CA Foundation Accounts

Topic:

Theory

CA Rishabh Rohra

Chapter 1 – Theoretical Process

Q1 There is no difference between book keeping and accounting, both are same.

Q2 Summarizing is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.

	Book-keeping	Accounting
1.	It is a process concerned with recording of transactions. → Journal Entry poss ✓	It is a process concerned with summarising 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.

Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

Financial Accounting

The various sub-fields of accounting are:

JE, LP, TB, FST ✓

Financial Accounting - Preparation and interpretation of financial statements and communication to the users of accounts FST

Management Accounting - Concerned with internal reporting to the managers of a business unit. To discharge the functions of stewardship, planning, control and decision- making, the management needs variety of information.

Cost Accounting - The process of accounting for cost ends with the preparation of periodical statements and reports for ascertaining and controlling costs

Social Responsibility Accounting - concerned with accounting for social costs incurred by the enterprise and social benefits created

Human Resource Accounting - An attempt to identify, quantify and report investments made in human resources of an organization that are not presently accounted for under conventional accounting practice.

Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business

Investors: They provide risk capital to the business, they are interested to know the ability of the business to survive, prosper and give them return and help them to decide buy hold sell their investment

Employees: Growth of the employees is directly related to the growth of the organisation

Leaders: They are interested to know whether their loan-principal and interest will be paid back when due.

Suppliers and Creditors: They are also interested to know the ability of the enterprise to pay their dues, long-term continuation of the enterprise if they are dependent on the survival of that business.

Customers: Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods

Government and their agencies: They regulate business for public good, control prices, charge duties & taxes

Public: The public at large is interested as business have substantial contribution to the local economy in many ways including the number of people employed and their patronage to local suppliers.

Management: Management as whole is also interested in the accounts for various managerial decisions, this helps them to make further managerial decisions.

Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.

Complete Recording of Transactions – It is concerned with complete and permanent record of all transactions in a systematic and logical manner to show its financial effect on the business.

Ascertainment of financial Effect on the Business – It is concerned with the combined effect of all the transactions made during the accounting period upon the financial position of the business as a whole

Accounting
process of
recording,
classifying,
summarising,
analysing and
interpreting the financial transactions
and communicating the results (event) to the user of Financial Information

generating FI

Procedural aspects of Accounting
- Generating financial information and
- Using the financial information by user

Generating Financial Information

Recording, Classifying, Summarizing, Analyzing, Interpreting, Communication

The objectives of accounting can be given as follows:
-Systematic recording of transactions
-Ascertainment of results of above recorded transactions P/L
-Ascertainment of the financial position of the business BS
-Providing information to the users for rational decision making
-To know the solvency position

Discuss the limitations which must be kept in mind while evaluating the Financial Statements

Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money – *like Human Recourse*
- Balance Sheet shows the position of the business on the day not on the future date while the users interested in knowing the position of the business in the near future
  31/03
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.

  Ex: Materiality & Full disclosure

  Prudence Matching
- Certain accounting estimates depend on the sheer personal judgement of the accountant.

  Ex: Scrap value of asset after certain period of uses in SLM Method
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

  Ex: SLM , WDV Method Depreciation

What services can a Chartered Accountant provide to the society?

Areas of Service :

Maintenance of Books of Accounts

Statutory Audit

Internal Audit

Taxation

Management Accounting and Consultancy Services

Financial Advice

Capital

Expenditure
outflow of cash
Mr.A
Shop pur

Receipt
Inflow
Mr.A
Sale of Shop

Revenue

Expenditure
outflow
Mr.A
pur. of cloth
Mr.B
pur. of prop.

Receipt
Inflow
Mr.A
Sale of cloth
Mr.B
Sale of prop.

Business

Mr.A
cloth

Mr.B
property

Mr.A
property
Shop

Capital v/s Revenue

Accounting aims in ascertaining and presenting the results of the business for an accounting period. For ascertaining the periodical business results –

BS Trading / P&L A/c

The nature of transactions should be analyzed whether they are of capital or revenue nature.

The distinction of transaction into revenue and capital is done for the purpose of placing them in Profit and Loss account or in the Balance Sheet

Capital Expenditure : → VCA → Panel, mic, camera, laptop

Generates enduring benefits and helps in revenue generation over more than one accounting period

Revenue Expenditure (also know as Revenue Expense) :

Expense for operations of the business for an accounting period or to the revenue earned during that period and benefits of which do not extend beyond that period

Revenue Expenses must be associated with a physical activity of the entity

ABC ltd → machinery → R2m

→ useful Life ↑
production capacity ↑ → capital Expenditure
Electricity consumption ↓

→ Normal R2m → Revenue expenditure

Teaching → Premise → Rented → monthly Rent

↓

Purchase

↓

Capital Exp → Rent exp ✗

One of the most Important Line –

Trading 2

Both capital and revenue expenditures are ultimately transferred to profit and loss account.

Building

↳ Depn

↳ P&L A/c

Rent

↳ P&L A/c

The nature of business is not an important criteria in separating an expenditure between capital and revenue..?????

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.

Recurring nature of expenditure:

If the frequency of an expense is quite often in an accounting year – Revenue Expenditure while

Non-recurring expenditure is infrequent in nature and do not occur often in an accounting year – Capital Expenditure

The basic considerations in distinction between capital and revenue expenditures are:

Purpose of expenses:

Expenses for repairs of machine being normal maintenance of the asset - 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.

Effect on revenue generating capacity of business:

The expenses which help to generate income/ revenue in the current period are revenue in nature

On the other hand,

if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure.
When expenditure on improvements and repair of a 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

The basic considerations in distinction between capital and revenue expenditures are:

Materiality of the amount involved:

Relative proportion of the amount involved is another important consideration in distinction between revenue and capital

Ex: Calculator, Stationery

Calculator → ₹400 → Revenue Expenditu

Capital Receipt v/s Revenue Receipt

Receipts which are obtained in course of normal business activities are revenue receipts
Ex: Receipts from sale of goods or services, interest income.

On the other hand, receipts which are not revenue in nature are capital receipts
Ex : Receipts from sale of fixed assets or investments, secured or unsecured loans, owners' contributions etc.

Accounting Assumption & Principle

Concepts, Principles, Conventions

- Entity concept
- Money measurement Concept
- Periodicity concept
- Accrual concept
- Matching concept
- Going Concern Concept
- Cost Concept
- Realisation Concept
- Dual aspect concept
- Conservatism
- Consistency
- Materiality

Mr. Wick $\xrightarrow{\$10m}$ Apple

↓

Contingent Asset

Battery gate case

→ 1st time ✓

→ Win or loss

→ Amt if lost ...??

} Future Event

↓

Contingent Liability → Note to A/c's

After few year → Court verdict → Apple lost the case and liable to pay → $15m → Liability

Mr. Rishabh $\xrightarrow{\$10m}$ Apple

Battery gate case

→ 2nd time

→ Higher chance of loss

→ \$10m outflow

↓

Future loss

↓

\$10m → Provision

↓

Liability

↓

court verdict

Contingent Asset n Contingent Liability

Apple Agrees To Pay $113 Million To Settle 'Batterygate' Case Over iPhone Slowdowns

November 18, 2020 · 3:31 PM ET

Bobby Allyn

Answer the Following Question

Q1 – When case was filed was Apple Co. sure they have to pay..??

NO

Q2 – Where they sure what amount was needed to settle the amount..??

NO

Q3 – Is Apple Co. surrounded in these types of case always, is these case regular on Co…?? NO

What is a Contingent Asset..??

A possible asset arises from past events and their existence will be confirmed only after occurrence or non- occurrence of one or more uncertain future events.

What is a Contingent Liability..??

Liability /outflow   court case

A possible obligation arising from past events and may arise in future depending on the occurrence or non-occurrence of one or more uncertain future event

court verdic

Differentiate between – Contingent liabilities and liabilities

The distinction between a liability and a contingent liability is generally based on the judgement of the management.

Exact amt payable

A liability is A present financial obligation of an enterprise, which arises from past events. The settlement results in an outflow of economic benefit from the enterprises.

On the other hand, contingent liability, either outflow of economic benefit to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability

case ✓ ✗

$10m ✓ ✗

Differentiate between - Provision and Contingent Liability. 3Time PYQ

Provision	Contingent liability
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 or non-occurrence of one or more uncertain future events.
A provision meets the recognition criteria.	A contingent liability fails to meet the same.
Provision is recognised when (a) Business has a present obligation arising from past events; leading to outflow of resources and (b) Reliable estimate can be made of the amount	Contingent liability includes present obligations either it is not probable that settlement of those obligations will require outflow of resources , or the amount cannot be reliably estimated.
If the management estimates it is probable settlement of an obligation will result in outflow of economic benefir, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will it discloses the obligation as a contingent liability.

