Paper 5- Financial Accounting

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Full Marks : 100 **Time allowed: 3 hours**

Section - A

1. Answer the following questions

(a) Multiple choice questions: [10x1=10]

(i) The concept that business is assumed to exist for an indefinite period and is not established with the objective of closing down is referred to as
(a) Money Measurement concept
(b) **Going Concern concept**
(c) Full Disclosure concept
(d) Dual Aspect concept

(ii) Contingent Liability would appear
(a) On the liability side
(b) On the asset side
(c) **As a note in Balance Sheet**
(d) None of the above

(iii) Income Statement of a charitable institution is known as
(a) Profit and Loss A/c
(b) Receipts and payments A/c
(c) **Income and Expenditure A/c**
(d) Statement of Affairs

(iv) Ground Rent or Surface rent means
(a) Minimum Royalty payable
(b) Maximum Royalty payable
(c) **Fixed rent payable in addition to minimum rent**
(d) Rent recovered at the end of lease term

(v) In the hire purchase system interest charged by vendor is calculated on the basis of
(a) **Outstanding cash Price**
(b) Hire purchase Price
(c) Installment amount
(d) None of the above

(vi) Goods are transferred from Department A to Department B at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹36,000, then the amount of stock reserve on closing stock will be
(a) ₹12,000
(b) **₹9,000**
(c) ₹18,000
(d) None of the above

(vii) Accounting standards in India are issued by
(a) Comptroller and Auditor general of India
(b) Reserve bank of India
(c) The Institute of Accounting standards of India
(d) **The Institute of Chartered Accountants of India**

(viii) Bad debts Recovered ₹750. It will be
- (a) Credited to Bad debts A/c
- (b) Credited to debtor's personal A/c
- (c) Debited to creditor's personal A/c
- (d) **Credited to bad debts recovered A/c**

(ix) Which of the following is a function of journal:
- (a) Analytical Function
- (b) Recording Function
- (c) Historical Function
- (d) **All of the above**

(x) ___________ ___________ contains the transactions relating to goods that are returned by us to our creditors
- (A) Return Inward
- (B) **Return Outward**
- (C) Sales Daybook
- (D) None of the above

(b) Match the following: [5x1=5]

	Column 'A'		**Column 'B'**
1.	**Both a journal and a ledger**	**A**	**Valuation of Inventories**
2.	**Under Valuation of Assets**	**B**	**Cash Book**
3.	**AS-2**	**C**	**Secret Reserves**
4.	**Indemnity Period**	**D**	**Royalties**
5.	**Minimum Rent**	**E**	**Insurance Claim**

Answer:

	Column 'A'		Column 'B'
1.	Both a journal and a ledger		Cash Book
2.	Under Valuation of Assets		Secret Reserves
3.	AS-2		Valuation of Inventories
4.	Indemnity Period		Insurance Claim
5.	Minimum Rent		Royalties

(c) Fill in the blanks: [5x1=5]

(i) The __________discount is never entered in the books of accounts.
(ii) Debtor is a person who ________ to others.
(iii) Assets like goodwill, brand value and copy rights are called __________ _________.
(iv) The average clause is applicable when the actual loss is _________ than the sum assured.
(v) Amount spent on the travelling expenses of a partner to a foreign trip for purchase of an asset to be used for the business is __________ expenditure.

Answer:

- (i) Trade;
- (ii) Owes;
- (iii) Intangible Assets;
- (iv) more;
- (v) Capital.

(d) State whether the following statements are true or false: [5x1=5]

(i) Depreciation is a charge against profit.
(ii) Compensation paid to employees who are retrenched is Revenue expenditure.
(iii) Excess of hire purchase price over cash price is known as Interest.
(iv) Bad debts are apportioned among departments in the proportion of sales of each department.
(v) Joint Venture is a Temporary form of business organization.

Answer:

(i) True;
(ii) True;
(iii) True;
(iv) True;
(v) True.

