be distinguished as follows:

Basis of Distinction	Books of Original Entry	Ledger
1. Nature of Book	There are books of original *or* **prime entry.**	This is a book of final **orsecondary entry.**
2. Basis for Preparation	These books are prepared on the basis of **source documents.**	This book is prepared on the basis of **books of original entry.**

3. Stage of Recording	Recording of entries in these books is the first stage.	Recording of entries in the ledger is the second stage.
4. Net effect of various transactions	These books do not help to know the net effect of the various transactions affecting a particular account.	A ledger helps to know the net effect of the various transactions affecting a particular account.
5. Format	In the Journal, there is one column for particulars and two columns for amounts - one for debit and another for credit. Special journals (except Cash Book) have only one column of amount.	In the ledger, there are two divided sides having identical columns. The left side is known as debit and the right side is known as credit.
6. **Balancing**	In the books of original entry (except Cash Book) balancing is not done.	In the ledger, all the accounts (except nominal accounts) are balanced.
7. Next stage of accounting process	From the books of original entry, entries are transferred to the ledger.	From the ledger, first the trial balance is drawn and then financial statements are prepared.
8. **Name of the process of recording entries**	The process of recording entries in these books is called 'journalising'.	The process of recording entries in the ledger is called 'posting'.

11.0 DISTINGUISH BETWEEN TRADE DISCOUNT AND CASH DISCOUNT [JUNE 1993, NOV. 2002]

Basis of Distinction	Trade Discount	Cash Discount
1. Meaning	It is a reduction granted by a supplier from the List Price of goods *or* services on business considerations (such as quantity bought, trade practices, etc.,) other than for prompt payment.	A reduction granted by a supplier from the Invoice Price in consideration of immediate payment *or* payment within a credit period allowed.
2. Purpose	It is allowed **to promote the sales or as a trade practices.**	It is allowed to **encourage the prompt payment.**
3. Time when allowed	It is allowed **on purchase** of goods.	It is allowed **on immediate payment** *or* payment within a specified period.
4. Disclosure in the Invoice	It is shown **by way of deduction in the invoice itself.**	It is **not shown in the invoice.**
5. Ledger Account	Trade Discount Account is not opened in the ledger.	Cash Discount Account is opened in the ledger.
6. **Variation**	It may vary with the quantity purchased.	It may vary with the period within which the payment is made.

12.0 DISTINGUISH BETWEEN COMMISSION AND DISCOUNT.

[May 1995, May 1997, May 1998, Nov. 2000, Nov. 2002]

Commission The term 'commission' may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and usually based on a percentage of the amounts involved. The various examples of commission include the following:

(a) Commission to selling or buying agents.

(b) Commission to brokers and bankers for services rendered.

(c) Commission to property dealers for assistance in renting out properties or for services in connection with purchase/sale of properties.

(d) Commission to export-import agents in foreign trade.

Commission earned is accounted for as an income in the books of the beneficiary and Commission allowed is accounted for as expenses or deferred revenue expenditure in the books of the party availing of such facility.

Discount The term 'discount' is used to express one of the following situations:

(a) An allowance given for the settlement of a debt before it is due, that is, cash discount.

(b) An allowance given to the wholesalers or bulk buyers on the list price or retail price, known as trade discount.

(c) The excess of par or face value of shares or debentures over the amount paid by subscriber, that is, discount on issue of shares or debentures.

(d) The amount charged by a bank on discounting of a bill of exchange.

Discount earned is accounted for as an income in the books of the beneficiary and discount allowed is accounted for as expenses or deferred revenue expenditure in the books of the party availing of such facility.

13.0 DISTINGUISH BETWEEN IMPREST AND NON-IMPREST SYSTEM OF PETTY CASH.

Meaning of Imprest or Float:'lmprest' or 'Float' is the amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period.

Petty Cash book may be maintained on imprest system on non-imprest system.

(a) Imprest System of Petty Cash—Under imprest system. The Chief Cashier makes the reimbursement of the amount spent by the Petty Cashier and the Petty Cashier again has the same amount of petty cash at the end as in the beginning.

(b) Non-imprest System of Petty Cash—Under non-imprest system, the Chief Cashier may hand over the cash to the Petty Cashier equal to/more than/less than the amount spent by the petty cashier. The Petty cashier may or may not have the same closing balance of petty cash as opening balance.

14.0 DISTINGUISH BETWEEN DEBIT NOTE AND CREDIT NOTE.

Basis of Distinction	Debit Note	Credit Note
1. Who prepares?	It is prepared by **Purchaser.**	It is prepared by **Seller.**
2. Contents	(a) Date of return (b) Name of supplier to who returned (c) Details of goods returned (d) Reasons for returning goods	(a) Date of return (b) Name of Customer who returned (c) Details of goods returned (d) Reason for returning goods
3. Source Document	It is used as source document for recording in **Purchase Return Book.**	It is used as source document for recording in **Sales Return Book.**
4. Why Prepared?	It is prepared to debit supplier's account.	It is prepared to give credit to customer.

15.0 DISTINGUISH BETWEEN SALES DAY BOOK AND SALES ACCOUNT. [NOV. 2001]

Basis of Distinction	Sales Day Book	Sales Account
1. Nature	It is a book of original entry.	It is opened in the books of secondary entry i.e. ledger.
2. Basis for preparation	It is prepared on the basis of sales invoices raised.	It is prepared on the basis of Sales Day Book (for Credit Sales) and Cash Book (for Cash Sales)
3. Nature of transactions recorded	It records only the credit sales of goods in which the enterprise deals in.	It contains the effect of both Cash Sales and Credit Sales.

16.0 DISTINGUISH BETWEEN BANK STATEMENT AND BANK RECONCILIATION STATEMENT

Bank Statement differs from the Bank Reconciliation Statement in the following respects:

Basis of Distinction	Bank Statement/Pass Book	Bank Reconciliation Statement
1. Who prepares	It is prepared by the **Bank.**	It is prepared by the bank **Customer** i.e., account holder.
2. **Object**	It is prepared **to inform the customer about all transactions** which have taken place during the period covered by the Statement.	It is prepared **to reconcile** the bank balance as per cash book with the bank balance shown by the Bank Statement.
3. **Timing When Prepared**	It is prepared **for a particular period.**	It is prepared on a **particular date.**
4. Necessity	It is **compulsory** for the bank to prepare it.	It is **not compulsory.**

5. **Contents**	It shows — (a) Dates of Transactions (b) Particulars of Transactions (c) Withdrawals (d) Deposits (e) Balances	It shows — (a) Causes of disagreement & (b) Amount thereof
6. **Starting Amount**	It starts with the balance as per customer's account in bank ledger.	It may start with bank balance as per cash book or Bank Statement.
7. **Final Result**	It shows the balance in customer's account as per bank ledger at the end of the period.	It may show the bank balance as per cash book or Bank Statement at the end of period.