Business → Transaction → Accounting → cost was too big for me

Non-commerce

Mr. A	Mr. B	Mr. C
₹20,000	₹20,000	₹20,000
↓	↓	↓
cash Register	Sale Register Sale Return	Purchase Register PR Register

Mr. B: Sale Return → credit sale → Sale Register

Left			Right	
C	B		C	B
✓		✓		

Sale Register

Detail		₹

Dr. Party ledgen

✓	✓

Principle Book

Cash Book and Ledger Book

Book of Original Entry – Journal Entry Book

Principle Books - Cash Book & Ledger

Triple colm → cash → cash A/c ×
Bank → Bank A/c ×
Disc.

CB → PB , SB

PB → Purchase A/c
↓
Credit Pur

Credit
Cash

Subsidiary Books

Cash Book - record receipts and payments of cash, including receipts into and payments out of the bank.

Purchases Book - record credit purchases of goods dealt in or of the materials and stores required

Sales Book - to record the credit sales of the goods dealt in by the firm.

Purchase Return Book - to record the returns of goods and materials previously purchased

Return outward

Sales Return book - to record the returns made by the customers.

Return Inward

Bills payable Book - to record the issue of the promissory notes or hundies to other parties.

Bills receivable Book - to record the receipts of promissory notes or hundies from various parties.

Journal Proper - to record the transactions which cannot be recorded in any of the seven books mentioned abov

It may be noted that in all the above cases the word "Journal" may be used for the word "book"

Advantage of Subsidiary Books

(i) **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.

(ii) **Specialization and efficiency:** When the same work is allotted to a particular person 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.

(iii) **Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) **Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) **Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

Accounting Flow

Subsidiary Book

- Purchases Book → Pur. A/c Dr.
- Sales Book → Sale A/c Dr.
- Purchase Return Book
- Sales Return book
- Bills payable Book
- Bills receivable Book
- Journal Proper

Ledger Posting Total Figure

CB → Disc. Coln → Ledger posting

Format of Diff. Books

Purchase Book

Date	Invoice / Bill	Particulars	L/f	Amount

Sales Book

Date	Invoice / Bill	Particulars	L/f	Amount

Purchase Return Book

Date	Debit Note	Particulars	L/f	Amount

Sales Return Book

Date	Credit Note	Particulars	L/f	Amount

goods purchase
- cash → CB Cr.
- credit → PB

goods sale
- cash → CB Dr.
- credit → SB

Asset purchase
- cash → CB Cr.
- credit → Journal proper

Asset sale
- cash → CB Dr.
- credit → Journal proper.

Illustration

The Rough Book of M/s. Narain & Co. contains the following :

Feb 1 *Purchased from Brown & Co. on credit :*

5 gross pencils @ ₹100 per gross, 12 gross register @ ₹240 per doz. Less : Trade Discount @ 10%

Feb 2 *Purchased for cash from the Stationery Mart; 10 gross exercise books @ ₹300 per doz.* → CB Cr.

Feb 3 *Purchased computer for office use from M/s. office Goods Co. on credit for ₹30,000.* → Journal proper

Feb 4 *Purchased on credit from The Paper Co. 5 reams of white paper @ ₹100 per ream. 10 reams of ruled paper @ ₹150 per ream. Less : Trade Discount @ 10%*

Feb 5 *Purchased one dozen gel pens @ ₹15 each from M/s. Verma Bros. on credit.*

Make out the Purchase Book of M/s. Narain & Co.

Date	Particulars		L.F.	Amount
2020		`		`
Feb. 1	M/s. Brown & Co.			
	5 gross pencils @ ` 100 per gross	500.00		
	12 gross register @ ` 240 per doz.	2880.00		
		3380.00		
	Less : 10% trade discount	(338)		3,042
"4	The Paper Co.			
	5 reams white paper @ ` 100 per ream	500.00		
	10 reams ruled paper @ ` 150 per ream	1500.00		
		2,000.00		
	Less : 10% trade discount	(200.00)		1,800
5	M/s. Verma Bros.			
	1 doz. gel pens @ ` 15 each	180		180
		Total		**5022**

Note : Purchases of cash and purchase of computer cannot be entered in the Purchase Book. Pur. A/c Dr.

Illustration

Enter the following transactions in Purchase Book and post them into ledger.

April 4 *Purchased from Ajay Enterprises, Delhi*

100 Doz. Rexona Hawai Chappal @ ` 120 per doz.200 Doz. Palki Leather Chappal @ 300 per Doz.

Less : Trade discount @ 10%

Freight charged ` 150.

April 15 *Purchased from Balaji Traders, Delhi 50 doz. Max Shoes @ ` 400 per doz.*

100 pair Sports Shoes @ ` 140 per pair. Less : Trade discount @ 10%.

Freight charged ` 200.

April 28 *Purchased from Tripti Industries, Bahadurgarh 40 pair leather shoes @ ` 400 per pair*

100 doz. Rosy Hawai Chappal @ ` 180 per doz.

Less : Trade discount @ 10%.

Freight charged ` 100

Date 2020	Particulars	Gross Amt	Trade Dis	Net Price	Freight	Total Amt
April 4	Ajay Enterprises					
	100 doz chappal @ ` 120 per doz - ` 12,000					
	200 doz Palki Leather Chappal@ ` 300 per doz - ` 60,000					
	Less: trade discount @ 10%	72,000	7,200	64,800	150	64,950
April 15	Balaji Traders, Delhi					
	50 doz max Shoes @ ` 400 per doz - ` 20,000					
	100 pair Sports shoes @ ` 140 per pair - ` 14,000					
	Less: Trade discount @ 10%	34,000	3,400	30,600	200	30,800
April 28	Tripti Industries, Bahadurgarh					
	40 pair Leather shoes @ ` 400 per pair - ` 16,000					
	100 doz Rosy Hawai Chappal: @ ` 180 per doz - ` 18,000					
	Less: Trade discount @ 10%	34,000	3,400	30,600	100	30,700
		1,40,000	**14,000**	**1,26,000**	**450**	**1,26,450**

Dr. **Purchases A/c** Cr.

2020		Rs.	2020		Rs.
April 30	To amount as per purchase book	1,26,000			

Dr. **Freight A/c** Cr.

2020		Rs.	2020		Rs.
April 30	To amount as per purchase book	450			

Dr. **Ajay Enterprise A/c** Cr.

2020		Rs.	2020		Rs.
			April 4	By Purchase A/c	64,800
				By Freight A/c	150

Dr. **Balaji Trader A/c** Cr.

2020		Rs.	2020		Rs.
			April 15	By Purchase A/c	30,600
				By Freight A/c	200

Dr. **Tripati Industries** **Cr.**

2020		Rs.	2020		Rs.
			April 15	By Purchase A/c	30,600
				By Freight A/c	100

Illustration

The following are some of the transaction of M/s Kishore & Sons of the year 2020 as per their Waste Book. Make out their Sales Book.

Sold to M/s. Gupta & Verma on credit:

30 shirts @ ` 800 per shirt.

20 trousers @ `1,000 per trouser.

Less : Trade Discount @ 10%

Sold furniture to M/s. Sehgal & Co. on credit `8,000.

Sold 50 shirts of M/s. Jain & Sons @ `800 per shirt.

Sold 13 shirts to Cheap Stores @ `750 each for cash.

Sold on credit to M/s. Mathur & Jain.

100 shirts @ `750 per shirt

10 overcoats @ `5,000 per overcoat. Less: Trade Discount @ 10%

Date	Particulars	Details	L.F.	Amount
2020	M/s. Gupta & Verma 30 shirts @ `800			
	20 Trousers @ `1,000	24,000		
		20,000		
	Less : 10%	44,000		
	Sales as per invoice no. dated	(4,400)		**39,600**
	M/s. Jain & Sons 50 shirts @ `800 Sale as per invoice no. dated			
	M/s Mathur & Jain			**40,000**
	100 shirts @ `750	75,000		
	10 overcoats @ `5,000	50,000		
		1,25,000		
	Less : 10%	(12,500)		
	Sales as per invoice no. dated......			**1,12,500**
		Total		**1,92,100**

Note : Cash sale and sale of furniture are not entered in Sales Book.

