

Paper 5- Financial Accounting

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Full Marks: 100

Time allowed: 3 hours

PART- I

Answer Question Number 1. All parts of this question are compulsory.

1. Answer the following questions

(a) Multiple choice questions: [10×1=10]

(i) Proprietor's equity implies all those amount which are represented by _____ liability.

- (a) External
- (b) Debenture
- (c) Internal
- (d) Creditors

(ii) An immediate future transaction with cash settlement is known as _____

- (a) Cash Transaction
- (b) Credit Transaction
- (c) Deferred Transaction
- (d) Fictitious Transaction

(iii) The Accommodation bill is drawn

- (a) to finance actual purchase or sale of goods
- (b) to facilitate trade transmission
- (c) when both parties are in need of funds
- (d) to purchase capital items

(iv) The Receipts and Payments Account generally begins with

- (a) Debit Balance
- (b) Credit Balance
- (c) Both Debit and Credit Balance
- (d) None of the above

(v) 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 B is ₹90,000, then the amount of stock reserve on closing stock will be

- (a) ₹30,000
- (b) ₹22,500
- (c) ₹90,000
- (d) ₹45,000

(vi) Ground Rent or Surface rent indicates the amount of _____.

- (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

(vii) _____ contains the transactions relating to goods that are returned us by our debtors

- (a) Return Outward
- (b) Return Inward
- (c) Sales Daybook
- (d) None of the above

- (viii) The principle of _____ concept is that business is assumed to exist for an indefinite period
 (a) Going Concern
 (b) Business Entity
 (c) Money Measurement
 (d) Accrual
- (ix) Capital Profit arises from which of the following?
 (a) Sale of goods produced
 (b) Premium received on issue of shares
 (c) Profit made on re-issue of forfeited shares
 (d) Both (b) and (c)
- (x) Where does Contingent liability appears in a Financial Statement?
 (a) on the liability side of the Balance Sheet
 (b) on the assets side of the Balance Sheet
 (c) as a deduction from Fixed Assets
 (d) as a note in Balance Sheet

Answer: 1(a)

- (i) — (c) (ii) — (b) (iii) — (c) (iv) — (a) (v) — (b) (vi) — (c) (vii) — (b) (viii) —
 (a) (ix) — (d) (x) — (d)

(b) Match the following:

[5×1=5]

	Column 'A'		Column 'B'
1.	Disclosure of Accounting Policies	A	Income and Expenditure Account
2.	Art of recording business transactions	B	Balance Sheet
3.	Statement of financial position of the business entity on a particular date	C	Account Sales
4.	Periodical statement prepared by consignee	D	Book-keeping
5.	It follows Nominal Account	E	AS 1

Answer: 1(b)

	Column 'A'		Column 'B'
1.	Disclosure of Accounting Policies	E	AS 1
2.	Art of recording business transactions	D	Book-keeping
3.	Statement of financial position of the business entity on a particular date	B	Balance Sheet
4.	Periodical statement prepared by consignee	C	Account Sales
5.	It follows Nominal Account	A	Income and Expenditure Account

(c) Fill in the blanks:

[5×1=5]

- (i) Debts which are uncollectable or irrecoverable are known as _____.
- (ii) _____ discount is never entered in the books of accounts.
- (iii) Outstanding subscription will come in the _____ side of Balance Sheet.
- (iv) As per AS-2, inventories should be valued at lower of cost and _____ value.
- (v) Realisation Account is opened at the time of _____ of firm.

Answer: 1 (c)

- (i) Bad Debt;
- (ii) Trade
- (iii) Assets
- (iv) Net realizable
- (v) Dissolution of the firm

(d) State whether the following statements are true or false: [5×1=5]

- (i) Depreciation indicates increase in service potential.
- (ii) Short workings refer to the amount by which the actual royalty exceeds the minimum rent.
- (iii) Drawee is the person on whom the bill is drawn i.e. the buyer or debtor.
- (iv) Closing stock will be posted to Trading A/c as well as in the Balance Sheet as a liability.
- (v) Assets are classified into fixed and current assets as per cost principle.