Section - B

Answer any five from the following. Each question carries 15 marks (5x15=75)

2. (a) A merchant, while balancing his books of accounts notices that the T.B. did not tally. It showed excess credit of ₹ 1,700. He placed the difference to Suspense A/c. Subsequently he noticed the following errors:

i. Goods brought from Narayan for ₹ 5,000 were posted to the credit of Narayan's A/c as ₹ 5,500
ii. An item of ₹ 750 entered in Purchase Returns Book was posted to the credit of Pandey to whom the goods had been returned.
iii. Sundry items of furniture sold for ₹ 26,000 were entered in the sales book.
iv. Discount of ₹ 300 from creditors had been duly entered in creditor's A/c but was not posted to discount A/c.

Pass necessary journal entries to rectify these errors. Also show the Suspense A/c. [8]

Answer:

	Particulars	**Debit (₹)**	**Credit (₹)**
i.	Narayan's A/c Dr. To Suspense A/c (Being, goods bought from Narayan credited to his A/c as ₹ 5,500 instead of ₹ 5,000, now rectified)	500	 500
ii.	Pandey A/c Dr. To Suspense A/c (Being, an item of ₹ 750 entered in Purchase Returns Book was credited to Pandey A/c, now rectified)	1,500	 1,500
iii.	Sales A/c Dr. To Furniture A/c (Being, Sale of furniture sold for ₹ 26,000 were entered in the sales book, now rectified)	26,000	 26,000
iv.	Suspense A/c Dr. To Discount received A/c	300	 300

	(Being, Discount of ₹ 300 from creditors been duly entered in creditor's A/c but not posted to discount A/c, now rectified)		

Dr. Suspense Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	To Balance b/d		1,700		By, Narayan		500
	To Discount received		300		By, Pandey		1,500
			2,000				2,000

(b) Mr. B sold goods to Mr. K for ₹ 90,000 on 1st April, 2016 for which the later accepted three bills of ₹ 30,000 each due respectively in 1,2 and 3 months. The first bill is retained by Mr. B and is duly met. The second bill was discounted (discount being ₹ 600) and is met in due course. The third bill is also discounted (discount being ₹ 900) and is dishonoured, the Noting charges being ₹ 150.
New arrangements were duly made whereby Mr. K pays Cash ₹ 10,150 and accepted and new bill due in 2 months for the balance of the amount with interest at 15% p.a. The bill is retained, on due date the same is dishonoured, noting charges being ₹ 180. Mr. K declared insolvent on 15th Sept. 2014 and 35 paise in a rupee were received from his estate.
Required:
Pass Journal entries in the Books of Mr. B. [7]

Answer:

In the Book of B
Journals

Date	Particulars		₹	₹
2014 April 1	Bills receivable A/c To Mr. K A/c (Acceptance received for 3 bills for ₹ 30,000 each payable at one, two and three months after date respectively)	Dr.	90,000	 90,000
April 1	Bank A/c Discount A/c To Bills receivable A/C (Second bill discounted)	Dr. Dr.	29,400 600	 30,000
April 1	Bank A/c Discount A/c To Bills receivable A/C (Third bill discounted)	Dr. Dr.	29,100 900	 30,000
May 4	Cash A/c To Bills receivable A/C (Third bill discounted)	Dr.	30,000	 30,000
July 4	Mr. K A/c To Bank A/C (Third bill dishonoured and noting charges paid by Bank)	Dr.	30,150	 30,150
July 4	Cash A/c To Mr. K A/C (Cash received from Mr. K under new arrangement)	Dr.	10,150	 10,150
July 4	Mr. KA/c To Interest A/C	Dr.	500	 500

	(Interest charged on renewal of bill)		
July 4	Bills receivable A/c Dr. To Mr. K A/C (Acceptance received for new bill)	20,500	 20,500
Sept.7	Mr. K A/c Dr. To Bills receivable A/c To Cash A/c (noting charges) (Bill dishonoured by Mr. K and noting charges paid)	20,680	 20,500 180
Sept.15	Cash A/c Dr. Bad debts A/c Dr. To Mr. K A/C (35 paise in a rupee received on the insolvency of Mr. K)	7,238 13,442	 20,680

