CA Darshan Jain

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A Chartered Accountant & A Company Secretary By Profession & A Educator By passion.

Teaching Financial Accounting & Financial management to CA Students Since Last 11 years.

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CA FOUNDATION PRE EXAM MARATHON PLAN FOR DEC 23 ON YOU TUBE BY DJ SIR			
DATE	DAY	TOPIC	TIME
18-12-2023	MONDAY	L1 - RECTIFICATION OF ERRORS	10.00 PM - 12.00 AM
19-12-2023	TUESDAY	L2 - BANK RECONCILIATION STATEMENT	10.00 PM - 12.00 AM
20-12-2023	WEDNESDAY	L3 - NPO	10.00 PM - 12.00 AM
21-12-2023	THURSDAY	L4 - BILLS OF EXCHANGE	10.00 PM - 12.00 AM
22-12-2023	FRIDAY	L5 - DEPRECIATION ACCOUNTING	10.00 PM - 12.00 AM
23-12-2023	SATURDAY	L6 - TIPS & TRICKS TO CRACK CA FOUNDATION ACCOUNTS	10.00 PM - 11.00 PM
24-12-2023	SUNDAY	100 MARKS MOCK TEST	AS PER CONVENIENCE OF STUDENTS
24-12-2023	SUNDAY	L7 - CONSIGNMENT	10.00 PM - 12.00 AM
25-12-2023	MONDAY	L8 - ISSUE , FORFEITURE & REISSUE OF SHARES	10.00 PM - 12.00 AM
26-12-2023	TUESDAY	L9 - FINAL ACCOUNTS OF SOLE PROPRIETOR	10.00 PM - 12.00 AM
27-12-2023	WEDNESDAY	L10 - FINAL ACCOUNTS OF MANUFACTURING ENTITY	10.00 PM - 12.00 AM
28-12-2023	THURSDAY	L11 - THEORY & TRUE OR FALSE	10.00 PM - 12.00 AM
29-12-2023		L12 - 12 HOURS PRE EXAM MAHA MARATHON (INVENTORY VALUATION , DEPRECIATION , ISSUE OF DEB , PARTNERSHIP , FINAL ACCOUNTS , BASICS OF ACCOUNTS)	8.00 AM ONWARDS
30-12-2023	SATURDAY	SELF STUDY DAY	-
31-12-2023	SUNDAY	L13 - WARM UP SESSION	9.00 AM TO 10.00 AM
12 HOURS PRE EXAM MAHA MARATHON (BRS , NPO , SHARES , ADD , ACCOUNT CURRENT , SOGRA , ROE , ACCOMADATION BILL) IS AVAILABLE ON YT			

SUPER 75

SR.NO	NAME OF TOPIC	NO. OF QUE
1	RECTIFICATION OF ERRORS	4
2	BANK RECONCILIATION STATEMENT	4
3	BILL OF EXCHANGE & PROMISSORY NOTES	4
4	INVENTORY VALUATION	7
5	CONSIGNMENT	5
6	DEPRECIATION	4
7	AVERAGE DUE DATE	4
8	ACCOUNT CURRENT	3
9	PARTNERSHIP - BASICS	2
10	PARTNERSHIP - VALUATION OF GOODWILL	2
11	PARTNERSHIP - ADMISSION OF PARTNER	3
12	PARTNERSHIP - RETIREMENT OF PARTNER	2
13	PARTNERSHIP - DEATH OF PARTNER	3
14	PARTNERSHIP - CHANGE IN PSR	1
15	COMPANY ACCOUNTS AND ACCOUNTING FOR SHARES	6
16	ISSUE OF DEBENTURES	3
17	SALE OF GOODS ON APPROVAL BASIS	4
18	FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES	5
19	FINAL ACCOUNTS OF MANUFACTURING ENTITIES	3
20	FINANCIAL STATEMENTS OF NPO	6
	TOTAL	75

ORDER OF CHAPTERS IN MAHA MARATHON NOTES

SR.NO	NAME OF TOPIC	REMARK
1	BANK RECONCILIATION STATEMENT	COVERED IN JUNE 23 MAHA MARATHON
2	FINANCIAL STATEMENTS OF NPO	COVERED IN JUNE 23 MAHA MARATHON
3	COMPANY ACCOUNTS AND ACCOUNTING FOR SHARES	COVERED IN JUNE 23 MAHA MARATHON
4	FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES	TO BE COVERED IN DEC 23 MAHA MARATHON
5	FINAL ACCOUNTS OF MANUFACTURING ENTITIES	TO BE COVERED IN DEC 23 MAHA MARATHON
6	RECTIFICATION OF ERRORS	COVERED IN JUNE 23 MAHA MARATHON
7	BILL OF EXCHANGE & PROMISSORY NOTES	COVERED IN JUNE 23 MAHA MARATHON
8	CONSIGNMENT	TO BE REVISED FROM DEC 23 MINI MARATHON
9	DEPRECIATION	TO BE COVERED IN DEC 23 MAHA MARATHON
10	INVENTORY VALUATION	TO BE COVERED IN DEC 23 MAHA MARATHON
11	AVERAGE DUE DATE	COVERED IN JUNE 23 MAHA MARATHON
12	ACCOUNT CURRENT	COVERED IN JUNE 23 MAHA MARATHON
13	SALE OF GOODS ON APPROVAL BASIS	COVERED IN JUNE 23 MAHA MARATHON
14	ISSUE OF DEBENTURES	TO BE COVERED IN DEC 23 MAHA MARATHON
15	PARTNERSHIP ACCOUNTS	TO BE COVERED IN DEC 23 MAHA MARATHON
16	BASICS OF ACCOUNTS	TO BE COVERED IN DEC 23 MAHA MARATHON