17.0 DISTINGUISH BETWEEN ERROR OF PRINCIPLE AND CLERICAL ERRORS. [JUNE 1994]

Error of Principle

Meaning: This error arises when the transaction is recorded ignoring the distinction between the capital item and revenue item. In other words, this error involves an incorrect allocation of expenditure or receipt between Capital and Revenue. The correct allocation between Capital and Revenue is of paramount importance because any incorrect allocation would disturb the final results as disclosed by the Financial Statements.

Effect: It may lead to under/over stating of Incomes or Expenses of Assets or Liabilities. This error does not affect the trial balance.

Example: Freight paid for bringing a new machinery is debited to Freight A/c Effect

1. Effect on Revenve Expenditure (i.e., Freight) - Overstated
2. Effect on Capital Expenditure (i.e., Cost of Machinery) - Understated
3. Effect on Depreciation on Machinery - Undercharged
4. Effect on Net Profit - Understated by the Net Effect (i.e., the difference between the amount of Freight and amount of Depreciation).

Note: The costs incurred on the acquisition, installation and commissioning of a fixed asset up to the point the fixed asset is ready for use represent capital expenditures.

Clerical Errors

Meaning—Clerical errors refer to those errors which arise because of mistakes committed in the ordinary course of the accounting work.

Type—There are three types of clerical errors as follows:

1. Error of Omission	
(a) Error of Complete Omission	This error arises when any transaction is not recorded in the books of original entry at all or, the transaction is recorded in General Journal (or Journal Proper) but is not posted in the ledger at all. This error does not affect the trial balance

(b) Error of Partial Ommission	An Error of Omission other than an Error of Complete Omission is called an Error of Partial Omission. This error **affects the trial balance..**
2. Error of Commission	This error arises due to wrong recording, wrong casting, wrong carry forward, wrong posting, wrong balancing etc., Errors of commission may be classified as follows. **1. Error of Recording 2. Error of Casting 3. Error of Carring Forward 4. Error of Posting** This error may or may not **affect the trial balance..**
3. Compensating Errors	These errors arise when two *or* more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts involved is nil. In other words, compensating errors refer to such a group of errors wherein the effect of one error is compensated by the effect of other error *or* errors. These errors **do not affect the agreement of the trial balance but may *or* may not affect the figure of net profit.**

18.0 DISTINGUISH BETWEEN FIFO AND LIFO METHOD OF VALUATION OF INVENTORY

[JUNE 1994, NOV. 1998]

Fifo Method of Valuation of inventory differs from LIFO Method in the following respects:

Basis of Distinction	FIFO	LIFO
1. Basic Assumption	Goods received first are issued first.	Goods received last are issued first.
2. Cost of Goods Sold	Cost of goods sold represents cost of **earlier purchases.**	Cost of goods sold represents cost of **recent purchases.**
3. Ending Inventory	Ending inventory represents cost of **recent purchases.**	Ending inventory represents cost of **earlier purchases.**
4. In case of Rising prices	**Higher income** is reported since old costs (which are lower than current costs) are matched with current revenue. As a result, income tax liability is increased.	**Lower income** is reported since current costs (which are higher than the old costs) are matched with current revenue. As result, income tax liability is reduced.
5. Distortion in Balance Sheet	Balance Sheet shows the ending inventory at a value **nearer the current market price.**	Balance Sheet is distorted because ending inventory is **understated at old costs.**

19.0 DISTINGUISH BETWEEN FIFO AND WEIGHTED AVERAGE METHOD OF STOCKVALUATION.

[MAY 2002]

FIFO

1. Basic Assumption—Goods received first are issued first.
2. Cost of Goods Sold—Cost of goods sold represents cost of earlier purchases.
3. Ending Inventory—Ending inventory represents cost of recent pur-chases.

4. In case of Rising prices—Higher income is reported since old costs (which are lower than current costs) are matched with current revenue. As a result, in-come tax liability is increased.

5. Distortion in Balance Sheet—Balance Sheet shows the ending inventory at a value nearer the current market price.

WEIGHTED AVERAGE PRICE METHOD

The Weighted Average Price Method is based on the assumption that each issue of goods consists of a due proportion of the earlier lots and is valued at the weighted average price. Weighted average price is calculated by dividing the total cost of goods in stock by the total quantity of goods in stock. This weighted average price is used for pricing all the issues until a new lot is received when a new weighted average price would be calculated. This method evens out the effect of widely varying prices of different lots which make up the stock.

20.0 DISTINGUISH BETWEEN PERIODIC INVENTORY SYSTEM AND PERPETUAL INVENTORY SYSTEM

Periodic Inventory System differs from Perpetual Inventory System in the following respects:

Basis of Distinction	Periodic Inventory System	Perpetual Inventory System
1. Basis of Ascertaining Inventory	Inventory is ascertained by taking an actual physical count	Inventory is ascertained on the basis of records.
2. Calculation of Inventory	Inventory is directly calculated by applying the method of valuation of inventories.	Inventory is calculated as a residual figure as under: Closing Inventory = Opening Inventory + Purchases - Cost of Goods Sold
3. Calculation of cost of goods sold	Cost of Goods Sold is calculated as a residual figure as under:	Cost of Goods Sold is directly calculated by applying the method of valuation of inventories. Cost of Goods Sold = Opening Inventory + Purchases - Closing Inventory
4. Lost Goods lost goods (if any).	Cost of Goods sold includes (if any).	Inventory includes lost goods
5. Closing Down of work for Stock taking	It requires closing down of work for stock taking.	It does not require closing down of work for Stock taking.
6. **Continuous Stock stock checking.**	It does not facilitate the Checking	It facilitates the continuous continuous stock checking.
7. Simplicity and cost	It is simple and inexpensive.	It is elaborate and expensive.