Illustration

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer :

Date	Debit Note No.	Particulars
04.01.2020	101	Returned to Goyal Mills, Surat - 5 polyester sarees @ ` 1,000.
09.01.2020		Garg Mills, Kota - accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ ` 400.
16.01.2020	102	Returned to Mittal Mills, Bangalore - 5 silk sarees @ `2,600.
30.01.2020		Returned one computer (being defective) @ `35,000 to B & Co.

Date	Debit Note No.	Name of supplier	L.F.	Amount
2020				
Jan. 4	101	Goyal Mills, Surat		5,000
Jan. 16	102	Mittal Mills, Bangalore		13,000
Jan. 31		Purchases Returns Account (Cr.)		18,000

Kinds of Cash Book

The main Cash Book may be of the three types:

- Simple Cash Book; → cash
- Two-column Cash Book; → C/B, C/D
- Three-column Cash Book. → C B D

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

Imprest petty CB → ₹10,000

Month end Bal. left

₹100 ₹9900

₹4000 ₹6000

Illustration

Enter the following transactions in a Simple Cash Book:

2020		`
Jan.1	Cash in hand Op.Bal.	1,200
“5	Received from Ram Dr.	300
“7	Paid Rent Cr.	30
“8	Sold goods for cash Dr.	300
“10	Paid to Shyam Cr.	700
“27	Purchased Furniture Cr.	200
“31	Paid Salaries Cr.	100
“31	Rent due, not yet paid, for January × → Amt O/s → not paid	30

Dr. **Cash Book** Cr.

Date 2020	Receipts	L.F.	Amount	Date 2020	Payments	L.F.	Amount
Jan. 1	To Balance b/d		1,200	Jan. 07	By Rent A/c		30
" 5	To Ram A/c		300	" 10	By Shyam A/c		700
" 8	To Sales A/c		300	" 27	By Furniture A/c		200
				" 31	By Salaries A/c		100
				" 31	By Balance c/d		770
			1,800				**1,800**
2020							
Feb. 1	**To Balance b/d**		**770**				

- The total of debit side is always greater than the total of credit side since the payment cannot exceed the available cash.
- This is a good as simple cash book

Illustration

Dr. in cash

Ganesh commenced business on 1st April, 2020 with 20,000 as capital. He had the following transactions in the month of April 2020:

		`			`
April 1	Purchased furniture and paid cash Cr.	250	April 7	Paid for petty expenses Cr.	15
			“8	Cash purchases Cr.	150
“2	Purchased goods Cr.	500		Paid for labour Cr.	1,000
“4	Sold goods for cash Dr.	950	13“”	Paid Ali & Sons Cr.	400
	Paid cash to Ram Mohan Cr.	560	“”	They allowed discount Cr.	8
“5	He allowed discount Cr.	10			
“6	Received cash from Krishna & Co.	Dr. 600			
“6	Allowed discount	Dr. 20			

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2020

Date 2020	Particulars	L.F.	Discount	Cash	Date 2020	Particulars	L.F.	Discount	Cash
April 1	To Capital A/c			2,000	April 1	By Furniture A/c			250
" 4	To Sales A/c			950	" 2	By Purchases A/c			500
" 6	To Krishna A/c		20	600					
					" 5	By Ram Mohan		10	560
					" 7	By Petty			
						Expenses A/c			15
					" 8	By Purchases A/c			150
					" 13	By wages A/c			1,000
					" 13	By Ali & Sons		8	400
					" 30	By Balance c/d			675
			20	**3,550**				**18**	**3,550**
May 1	To Balance b/d			675					

To summarise, the discount columns in the cash book are totaled they are not balanced; and their totals are entered in the discount received/paid account in the ledger.

Illustration

Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2020			`
Jan.1		Chandrika commences business with Cash	20,000
" 3		He paid into Current A/c	19,000
"	4	He received cheque from Kirti & Co. on account Cash A/c Dr. Kirti & Co.	600
"	7	He pays in bank Kirty & Co.'s cheque Bank Dr. cash Cr.	600
"	10	He pays Rattan & Co. by cheque and is allowed discount 20 Dis Cr. 20 Bank Cr. 380	330
"	12	Tripathi & Co. pays into his Bank A/c	475
"	15	He receives cheque from Warshi and allows him discount 35 Cash Dr. 450 Dis Dr. 35	450
"	20	He receives cash` 75 and cheque` 100 for cash sale Cash Dr. 175	
"	25	He pays into Bank, including cheques received on 15th and 20th 450 100 550	1,000
"	27	He pays for cash purchase	275
"	30	He pays sundry expenses in cash	50

Date	Receipts	L.F.	Discount	Cash	Bank	Date	Payments	L.F.	Discount	Cash	Bank
2020						**2020**					
Jan. 1	To Capital A/c			20,000		Jan. 3	By Bank A/c	C		19,000	
3	To Cash	C			19,000	7	By Bank A/c	C		600	
4	To Kirti & Co.			600		10	By Ratan & Co.		20		330
7	To Cash	C			600	25	By Bank A/c	C		1,000	
12	To Tripathi & Co.				475	27	By Purchases			275	
							A/c				
15	To Warshi		35	450		30	By S. Exp. A/c			50	
20	To Sales A/c			175							
25	To Cash	C			1,000						
						31	***By Balance c/d***			***300***	***20,745***
	Total		**35**	**21,225**	**21,075**		**Total**		**20**	**21,225**	**21,075**
Feb. 1	To Balance b/d			300	20,745						
			Dis A/c Dr						Disc Cr.		

Illustration

Dr. Cr.
To By

Prepare a Petty Cash Book on the Imprest System from the following:

2020			`
Jan.	1	Received`10000 for petty cash	
"	2	Paid bus fare	50
"	2	Paid cartage	250
"	3	Paid for Postage & Telegrams	500
"	3	Paid wages for casual labourers	600
"	4	Paid for stationery	400
"	4	Paid tonga charges	200
"	5	Paid for the repairs tochairs	1500
"	5	Bus fare	100
"	5	Cartage	400
"	6	Postage and Telegrams	700
"	6	Tonga charges	300
"	6	Cartage	300
"	6	Stationery	200
"	6	Refreshments to customers	500

₹aaya ₹gaya

Receipt	Date 2020	Voucher No.	Particulars	Total	Conveyance	Cartage	Stationery	Post & Telegram	Wages	Sundries
10000	Jan 1		To Cash							
	Jan 2	1	By Conveyance	50	50	–	–	–	–	–
		2	By Cartage	250	–	250	–	–	–	–
	Jan 3	3	By Postage & Telegram	500	-	–	–	500	–	–
		4	By Wages	600	–	–	–	–	600	–
	Jan 4	5	By Stationery	400	–	–	400	–	–	–
		6	By Conveyance	200	200	–	–	–	–	–
	Jan 5	7	By Repairs to Furniture	1500	–	–	-	–	–	1,500
		8	By Conveyance	100	100	–	–	–	–	–
		9	By Cartage	400	–	400	–	–	–	–
	Jan 6	10	By Postage & Telegram	700	–	–	–	700	–	–
		11	By Conveyance	800	800	–	–	–	–	–

Receipt	Date 2020	Voucher No.	Particulars	Total	Conveyance	Cartage	Stationery	Post & Telegram	Wages	Sundries
		12	By Cartage	300	-	300	-	-	-	-
		13	By Stationery	200	-	-	200	-	-	-
		14	By General Expenses	500	-	-	-	-	-	500
			Total	**6000**	650	950	600	1200	600	2000
			By Bal c/d	**4000**						
10000				**10000**						
4000			**To Bal b/d**							
6000			**To Cash**							

Depreciation

Type of Method :

SLM
WDV
sum of Digit $\Big\}$ 1st year sabseh zyada depⁿ and YOY Dep ↓

What do you mean by Accelerated Depreciation..??

SLM → Depⁿ same
R2m ↑

WDV / Sum of Digit → Depⁿ ↓
R2m ↑

Share Capital

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. The fixed value of a share, printed on the share certificate, is called nominal/par/face value of a share. However, a company can issue shares at a price different from the face value of a share. The liability of holder of shares (called shareholders) is limited to the issue price of shares acquired by them.

Note: The issue price need not be equal to market price of the share. These days the shares are generally priced on the basis of book building process. (Book building is a process through which company determines it's share prices. Under this method company determines a price band of its shares and on the basis of bids received from potential investors at various prices within the price band finally fixes its issue price.)