3. Mr. White commenced business as a Cloth Merchant on 1st January, 2016, with a capital of ₹ 2,000. On the same day, he purchased furniture for cash ₹ 600. The books are maintained by Single Entry. From the following particulars (i) calculate the cash in hand as on 31.12.16, (ii) prepare a Trading and Profit and Loss Account for the year ending 31st December, 2016 and (iii) a Balance Sheet as on that date :

	₹
Sales (including cash sales of ₹ 1,400)	**3,400**
Purchases (including cash purchases of ₹ 800)	**3,000**
White's drawings	**240**
Salaries of Staff	**400**
Bad Debts written off	**100**
Business Expenses	**140**
Stock of goods on 31.12.2016	**1,300**
Sundry Debtors on 31.12.2016	**1,040**
Sundry Creditors on 31.12.2016	**720**

Mr. White took cloth costing ₹ 100 from the shop for private use and paid ₹ 40 cash to his son, but omitted to record these transactions in his books. Provide depreciation on furniture at 10 per cent per annum. [15]

Answer:

Dr. Cash Book Cr.

	₹		₹
To Capital " Sales " Sundry Debtors (as per Debtors A/c)	2,000 1,400 860	By Furniture " Purchases " Drawings (240 + 40) " Salaries " Business Expenses " Sundry Creditors (as per Creditors A/c) " Balance c/f	600 800 280 400 140 1,480 560
	4,260		4,260

Total Debtors Account

Dr.			Cr.
	₹		₹
To Sales (3,400-1,400)	2,000	By Bad Debts " Cash (balancing figure) " Balance c/f	100 860 1,040
	2,000		2,000

Total Creditors Account

Dr.			Cr.
	₹		₹
To Cash (balancing figure) " Balance c/f	1,480 720	By Purchases (3,000 – 800)	2,200
	2,200		2,200

Mr. White Trading and Profit & Loss Account
for the year ended 31st December, 2016

		₹		₹
To Purchases	3,000		By Sales	3,400
" Less: Cloth taken for private use	100	2,900	" Closing Stock	1,300
" Gross Profit c/d		1,800		
		4,700		4,700
To Salaries		400	By Gross Profit b/d	1,800
" Bad Debts		100		
" Business Expenses		140		
" Depreciation on Furniture		60		
" Net Profit—transferred to Capital		1,100		
		1,800		1,800

Balance Sheet as at 31st December 2016

Liabilities		₹	Assets		₹
Capital	2,000		Furniture	600	
Add: Net Profit	1,100		Less: Depreciation	60	540
	3,100		Stock-in-trade		1300
Less : Drawings (280 + 100)	380	2,720	Sundry Debtors		1,040
Sundry Creditors		720	Cash		560
		3,440			3,440

4. A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2015 was as follows:

Liabilities	₹	Assets	₹
A's Capital	1,60,000	Building	4,00,000
C's Capital	1,00,000	Machinery	4,00,000
A's Loan	2,00,000	Furniture and Fixtures	1,60,000
Creditors	10,00,000	Stock	1,60,000
		Book Debts	2,00,000
		Cash at Bank	10,000
		B's Capital (Overdrawn)	1,30,000
			14,60,000

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:
Book debts : 45% less; Building : ₹ 1,60,000; Stock : ₹ 1,00,000; Machinery : ₹ 2,00,000; and Furniture and fixtures: ₹ 40,000. Realization expenses were ₹ 10,000.

The private assets and private liabilities of the partners were as follows:

Partner	Private Assets (₹)	Private Liabilities (₹)
A	2,50,000	2,50,000
B	2,00,000	1,80,000
C	2,30,000	2,50,000

You are required to prepare:
(i) Realisation Account,
(ii) Bank Account,
(iii) Creditors Account,
(iv) Partner's Capital Account, and
(v) Deficiency Account. **[15]**

Answer:

ABC Partnership Firm
(1) Realisation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹	₹
To Building A/c	4,00,000	By Bank A/c (Realisation of Assets):		
To Machinery A/c	4,00,000	Book Debts	1,10,000	
To Furniture & Fixtures A/c	1,60,000	Building	1,60,000	
To Stock A/c	1,60,000	Stock	1,00,000	
To Book Debts A/c	2,00,000	Machinery	2,00,000	
To Bank (Realisation Exp.)	10,000	Furniture	40,000	6,10,000
		By Loss transferred:		
		A Capital A/c	2,40,000	
		B Capital A/c	2,40,000	
		C Capital A/c	2,40,000	7,20,000
	13,30,000			13,30,000