21.0 DISTINGUISH BETWEEN STRAIGHT LINE METHOD & WRITTEN DOWN VALUE METHOD

[JUNE 1993, MAY 2002]

Straight Line Method differs from Written Down Value Method in the following respects:

Basis of Distinction	Straight Line Method	Written Down Value Method
1. Basic of Calculation	Depreciation is calculated at a fixed percentage on the **original cost.**	Depreciation is calculated at a fixed percentage on original cost (in first year) and on **written down value** (in subsequent years).
2. Amount of Depreciation	The amount of depreciation **remains constant.**	The amount of depreciation goes on **decreasing.**
3. Total Charge (i.e., depreciation *plus* repairs and renewals)	Total charge in later years is **more** as compared to that in earlier years since the amount of repairs and renewals goes on increasing as the asset grows older, whereas the amount of depreciation remains constant year after year.	Total charge remains almost **uniform** year after year, since in earlier years the amount of depreciation is more and the amount of repairs and renewals is *less* whereas in later years, the amount of depreciation is *less* and the amount of repairs & renewals is more.
4. Book Value	The book value of the asset **becomes zero** or equal to its scrap value.	The book value of the asset **does not become zero.**
5. Suitability	This method is suitable for those assets in relation to which (a) repair charges are *less* (b) the possibility of obsolescence is less.	This method is suitable for those assets in relation to which (a) the amount of repairs & renewals goes on increasing as the asset grows older and (b) the possibilities of obsolescence are more.
6. **Calculation Easy** *or* **Difficult**	It is **easy to calculate** the rate of depreciation.	It is **difficult to calculate** the rate of depreciation.

22.0 DISTINGUISH BETWEEN REVENUE AND CAPITAL RESERVE

Revenue reserve refers to the amounts which are free for distribution by way of dividend. Capital reserve refers to the amounts which are not free for distribution by way of dividend.

23.0 DISTINGUISH BETWEEN PROVISION AND RESERVE. [NOV. 1996, NOV. 2000, NOV. 2002]

A Provision can be distinguished from a Reserve as follows:

Basis of Distinction	Provision	Reserve
1. Purpose	It is created **for a particular purpose** and can only be used for that particular purpose.	It need **not** necessarily be created **for a particular purpose,** e.g., General reserve is not for any particular purpose.

2. Charge Vs. Appropriation	It is a **charge** against the profit and is required to be created irrespective of the amount of profit.	it is an **appropriation** out of profit and can be created only if profits have been earned.
3. Disclosure in Income Statement	It is shown on the debit side of **P** &LA/c.	It is shown on the debit side of **P & L Appropriation A/c.**
4. Disclosure in Balance Sheet	Usually a provision is shown **by way of deduction** from the amount of the items for which the it is created, e.g. Provision for Doubtful Debts.	Reserve is shown as a separate item under the head **Reserves and Surplus** on the liabilities side of the Balance Sheet.
5. Investment outside the business	There is **no question** of investment of the amount of provisions.	The amount of a reserve **can be** invested **outside the business.**
6. **Utilisation for Dividends**	It **cannot** be utilised for distribu tion by way of dividends.	It **can be** utilised for distribution by way of dividends.
7. Legal Necessity	**It** is made mainly because of **legal necessity.**	It is a matter of financial **prudence.**

24.0 DISTINGUISH BETWEEN A BILL OF EXCHANGE AND A PROMISSORY NOTE.

[NOV. 1994, MAY 1995, NOV. 1997, NOV. 1999, NOV. 2000]

A Bill of Exchange can be distinguished from a Promissory Note as follows.

Basis of Distinction	Bill of Exchange	Promissory Note
1. No. of Parties	There are **three** parties—Drawer, Drawee and Payee and Payee.	There are **two** parties—Maker and Payee.
2. Promise/order	It contains an unconditional **order** given by a Creditor to a Debtor.	It contains an unconditional **promise** given by a debtor to a creditor.
3. Nature of Liability	The liability of the drawer is **secondary and conditional.**	The liability of the maker is **primary and absolute.**
4. Acceptance	It **requires** an acceptance to become a valuable instrument.	It **does not require** any acceptance since it is a valuable instrument right from the beginning.
5. Same identity of payer and payee	The drawer and payee **may** be the same person.	The maker and payee **cannot** be the same person.
6. **Payable to bearer**	It **can be** payable to the bearer.	It **cannot** be payable to bearer. It cannot be drawn as payable to bearer on demand.

7. Protest for Dishonour	It **requires** the protesting for dishonour.	It **does not require** any protesting.
8. **Notice of Dishonour**	Notice of dishonour must be given **to all persons** (including drawer) liable to pay.	Such notice is not required **to** be **given** to the **maker.**

25.0 DISTINGUISH BETWEEN TRADE BILLS AND ACCOMMODATION BILLS. [MAY 2006]

Basis of Distinction	Trade Bills	Accommodation Bills
1. Purpose	These bills are drawn to settle a business transaction.	These bills are drawn to meet the financial needs of the drawer/ drawee/both temporarily.
2. Consideration	These bills are accepted for a consideration.	These bill are accepted without any consideration.
3. Role	These bills act as an evidence of indebtedness.	These bills act as a source of finance.
4. Sharing of Proceeds of the Bill	On discounting of such bills, proceeds remain with the holder.	On discounting of such bills, proceeds may be shared by drawer and drawee in an agree ratio.
5. Recovery in case of dishonour	On dishonour of such bills, drawer can file a suit against the drawee, because drawee is liable to drawer.	On dishonour of such bill, drawer cannot file suit against the drawee because drawee is not liable to drawer.

26.0 DISTINGUISH BETWEEN CONSIGNMENT AND SALE. [NOV. 1994, NOV. 1997, MAY 2002]

Consignment differs from Sale in the following respects:

Basis of Distinction	Consignment	Sale
1. Nature of Relationship	The relation between the Consignor and the consignee is that of **principle and agent.**	The relation between the seller and the buyer is that of **creditor and debtor.**
2. Ownershipandpossession of goods	**Only the possession** and not the ownership is transferred to the consignee.	**Both** the possession and ownership are transferred.
3. Risk of goods	Risk remains **with** the **Consignor** because ownership remains with the Consignor.	Risk remains **with** the **buyer** since ownership remains with him.
4. Proforma Invoice/Invoice	Consignor prepares only a **proforma invoice.**	Seller prepares a sales **invoice.**

5. Subject matter of dealing	**Only movable properly** may be its subject matter.	**Any property** may be its subject matter.
6. **Who bears expenses**	Expenses incurred by consignee are borne by **Consignor.**	Expenses incurred after sale by **buyer** are borne by him and not by seller.
7. Profit/Loss belongs to	Profit/Loss on sale of belongs to **Consignor.**	After the sale is complete, the profit/loss belongs to **buyer.**
8. **Return of Goods**	Goods are **returnable** if they are not sold by the consignee.	Goods once sold are **not returnable.**
9. Account Sales	**Account Sales** has to be submitted by the consignee to the Consignor from time to time.	**No Account Sale** is required to be submitted by the Buyer to the Seller.
10. Treatment of Unsold Goods	Unsold goods with the Consignee is be treated as stock of the Consignor.	The seller has nothing to do with the goods which could not be resold. Unsold Goods with the buyer is treated as Stock of the Buyer.