The total capital of the company is divided into shares, the capital of the company is called 'Share Capital'. At the time of issue of shares, every Company is required to follow SEBI Regulations.

Share capital of a company is divided into following categories:

(1) Authorised Share Capital or Nominal Capital: A company estimates its maximum capital requirements. This amount of capital is mentioned in 'Capital Clause' of the 'Memorandum of Association' registered with the Registrar of Companies. It puts a limit on the amount of capital, which a company is authorised to raise during its lifetime and is called 'Authorised Capital'. It is shown in the Share Capital schedule in the financial statements as per the prescribed format at face value.

(2) Issued Share Capital: A company need not issue total authorised capital. Whatever portion of the share capital is issued by the company, it is called 'Issued Capital'. Issued capital means and includes the nominal value of shares issued by the company for:

(1) Cash, and

(2) Consideration other than cash to:

  (i) Promoters of a company; and

  (ii) Others.

It is also presented in the balance sheet at nominal value.

The remaining portion of the authorised capital which is not issued either in cash or consideration may be termed as 'Un-issued Capital'. It is not shown in the balance sheet.

(3) Subscribed Share Capital: It is that part of the issued share capital, which is subscribed by the public i.e., applied by the public and allotted by the company. It also includes the face value of shares issued by the company for consideration other than cash.

(4) Called-up Share Capital: Companies generally receive the issue price of shares in instalments. The portion of the issue price of shares which a company has demanded or called from shareholders is known as 'Called-up Capital' and the balance, which the company has decided to demand in future may be referred to as Uncalled Capital.

(5) Paid-up Share Capital: It is the portion of called up capital which is paid by the shareholders. Whenever a particular amount is called by the company and the shareholder(s) fails to pay the amount fully or

partially, it is known as 'unpaid calls' or 'instalments (or Calls) in Arrears'. Thus, instalments in arrears mean the amount not paid although it has been demanded by the company as payment towards the issue price of shares. To calculate paid-up capital, the amount of instalments in arrears is deducted from called up capital.

Call-in-advance is that portion of capital which is yet to be called by the company but has already been paid by shareholder.

In the financial statements, called-up and paid-up capital are shown together.

(6) 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.

(1) Authorised Capital = Issued Capital + Unissued Capital.

(2) Subscribed Capital can be equal to or grater than or less than Issued Capital resulting in 3 situations respectively: Fully Subscribed; Over Subscribed and Under Subscribed.

(3) Called up Capital = Paid up Capital + Calls in arrears if any – Calls in advance if any.

FV ₹10

- ₹8 Called up
  - ₹7 Recd. ↓ paid up
  - ₹1 unpaid ↓ CIA
- ₹2 Uncalled up
  - → Winding up ↓ Reserve capital

Capital Reserve

→ Business pur @ cheap

→ Share forf

Forfeiture of Shares

Ownership cancel → Amt Recd. excl. SP → Shr. forf. A/c

10 → Issue → ₹12

8 { 2 Appn, 6 Allotment

2 prem, 6 FV

4 final call

Mr. A → final call ✗

Shr. Cap A/c Dr. 10

To CIA A/c 4

To Shr. forf. A/c 6

↳ FV Recd.

Reissue of Shares

Co. obligation

Issue → par / prem / Dis → only to employee

Reissue → par / prem / Dis

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier

Types of share

Share issued by a company can be divided into following categories :

(i) Preference Shares: According to Section 43 of the Companies Act, 2013 persons holding preference shares, called preference shareholders, are assured of a preferential dividend at a fixed rate during the life of the company. They also carry a preferential right over other shareholders to be paid first in case of winding up of the company. Thus, they enjoy preferential rights in the matter of:

(a) Payment of dividend, and

(b) Repayment of capital

Generally, holders of these shares do not get voting rights. Companies use this mode of financing as it is cheaper than raising debt.

Dividend is generally cumulative in nature and need not be paid every year in case of deficiency of profits. The Companies Act, 2013 prohibits the issue of any preference share which is irredeemable. Preference shares are cumulative and non-participating unless expressly stated otherwise.

Types of Preference Shares

Loss x Dividend
cf
Profit ✓ Cy Divid + cf Divid

Preference shares can be of various types, which are as follows :

(a) **Cumulative Preference Shares:** A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate. Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose. This means that dividend on these shares accumulates unless it is paid in full and, therefore, the shares are called Cumulative Preference Shares.

Dividend

The companies are required to disclose the arrears of fixed cumulative dividends on preference shares separately in the financial statement. In case, the dividend remains in arrears for a period of not less than two years, holders of such shares will be entitled to take part and vote on every resolution on every matter in the general body meeting of the shareholders.

profit ✓ Dividend ✓

(b) **Non-cumulative Preference Shares:** A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires. It implies that holder of such a share is not entitled to arrears of dividend in future.

profit ✓

(c) **Participating Preference Shares:** Notwithstanding the right to a fixed dividend, this category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate. Similarly, in the event of winding up of the company, this type of share carries the right to receive a pre-determined proportion of surplus as well once the equity shareholders have been paid off.

(d) **Non-participating Preference Shares:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares.' Unless otherwise specified, the preference shares are generally nonparticipating.

(e) **Redeemable Preference Shares:** These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier at company's discretion. The repayment on these shares is called redemption and is governed by Section 55 of the Companies Act, 2013.

PS → max 20year

(f) **Non-redeemable Preference Shares:** The preference shares, which do not carry with them the arrangement regarding redemption, are called Nonredeemable Preference Shares. According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue. However, a Company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the Companies Act, 2013.

Right Equity

(g) **Convertible Preference Shares:** These shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.

(h) **Non-convertible Preference Shares:** When the holder of a preference share has not been conferred the right to get his holding converted into equity share, it is called Non-convertible Preference Shares. Preference shares are nonconvertible unless otherwise stated.

Note: Unless mentioned otherwise Preference Shares are Non-Cumulative, Non Participating, Non-Convertible and Redeemable in nature.

(ii) Equity Shares: Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital.

The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholders. These shares carry voting rights. Companies Act, 2013 permits issue of equity share capital with differential rights as to dividend, voting or otherwise in accordance with prescribed rules.

The shares can be issued by a company either

(1) for cash or

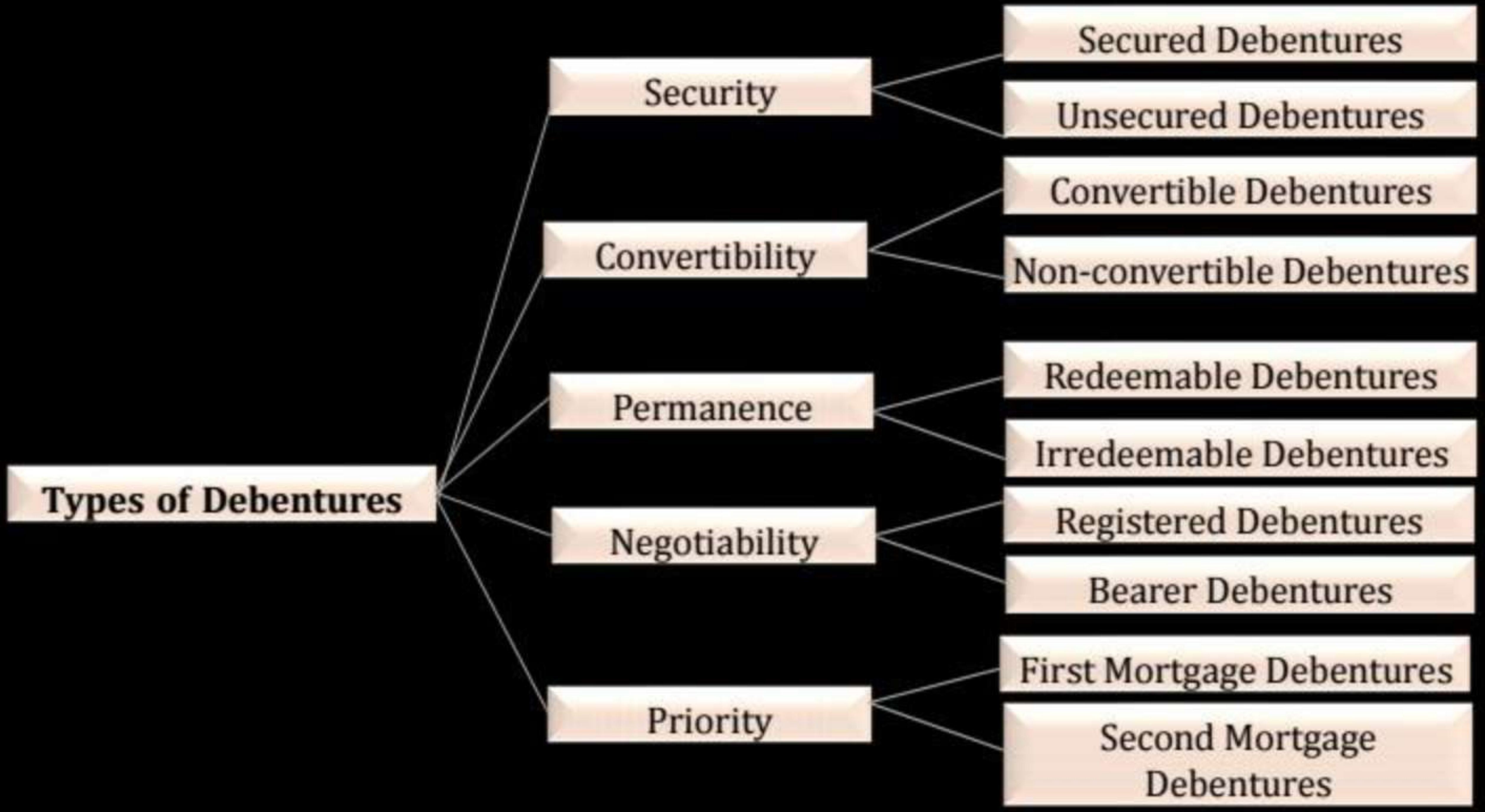
(2) for consideration other than cash.