(2) Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Realisation A/c (Expenses)	10,000
To Realisation A/c (Assets Realised)	6,10,000	By Creditors (Available cash paid)	6,30,000
To B Capital A/c (2,00,000 – 1,80,000)	20,000		
	6,40,000		6,40,000

(3) Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank b/d	6,30,000	By Balance b/d	10,00,000
To Deficiency A/c	3,70,000		
	10,00,000		10,00,000

(4) Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Balance b/d		1,30,000		By Balance b/d	1,60,000	--	1,00,000
To Realisation A/c (Loss)	2,40,000	2,40,000	2,40,000	By A's Loan A/c	2,00,000		
To Deficiency A/c	1,20,000			By Bank		20,000	
				By Deficiency A/c		3,50,000	1,40,000
	3,60,000	3,70,000	2,40,000		3,60,000	3,70,000	2,40,000

(5) Deficiency Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To B's Capital A/c	3,50,000	By Creditors A/c	3,70,000
To C's Capital A/c	1,40,000	By A's Capital A/c	1,20,000
	4,90,000		4,90,000

5. **(a) Upen Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.**
From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	**Department X**	**Department Y**
Total units manufactured	**10,00,000**	**5,00,000**
Total cost of manufacture	**₹10,000**	**₹5,000**

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. **[8]**

Answer:

Suppose a is the total cost of Department X, and
b is the total cost of Department Y

$$a = ₹10,000 + \frac{1}{5} b$$

$$b = ₹5,000 + \frac{1}{4} a$$

$$\text{or, } a = ₹10,000 + \frac{1}{5}(5,000 + \frac{1}{4} a)$$

$$= ₹10,000 + 1,000 + \frac{1}{20} a$$

$= ₹11,000 + \frac{1}{20}a$

Or, 20 a = ₹2,20,000 + a

Or, 19a = ₹2,20,000

$= \frac{2,20,000}{19}$

= ₹11,579

Now, b = ₹5,000 + $\frac{1}{4}$ a

$= ₹\ 5,000 + \frac{1}{4} \times ₹11,579$

=₹5,000 + ₹2,895

=₹7,895

Total Cost goods manufactured

Particulars	Department X (₹)	Department Y (₹)
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transferred to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

(b) The following details were extracted from the books of Mr. Vasudev for the period ended 31st Dec,2015. Prepare Debtors Ledger Adjustment Account in General Ledger.

Date	Particulars	₹
Jan 01	**Sales Ledger Balances**	**24,900**
	Provision for Doubtful Debts	**1,800**
Dec,31	**Sales (including Cash Sales ₹9,000)**	**47,800**
	Cash received from Customers	**36,000**
	Bills Receivable received	**3,500**
	Returns from Customers	**700**
	Bills endorsed	**900**
	Bills dishonoured	**600**
	Cheque dishonoured	**250**
	Bills receivable as endorsed, dishonoured	**240**
	Bills receivable discounted	**1,000**
	Bad Debts written off	**100**
	Interest charged to customers	**40**
	Bad Debts previously written off recovered	**120**
	Transfer from Bought Ledger	**300**
	Sundry Charges debited to customers	**50**
	Debtor's Balance (Cr.) 31.12.2015	**350**

[7]

Answer:

Books of Mr. Vasudev
In General Ledger
Debtors Ledger Control Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.15	To Balance b/f	24,900	31.12.15	By General Ledger Control A/c	
31.12.15	To General Ledger Control A/c			Cash Received	36,000
	Credit Sales	38,800		Bill Receivable (Received)	3,500
	Bill Receivable Dishonoured	600		Sales Return	700
	Cheque Dishonoured	250		Bad Debts	100
	Endorsed Bill Dishonoured	240		Transfer from Bought Ledger	300
	Interest Charged to Customers	40			
	Sundry Charges	50			
31.12.15	To Balance c/f	350	31.12.15	By Balance c/f	24,630
		65,230			65,230

Note:

(1) No entry required for – Bill Endorsed, Bill Discounted, Provision for Doubtful Debt, Cash Sale and Bad Debts written off, now recovered.
(2) Credit Sales = Total Sales – Cash Sales = ₹ 47,800 – ₹9,000 = ₹ 38,800.