27.0 DISTINGUISH BETWEEN ORDINARY COMMISSION AND DEL-GREDERE COMMISSION

Basis of Distinction	Ordinary Commission	Delcredere Commission
1. When allowed?	It is allowed to all the consignees for all the consignments for selling goods.	It is allowed to the consignee only when he undertakes the risk of bad debts arising out of credit sales.
2. Guarantee	In return of this commission, consignee guarantees only the proceeds of cash sales	In return of this commission, consignee guarantees the proceeds of cash sales and credit sales.
3. How to Calculate?	It is calculated at an agreed rate on the total sales.	It is calculated at an agreed rate *either* on total sales (if no agreement) *or* credit sales (if agreement provides).

28.0 DISTINGUISH BETWEEN NORMAL LOSS AND ABNORMAL LOSS IN CONSIGNMENT. [NOV. 2002]

Normal loss differs from Abnormal loss in the following respects:

Basis of Distinction	Normal Loss	Abnormal Loss
1. Avoidable vs. Unavoidable	It is an unavoidable loss.	It is an avoidable loss.
2. Causes	It is caused due to the inherent feature of the goods e.g. evaporation, normal leakage/ spoilage.	It is usually cause by fire, theft, abnormal spoilage/pilferage etc.

3. Part of Cost	It is treated as a part of cost.	It is not treated as a part of cost.
4. Valuation	Its value is not calculated separately.	Its value is calculated in the same manner as value of unsold stock.
5. Treatment	Its value is adjusted by inflating the cost per unit as under. Effective cost per unit =	Its value is credited to the consignment Account in order to calculate the normal profit/ loss on consignment.
6. **Journal Entry**	No journal entry is passed to account for such loss.	The following journal entry is passed to account for such a loss: P&L A/c [irrecovered loss] Dr. Insurance Co. Dr. [Clain admitted] To Consignment A/c [Total Loss]

29.0 DISTINGUISH BETWEEN PARTNERSHIP AND JOINT VENTURE.

[NOV. 2004, NOV. 2005, NOV. 2002]

Basis of Distinction	Partnership	Joint Venture
1. Scope	It is not limited to a specific venture.	It is limited to a specific venture.
2. Persons involved	The persons carrying on business are individually called partners.	The persons carrying on business are called coventurers.
3. Ascertainment of Profit/ loss	The profits/losses are ascertained on an annual basis.	The profits/losses are ascertained at the end of specific venture (if venture continues for a short period) or an interim basis annually (if venture continues for a longer period).
4. Act governing	Partnership firms are governed by Indian Partnership Act, 1932.	The doctrine of implied authority is not applicable to co- venturers.
5. Doctrine of Implied Authority	The doctrine of implied authority is applicable to partners.	The co-venturers have such freedom.
6. **Freedom to run competition**	The partners do not have such freedom.	There is no need for firm name.
7. Name	A partnership firm always has a name.	There is no need for a separate set of books.
8. **Separate Set of Books**	Separate set of books have to be maintained.	The accounts can be maintained even in one of the Coventurer's books only.
9. Admission of Minor	A minor can be admitted to the benefits of the firm.	A minor cannot be a coventurer as he is incompetent to contract.

30.0 DISTINGUISH BETWEEN JOINT VENTURE AND CONSIGNMENT. [JUNE 1993]

Basis of Distinction	Joint Venture	Consignment
1. Nature of Relationship	The relation between coventurers is that of coowners.	The relation between the consignor and the consignee is that of Principal and Agent.
2. Ownership & Risk of Goods	Both these remain with coventurers.	Both these remain with the consignor.
3. Account Sales	No Account Sales is sent by one co-venturer to another Coventurer.	An Account Sale is prepared and submitted by the consignee to his consignor.
4. Profit & Loss on transactions	Profit & losses are shared by the co-venturers in an agreed ratio.	Profit & losses are shared only by the consignor and not by the consignee.
5. Subject-Matter of Dealing	Any movable or immovable property may be its subject matter.	Only movable property may be its subject matter.
6. No. of Persons	In a venture, there may be two or more persons.	In a consignment, there are two persons—Consignor and Consignee.
7. Methods of Recording	There are four methods of recording.	There is only one method of recording.

31.0 DISTINGUISH BETWEEN ORDER OF LIQUIDITY AND ORDER OF PERMANENCE

Basis of Distinction	Order of Liquidity	Order of Permanence
1. Order of Assets	The assets are arranged in the order of their liquidity, i.e., the most liquid asset (e.g., Cash-in-hand), is shown first. The least liquid asset (e.g., Goodwill) is shown last. The least liquid asset does not mean an asset which cannot be encashed.	The assets are arranged in the order of their permanence i.e., the least liquid asset (e.g., Goodwill) is shown first and the most liquid asset (e.g., Cash-in-hand) is shown last.
2. Order of Liabilities	The liabilities are arranged in the order of their urgency of payment, i.e., the most urgent payment to be made (e.g., Short-term creditors) is shown first. The least urgent payment to be made (e.g., Longterm creditors) is shown last.	The liabilities are arranged in the order of their permanence i.e., the least urgent payment to be made (e.g., Owners) is shown first and the most urgent payment to be made (e.g., Short-term creditors) is shown last.
3. Users	Usually, the banking and financial companies, sole proprietorship and the partnership concerns prepare their balance sheets in the order of liquidity.	The company as defined under the Companies Act, 1956 is required to prepare the balance sheet in order of permanence.

32.0 DISTINGUISH BETWEEN TRADING & PROFIT & LOSS ACCOUNT & BALANCE SHEET [NOV. 1994]

The Trading and Profit and Loss Account can be distinguished from the Balance Sheet as follows:

Basis of Distinction	Trading and Profit & Loss A/c	Balance Sheet
1. Need for Preparation	The Trading and Profit & Loss A/c is prepared to ascertain the **Financial Performance** during an accounting period.	The Balance Sheet is prepared to ascertain the **Financial Position** of an enterprise at a particular time.
2. Contents	The balances of all the ledger accounts of **revenue nature** are shown in the Trading and Profit& Loss A/c.	The balances of only those ledger accounts which still remain open even after the preparation of Trading and Profit & Loss A/c, are shown in the Balance Sheet.
3. Format	(a) The Trading & Profit & Loss A/c is a **ledger account.** (b) It has debit side and a credit side. (c) It is closed by transferring its balance to the Capital Account.	(a) The Balance Sheet is only a statement & not an account. (b) It has no debit side and credit side. (c) The headings of the two sides are 'Liabilities' and 'Assets'.