Distinction Between Debentures and Shares

Debentures	Shares
1. Debenture holders are the creditors of the company.	1. Shareholders are the owners of the company.
2. Debenture holders have no voting rights and consequently do not pose any threat to the existing control of the company.	2. Shareholders have voting rights and consequently control the total affairs of the company.
profit ✓ × Int ✓ 3. Debenture interest is generally paid at a pre-determined fixed rate. It is payable, whether there is any profit or not. Debentures rank ahead of all types of shares for payment of the interest due on them.	Profit ✓ Dividend × 3. Dividend on equity shares is paid at a variable rate which is vastly affected by the profits of the company (however, dividend on preference shares is paid at a fixed rate).

Debentures	Shares
4. Interest on debentures are the charges against profits and they are deductible as an expense in determining taxable profit of the company.	profit ✓ Dividend 4. Dividends are appropriation of profit and these are not deductible in determining taxable profit of the company.
5. There are different kinds of debentures, such as Secured/ Unsecured; Redeemable/ Irredeemable; Registered / Bearer; Convertible/ Non-convertible, etc.	5. There are only two kinds of shares– Equity Shares and Preference Shares.
6. In the Company's Balance Sheet, Debentures are shown under "Long Term Borrowings".	6. In the Company's Balance Sheet, shares are shown under "Shareholder's Fund" detailed in 'Share Capital' of Notes to Accounts.
7. Debentures can be converted into other debentures or shares as per the terms of issue of debentures.	7. Shares cannot be converted into other shares in any circumstances. PS → Eq. ✓ Eq → Eq ✗

Debentures	Shares
8. Debentures cannot be forfeited for non-payment of call moneys.	8. Shares can be forfeited for non-payment of allotment and call moneys.
9. At maturity, debenture holders get back their money as per the terms and conditions of redemption.	9. Equity shareholders cannot get back their money before the liquidation of the company (however, preference shareholders can get back their money before liquidation).
10. At the time of liquidation, debenture holders are paid-off before the shareholders.	10. At the time of liquidation shareholders are paid at last, after paying debenture holders, Trade payable, etc.


Types of Debentures
Security
Secured Debentures
Unsecured Debentures
Convertibility
Convertible Debentures
Non-convertible Debentures
Permanence
Redeemable Debentures
Irredeemable Debentures
Negotiability
Registered Debentures
Bearer Debentures
Priority
First Mortgage Debentures
Second Mortgage Debentures

Types of Debentures

The following are the types of debentures issued by a company. They can be classified on the basis of:

Security → Convertibility → Permanence → Negotiability → Priority

1. Security

(a) Secured Debentures: These debentures are secured by a charge upon some or all assets of the company. There are two types of charges: (i) Fixed charge; and (ii) Floating charge. A fixed charge is a mortgage on specific assets. These assets cannot be sold without the consent of the debenture holders. The sale proceeds of these assets are utilized first for repaying debenture holders. A floating charge generally covers all the assets of the company including future one.

(b) Unsecured or "Naked" Debentures: These debentures are not secured by any charge upon any assets. A company merely promises to pay interest on due dates and to repay the amount due on maturity date. These types of debentures are very risky from the view point of investors.

2. Convertibility

Eq.

(a) Convertible Debentures: These are debentures which will be converted into equity shares (either at par or premium or discount) after a certain period of time from the date of its issue. These debentures may be fully or partly convertible. In future, these debenture holders get a chance to become the shareholders of the company.

(b) Non-Convertible Debentures: These are debentures which cannot be converted into shares in future. As per the terms of issue, these debentures are repaid.

3. Permanence

(a) Redeemable Debentures: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.

(b) Irredeemable Debentures: These debentures are not repayable during the life time of the company. These are also called perpetual debentures. These are repaid only at the time of liquidation.

4. Negotiability

(a) Registered Debentures: These debentures are payable to a registered holder whose name, address and particulars of holding is recorded in the Register of Debenture holders. They are not easily transferable. The provisions of the Companies Act, 2013 are to be complied with for effecting transfer of these debentures. Debenture interest is paid either to the order of registered holder as expressed in the warrant issued by the company or the bearer of the interest coupons.

(b) Bearer Debentures: These debentures are transferable by delivery. These are negotiable instruments payable to the bearer. No kind of record is kept by the company in respect of the holders of such debentures. Therefore, the interest on it is paid to the holder irrespective of any identity. No transfer deed is required for transfer of such debentures.

5. Priority

(a) First Mortgage Debentures: These debentures are payable first out of the property charged.

(b) Second Mortgage Debentures: These debentures are payable after satisfying the first mortgage debentures.

PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question May 2018

CA Rishabh Rohra

Question-01 – True & False

(a) State with reasons, whether the following statements are true or false :

(i) Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure. False

capital Exp.

(ii) Re-issue of forfeited shares is allotment of shares but not a sale. False

(iii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree. False

(iv) when there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%. True

If Licence Renewal → Revenue exp

Question-01 – Answer the Following

(b) Differentiate between provision and contingent liability.

	Provision	Contingent liability
(1)	Provision is a 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 crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	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 obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

Hope you Enjoyed the Session

THANK YOU

PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question Nov 2018

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are true or false :

(i) Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure. False

Depn Dr.
To Asset

(ii) Depreciation is a non-cash expense and does not result in any cash outflow.

(iii) Fees received for Life Membership is a revenue receipt as it is of recurring nature. False

(iv) If Closing Stock appears in the Trial Balance :
The closing inventory is then not entered in Trading Account. It is shown only in the balance sheet. True

(i) False: Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

(iii) False: Life Membership Fee received for life membership is a capital receipt as it isof non-recurring nature. It is directly added to capital fund or general fund.

Question-01

(b) Discuss the limitations which must be kept in mind while evaluating the Financial Statements.

Limitations which must be kept in mind while evaluating the Financial Statementsare as follows:

(i) The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money

(ii) 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 the long run and not for the past date.

(iii) Accounting ignores changes in some money factors like inflation etc.

(iv) There are occasions when accounting principles conflict with each other.

(v) Certain accounting estimates depend on the sheer personal judgment of the accountant.

(vi) Different accounting policies for the treatment of same item adds to the probability of manipulations.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

May 2019

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are true or false:

(i) Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure. True

(ii) If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle. False

(iii) Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

(i) **True:** Since the temporary huts were necessaryfor the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

(ii) **False:** If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

Question-01

(b) Distinguish between Going Concern concept and 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.