CA – INTERMEDIATE

WARM-UP BATCH

For NOV 2024

IMPORTANT THEORY QUESTIONS FOR CA FOUNDATION ACCOUNTS

DISTINGUISH BETWEEN

DIFFERENCE BETWEEN BOOK KEEPING & ACCOUNTING

S.No.	Book – Keeping	Accounting
1	It is a process concerned with recording & Classification of transactions.	It is a process concerned with summarizing of the recorded transactions.
2	It constitutes as a base for accounting.	It is considered as a language of the business.
3	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book – keeping records.
4	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5	There is no sub – field of book – keeping.	It has several sub-fields like financial accounting, management accounting etc.
6	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

DIFFERENCE BETWEEN CONTINGENT LIABILITY & PROVISION

Basis of Distinction	Provision	Contingent Liability
Meaning	Provision is present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence of one or more uncertain future events.
Recognition Criteria	A provision meets the recognition criteria.	A Contingent liability fails to meet the same.
Conditions for Recognition	Provision is recognized when (a) an enterprise has a present obligation arising from past events an outflow of resources embodying 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 obligation will require outflow of economic benefits, or the amount cannot be estimated.
Judgment of Management	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.

DISTINCTION BETWEEN TRADE BILLS AND ACCOMODATION BILLS

No.	Trade Bills	Accommodation Bills
1	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	These bills are accepted for a consideration.	These bill are accepted without any consideration.
3	The bill may not be necessarily discounted	The bill is necessary discounted with bank
4	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 agreed ratio.
5	Discount charges are borne by the Drawer.	Discount charges are shared by the parties in the ratio in which discounting proceeds are shared. (i.e. by drawer as well a drawee).

DISTINCTION BETWEEN SALE & CONSIGNMENT

SR. NO	SALE	CONSIGNMENT
1	Ownership is transferred from seller to buyer.	Ownership rests with the consignor till the goods are sold by the consignee.
2	The relationship of the parties is of a seller and buyer.	The relationship of the parties is of a principal and agent
3	Sale Invoice is prepared by seller	Proforma Invoice is prepared by consignor.
4	Buyer is liable to pay amount mentioned in the sales invoice	Consignee is not liable to pay amount mentioned in the Proforma Invoice
5	Buyer bears the loss if any after the delivery of goods	Consignor bears the loss of goods held by consignee.
6	Buyer can return the goods to the seller only if the terms of sales so provides.	Consignee can return the unsold goods to the consignor.

DISTINCTION BETWEEN SHARES & DEBENTURES

Sr.No	SHARES	DEBENTURES
1	Shareholders are the owners of the company	Debentureholders are the creditors of the company
2	Shareholders have voting rights	Debenture holders do not have voting rights
3	Reward is the payment of dividend	Reward is the payment of Interest
4	Dividend on Shares is appropriation of Profits	Interest on Debentures is Charge against profits
5	Dividend on Shares is paid at a variable rate	Interest on Debentures is paid at a pre-determined fixed rate
6	Shares cannot be converted into debentures	Debentures can be converted into shares
7	Shares can be forfieted for non payment of allotment and call money	debentures cannot be forfieted for non payment of call money
8	Payment of share capital is made after the repayment of Debentures	payment of debentures is made before the payment of share capital

DISTINCTION BETWEEN PARTNERSHIP FIRM AND LLP

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 50	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

DISTINGUISH BETWEEN R&P AND I&E

SR. NO	RECEIPT AND PAYMENT ACCOUNT	INCOME AND EXPENDITURE ACCOUNT
1	It is Real Account	It is Nominal Account
2	It Includes Both Capital & Revenue items	It Includes only revenue Items
3	It is Summary of actual cash receipts and payments of a particular period	It is summary of incomes and expenses of a particular period
4	It includes all receipts and payments irrespective of the period to which it belongs.	It includes only incomes and expenses of a particular period for which the account is prepared
5	It does not include non cash transactions	It includes both the cash and non cash transactions
6	It begins with the opening cash/bank balance and ends with the closing cash/bank balance.	It does not have any opening balance. Closing balance represents either Deficit or Surplus.