33.0 DISTINGUISH BETWEEN A TRIAL BALANCE AND A BALANCE SHEET

[MAY 1995, MAY 1997, MAY 1998, MAY 2002]

A Trial Balance can be distinguished from a Balance Sheet as follows:

Basis of Distinction	Trial Balance	Balance Sheet
1. Need for Preparation	It is prepared to check the arithmetical accuracy of	It is prepared to ascertain the Financial Position of of an enterprise at a particular point of time.
2. Contents	All the ledger accounts are shown in the Trial Balance.	The balances of only those ledger accounts which still remain open even after the preparation of Trading & Profit & Loss Account are shown in the Balance Sheet.
3. Format	The headings of the two columns are **'debit balances'** and **'credit balances'** (in case of a Trial Balance by Balance Method).	The headings of the two sides are **'Liabilities'** and **'Assets'.**
4. Closing Stock	Generally, the Closing Stock does not appear in the Trial Balance whereas the opening stock appears.	In a Balance Sheet, only the Closing Stock appears on the Assets side as a Current Assets.

5. Items of Adjustments (e.g., Outstanding Expenses, Prepaid Exp., Accrued Income etc.)	It can be prepared without incorporating the items of adjustments.	It cannot be prepared without incorporating the items of adjustments.
6. Net Profit /Net Loss	Information about net Profit/Net loss is not provided in a Trial Balance.	Information about net Profit/Net Loss is provided.
7. Periodicity	It can be prepared periodically (say) at the end of a month/ quarter/half-year.	It is generally prepared at the end of an accounting period.
8. Can the preparation be dispensed with?	Its preparation can be dispensed with.	Its preparation cannot be dispensed with.

34.0 DISTINGUISH BETWEEN FIXED CAPITAL METHOD AND FLUCTUATING CAPITAL METHOD.

[NOV. 1995, NOV. 2004]

Fixed Capital method and Fluctuating Capital method in partnership accounts can be distinguished as follows:

Basis of Distinction	Fixed Capital Method	Fluctuating Capital Method
1. Change in Capital	The capital normally **remains unchanged** except under special circumstances.	The capital **fluctuates** quite frequently from period to period.
2. No. of Accounts maintained	**Two** accounts are maintained for each partner viz. (a) Fixed Capital Account, (b) Current Account.	Only **one** account (viz., Capital Account) is maintained for each year.
3. Adjustments for drawings etc.	All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit/loss are made **in Current Account.**	All adjustments for drawings, interest on capital, salary, share of profit/loss are made **in Capital Account.**
4. Can Capital Account show a negative balance?	Fixed Capital Account can **never show** a negative balance.	Fluctuating Capital Account **can show** a negative balance.

35.0 DISTINCTION BETWEEN AVERAGE PROFITS & SUPER PROFITS

Basis of Distinction	Average Profit	Super Profit
1. Meaning	Average Profit is the **average of the profit of past few years.**	Super Profit is the **excess of Average Profits over Normal Profits.**
2. Whether Average Capital Employed considered for calculation	Average Capita! Employed is **not considered** while calculating Average Profits.	Average Capital Employed is **considered** while calculating Super profits.

3. Whether Normal Rate of Return considered for calculation?	Normal Rate of Return is **not considered** while calculating Average Profits.	Normal Rate of Return is **Considered** while calculating Average Profits.
4. Relevance while Valuing Super Goodwill	Average Profit is relevant **for Average Profits Method, Super Profits Method and Capitalization Methods of** valuation of Goodwill.	Super profits is relevant **for Profits Method and Capitalization of Super Profits Method** of valuation of Goodwill.

36.0 DISTINGUISH BETWEEN PERSONAL GUARANTEE AND FIRM GUARANTEE .

Personal Guarantee	When guarantee is given by one *or* some or all of the partners in a ratio different from existing profit sharing ratio, such guarantee is said to be personal guarantee.
Firm Guarantee	When guarantee is given by all the partners in an existing profit sharing ratio, such guarantee is said to be firm guarantee.

37.0 DISTINGUISH BETWEEN SACRIFICING RATIO AND GAINING RATIO

Sacrificing Ratio and Gaining Ratio can be distinguished as follows:

Basis of Distinction	*Sacrificing Ratio*	*Gaining Ratio*
1. Meaning	It is the ratio in which the old partners have agreed to sacrifice their shares in profit in favour of new partner.	It is the ratio in which the continuing partners acquire the outgoing (retired *or*deceased) partners share.
2. Purpose	It is calculated to determine the amount of compensation to be paid by the incoming partner to the sacrificing partners.	It is calculated to determine the amount of compensation to be paid by each of the continuing partners to the outgoing partner.
3. How to calculate?	It is calculated by taking out the difference between Old Share and New Share.	It is calculated by taking out the difference between New Share and Old Share.
4. When to calculate?	It is calculated at the time of admission of a new partner and change in profit sharing ratio.	It is calculated at the time of retirement *or*death of a partner and change in profit sharing ratio.

38.0 DISTINGUISH BETWEEN EXISTING PARTNERSHIP AND LLP.

Basis of Distinction	Partnership	LLP
Regulating Law	It is governed by **'The Indian Partnership Act, 1932'**	It is governed by **'The Limited Liability Partnership Act, 2008'**
Registration	Registration is **optional.**	Registration is **compulsory.**
Creation	It is created **by agreement.**	It is created **by Law.**