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. It is highly objective and free from all bias.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

Nov 2019

CA Rishabh Rohra

Question-01 True & False

(a) State with reasons, whether the following statements are **True or False:**

(i) Trade Discount is a reduction granted by a supplier from the list price (MRP) of goods or services on business considerations for prompt payment. (Cash Discount) False

(ii) M/s. XYZ & Co. runs a cafe. They renovated some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure. False

(iii) Valuation of inventory at cost or net realizable value is based on principle of Conservatism. True

(iv) In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person. False

BOE → Drawer = Payee

PN → maker → payer ≠ payee

Question-01

(v) A Partnership firm cannot own any Assets. True

(vi) Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. True

(i) **False:** Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

(ii) **False:** Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(iii) **True:** The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net releasable value whichever is less, therefore is based on principle of Conservatism.

(iv) **False:** The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

(v) **True:** A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

(vi) **True:** As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

Question-01 – Answer The Following

(b) Distinguish between Provision and Contingent Liability.

	Provision	Contingent liability
(1)	Provision is a 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 crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	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 obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

Question-05 – Answer the Following

(b) Distinguish between Periodic Inventory System and Perpetual Inventory System.

Real time

Cl·Stock Bal·fig

	Periodic Inventory System	Perpetual Inventory System
1.	This system is based on physical verification	It is based on book records.
2.	This system provides information about inventory and cost of goods sold at a $\boxed{\text{particular date}}$	It provides continuous information about inventory 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 inventory as balancing figure.
4.	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in 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 inventory.	Inventory can be determined without affecting the operations of the business.

Hope you Enjoyed the Session

THANK YOU

PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

Nov 2020

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False.

(i) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio. False

(ii) In the balance sheet of X Limited, preliminary expenses amounting to ₹5 lakhs and securities premium account of ₹ 35 lakhs are appearing. The accountant can use the balance in securitics premium account to write off preliminary expenses. True

(iii) Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

(iv) Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission. False

Question-01

(v) A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The Balance Sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the Balance Sheet date. x

going concer x → Asset → Residual value

(i) **False :** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

(ii) **True :** According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ` 5 lakhs.

(iii) **True :** Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

(iv) **False :** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

(v) **False :** If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

Question-01

(b) What services can a Chartered Accountant provide to the society?

The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Chartered Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems. Some of the services rendered by chartered accountants to the society are briefly mentioned hereunder:

(i) Maintenance of books of accounts;

(ii) Statutory audit;

(iii) Internal Audit;

(iv) Taxation;

(v) Management accounting and consultancy services;

(vi) Financial advice and financial investigations etc.

(vii) Other services like secretarial work, share registration work, company formation receiverships, arbitrations etc.

Question-06

(c) Discuss the factors taken into consideration for calculation of depreciation.

Following factors are taken into consideration for calculation of depreciation.

1. **Cost of asset** including expenses for installation, commissioning, trial run etc.- Cost of a depreciable asset represents its money outlay or its equivalent in connection with its acquisition, installation and commissioning as well as for additions to or improvement thereof for the purpose of increase in efficiency.
2. **Estimated useful life of the asset** - 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 enterprise. Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar type of assets. Several other factors like estimated working hours, production capacity, repairs and renewals, etc. are also taken into consideration on demanding situation.
3. **Estimated scrap value** (if any) is calculated at the end of useful life of the asset. If such value is considered as insignificant, it is normally regarded as nil. On the other hand, if the residual value is likely to be significant, it is estimated at the time of acquisition/installation, or at the time of subsequent revaluation of asset.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

Jan 2021

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False :

(i) Re-issue of forfeited shares is allotment of shares but not a sale. False

(ii) Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt. True

$\overline{CA} (-) CL$

(iii) The Sale Book is kept to record both the cash and credit sales. False

(iv) Accounting Standards for non-corporate entities in India are issued by the Central Government.

ICAI

(i) **False:** Reissue of forfeited shares is not allotment of shares but only a sale because such shares already has been allotted earlier.

(ii) **True:** Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

(iii) **False:** Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.

(iv) **False:** Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

Question-01

(b) Define the following terms

(i) Capital Commitment

(ii) Expired Cost

(iii) Floating Charge

(iv) Obsolescence

(i) **Capital commitment**: **Future liability** for capital expenditure in respect of which contracts have been made.

(ii) **Expired cost**: The portion of the expenditure from which no further benefit is expected. Also termed as expense.

(iii) **Floating charge**: A general charge on some or all assets of an enterprise which are not attached to the specific assets and are given as security against a debt.

(iv) **Obsolescence**: **Diminution in the value of an asset** by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, legal or other restrictions.

Question-06

(b) Discuss the rules if there is no Partnership Agreement.

As per the Indian Partnership Act, 1932, in the absence of any agreement among the partners,

1. No partner has the right to a salary,
2. No interest is to be allowed on capital,
3. No interest is to be charged on the drawings,
4. Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
5. Profits and losses are to be shared equally.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

July 2021

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False:

(i) Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out False

(ii) A Company is not allowed to issue shares at a discount to the public in general. True

(iii) Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory. → mfg A/c Dr. false

(iv) A person holding preference shares of a company cannot hold equity shares of the same company. False

(v) Business of partnership comes to an end on death of a partner. false

(vi) Cash book is a subsidiary book as well as a principal book. True

(i) **False:** They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

(ii) **True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

(iii) **False:** Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

(iv) **False:** Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

(v) **False:** Surviving partners may continue to carry on the business in case of partnership.

(vi) **True:** 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 a principal book. The Cash Book is thus both a subsidiary book and a principal book.

Question-01

(b) Discuss the basic considerations in distinguishing between capital and revenue expenditure.

(a) **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 a very important criterion in separating expenditure between capital and revenue.

(b) **Recurring nature of expenditure:** If the frequency of an expense is quite often in an accounting year then it is said to be an 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 regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

(c) **Purpose of expenses:** Expenses for repairs of machine may be incurred in course of normal maintenance 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.

(d) **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.

(e) **Materiality of the amount involved:** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital.

Question-06

(b) What are the advantages of Subsidiary Books ?

The use of subsidiary books affords the under mentioned advantages:

(i) **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.

(ii) **Specialization and efficiency**: When the same work is allotted to a particular person 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.

(iii) **Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) **Availability of information**: Since a separate register or book is kept for each class of transactions, the information relating to each transactions will be available at one place.

(v) **Facility in checking**: When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

Dec 2021

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False:

(i) Any amount spent to minimize the working expenses is revenue expenditure. False

(ii) Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure. True

(iii) The provision for bad debts is debited to sundry debtors account. P&L A/c Dr. To Prov False

(iv) Non-participating preference shareholders enjoy voting rights. False

(v) Discount column of the cash book is never balanced. True

Balnd ✗

(i) **False:** It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.

(ii) **True**: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.

(iii) **False:** The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.

(iv) **False:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

(v) **True:** Discount column is totalled and transferred to the discount allowed or received account.

Question-01

(c) Explain the followings:

(i) Accrual Basis of Accounting

(ii) Amortisation

(iii) Contingent Assets

(iv) Contingent Liabilities

1. **Accrual Basis of Accounting**

The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue.

2. **Amortisation**

The gradual and systematic writing off of an asset or an account over an appropriate period.

2. **Contingent Asset**

An asset the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

2. **Contingent Liability**

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

Question-06

(b) Discuss the following:

(i) What do you mean by principal books of accounts? → Ledger

(ii) What are the rules of posting of journal entries into the Ledger?

Ledger is known as principal books of accounts as 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)

Rules regarding posting of entries in the ledger:

1. Separate account is opened in ledger book for each account and entries from journal are posted to respective ledger account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited. JE A/c Dr. → LP Particular Cr. wale ka nam
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

May 2022

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False:

(i) A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a Contingent Liability. False

Mr. Wick pursuing

(ii) At the end of the accounting year, all the nominal accounts of the ledger book are balanced. Bal c/d × Nominal → T2P2L A/c

(iii) Any amount spent for replacement of worn out part of a machine is capital expenditure. False

(v) Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company. Debⁿ L Debⁿ susp A False

(vi) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

(i) **False:** A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

(ii) **False:** At the end of the accounting year, all the nominal accounts of the ledger book are totalled and transferred to Profit & Loss A/c.

(iii) **False:** Amount spent for replacement of any worn- out part of a machine is revenue expense since it is part of its maintenance cost.

(iv) **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

(v) **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.

Question-01

(b) Briefly explain the following Concepts of Accounting:

(i) Money Measurement Concept

(ii) Periodicity Concept.

Money Measurement concept: As per this concept, only those transactions, which can be measured in terms of money are recorded. Since money is the medium of exchange and the standard of economic value, this concept requires that those transactions alone that are capable of being measured in terms of money be only to be recorded in the books of accounts. Transactions and events that cannot be expressed in terms of money are not recorded in the business books.