DISTINGUISH BETWEEN PROVISION & RESERVES

Basis of Distinction	Provision	Reserve
Meaning	Provision means – (i) Any Amount written off. (ii) Any Amount retained by way of providing for depreciation, renewal or diminution in value of Assets, (iii)Any Provision for known liability, of which amount cannot be determined with substantial Accuracy.	Profit retained in the business not having any of the attributes of a 'provision' is to be treated as a reserve. Also provisions in excess of the amount considered necessary for the purposes these were originally made are to be considered as reserves.
Propose	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.
Charge Vs. Appropriation	It is a charge against the profit	It is an appropriation out of profit

Basis of Distinction	Provision	Reserve
Disclosure in Balance Sheet	Usually a provision is shown by way of deduction from the amount of the items for which it is created. E.g., Provision for Doubtful Debts.	Reserve is known as a separate item under the head Reserves and Surplus' on the liabilities side of the Balance Sheet.
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. If it is invested outside business, it is called 'FUND'.
Utilisation for dividends	It cannot be utilised for distribution by way of dividends.	It can be utilised for distribution by way of dividends.
Examples	Provision for Tax Provision for Doubtful Debts	General Reserve Contingency Reserve Worker's Welfare Reserve

DISTINGUISH BETWEEN CASH & MERCANTILE SYSTEM OF ACCOUNTING

Sr.No	Cash System	Mercantile System
1	In Cash System Expense is Recorded when it is paid	In mercantile system Expense is recorded when it is incurred
2	In cash System Income is recorded when cash is received	In mercantile system Income is recorded when it is earned
3	It is Normally Followed by professional , Educational institutes & NPO	It is Normally Followed by Business Entities
4	It is Not Based on Concept of Accrual	It is based on The concept of Accrual
5	No Entries for prepaid & Outstanding under cash System	Outstanding & prepaid entries to be made in mercantile system

DISTINGUISH BETWEEN REAL & NOMINAL ACCOUNT

Sr.No	Real Account	Nominal Account
1	It Includes Accounts Relating to assets & properties	It Includes accounts relating to Expenses & income
2	The Rule for Real Account is "Debit What Comes in , credit What Goes out"	The Rule for Nominal Accounts is "Debit all expenses & losses & credit all incomes & gains"
3	The balance Existing in real Account at year end is carried forward to next year	The balance existing in nominal account at year end is transferred to trading & profit & loss account.
4	Example – Furniture , goodwill , plant & machinery etc	Example – Audit Fees paid , Commision Received , Discount allowed etc

DISTINGUISH BETWEEN CAPITAL& REVENUE EXPENDITURE

Sr.No	Capital Expenditure	Revenue Expenditure
1	It gives rise to a capital asset	It does not give rise to a capital asset
2	Its benefit is for more than 1 accounting period	Its benefit is for 1 year or less
3	It is Non Recurring in nature	It is Recurring in nature
4	Shown on Asset Side of balance sheet	Shown on Debit side of trading or profit & Loss account
5	Example – Land & Building , car Purchased by Gold Dealer.	Example – Gold Purchased by Gold Dealer

DISTINGUISH BETWEEN LIFO& FIFO

Sr.No	LIFO	FIFO
1	It Stands for last in First Out	It Stands for First in First Out
2	In This Basis , It is assumed that Goods Which are received last are issued first	In This Basis , It is assumed that Goods Which are received first are issued first
3	The Ending Inventory Consist of Earliest Lots	The Ending Inventory Consist of Latest Lots
4	The ending inventory is understated in the Balance Sheet at old costs.	The ending inventory is stated in the Balance Sheet at a value nearer the current market price.
5	In periods of rising prices, lower incomes is reported since current costs (which are higher than the old costs) are matched with current revenues. As a result, income tax liability is reduced.	In periods of rising prices, higher income is reported since old costs (which are lower than the current costs) are matched with current revenues. As a result, income tax liability is increased.

DISTINGUISH NORMAL LOSS & ABNORMAL LOSS IN CONSIGNMENT

Normal loss	Abnormal loss
Normal loss occurs due to inherent nature of the goods being shipped e.g. leakage, evaporation, loss of perishable goods etc.	Abnormal loss occurs mainly because of unforeseen events e.g. accident or natural calamity etc.
Normal loss is not accounted for immediately and is loaded on the remaining goods. It gets accounted for as cost of remaining goods as and when they are sold.	Abnormal loss is accounted for immediately in profit and loss account.
As normal loss is added to cost of remaining goods, it impact gross profit.	Abnormal loss does not impact gross profit.
Insurance companies generally do not cover normal loss as it is expected to be incurred on each consignment or storage of goods.	Insurance is generally available for abnormal losses.
Normal loss is almost certain however it may vary from time to time.	Abnormal loss is because of unforeseen events and is not certain.

DISTINGUISH BETWEEN INTEREST ON CALLS IN ARREARS & CALLS IN ADVANCE

Interest on Calls in Arrears	Interest on Calls in Advance
It is payable by shareholders to company on the calls due but remaining unpaid.	It is payable by the Company to Shareholders on the call money received in advance but not yet due.
As per Table F maximum prescribed rate is 10%.	As per Table F maximum prescribed rate is 12%.
Period considered : From the date call money was due to the date money is finally received.	Period considered: From the date money was received to the day call was finally made due.
Directors have a right to waive off such interest in individual cases at their own discretion.	Shareholders are not entitled for any dividend on calls in advance.
It is a nominal account in nature and is credited to statement of profit and loss as an income.	It is a nominal account in nature with interest being an expense for the company.