Separate Legal Entity	**It has no** separate legal entity.	It **has** separate legal entity.
Name of Entity	**It** can have **any name** as per choice.	Its Name to contain **'Limited Liability Partnership' or 'LLP'** as suffix.
Perpetual Succession	It does **not have perpetual succession.** The death, insolvency or unsoundness of its members may affect its existence.	It **has** perpetual succession. The death, insolvency or unsoundness of its members does not affect its existence. Members may come and go but LLP goes forever.
Can Foreign National become partner?	Foreign National **can not become** a partner in a Partnership Firm in India.	Foreign National **can become** a Partner in a LLP.
Number of Members	Minimum **2** and Maximum **10** for Banking business &**20** for non-Banking business.	**Minimum** 2 but their is **no limit on maximum** number of partners.
Liability of Partners	Liability of Partner is **unlimited.** Partners are severally and jointly liable for actions of other partners and the firm and liability extend to their personal assets.	Liability of Partner is **limited,** to the extent their contribution towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.
Mutual Agency	Partners are **agents of the firm and other partners.**	Partners act as **agents of LLP and not of other partners.**
Designated Partner	It **need not have** Designated Partners.	It **must have** at least 2 two individuals as Designated Partners, of whom at least one must be resident in India. Each Designated Partner is required to have a DPIN before appointment.
Digital Signature	There is **no requirement** of obtaining Digital Signature	Atleast one Designated Partner **must have** Digital Signatures since e forms are filled electronically.
Whistle Blowing	**No such provision** is provided under The Indian Partnership Act, 1932	**Provision has been made** to provide protection to employees & partners, providing useful information during an investigation or convicting any partner or firm.
Admission of Minor	Minor **can be admitted** to the benefits of Partnership as per its Agreement.	Minor **can not be admitted** to the benefits of LLP.
Liability of Partners for Legal Compliance	**All Partners** are liable for Legal Compliance.	**Only Designated Partners** are liable for Legal Compliance.

39.0 DISTINGUISH BETWEEN COMPANY AND LLP

Basis of Distinction	Company	LLP
Prevailing Law	It is governed by **'The Companies Act, 2013'**	It is governed by 'The Limited Liability Partnership Act, 2008'
Motive	It can be formed for **Profit or Service motive.**	It can be formed **only for Profit motive.**
Cost of Formation	Minimum Statutory fee for incorporation of Private Company is **₹6,000 and that of Public Company is ₹19,000.**	Minimum cost of Formation of **LLP** is **₹800 only,** comparatively much lesser than the cost of formation of Company.
Charter Document	**Memorandum of Association** is the charter of the company which defines its scope of operations.	**LLP Agreement** is a charter of the LLP which denotes its scope of operations.
Common Seal	It **must have** its own common seal (i.e. Official Signature).	It **may have** its own common seal (i.e. Official Signature) as per its Agreement.
Formalities of Incorporation	1. Memorandum & Articles of Association 2. **Various e Forms** 3. **Prescribed Fee.** required to be filled with Registrar of Companies.	**1. LLP Agreement** 2. **Various e Forms** **3. Prescribed Fee.** required to be filled with Registrar of LLP.
Number of Members	**Private Company : Minimum** 2 members &**maximum** 200 members. **Public Company: Minimum** 7 members but their is **no limit on maximum** number of partners.	**Minimum** 2 but their is **no limit on maximum** number of partners.
Liability of Partners/ Members	Generally **limited to** the amount required to be **paid up** on each share.	Liability of Partner is Limited, **to the extent their contribution** towards LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner.
Transfer of Share/ Partnership rights in case of death	Shares are **transmitted** to the legal heirs.	**Legal heirs will not become partners.** The legal heirs have the right to get the refund of the capital contribution + Share in Accumulated Profits, if any.
Filing of Annual Statement of Solvency	Annual Statement of Solvency is **not required** to be filed with the Registrar of Companies every year.	Annual Statement of Solvency is **required** to be filed with the Registrar of LLP every year.

Audit of Accounts	Companies are required to get their accounts audited **annually** as per the provisions of the Companies Act, 1956.	An LLP is required to get their accounts audited annually as per the provisions of LLP Act 2008 **if its turnover exceeds ₹40 Lacs or its capital contribution exceeds ₹25 Lacs in any financial year.**
Whistle Blowing	**No such provision** is provided under the Companies Act, 1956.	**Provision** has been **made** to provide protection to employees & partners, providing useful information during an investigation or convicting any partner or firm.

40.0 DISTINGUISH BETWEEN A PROFIT SEEKING ORGANISATION AND A NOT-FOR-PROFIT ORGANISATION

A Profit seeking Organisation may be distinguished from a Not-for-Profit Organisation as under:

Basis of Distinction	Profit seeking organisation	Not-for-profit organization.
1. Primary Motive	The primary motive of such an entity is to earn profit.	The primary motive of such an entity is to provide services.
2. Owner's Fund Vs. Capital Fund	Interest of owners is known as Owner's Fund which represents the owner's investments plus accumulated reserves and surplus.	Interest of members is known as Capital Fund which represents the accumulated surplus of subscriptions, donations and net Income from activities carried on by such an entity.
3. Net Result of activities	The net result of the activities of such an entity is known as the profit/loss.	The net result of the activities of such an entity is known as the surplus/deficit.
4. Accounting Statements	The accounting statements of such type of entity include: (a) a Manufacturing A/c (b) a Trading A/c; (c) a Profit and Loss A/c; (d) a Balance Sheet.	The accounting statements of such an entity includes: (a) a Receipts and Payments A/c; (b) an Income and Expenditure A/c (c) a Trading A/c; (d) a Balance Sheet.

41.0 DISTINGUISH BETWEEN RECEIPTS AND PAYMENTS ACCOUNT AND INCOME AND EXPENDITURE ACCOUNT [NOV. 2002, MAY 2005]

A 'Receipt & Payment Account' and 'Income & Expenditure Account' can be distinguished as follows:

Basis of Distinction	Receipts 8> Payments A/c	Income & Expenditure A/c
1. Nature of Account	It is a **real** account.	It is a **nominal** account.

2. Period to which items relate	It records the receipts and payments whether they relate to **previous, current** or **following** accounting periods.	It records only those incomes, expenses and losses which relate to **current** accounting period.
3. **Nature of items recorded—Revenue Vs. Capital.**	It records all the receipts and payments **whether of capital or revenue nature.**	It records the incomes, expenditures and losses of **revenue nature.**
4. Non-cash Items	Non-cash items are **not shown** in this account.	Non-cash items such as depreciation, bad debts, etc., are **shown.**
5. Items of Debit side	It is debited with all the **sums received.**	It is debited with the **expenses and losses.**
6. Items of Credit side	It is credited with all the **sums paid out.**	It is credited with the **incomes.**
7. Closing balance	Closing balance represents **cash or bank balance (or bank overdraft) at the end** of the accounting period.	Its closing balance represents either **net surplus** *or* **net deficit.**
8. Treatment of closing balance	Its closing balance is **carried forward** in the same account of the **next period.**	Its closing balance is transferred to the **Capital Fund** in the Balance Sheet.
9. Opening balance	Opening balance represents **cash or bank balances (or Bank Overdraft) in the beginning** of the accounting period.	It has **no** opening balance.
10. Basic Structure	It is **basically a summarised Cash Book.**	It is **like a Profit & Loss Account.**
11. Object	It is prepared to present a summary of cash transactions during an accounting period.	It is prepared to ascertain the net results of all the transactions during an accounting period.