Answer:

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

PART- II

Answer any five questions from question numbers 2 to 8. Each question carries 15 marks (5×15=75)

2. (a) Classify the following between Capital and Revenue and giving reasons.

- (i) Construction of Educational Institute's common room for students.
- (ii) Accrued Dividend or Interest included as part of cost price of investment.
- (iii) Cost of imported goods confiscated by Customs Authority for non-disclosure of material facts.
- (iv) A considerable amount of advertisement expenditure incurred at the time of introducing a new product. [2+2+1+1=6]

Answer: 2(a)

- (i) It will cause an addition to the Educational Institute's building, a fixed asset. Hence, it is Capital Expenditure in nature.
- (ii) The accrued interest or dividend must be related to a period before the date of purchase of the investment. For this it has been included in the cost price of investment. The cost of Investment minus accrued Interest or Dividend is a capital Expenditure. It is the cost of acquisition of asset. The payment for the accrued interest or dividend is a revenue expenditure.
- (iii) It is a revenue loss. It has arisen in course of the normal business activities. Though it is an abnormal loss which is non-regular and non-recurring in nature.
- (iv) Usually the benefit of this type of advertisement is enjoyed over more than one accounting period. As such it is deferred revenue expenditure. As per AS-26, it is a part of other expenses which is shown in the Profit and Loss A/c and to be treated as revenue expenditure.

(b) A joint venture agreement was entered into M and N to share the profits and losses in the ratio of 2:1. M supplied goods worth Rs.1,20,000 to N and incurred expenses amounting to Rs. 4,000 for freight and insurance. During transit goods costing Rs.10,000 got damaged and a sum of Rs.6,000 was recovered from the insurance company. N reported that 90% of the remaining

goods were sold at a profit of 30% on their original cost. At the end of the venture, a fire occurred and as a result the balance Inventories lying unsold with N was damaged. The goods were not insured and N agreed to compensate M by paying in cash 80% of the aggregate amount of the original cost of such goods plus proportionate expenses incurred by M. Apart from the share of profit N was also entitled to a commission of 5% of net profit of joint venture after charging such commission as per the agreement. Selling expenses incurred by N totaled Rs. 2,000. N had earlier remitted an advance of Rs. 20,000. N duly paid the balance due to M by Bank Draft. Prepare Joint Venture Account and N's Account in the books of M. [9]

Answer:2(b)

Dr.		Joint Venture Account		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To, Purchases (Cost of goods supplied)	1,20,000	By, Bank (Insurance Claim)	6,000		
To, Bank (Expenses)	4,000	By, N (Sales)	1,28,700		
To, N (Expenses)	2,000	By, N (agreed value for damaged goods)	9,093		
To, N (Commission – 1/21 of Rs. 17,793)	847				
To, Profit transferred to: Profit & Loss A/c N	11,297 5,649				
	1,43,793		1,43,793		

Dr.		N's Account		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)		
To, Joint Venture A/c (Sales)	1,28,700	By Bank (Advance)	20,000		
To, Joint Venture A/c (Claim Portion)	9,093	By Joint Venture A/c (Expenses)	2,000		
		By, Joint Venture A/c (Commission)	847		
		By Joint Venture A/c (Share of Profit)	5,649		
		By Bank (Balance received)	1,09,297		
	1,37,793		1,37,793		

Working Notes:

1. It has assumed that the damaged goods during transit have no residual value.

2. Computation of Sales:

Particulars	Amount (Rs.)
Cost of goods sent	1,20,000
Less: Cost of damaged goods	(10,000)
	1,10,000
Less: Cost of goods remaining unsold	(11,000)
Cost of goods sold	99,000
Add: Profit @30%	29,700
Sales	1,28,700