DISTINGUISH BETWEEN INCOME STATEMENT & POSITION STATEMENT

Income Statement	Position statement
Profit or loss is disclosed in the Income Statement prepared at the close of the financial year	It exhibits assets and liabilities of the business as at the close of the financial year.
Income Statement is sub-divided into following two parts for a non-manufacturing concern: (i) Trading account; and (ii) Profit and Loss account	Apart from balance sheet, to judge financial position of the business, sometimes additional statements are also prepared like cash flow statement, value added statement etc. which is not mandatory for non-corporate entities. These additional statements are prepared for the better understanding of the financial position of the business.
Income Statement discloses net profit or net loss of the business after adjusting from the income earned during the year, all the expenditures of the business incurred in that year.	Position statement discloses the assets and liabilities position as on a particular date.

DISTINGUISH BETWEEN PERIODIC AND PERPETUAL INVENTORY SYSTEM

Sr. No	PERIODIC INVENTORY SYSTEM	PERPETUAL INVENTORY SYSTEM
1	This system is based on physical verification.	It is based on books records.
2	This system provides information about stock and cost of goods sold at a particular date.	It provides continuous information about stock and cost of sales.
3	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes stock as balancing figure.
4	Cost of goods sold includes loss of goods as goods not in stock are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be Inventory.
5	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6	This system is simple and less expensive.	It is costlier method.
7	Periodic system requires closure of business for counting of stock.	Inventory can be determined without affecting the operations of the business.

DISTINCTION BETWEEN BILL OF EXCHANGE & PROMMISSORY NOTE

No.	Bills of Exchange	Promissory Notes
1	A bill of exchange is an order to pay a certain sum of money.	A Promissory note is a promise to pay a certain sum of money.
2	There are 3 Parties Drawer Drawee Payee	There are 2 Parties Maker Payee
3	A bill of exchange drawn by a creditor	A promissory note is made by a debtor
4	A bill of exchange must be accepted by drawee.	Acceptance is not necessary for a promissory note
5	Notice of dishonor must be given to all person liable to pay.	Notice of dishonor to the maker is not necessary in case of non payment or non- acceptance of an instrument
6	Defined under the Section. 5 of the Negotiable Instrument Act	Defined under Section 4 of the Negotiable Instrument Act.

DISTINGUISH BETWEEN FUNDAMENTAL ACCOUNTING ASSUMPTION AND ACCOUNTING POLICIES

Fundamental Accounting Assumption	Accounting Policies
There are three fundamental accounting assumptions viz. Going Concern, Consistency and Accrual.	There is 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.
No disclosures is required if all the fundamental assumptions have been followed.	Disclosure is required if a particular accounting policy has been followed.
If fundamental accounting assumption is not followed, it is to be disclosed in the	If the policy is changed in subsequent year, the effect of

financial statements together with the reasons.	such change should be disclosed in the financial statements.
There is no option to choose fundamental accounting assumptions.	The firm has an option to select a particular policy.

ANSWER IN BRIEF

EXPLAIN RESERVE CAPITAL AND CAPITAL RESERVE

Reserve Share Capital: As per Section 65 of the Companies Act, 2013, a Company may decide by passing a resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital.

Reserve Capital is different from Capital reserve, Capital reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend. Thus, reserve capital which is portion of the uncalled capital to be called up in the event of winding up of the company is entirely different in nature from capital reserve which is created out of capital profits only.

EXPLAIN METHODS OF MAINTAINING PARTNERS CAPITAL ACCOUNTS

The Partners' Capital Accounts may be maintained according to Fluctuating Capital method or Fixed Capital method

Fluctuating Capital Method : Under Fluctuating Capital Method, only one account (viz. Capital Account) for each partner is maintained and all the transaction relating to a partner are recorded in his Capital Account. As a result, the balance in the Capital Account keeps on fluctuating.

Fixed Capital Method : Under fixed Capital Method, two accounts (viz. Capital Account and Current Account) for each partner are maintained. The transaction relating to introduction or withdrawal of Capital are recorded in Capital Account and other transaction like Interest on Capital Drawings, Salary, Commission, Share of Profit / Loss are recorded in Current Account. As a result of these, the Capital Account will continue to show the same balances from year to year unless some amount of Capital Account is introduced or withdrawn while the balances of Current Account keeps on fluctuating.

WHAT ARE LIMITATIONS OF ACCOUNTING

1. Only transactions which can be measured in terms of money can be entered in the accounts. So events how so ever important they may be to the business, do not find a place in the accounts, if they cannot be measured in terms of money.

2. Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.

3. According to the cost concept, assets are recorded at historical cost and ignore the changes in value of assets brought about by changing value of money and market factors.

4. Accounting ignores changes in some money factors like inflation etc.

5. There is conflict between one accounting principle and another e.g. stock-in-trade is valued on the basis of cost or market price whichever is lower. Therefore in one year cost basis may be taken, whereas in another year it may be market price. This system contravenes the accounting principle of consistency.

6. The balance-sheets is largely the result of personal judgment of the accountant with regard to adoption of accounting policies. Therefore accounts are affected by subjectivity factor.