42.0 DISTINGUISH BETWEEN INCOME AND EXPENDITURE ACCOUNT AND PROFIT AND LOSS ACCOUNT

Income & Expenditure Account differs from Profit & Loss Account in the following respects:

Basis of Distinction	Income & Expenditure A/c	Profit & Loss A/c
1. Object	The main object of Income and Expenditure Account is **to ascertain excess of income over expenditure** *or* **excess of expenditure over income.**	The main object of Profit and Loss Account is **to ascertain Net Profit** *or* **Net Loss.**
2. Who prepares?	This account is prepared by **Non-Profit Organisations.**	This account is prepared by **Trading Institutions.**

3. Basis of Preparation	This account is prepared on the basis of **Receipts and Payments Account and other information.**	This account is prepared on the basis of **Trial Balance.**
4. Balance	The balance of this account represents **Surplus** *or* **Deficit**	The balance of this account represents **Net Profit** *or* **Net Loss.**

43.0 DISTINGUISH BETWEEN RESERVE CAPITAL AND CAPITAL RESERVE

Reserve Capital should not be confused with Capital Reserve which is created out of profits. Reserve Capital and Capital Reserve can be distinguished as follows:

Basis of Distinction	Reserve Capital	Capital Reserve
1. Meaning	It refers to those portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound up. (Sec. 65)	It refers to those amounts which are not regarded as free for distribution by way of divided through Profit and Loss Account.
2. Mandatory *or* **Not**	It is **not mandatory** to create Reserve Capital.	It is **mandatory** to create Capital Reserve in case of profit on forfeited shares.
3. Disclosure in Balance Sheet	It is **not disclosed** in the company's Balance Sheet.	It is required to be **disclosed** as the 1 st item under the head 'Reserves and Surplus' on the liabilities side of the Balance Sheet.
4. Time when it can be used	It can be used during **only at the time of winding up.**	It can be used **during the life of the company.**
5. Realised vs. Unrealised	It refers to the amount which has *neither* **been called up** *nor* **been received.**	It (excluding items like revaluation profit) refers to that amount which has already been **realised.**
6. Can it be used to write off capital losses?	It **cannot be used** to write off capital losses.	It **can be used** to write off capital losses.
7. Can it be used to declare share bonus?	It **cannot be used** to declare a share bonus.	It (excluding items like revaluation profit) **can be used** to declare a share bonus.

44.0 DISTINGUISH BETWEEN AN EQUITY SHARE AND PREFERENCE SHARE

An Equity Share and Preference Share can be distinguished as follows:—

Basis of Distinction	An Equity Share	A Preference Share
1. Preferential right as to the payment of dividend	Payment of equity dividend is made **after** the payment of preference dividend.	Payment of preference dividend is made **before** the payment of equity dividend.

2. Preferential right as to the repayment of capital	Repayment of Equity share capital is made **after** the repayment of preference share capital.	Repayment of preference share capital is made **before** the repayment of equity share capital.
3. Fluctuations in the rate of dividend	The rate of equity dividend **may vary** from year to year depending upon the decision of directors and members.	The rate of preference dividend is **fixed.**
4. Arrears of dividend	In case of an equity share, arrears of dividend **cannot accumulate** in any case.	In case of a preference share, arrears of dividend may **accumulate.**
5. Convertibility	It **cannot** be convertible.	It **may be** convertible.
6. Voting Rights	Equity shareholders generally **enjoy** voting rights.	Preference shareholders **do not have** any voting rights **except at their class meetings.**
7. Redeemability	It is **not redeemable** during the life time of the company **unless** the company decides to **buyback** the shares.	It is **redeemable** during the life time of the company.

45.0 DISTINGUISH BETWEEN CALLS-IN-ARREARS & CALLS-IN-ADVANCE

Calls-in-arrears differ from Calls-in-advance in the following respects:

Basis of Distinction	**Calls-in-arrears**	**Calls-in-advance**
1. Meaning	It refers to the Called up amount not yet received from some shareholders till the last day fixed for payment thereof.	It refers to the Uncalled up amount received in advance from some shareholders.
2. Authority under Articles	There is **no question** of any authority under Articles.	A company may accept Calls- in-advance only if Articles permit.
3. Interest	Interest is **charged** on Calls-in-arrears.	Interest is **allowed** on Calls-in-advance.
4. Maximum Rate of Interest	The maximum rate of interest as per **Table F** is **10%** p.a.	The maximum rate of interest as per **Table F** is **12%** p.a.
5. Disclosure	The amount of Calls-in-arrears is shown in the **Notes to Accounts 'Share Capital'** to the Balance Sheet.	The amount of Calls-in- advance is shown under the head **'Current Liabilities'** and sub-head **'Other Current Liabilities'.**

46.0 DISTINGUISH BETWEEN A SHARE AND A DEBENTURE

A Share and A Debenture can be distinguished as follows:

Basis of Distinction	A Share	A Debenture
1. Capital vs. Loan	Share is a part of owned **capital.**	Debenture constitutes a **loan.**
2. Reward for Investment	Reward is the payment of **dividend.**	Reward is the payment of **interest.**
3. Fluctuations in the rate of interest and dividend	The rate of dividend **may vary** from year to year depending upon the profit decisions of directors and members.	The rate of interest is **fixed except** in case of Debentures carrying Floating Rate of Interest.
4. Charge vs. Appropriation	Payment of dividend is an **appropriation** out of profit and this cannot be made if there is not profit.	Payment of interest is a **charge** against profits and is to be made even if there is no profit.
5. Priority as to payment of interest/dividend	Payment of **dividend gets no priority** over the payment of interest.	Payment of **interest gets priority** over the payment of dividend.
6. Priority as to repayment of principal during winding up	**Payment** of share capital is made **after** the repayment of **debentures.**	**Payment** of debentures is made **before** the payment of **share capital.**
7. Secured by charge	Shares are **not secured** by any charge.	Non-Convertible Debentures redeemable on or after 18 months are **secured** by a charge.
8. Restriction on issue discount	**Sec.** 53 **prohibits** the issue of shares at discount.	**No restriction** is imposed on the issue of debentures at discount.
9. Voting rights	Shareholders generally **enjoy** voting rights.	Debenture-holders **do not** have any voting rights (except at their class-meetings).
10. Convertibility	Equity shares can **never** be **convertible.**	Debentures **can be convertible.**
11. Trust Deed	Trust Deed is **required** to be executed.	Debenture Trust Deed is **required** to be executed.