6. (a) On 1.1.2014 B Ltd. purchased a Truck from T Ltd. on hire purchase system. At the time of Agreement a sum of ₹ 1,92,000 was paid out of the cash down price of the Truck and the balance was be payable in 3 equal installments together with interest @ 5% p.a. The amount of last installment including interest was ₹ 2,68,800 .
Show the calculation of Cash Price, the interests paid and the Hire Purchase Price of the Truck. **[10]**

Answer:

Calculation of Cash Price, Interests and H.P. Price

		₹
31.12.2014	Last Installment Less : Interest Included $\left[\frac{5}{105} \times 2,68,800\right]$	2,68,800 12,800
	Amount Paid Towards Principal	2,56,000

The total payment on account of principal:

= Down Payment + 2,56,000 x 3 (as balance would be payable by 3 equal installments)
= ₹ 1,92,000 +(₹ 2,56,000 x 3) = ₹ 9,60,000
∴ Cash Price = ₹ 9,60,000

			₹	Total Payment (₹)
01.01.2014		Cash Price	9,60,000	
	Less :	Down Payment	1,92,000	1,92,000

31.12.2014	Add:	Interest [5% of 7,68,000]	7,68,000 38,400	
	Less :	Installment Paid (1) [2,56,000 + 38,400]	8,06,400 2,94,400	2,94,400
31.12.2015	Add:	Interest [5% of 5,12,000]	5,12,000 25,600	
	Less:	Installment Paid (2) [2,56,000 + 25,600]	5,37,600 2,81,600	2,81,600
31.12.2016	Add:	Interest [5% of 2,56,000]	2,56,000 12,800	
	Less :	Installment Paid (3)	2,68,800 2,68,800	2,68,800
		Hire Purchase Price		10,36,800

	₹
Cash Price	9,60,000
Total Interests Paid [38,400 + 25,600 + 12,800]	76,800
Hire Purchase Price	10,36,800

(b) From the following details find out the amount to be debited to Profit and Loss A/c as fresh provision for doubtful debts during 2016-17.
Debtors was ₹ 60,000 as on 31.03.2017; Bad debt during the year ₹ 3,000; Provision for bad debts as on 01.04.2016 ₹ 4,000; Provision for doubtful debts to be kept at 5% of total debtors. [5]

Answer:

Provision for Bad Dept is ₹60,000×5% = ₹3,000

Dr.	Provision for Bad Debts Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Bad Debt A/c	3,000	01.04.2016 By, Balance c/d	4,000
31.03.2017 To, Balance c/f	3,000	31.03.2017 By, Profit and Loss A/c **[Balancing Figure]**	2,000
	6,000		6,000

7. (a) Mitali Construction Ltd. undertook a contract on 1st January to construct a building for ₹80 Lakhs. The Company found on 31st March that it had already spent ₹58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹31,50,000.
What amount should be charged to revenue and what amount of Contract Value to be recognised as Turnover in the accounts for the year ended 31st March as per provision of AS – 7 (revised)? [6]

Answer:

Estimated total contract cost	Cost till date + Further Cost = 58,50,000+31,50,000	90,00,000
Percentage of Completion	Cost incurred till date ÷ Estimated total costs = 58.50 ÷ 90.00	65%
Total expected loss to be provided for	Contract Price – Total Costs = 80 – 90	10,00,000
Contract Revenue	65% of 80 Lakhs	₹52,00,000
Less: Contract		₹58,50,000

Costs		
Loss on Contract		₹6,50,000
Less: Further provision required in respect of expected loss		(₹3,50,000)
Expected loss recognized		₹10,00,000

The relevant disclosure under AS -7 is as follows —

Particulars	₹ in Lakhs
Contract Revenue	52,00,000
Expenses Charged	58,50,000
Provision for future losses to be charged	3,50,000