3. Claim for loss of fire admitted by N

Particulars	Amount (Rs.)
Cost of goods	11,000
Add: Proportionate expenses $[(4,000 \times 11,000)/1,20,000]$	366
	11,366
Less: 20%	2,273
	9,093

3. The following statement of Affairs of Mr. M as on 31st December 2021 has been derived:

Particulars	Rs.	Particulars	Rs.
Capital	50,000	Fixed Assets	30,000
Sundry Creditors	10,000	Stock	10,000
Liability for Expenses	1,000	Debtors	15,000
		Bank	5,000
		Cash	1,000
	61,000		61,000

Mr. M could not maintain his books on the Double Entry System. But he sincerely follows the following system:

- He draws Rs. 250 every week.
- After meeting his weekly sundry expenses (Rs.100 on average) and his drawings, the balance of weekly collection is banked at the commencement of the next week.
- There was no cash purchase and creditors are paid by cheques.
- Sales are at fixed price which include 25% profit on cost.
- Credit sales are few and are noted in a diary. Payments are received in cheques only from such parties.
- Expenses other than sundries and other special drawings are settled in cheques.
- All unpaid bills are in a file carefully.

The following are the bank transactions maintained for 3 months (13 weeks):

Particulars	Rs.	Particulars	Rs.
Balance on Jan. 1,2021	5,000	Creditors paid	40,000
Cheques deposited	2,000	Rent paid	600
Cash deposited	42,000	Expenses (other than Sundry Expenses)	3,000
		Balance on April 1,2021	5,400
	49,000		49,000

After 3 months (13 weeks) on 1st April (Monday) the entire cash was missing when it was to be deposited in the bank. The following further facts are ascertained:

- Stock on that day was valued at Rs. 4,000;
- Sundry Debtors amounted to Rs. 20,000 as per the diary;
- Sundry Creditors were Rs. 8,000 as per unpaid bills file. Compute the amount of cash missing.

[15]

Answer: 3

Sundry Debtors Account

Dr.	Particulars	Rs.	Cr.	Particulars	Rs.
	To Balance b/f	15,000		By Bank	2,000
	To Credit Sales (balancing figure)	7,000		" Balance c/f	20,000
		22,000			22,000

Sundry Creditors Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bank	40,000	By Balance b/f	10,000
To Balance c/f	8,000	By Credit Purchases [balancing figure]	38,000
	48,000		48,000

Cash Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/f	1,000	By Drawings: (13 × Rs. 250)	3,250
To Cash Sales	48,000	By Sundry Expenses: (13 × Rs. 100)	1,300
		By Bank	42,000
		Balance being cash missing	2,450
	49,000		49,000

Note: Calculation of Cash Sales

Particulars	Rs.
Opening Stock	10,000
Add: Purchases	38,000
	48,000
Less: Closing Stock Cost of goods sold	4,000
	44,000
Add : Gross Profit @ 25% on cost	11,000
Total Sales	55,000
Less: Credit Sales	7,000
Cash Sales	48,000

4. R, W and B give you the following Balance Sheet as on 31st March,2021

Capital and Liabilities		Rs.	Properties and Assets		Rs.
Red's Loan		15,000	Plant and Machinery at Cost		30,000
Capital Accounts:			Fixtures and Fittings		2,000
Red	30,000		Stock		10,400
White	10,000		Debtors		18,400
Blue	2,000	42,000	Less: Provision		400
Sundry Creditors		17,800			18,000
Loan on Hypothecation of Stock		6,200	Joint Life Policy		15,000
Joint Life Policy Reserve		12,400	Patents and Trademarks		10,000
			Cash at Bank		8,000
Total		93,400	Total		93,400

The Partners shared Profits and Losses in the ratio of R:W:B = 4:2:3. The Firm was dissolved on the above date, and you are given the following information –