47.0 DISTINGUISH BETWEEN CURRENT RATIO AND QUICK RATIO

Basis of Distinction	Current Ratio	Quick Ratio
1. Relationship	Current Ratio shows relationship between Current Assets and Current Liabilities.	Quick Ratio shows relationship between Quick Assets and Current Liabilities.

2. Objective	Current Ratio measures ability to meet current obligations as and when they fall due for payment over a period normally not exceeding 12 months.	Quick Ratio measures enterprise's ability to meet current obligations without relying on the sale and collection of inventories.
3. Components of Ratio	The components of Current Ratio are Current Assets and Current Liabilities.	The components of Quick Ratio are Quick Assets and Current Liabilities.
4. Formula for Computation	Current Ratio =Current Assets	Quick Ratio = Quick Assets
	Current Liabilities	Current Liabilities
5. Traditional Satisfactory Standard	It is 2 : 1.	It is **1 : 1.**
6. Precaution	While computing and using Current Ratio, quality of both Inventories and Trade Receivables is required to be carefully assessed.	While computing and using Quick Ratio, quality of Trade Receivables is required to be carefully assessed (since the Inventories have already been excluded).

5. Danger of Window Dressing — When the management decides to enter wrong figures to artificially inflate or deflate the figure of Profits, Assets and Liabilities, the Income Statement fails to provide true and fair view of the Financial Performance and Balance Sheet fails to provide true and fair view of the Financial Position of the enterprise.

5. WRITE A SHORT NOTE ON QUALITATIVE CHARACTERISTICS. [NOV. 2003]

The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The framework suggests that the financial statements should observe and maintain the following four qualitative characteristics as far as possible within limits of reasonable cost/benefit.

1. Understandability	The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities. It is not right to think that more one discloses better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure. No relevant information can be however withheld on the grounds of complexity.
2. Relevance	The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decisions of a user.

3. Reliability	To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless: (a) Transactions and events reported are faithfully represented. (b) Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form. This principle is called the principle of 'substance over form'. (c) The reporting of transactions and events are neutral, i.e. free from bias. (d) Prudence is exercised in reporting uncertain outcome of transactions or events.
4. Comparability	Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.
5. True and Fair View	Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The conceptual framework does not deal directly with this concept of true and fair view, yet the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements portraying true and fair view of information about an enterprise.

4. Charge vs. Appropriation	Payment of dividend is an **appropriation** out of profit and this cannot be made if there is not profit.	Payment of interest is a **charge** against profits and is to be made even if there is no profit.
5. Priority as to payment of interest/dividend	Payment of **dividend gets no priority** over the payment of interest.	Payment of **interest gets priority** over the payment of dividend.
6. Priority as to repayment of principal during winding up	**Payment** of share capital is made **after** the repayment of **debentures.**	**Payment** of debentures is made **before** the payment of **share capital.**
7. Secured by charge	Shares are **not secured** by any charge.	Non-Convertible Debentures redeemable on or after 18 months are **secured** by a charge.
8. Restriction on issue discount	**Sec. 53 prohibits** the issue of shares at discount.	**No restriction** is imposed on the issue of debentures at discount.
9. Voting rights	Shareholders generally **enjoy** voting rights.	Debenture-holders **do not** have any voting rights (except at their class-meetings).
10. Convertibility	Equity shares can **never** be **convertible.**	Debentures **can be convertible.**
11. Trust Deed	Trust Deed is **required** to be executed.	Debenture Trust Deed is **required** to be executed.

47.0 DISTINGUISH BETWEEN CURRENT RATIO AND QUICK RATIO

Basis of Distinction	*Current Ratio*	*Quick Ratio*
1. Relationship	Current Ratio shows relationship between Current Assets and Current Liabilities.	Quick Ratio shows relationship between Quick Assets and Current Liabilities.
2. Objective	Current Ratio measures ability to meet current obligations as and when they fall due for payment over a period normally not exceeding 12 months.	Quick Ratio measures enterprise's ability to meet current obligations without relying on the sale and collection of inventories.
3. Components of Ratio	The components of Current Ratio are Current Assets and Current Liabilities.	The components of Quick Ratio are Quick Assets and Current Liabilities.
4. Formula for Computation	Current Ratio = Current Assets / Current Liabilities	Quick Ratio = Quick Assets / Current Liabilities
5. Traditional Satisfactory Standard	It is 2 : 1.	It is 1 : 1.
6. Precaution	While computing and using Current Ratio, quality of both Inventories and Trade Receivables is required to be carefully assessed.	While computing and using Quick Ratio, quality of Trade Receivables is required to be carefully assessed (since the Inventories have already been excluded).

48.0 DISTINGUISH BETWEEN OPERATING RATIO AND OPERATING PROFIT RATIO

Operating Ratio differs from Operating Profit Ratio in the following respects:

Basis of Distinction	**Operating Ratio**	**Operating Profit Ratio**
1. Relationship	It shows the relationship between Operating Cost and Revenue from Operations	It shows the relationship between Operating Profit and RFO.
2. Objective	The objective of computing this ratio is to determine the efficiency with which production/purchase & selling operations are carried on.	The objective of computing this ratio is to determine the operational efficiency of the management.
3. Interpretation	This ratio indicates an average operating cost incurred on a sales of ₹100.	This ratio indicates (a) an average operating margin as RFO of ₹100. (b) What portion of sales is left to over Non-Operating Expenses to pay Dividend and to create Reserves.
4. Formula	**Operating Profit/Revenue from Operations** $\times_{100}$	**Operating Profit/Revenue from Operations × 100**

49.0 DISTINCTION BETWEEN A COMPANY'S BALANCE SHEET & FIRM'S BALANCE SHEET

A company's Balance Sheet differs from a firm's Balance Sheet in the following respects:

1. A Company's Balance Sheet is prepared in the order of permanence whereas a partnership firm's Balance Sheet is usually prepared in the order of liquidity.
2. For company's Balance Sheet, there is vertical form prescribed under the Companies Act, 2013 whereas, there is no standard form prescribed under The Indian Partnership Act, 1932 for a partnership firm's Balance Sheet.
3. In case of a company's Balance Sheet, previous year's figures are required to be given whereas it is not so in the case of a partnership firm's Balance Sheet.