(b) (i) State any four advantages of pre-packaged accounting software?
(ii) Discuss the matters to be considered for selection of pre-packaged accounting software. [4+5=9]

Answer:

(i) Four advantages of Pre-packaged Accounting Software —

- **Easy to Install —** The CD containing set up file is to be inserted and run to complete the installation according to instructions as per user's manuals.
- **Relatively Inexpensive —** These packages are available at very cheap prices.
- **Easy to Use —** These packages are mostly menu driven with the help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.
- **Simple Backup Procedure —** Housekeeping section provides a menu for backup. The backup can be taken on CD or hard disk.

(ii) The following factors should be considered while selecting pre-packaged accounting software:

- **Fulfillment of Business Requirements**: The purchaser should ensure whether the available software meets all the business requirements.
- **Completeness of Reports:** The purchaser should ensure whether the available software can provide all the reports required by business.
- **Ease of Use**: The purchaser should ensure whether the available software is easy to operate.
- **Cost**: The software should not involve very high installation and running cost.
- **Reputation of the vendor**: It should be ensured whether the vendor has good reputation and good track records or not.
- **Regular updates**: It should be ensured whether the vendor is prepared to give updates.

8. Write short notes on any three of the following: [3x5=15]

(a) Write about cash basis and accrual basis of accounting;
(b) Bills of Exchange;

(c) Components of contract revenue as per AS – 7;
(d) Money Measurement Concept.

Answer:

(a) Cash basis and accrual basis of accounting:

Cash Basis of Accounting is a method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts for the period in which actual receipts or actual payments are made. Under this, there is no prepaid / outstanding expenses or accrued/ unaccrued incomes. This basis is not recognized under the Companies Act, 2013.
Accrual Basis of Accounting is a method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts for the period in which they accrue. This basis includes consideration relating to deferrals, allocations, depreciation and amortization. This basis is also referred to as mercantile basis of accounting. Under the Companies Act, 2013 all companies are required to maintain the books of accounts according to accrual basis of accounting.

(b) Definition of ills of Exchange and its features:

Bills of exchange is defined as " an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain some of money only to the order of the certain person or to the bearer of the instrument".

Based on the above definition the following features of a bill of exchange are noticed:
(a) It's an instrument in writing.
(b) It contains an unconditional order.
(c) It's signed by the drawer.
(d) It's drawn on a specific person.
(e) There is an order to pay a specific sum of money.
(f) It must be dated.
(g) It specifies to whom the payment is to be made e.g. to the maker or to person mentioned by him or to the bearer.
(h) The amount of money to be paid must be certain.
(i) It must be properly stamped
(j) It may be made payable on demand, or after a definite period of time. Whereas, a bill of exchange is drawn by seller and accepted by buyer; a promissory note, on the other hand, is created by the buyer as an undertaking to pay to the seller.

(c) Components of contract revenue as per AS – 7:

As per AS – 7 (Construction Contract) Contract revenue consists of the following —
- Revenue/price agreed as per Contract.
- Revenue arising due to escalation clause.
- Claims - Claims is the amount that contractors seek to collect from the customer as reimbursement of cost not included in contract price.
- Increase in revenue due to increase in units of output.
- Increase or decrease in revenue due to change or variation in scope of work to be performed.

- Incentive payments to the contractors.
- Decrease in contract revenue due to penalties.

(d) Money Measurement Concept:

A business transaction will always be recoded if it can be expressed in terms of money. The advantage of this concept is that different types of transactions could be recorded as homogenous entries with money as common denominator. A business may own ₹ 3 Lacs cash, 1500 kg of raw material, 10 vehicles, 3 computers etc. Unless each of these is expressed in terms of money, we cannot find out the assets owned by the business. When expressed in the common measure of money, transactions could be added or subtracted to find out the combined effect. In the above example, we could add values of different assets to find the total assets owned. The application of this concept has a limitation. When transactions are recorded in terms of money, we only consider the absolute value of the money. The real value of the money may fluctuate from time to time due to inflation, exchange rate changes, etc. This fact is not considered when recording the transaction.