WHAT ARE ADVANTAGES OF SUBSIDIARY BOOKS

1. **Division of work :** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

2. **Specializations and efficiency :** When the same work is allotted to particular persons over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

3. **Saving of time :** Various accounting process can be undertaken simultaneously because of the use of number of books. This will lead to the work being completed quickly.

4. **Availability of information :** Since a separate register or books is kept for each class of transactions the information relating to each transaction will be available at one place.

5. **Facility in checking :** When the trial balance does not agree the locations of the error or errors are facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

WHAT ARE ADVANTAGES OF PETTY CASH BOOK

1. **Saving of chief cashier time :** The time of chief cashier is saved when petty expenses are recorded in petty cash book.

2. **Saving of Labour in posting :** There is saving in labour in posting because of the following two reasons :
   a) Limited number of accounts are opened for head of petty expenses only,
   b) Periodical totals (say monthly) of each column of expenses are posted to the debit of the respective ledger accounts.

3. **Controls over the mistakes :** The chances of mistakes are reduced since the chief cashier regularly examine the petty cash book.

4. **Control over Petty Expenses :** Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash.

5. **Control over Fraud :** Misappropriation if any, is always kept within the limits of Imprest

6. **Benefits of Specialization :** The benefits of specialization are available since recording of cash transactions is divided between main cash book and petty cash book.

EXPLAIN IMPREST V/S NON-IMPREST SYSTEM OF PETTY CASH BOOK

a) "**Imprest' 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.

b) Petty cash book may be maintained on Imprest system or no Imprest system.

(i) **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.

(ii) **Non Imprest system of Petty Cash -** Under the 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.

WHAT ARE CONSIDERATIONS IN SELECTING OF ACCOUNTING POLICIES

The primary consideration in the selection of accounting policies should be to prepare and present financial statements in a way that they represent a true and fair view of state of affairs of the enterprise as at balance sheet date and of the profit and loss account for period ended on that date. The major considerations governing the selections and application of accounting policies are as under :

1. **Prudence :** uncertainties inevitable surround many transaction. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserve.

2. **Substance over form :** Transaction and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

3. **Materiality :** financial statement should disclose all material items, that is, items, the knowledge of which might influence the decision of users of the financial statements.

EXPLAIN QUALITATIVE CHARACTERSTICS OF FINANCIAL STATEMENT

1. Understandability : Financial Statement must be readily understandable by the users. But this does not mean that complex and not easily understandable information should not be included in financial statement, even if it is relevant for decision making by the users.

2. Relevance : Financial statement must contain all the information, which is relevant, i.e. material, to the users of financial statement. As per AS-1 (issued by ICAI), information becomes material, if its omission or misstatement could influence the economic decisions of users of the financial statement. Thus, materiality provides a threshold or a base to decide what information to be included in financial statements and what not.

3. Reliability & Faithful Representation : Reliability is another qualitative characteristic, which the financial statements must possess to be useful to the users. If the information, contained in the financial statements is not reliable, it could not serve purpose of users. Fraud and errors make the financial statements unreliable. Therefore there should be faithful representation of transaction and events in the financial statement.

4. **Comparability :** The financial statement should also have the characteristic of comparability. Usually the users want to make the following comparison :
   - **Intra-Firm Comparison** i.e. the comparison of the figures of one accounting year with those of the other accounting year of the same firm,
   - **Inter-Firm Comparison** i.e. the comparison of the figures of one firm with those of another firm of the same industry, and
   - **Pattern Comparison** i.e. comparison of the figures of one firm with those of industry to which the firm belongs. By this way the users want to develop some judgments.

5. **Substance over Form :** The financial information must be presented in accordance with their substance, not by their legal form.

   For Example, in the case of Hire purchase sale, legally, the ownership in goods is transferred by seller to the buyer only at the payment of last installment. But in reality, the buyer uses the assets as owner from the date of entering into transaction, not on the date of payment of last installment. Similarly, all the significant risks and returns, inherent in the ownership of goods, are also transferred on the same date. Such transaction therefore, should be treated as purchase of assets on the date of entering into the transaction, not on the date of payment of last installment.

6. **Prudence :** Financial statements should have the characteristics of Prudence, i.e. accounting uncertainties should be dealt in such a way that assets and incomes are not overstated and similarly, liabilities and losses are not understated.

7. **Completeness :** The information contained in the financial statements should be complete in all respects. All the transactions and events of financial nature should be reflected in the financial statements. Not only the financial information, but the non-financial information, which may be useful to the users of accounts, should also be disclosed in the financial statements. For example, if the organization has followed any rules and regulations, and due to non-compliance of these rules and regulations, the government may give order for closing up of the business, then such non-financial information must be disclosed in the financial statement as per AAS-21.

8. **True & Fair Picture :** True & Fair presentation of information is the fundamental rule that should be strictly followed at the time of preparation and presentation of financial statements.

WHAT ARE CONSIDERATION IN DETERMINING CAPITAL & REVENUE EXPENDITURE

1. **Nature of business** : For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is very important criteria in separating an expenditure between capital and revenue.