Periodicity concept: According to this concept, accounts should be prepared after every period not at the end of the life of the entity. This is also called the concept of definite accounting period. Usually, this period is one accounting year. We generally follow from 1st April of a year to 31st March of the immediately following year.

Question-06

(b) What is petty cash book? Write it's any two advantages.

In a business house a number of small payments, such as for taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy.

Also, the main cashier will be overburdened with work.

- Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments. of-course he will be reimbursed for the payments made.
- Later, on an analysis, the respective account may be debited.
- Imprest system of petty cash is followed, under this system a fixed sum of money is given to petty cashier for meeting expenses for a prescribed period.

- **Advantages of Petty cash book are:**

(i) Saving of time of the chief cashier

(ii) Saving in labour in writing up the cash book and posting into the ledger

(iii) Control over small payments.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

Dec 2022

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False:

(i) The financial statements are not prepared on the assumption that an enterprise is a going concern and will continue its operation for the foreseeable future. False

(ii) Periodic inventory system is a method of ascertaining inventory by taking an actual physical count. True

(iii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism. True

(iv) If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. False

(v) Both revenue and capital nature transactions are recorded in the Receipts and Payments Account. True

(vi) A fixed charge generally covers all the assets of the company including future one.

(i) **False**: 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.

(ii) **True:** Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

(iii) **True:** According to the principle of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

(iv) **False:** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be errors of principle , compensating errors, errors of complete omission which can be rectified without opening a suspense account.

(v) **True:** All the receipts and payments whether of revenue or capital nature are included in Receipt and Payment account.

(vi) **False:** A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

Question-01

(b) Differentiate between Provisions and Contingent Liabilities.

	Provision	Contingent liability
(1)	Provision is a 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 crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	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 obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow from the firm to settle the obligation, it discloses the obligation as a contingent liability.

Question-06

(b) "The cost of Property, Plant and Equipment comprises of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise". Give any five examples of such 'directly attributable costs'.

Cost of Property, Plant and Equipment comprise of any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.

Examples of directly attributable costs are:

(a) cost of employee benefits arising directly from acquisition or construction of an item of property, plant and equipment.

(b) cost of site preparation

(c) initial delivery and handling costs

(d) installation and assembly costs

(e) cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling the items produced while testing (such as samples produced while testing)

(f) professional fees e.g., engineers hired for helping in installation of a machine

(g) transportation cost

(h) trial run expenses

Thus, all the expenses which are necessary for asset to bring it in condition and location for desired use will become part of cost of the asset

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

June 2023

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False:

(i) As per Concept of Conservatism the accountant should provide for all possible losses, but should not anticipate income. True

(ii) Expenses in connection with obtaining a license for running the Cinema Hall are Revenue Expenditure. False

(iii) Under or over casting of a subsidiary book is an example of error of commission. True

(iv) Perpetual debentures are payable at the time of liquidation of the company. True

Indirect Exp

(vi) Overhead is defined as the total cost of direct material, direct wages and direct expenses.

→ Direct mfg cost

(i) **True:** Conservatism states that the accountant should not anticipate any future income, however they should provide for all possible losses.

(ii) **False:** The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense and hence it is to be capitalised. Such expenses are amortised over a period of time.

(iii) **True:** If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.

(iv) **True:** Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.

(v) **False:** Overhead is defined as total cost of indirect material, indirect wages and indirect expenses. Indirect material, wages and expenses cannot be directly linked to unit produced.

Question-01

(b) Briefly explain the following terms:

(i) Materiality

(ii) Conservatism

(iii) Extraordinary item → Business Activity x

(iv) Floating Charge

(i) Materiality refers to all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.

(ii) Conservatism states that the accountant should not anticipate any future income however they should provide for all possible losses. When there are many alternative values of an asset, an accountant should choose the method which leads to the lesser value.

(iii) Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

(iv) Floating charge is a general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

Question-06

(b) What are the importance of Journal?

1. **Chronological Order:** As transactions are recorded on chronological order, one can get complete information about the business transactions on time basis.
2. **Narration:** Entries recorded in the journal are supported by a note termed as narration, which is a precise explanation of the transaction for the proper understanding of the entry. One can know the correctness of the entry through these narrations.
3. **Basis of Posting:** Journal forms the basis for posting the entries in the ledger. This eases the accountant in their work and reduces the chances of error.

Hope you Enjoyed the Session

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PYQ SERIES

CA Foundation Accounts

Topic:

Theory Question

Dec 2023

CA Rishabh Rohra

Question-01

(a) State with reasons, whether the following statements are True or False:

(i) The financial statement must disclose all the relevant and reliable information in accordance with the full disclosure principle. True

(ii) The gain from sale of capital assets is added to revenue to ascertain the net profit of the business. True

(iii) Depreciation is non-cash and non- operating expense which is to be provided for if there are profits. False

(iv) Sum of the year's digit method is an example of accelerated method of charging depreciation. True

(v) Inauguration expenses of ₹10 lakhs incurred on the new unit in an existing business is a capital expenditure. False

(vi) Discount column of cash book records the trade discount. False

cash Dis

Record

(i) **True**: The financial statement must disclose all the reliable and relevant information about the business enterprise to the management and also to their external users for which they are meant, which in turn will help them to take a reasonable and rational decision. The disclosure should be full and final as per AS – 1, so that users can correctly assess the financial position of the enterprise.

(ii) **True**: Gains from the sale of capital assets are considered as the revenue of the business. But this revenue is not in the ordinary course of business so it is capital receipts.

(iii) **False:** Depreciation is non-cash but operating expenses which are to be provided for whether there are profits or losses in the financial year.

(iv) **True:** Sum of year digit method is an example of accelerated method of charging depreciation. Higher depreciation is charged in earlier years sum of year's digit method.

(v) **False**: Inauguration expenses incurred on the opening of a new unit may help to explore more customers This expenditure is revenue expenditure, as the expenditure may not generate any enduring benefit to the business over more than one accounting period.

(vi) **False:** Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

Question-01

(b) Briefly explain the following terms:

~~(i)~~ Conversion Cost

~~(ii)~~ Diminishing Balance Method

~~(iii)~~ Money Measurement Concept

~~(iv)~~ Realisation Concept

(i) **Conversion Cost:** Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the direct cost or absorption costing method.

(ii) **Diminishing Balance Method:** It is a method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as written down value method.

(iii) **Money measurement concept:** As per this concept, only those transactions, which can be measured in terms of money are recorded. Transactions, even if, they affect the results of the business materially, are not recorded if they are not convertible in monetary terms.

(iv) **Realisation concept:** It closely follows the cost concept. Any change in value of an asset is to be recorded only when the business realises it.

Question-06

(b) What are the sub-fields of Accounting?

The various sub-fields of accounting are:

(i) **Financial Accounting** – It covers the preparation and interpretation of financial statements and communication to the users of accounts. It is historical in nature as it records transactions which had already been occurred. The final step of financial accounting is the preparation of Profit and Loss Account and the Balance Sheet. It primarily helps in determination of the net result for an accounting period and the financial position as on the given date.

(ii) **Management Accounting** – It is concerned with internal reporting to the managers of a business unit. To discharge the functions of stewardship, planning, control, and decision- making, the management needs variety of information. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. A very important component of the management accounting is cost accounting which deals with cost ascertainment and cost control.

(iii) **Cost Accounting** – The process of accounting for cost which begins with the recording of expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.

(iv) **Social Responsibility Accounting** – The demand for social responsibility accounting stems from increasing social awareness about the undesirable by- products of economic activities., Social responsibility accounting is concerned with accounting for social costs incurred by the enterprise and social benefits created.

(v) **Human Resource Accounting** – Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.

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Bonus Issue

BONUS SHARES	Bonus issue means an issue of additional shares to existing shareholders free of cost in proportion to their existing holding. A company may issue fully paid-up bonus shares to its shareholders out of— (i) its free reserves; (ii) securities premium account; or (iii) capital redemption reserve account: Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).

CRR
SP
Free Reserve

Key Pointers

- Bonus issue means an issue of additional shares free of cost to existing shareholders.
- Bonus Issue is also known as a "scrip issue" or "capitalization issue" or “capitalization of profits”.
- Bonus issue has following major effects:
  - Share capital gets increased according to the bonus issue ratio
  - Effective Earnings per share, Book Value and other per share values stand reduced.
  - Markets take the action usually as a favourable act.
  - Market price gets adjusted on issue of bonus shares.
  - Accumulated profits get reduced.