- B had taken a Loan from Insurers for Rs. 5,000 on the security of Joint Life Policy. The Policy was surrendered and Insurers paid a sum of Rs. 10,200 after deducting Rs.5,000 for B's Loan and Rs. 300 as Interest thereon.
- One of the Creditors took some of the Patents whose Book Value was Rs. 6,000 at a valuation of Rs.4,500. The balance due to that Creditor was paid in cash.
- The Firm has previously purchased some Shares in a Joint Stock Company and had written them off on finding them useless. The Shares were now found to be worth Rs. 3,000 and the Loan Creditor agreed to accept the Shares at this value.
- The remaining assets realized the following amounts: Plant and Machinery Rs. 17,000, Fixtures and Fittings Rs. 1,000, Stock Rs. 9,000, Debtors Rs. 16,500, and Patents 50% of their Book Value.

- (e) The Liabilities were paid and a total discount of Rs. 500 was allowed by the Creditors.
 (f) The Expenses of Realisation amounted to Rs. 2,300.

You are asked to prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form. [15]

Answer:4

Realisation Account

Dr.			Cr.		
Particulars		Rs.	Particulars		Rs.
To Plant & Machinery A/c	(transfer)	30,000	By Provn. for Doubtful Debts	(transfer)	400
To Fixtures & Fittings A/c	(transfer)	2,000	By Creditors A/c (Note)	(transfer)	17,800
To Stock A/c	(transfer)	10,400	By Loan A/c	(transfer)	6,200
To Debtors A/c (Gross Value)	(transfer)	18,400	By Bank – (Joint Life Policy amount received)		10,200
To Joint Life Policy A/c	(transfer)	15,000	By B's Capital (towards JLP Loan)		5,300
To Patents & Trademarks	(transfer)	10,000	By Bank - Plant & Machinery		17,000
To Bank (Payments made)			- Furniture		1,000
- Creditors (Note below Bank A/c)		12,800	- Stock		9,000
- Expenses		2,300	- Debtors		16,500
- Loan (Due 6,200 less Shares 3,000)		3,200	- Patents (50% of 4,000)		2,000
			By Partners' Capital A/c (Loss on Rsn)		
			- R	8,311	
			- W	4,156	
			- B	6,233	18,700
Total		1,04,100	Total		1,04,100

Note: Patents A/c and Creditors A/c balances can also be transferred net of takeover of Book Value Patents Rs. 6,000.

Partners' Capital Account

Dr.				Cr.			
Particulars	R Rs.	W Rs.	B Rs.	Particulars	R Rs.	W Rs.	B Rs.
To Joint Life Policy	—	—	5,300	By balance c/d	30,000	10,000	2,000
To Realisation A/c	8,311	4,156	6,233	By JLP Reserve	5,511	2,756	4,133
To Bank (WN 3)	27,200	8,600	—	(4:2:3) By Bank (WN 3)	—	—	5,400
Total	35,511	12,756	11,533	Total	35,511	12,756	11,533

Bank Account

Dr.		Cr.	
Receipts	Rs.	Payments	Rs.
To balance c/d	8,000	By Realisation - Sundry Creditors (Note)	12,800
To Realisation - Joint Life Policy	10,200	- Expenses	2,300
- Plant & Machinery	17,000	- Loan against Stock settled	3,200

- Furniture	1,000	By Red's Loan A/c (Loan Settlement)	15,000
- Stock	9,000	By Partners' Capital A/c (Final Settlement)	
- Debtors	16,500	- R	27,200
- Patents	2,000	- W	8,601
To Partners' Capital A/c - B's A/c	5,400		
Total	69,100	Total	69,100

Note: Payment to Creditors = Due 17,800 less Patents valued at 4,500 less Discount Received 500 = Net 12,800