2. **Recurring nature of expenditure** : If the frequency of an expenses is quite often in an accounting year then it said to be expenditure of revenue nature while non recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done on regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

3. **Purpose of expenses :** Expenses for repairs of machine may be incurred in course of normal maintenances of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature. However, determination of the cost of maintenance and ordinary repairs which should be expensed, as opposed to a cost which ought to be capitalized, is not always simple.

4. **Effect on revenue generating capacity of business :** The expenses which help to generate income/ revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure
   When the expenditure on improvement and repair of fixed asset is done, it has to be charged to Profit and Loss Account if the expected future benefits from fixed assets do not change, and it will be included in book value of fixed asset, where the expected future benefits from assets increase.

5. **Materiality of the amount involved :** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital. Even, if expenditure does not increase the production capacity of an asset, it may be capitalized because the amount is material or expenditure may increase the asset value and yet to be expensed because the amount is immaterial.

WHAT ARE CAUSES OF DIFFERENCE BETWEEN BALANCE AS PER CASH BOOK AND BALANCE AS PER PASS BOOK

Basically the differences between the Bank Balance as per Cash Book and Bank Balance as per Pass Book are caused by :

Timing difference of recording banking transactions

Errors in Cash Book committed by the account holder

Errors in pass Book committed by the Bank.

WHAT IS THE SIGNIFICANCE OF INVENTORY VALUATION

- Determination of True Income - The valuation of inventory is necessary for determining the true income earned by a business entity during a particular period. To determine gross profit, cost of goods sold is matched with revenue of the accounting period

- Ascertainment of Financial Position - Inventories are classified as current assets. The value of inventory on the date of balance sheet is needed to determine the financial position of the business. in case the inventory is not properly valued, the balance sheet will not disclose the truthful financial position of the business.

- **Liquidity Analysis** - Inventory is classified as current asset, it is one of the components of net working capital which reveals the liquidity position of the business. current ratio which studies the relationship between current assets and current liabilities is significantly affected by the value of inventory.

- **Statutory Compliance** - Schedule III of Companies Act, 2013 requires valuation of each class of goods i.e, raw material, work-in-progress and finished goods under broad head to be disclosed in the financial statement. As per the requirements of the Accounting Standards, the financial statements should disclose (a) the accounting policies adopted in measuring inventories, including the cost formula used, and (b) the total carrying amount of inventories and its classification appropriate to the enterprise. The common classification of inventories are raw materials, work-in-progress, stores and spares and loose tools.

EXPLAIN VARIOUS TYPES OF COMMISSION UNDER CONSIGNMENT

Ordinary Commission

The term commission simply denotes ordinary commission. It is based on fixed percentage of the gross sales proceeds made by the consignee. It is given by the consignor regardless of whether the consignee is making credit sales or not. This type of commission does not give any protection to the consignor from bad debts and is provided on total sales.

Del-Credere Commission

To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. This additional commission when provided to the consignee gives a protection to the consignor against bad debts. In other words, after providing the del-credere commission, bad debts is no more the loss of the consignor. It is calculated on total sales unless there is any agreement between the consignor and consignee to provide it on credit sales only.

Over-riding Commission

It is an extra commission allowed by the consignor to the consignee to promote sales at higher price then specified or to encourage the consignee to put hard work in introducing new product in the market. Depending on the agreement it is calculated on total sales or on the difference between actual sales and sales at invoice price or any specified price.

WHAT ARE OBJECTIVES OF CHARGING DEPRECIATION

1. **Correct income measurement.**

2. **To ascertain true and fair view of financial position.**

3. **To ascertain true cost of production.**

4. **To accumulate fund for replacement of assets.**

5. **To comply with legal requirement (As per Companies Act, depreciation must be charged before declaration of dividend)**

EXPLAIN FACTORS TO BE CONSIDERED IN COMPUTATION OF DEPRECIATION

1. **Historical cost of** a depreciable asset implies the cost incurred on its acquisition, installation, commissioning and for additions to or improvements there of which are of capital nature.

2. **Useful life is** either (i) the period over which a depreciable asset is expected to be used by the enterprise: or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprises.

   Useful Life of assets is affected by following factors-
   Expected physical is affected wear tear;
   Obsolescence;
   Legal or other limits on the use of the assets.

3. **Estimated residual value of** a depreciable asset implies the value expected to be realized on its sale or exchange on the expiry of its useful life.

Thus , Total Depreciable amount = Cost – Scrap Value

EXPLAIN PROVISIONS OF SECTION 52 OF COMPANIES ACT FOR UTILISATION OF SECURITIES PREMIUM ACCOUNT

The 'Securities Premium' can be utilized by the company (according to Sec. 52.) for

a) **Issuing fully paid bonus shares**
b) **Writing off the preliminary expenses**
c) **Writing off the expenses of, or the commission paid or discount allowed on issue of shares or debentures.**
d) **Providing for premium payable on redemption of preference shares or debentures.**
e) **For purchase of own shares or other securities**

WHAT ARE POINTS FOR CONSIDERATION IN REGARDS TO REISSUE OF FORFIETED SHARES

1. **Loss on re-issue should not exceed the forfeited amount**
2. **If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.**
3. **The forfeited amount on shares not yet reissued should be shown under the heading 'share capital.'**
4. **When only a portion of the forfeited shares are re-issued, then the profit made on reissue of such shares must be transferred to Capital Reserve.**
5. **When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account"**
6. **If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.**
7. **If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account.**