- Bonus shares can be issued from following:
  - Free Reserves
  - Securities Premium collected in cash
  - Capital Redemption Reserve.
  - Bonus shares can be issued from following:
- Bonus issue cannot be made out of Revaluation Reserve created by revaluation of assets.
- A right issue is an offer of equity shares in a further issue of shares by a company to its existing shareholders, to enable them in maintaining their financial and governance interest in the company, if they so desire.

- The Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue. The value of share after right is termed as ex-right value (or average price) of the share. The difference between the cum-right and ex-right value (average price) of the share is called value of right.
- The accounting treatment of rights share is the same as that of issue of ordinary shares.
- The right issue offers considerable advantages to existing shareholders enabling them to maintain their rights in the company and is equally advantageous to the company for its relatively simple logistics and cost effectiveness as compared to a full blown pubic issue. However, the dilution in the value of the share is a dampener and a major limitation.

Question

Q. What is meant by Bonus issue? Explain its related provisions as per the Companies Act, 2013.

Answer:

Bonus Issue means an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increase the dividend pay-out. For details, refer para 4.1.1 & 4.1.2.

Provisions of the Companies Act, 2013

Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. According to Sub-section (1) of Section 63, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

i. its free reserves*;

ii. the securities premium account; or

iii. the capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Sub-section (2) of Section 63 provides that no company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—

a) it is authorised by its articles;
b) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.
f) it complies with such conditions as may be prescribed.

The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Sub-section (3) of the Section also provides that the bonus shares shall not be issued in lieu of dividend.

Question

Q. Explain the financial effects of a further issue of equity shares on the market value of the share.

Answer:

The financial position of a business is contained in the balance sheet. Further issue of shares increases the amount of share capital as well as the liquid resources (Bank). The amount of share capital issued is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium).

Question

Q. What are the advantages and disadvantages of a rights issue?

Answer:

Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. For advantages and disadvantages of right issue, refer para 4.2.3.

Question

Q. What is meant by renunciation of rights shares by existing shareholder?

Answer:

In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

Redemption of PS

Methods of redemption of Preference shares Sec 55

(a) By fresh issue of shares

(b) By capitalisation of undistributed profits

(c) By combination of (a) and (b)

Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company:

[NOTE: Certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purposes (b) and (d)]

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities

(b) To write off preliminary expenses of the company

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of its own shares or other securities.

Introduction

Redemption is the process of repaying an obligation , It is a contract specifying the obligation to redeem preference shares within or at the end of a given time period at an agreed price.

These shares are issued on the terms that shareholders will at a future date be repaid the amount which they invested in the company.

The redemption date is the maturity date, which specifies when repayment is scheduled to take place and is usually printed on the preference share certificate.

Purpose of Issuing Redeemable Preference Shares

A company may issue redeemable preference shares because of the following:

1. It is a proper way of raising finance in a dull primary market.

2. Investors who may, hesitate in putting money into shares will be encouraged to invest if the shares are redeemable by the company.

3. The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

4. No dividend is required to be paid (if it's non-cummalative preference share), if there is loss or no profit, whereas interest is payable on debentures or loans even in case of loss.

In India, the issue and redemption of preference shares is governed by Section 55 of the Companies Act, 2013.

Summary of Section 55

A company limited by shares if authorized by its AOA, may issue preference shares

- Redemption shall be within a period of 20 Years

- Shares can be redeemed if Fully paid up out of –
  a) Distributable Profit or
  b) Out of Fresh issue of Equity Shares

  ❖ Fresh issue of Debenture to redeem preference share won't be counted
  ❖ If a company redeem debentures out of profit the amount equivalent to FV of the share redeemed shall be transferred to CRR
  Amount to be trf to CRR = FV of Shares redeemed (-) FV of Fresh Issue

Summary of Section 55

One of the use of Security premium is to write off premium on the redemption of redeemable preference shares or debentures of the company

However,
If a company complying Sec 133 cannot use security premium to write off premium on the redemption of redeemable preference shares or debentures of the company

Why is CRR made

Section 55 of the Companies Act, 2013, deals with provisions relating to redemption of preference shares , this section secures the interest of.

For this, it requires that either fresh issue of shares is made, or distributable profits are retained and transferred to ‘Capital Redemption Reserve Account’.

Use of Security Premium

Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company;

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities

(b) To write off preliminary expenses of the company

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of its own shares or other securities.

Note: It may be noted that certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

Use of Security Premium

Sec 52 of Companies Act 2013		Sec 52 read with Sec 133 of Companies Act 2013	
Security Premium A/c	Dr.	P&L A/c	Dr.
P&L A/c	Dr.	General Reserve A/c	Dr.
General Reserve A/c	Dr.	To Premium of Redemption A/c	
To Premium of Redemption A/c			

Question

Q. What is the purpose of issuing redeemable preference shares?

Answer:

A company may issue redeemable preference shares to raise finance in a dull primary market. Preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

Question

Q. What are the provisions of the Companies Act, 2013 related with redemption of preference shares? Explain in brief.

Answer:

Section 55 of the Companies Act, 2013, deals with provisions relating to redemption of preference shares. It ensures that there is no reduction in shareholders' funds due to redemption and, thus, the interest of outsiders is not affected. For details, refer para 5.3 of the chapter.

Redemption of Debn.

Methods of Redemption of Debentures

- By payment in Lumpsum
- By payment in instalments
- By purchase in open market
- By conversion into shares

Summary

Provisions under the Companies Act, 2013 for Issue of Debentures

Section 71 (1)

- A company may Issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.
- Provided that the issue of such debentures with an option to convert into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting

Section 71 (2)

- No company can issue any debentures which carry any voting rights.

Section 71 (4)

- Where debentures are issued by a company, then the company should create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account should not be utilised for any purpose other than the redemption of debentures.

Adequacy of Debenture Redemption Reserve (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year (*refer para 6.4 below*), in accordance with the conditions given below—

the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend; the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S.No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking	No DRR is required
2	Companies for both public as well as privately placed debentures Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applic-able to NBFCs registered with RBI (as per (3) below)
3	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above): (a) All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required

S.No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
	(b) Other listed companies for both public as well as privately placed debentures	No DRR is required
4	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above	
	(a) All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures for privately placed debentures	No DRR is required
	(b) Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

Investment of Debenture Redemption Reserve (DRR) Amount

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies

(a) All listed NBFCs

(b) All listed HFCs

(c) All other listed companies (other than AIFIs, Banking Companies and Other FIs); and

(d) All unlisted companies which are not NBFCs and HFCs

Shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

(a) In deposits with any scheduled bank, free from charge or lien;
(b) In unencumbered securities of the Central Government or of any State Government;
(c) In unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
(d) In unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Question

Write short note on Debenture Redemption Reserve

Answer:

A company issuing debentures may be required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment. For details, refer para 6.3.

Dissolution of Partnership v/s Dissolution of Firm

Dissolution of Firm

Circumstances leading to Dissolution of Partnership

- where the firm is constituted for a fixed term, on the expiry of that term
- where the firm is constituted to carry out one or more adventures or undertaking, then by completion thereof
- by the death of a partner, and
- by the adjudication of a partner as an insolvent.

Methods of piecemeal distribution

Piecemeal distribution involves either of two methods

- Maximum loss method
- Highest relative capital method

Question

State the circumstances when Garner V/S Murray rule not applicable.

Answer:

Non-Applicability of Garner vs Murray rule:

(i) When the solvent partner has a debit balance in the capital account.

Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

(ii) When the firm has only two partners.

(iii) When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

(iv) When all the partners of the firm are insolvent.

Question

W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that they will not be dissolved before the expiry of five years. The firm is dissolved after three years. W claims refund of premium.

(i) List the criteria for the calculation of the amount of refund.

(ii) Also list any two conditions when no claim in this respect will arise.

Answer:

If the firm is dissolved before the term expires, as is the case, W being a partner who has paid a premium on admission will have to be repaid/refunded

The criteria for calculation of refund amount are:

(i) Terms upon which admission was made,

Solution

(ii) The time period for which it was agreed that the firm will not be dissolved,

(iii) The time period for which the firm has already been in existence.

No claim for refund will arise if:

(i) The firm is dissolved due to the death of a partner,

(ii) If the dissolution of the firm is basically because of misconduct of W,

(iii) If the dissolution is through an agreement and such an agreement does not have a stipulation for a refund of premium.

Hope you Enjoyed the Session

THANK YOU