EXPLAIN ACCOUNTING TREATMENT OF ISSUE OF DEBENTURES AS A COLLATERAL SECURITY

1. Collateral security means secondary or supporting security for a loan, which can be realized by the lender in the event of the original loan not being repaid on the due date.
2. Under this arrangement, the borrower agrees that a particular asset or a group of assets will be realized and the proceeds there from will be applied to repay the loan in the event that the amount due, cannot be paid.
3. Sometimes companies issue their own debentures as collateral security for a loan or a fluctuating overdraft. In case, the company cannot repay its loan and the interest thereon on the due date, the lender becomes the debenture holder who can exercise all the rights of a debenture holder.
4. The holder of such debentures (given as a collateral security) is entitled to interest only on the amount of loan, but not on the debentures.
5. There are two methods of showings these type of debentures in the accounts of a company.

   Method 1

   Under this method, no entry is made in the books of account of the company at the time of making issue of such debentures. In the 'Notes to Account' of Balance Sheet, the fact of the debentures being issued and outstanding is shown by a note under the liability secured.

   Method 2

   Under this method, the following entry is made to record the issue of such debentures :
   Debentures Suspense Account……..Dr.
   To Debentures Account
   The Debentures Suspense Account will appear on the assets side of the Balance sheet and Debentures on the liabilities side of the Balance Sheet. When the loan is repaid, the entry is reversed in order to cancel it.

EXPLAIN TREATMENT OF DISCOUNT/ LOSS ON ISSUE OF DEBENTURES

1. The discount on issue of debentures is amortized over a period between the issuance date and redemption date.
2. It should be written-off in the following manner depending upon the terms of redemption :

a) If the debentures are redeemable after a certain period of time, say at the end of 5 or 10 year, the total amount of discount should be written-off **equally** throughout the life of the debentures (applying the straight line method). The main advantage of this method is that it spreads the burden of discount equally over the year.

b) If the debentures are redeemable at different dates, the total amount of discount should be written-off in the ratio of benefit derived from debentures loan in any particular year (applying the sum of the year's digit method). This is suitable when debentures are redeemed by unequal installments.

c) If the debentures are irredeemable, the discount should be written-off gradually over a long period.

3. Loss on issue of debentures is also a capital loss and should be written-off in a similar manner as discount on debentures issued.
4. In the balances sheet both the items are shown as Non-current/ current assets depending upon the period for which it has to be written off.

WHAT ARE PROVISION AFFECTING ACCOUNTING TREATMENT IN CASE OF NO PARTNERSHIP AGREEMENT

Law does not make it obligatory for the partners to reduce in writing all the terms and conditions. In the absence of any such agreement, the Indian Partnership Act , 1932 provides following provisions -

- **Every partner is entitled to share profits equally.**
- **No partner is entitled to interest on capital.**
- **No interest on drawings is to be charged by the firm to a partner.**
- **A partner is not entitled to any salary for taking part in carrying on the firm's business.**
- **A partner is entitled to interest on advances (over and above the agreed capital contribution) at the rate of six per cent per annum.**
- **Every partner being joint owner of partnership, is entitled to have equal share in the property.**

WHAT IS JLP & WHAT IS THE OBJECTIVE OF TAKING JLP?

A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

WHAT SERVICE A CHARTERED ACCOUNTANT CAN PROVIDE TO A SOCIETY

- Maintenance of Books of Accounts
- Statutory Audit
- Internal Audit
- Taxation
- Management Accounting & Consultancy
- Financial Advise
- Investments
- Insurance
- Business Expansion
- Investigations & Secretarial Work

EXPLAIN IN BREIF OBJECTIVE AND ADVANTAGES OF SETTING ACCOUNTING STANDARDS

Objective and Advantages of Accounting Standards: An Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board formulates Accounting Standards to be established by the Council of the Institute of Chartered Accountants of India.

The main objective of Accounting Standards is to establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

The main advantage of setting accounting standards is that the adoption and application of Accounting Standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The other advantages are as follows:

(i) Reduction in variations.

(ii) Disclosure beyond that required by law.

(iii) Facilities comparison.

EXPLAIN OBJECTIVES OF ACCOUNTING STANDARDS

Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards to be established by the Council of the ICAI. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.

EXPLAIN DIFFERENCE BETWEEN GOING CONCERN CONCEPT & COST CONCEPT

Going Concern concept: The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

The valuation of assets of a business entity is dependent on this assumption. Traditionally, accountants follow historical cost in majority of the cases.

Cost Concept: By this concept, the value of an asset is to be determined on the basis of historical cost, in other words, acquisition cost. Although there are various measurement bases, accountants traditionally prefer this concept in the interests of objectivity. When a machine is acquired by paying Rs. 5,00,000, following cost concept the value of the machine is taken as Rs. 5,00,000. It is highly objective and free from all bias. Other measurement bases are not so objective. Current cost of an asset is not easily determinable. If the asset is purchased on 1.1.1995 and such model is not available in the market, it becomes difficult to determine which model is the appropriate equivalent to the existing one. Similarly, unless the machine is actually sold, realisable value will give only a hypothetical figure. Lastly, present value base is highly subjective because to know the value of the asset one has to chase the uncertain future.

EXPLAIN RED INK INTEREST

Red - Ink Interest: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest. This Red Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill X (due date-closing date) is written in ordinary ink in the opposite side on which the bill is entered]. It means interest from future date from date of account current i.e., present date. In earlier periods, it was written in red ink; hence it got the name of red ink interest. It implies that rebate will be allowed on interest paid/ received, if settlement of future due transaction is done on account current date

EXPLAIN FUNDAMENTAL ACCOUNTING ASSUMPTIONS

The Accounting standard (AS – 1) "Disclosure of Accounting Policies" issued by ICAI , states that there are 3 fundamental accounting assumptions which are as follows :

(i) *Going Concern*: The enterprise is normally viewed as a going concern, i.e., as continuing operations for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

(ii) *Consistency*: It is assumed that accounting policies are consistent from one period to another.

(iii) *Accrual*: Revenues and costs are accrued, i.e. recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

WRITE A SHORT NOTE ON CONSERVATISM OR PRUDENCE

This principle suggests that ''the future profits should not be recognized in present, but all the possible future losses should be provided at present''.

On account of this convention, the inventory is valued at cost or NRV whichever is lower; a provision is made for possible bad and doubtful debts against debtors, but a provision for discount on creditors is not made.

Effect : It is to be noted that this principle mainly affects the current assets. The Fixed assets are not affected by this principle. Inventory valuation, estimation of doubtful debts etc. are some areas, where this principle plays important role.

Drawbacks : This doctrine of accounting has been seriously criticized by experts on the following grounds:

a. **Conflict with the convention of consistency** : If this principle is followed, then it is possible that the stock of one accounting period is valued on the cost and of other year at NRV. Thus this principle conflicts with the principle of consistency.
b. **Creation of Secret Reserves** : When excessive provision is made for doubtful debts or depreciation then it leads to the creation of secret reserves. Thus, this principle conflicts with the principle of full disclosure.
c. **Based on subjective judgments :** The estimation of future losses is a subjective judgment and thus this principle conflicts with the principles of disclosure.

Whatever the criticism may be, ultimately we see that the main intention of this principle is to prohibit the ''window Dressing'' of Financial Statements, i.e. showing a position better than what it is.

WHAT DO YOU MEAN BY PRINCIPLE BOOKS OF ACCOUNTS

Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).

EVEN IF THE TRIAL BALANCE AGREES , SOME ERRORS MAY REMAIN. DO YOU AGREE? EXPLAIN

In spite of the agreement of the trial balance some errors may remain. These may be of the following types:

(i) Transaction has not been entered at all in the journal.

(ii) A wrong amount has been written in both columns of the journal.

(iii) A wrong account has been mentioned in the journal.

(iv) An entry has not at all been posted in the ledger.

(v) Entry is posted twice in the ledger.

IS CASH BOOK A SUBSIDIARY BOOK OR A PRINCIPLE BOOK?

Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it has also to be treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

CHANGE IN ACCOUNTING POLICY MAY HAVE A MATERIAL EFFECT ON THE ITEMS OF FINANCIAL STATEMENTS. EXPLAIN THE SATEMENT WITH THE HELP OF AN EXAMPLE

Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts.

LIST OUT VARIOUS INSTANCES WHEN AVERAGE DUE DATE CAN BE USED

Few instances where average due date can be used:

(i) Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.

(ii) Settlement of accounts between a principal and an agent.

(iii) Settlement of contra accounts, that is, A and B sell goods to each other on different dates.

WRITE A SHORT NOTE ON ADJUSTED SELLING PRICE METHOD OF DETERMINING COST OF STOCK

Adjusted selling method is also called retail inventory method. It is used widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

DEFINE ACCOUNT CURRENT. EXPLAIN WAYS OF PREPARING AN ACCOUNT CURRENT

An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of an ledger account.

There are three ways of preparing an Account Current:

(i) With help of interest table.

(ii) By means of products.

(iii) By means of products of balances.

DISTINGUISH BETWEEN COMISSION AND DISCOUNT

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 is usually based on a percentage of the amounts involved.

Commission earned is accounted for as an income in the books of accounts, and commission allowed or paid is accounted for as an expense in the books of the party availing such facility or service.

The term discount refers to any reduction or rebate allowed and is used to express one of the following situations:

An allowance given for the settlement of a debt before it is due i.e. cash discount.

An allowance given to the whole sellers or bulk buyers on the list price or retail price, known as trade discount. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost of purchases.

EXPLAIN THE NEED OF CONVERGENCE RATHER ADOPTION OF IFRS AS GLOBAL STANDARDS

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

WHAT IS THE SIGNIFICANCE OF ISSUE OF INDIAN ACCOUNTING STANDARDS? EXPLAIN IN BRIEF

Global Standards facilitate cross border flow of money, global listing in different bourses and comparability of financial statements. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.