5. (a) The following details are extracted from the records of M/S B & Co., a trader in relation to the year ended March 31, 2022.
- (i) Total sales was Rs. 1,80,000 including the sale of old Xerox Machine for Rs. 4,800 (Book value Rs. 8,000). The total Cash sales were 20% of the total Credit sales.
 - (ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of Rs. 20,000.
 - (iii) Bills Receivable drawn during the three months totalled Rs. 30,000 of which bills amounting to Rs. 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for Rs. 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.
 - (iv) Bad Debt written off in the earlier years was realised Rs. 11,000.
 - (v) Sundry Debtors as on 01.04.2021 stood of Rs. 50,000.
- You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger. [10]

Answer:5 (a)

In The General Ledger of M/S B & Co.
Debtors Ledger Adjustment Account for the year ended 31st March, 2022

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.21	To Balance b/d	50,000	2021-22	By General Ledger Adj. A/c	
	To General Ledger Adj. A/c			Cash & Bank [70% of (50,000 + 1,46,000)]	1,37,200
	Credit Sales	1,46,000		Discount allowed	20,000
	Dish. of Endorsed B/R	6,000		B/R Drawn	30,000
				Bad Debts (Drawee of endorsed B/R)	6,000
				By Balance c/d	8,800
		2,02,000			2,02,000

Working Note:

Credit Sales = $(1/1.20) \times (1,80,000 - 4,800) = \text{Rs. } 1,46,000$.

Note: Cash Sales, bad debts recovered do not appear in the total debtors account.

(b) Journalise the following Entries in the books of Head Office to make necessary rectification or adjustments:

- i. Goods sent to Branch Rs.12,000 stolen during transit. Branch Manager refused to accept any liability.
- ii. Branch paid Rs. 20,000 as Salary to the Officer of Head Office on his visit to the Branch.
- iii. On 28th March, the HO despatched goods to the Branch invoiced at Rs. 32,000 which was not received by Branch till 31st March, being end of the financial year.
- iv. A remittance of Rs. 8,000 sent by the Branch on 30th March, received by the Head Office on 1st April (in the next financial year).
- v. Head Office made payment of Rs. 24,000 towards purchase of goods by Branch and wrongly debited the same in its own Purchase Account. [5]

Answer: 5(b)

Journal Entries in the Books of Head Office

	Particulars		Dr.(Rs.)	Cr.(Rs.)
1.	Loss in Transit A/c To Branch A/c (Being, goods sent to Branch lost in transit)	Dr.	12,000	12,000
2.	Salary A/c To Branch A/c (Being, Salary Expense relatable to HO paid by the Branch) (assuming Salary = HO related)	Dr.	20,000	20,000
3.	Branch A/c To Goods sent to Branch A/c (Being, goods in transit from Head Office to Branch)	Dr.	32,000	32,000
4.	Cheques in Transit A/c To Branch A/c (Being, Cheques in Transit as on 31 st March and reached HO only on 1 st April)	Dr.	8,000	8,000
5.	Branch A/c To Purchases A/c (Being, Purchases made by Branch wrongly debited to Head Office Purchases A/c)	Dr.	24,000	24,000

6. (a) X Ltd has taken a fire policy of Rs. 2,40,000 covering its stock. A fire occurred on 31st March, 2022.

The following particulars are available:

	Rs.
Stock as on 31-12-2021	90,000
Purchases to the date of fire	3,90,000
Sales to the date of fire	2,70,000
Carriage inwards	2,400

Commission to be paid on purchase @ 2%. Gross Profit Ratio @ 50% on cost.

You are asked to ascertain:

- The amount of loss of stock
- The amount of claim to be made against the insurance company (Assuming that the policy was subject to average clause). The amount of stock salvage is Rs. 62,040.

[5]

Answer:6(a)

In the books of X Ltd.

Memorandum Trading Account for the period ended 31.03.2022

Dr.			Cr.
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	90,000	By Sales	2,70,000
To, Purchases 3,90,000 (+)		By Closing Stock b/f	3,10,200
Carriage Inward 2,400 (+)			
Commission <u>7,800</u>	4,00,200		
To Gross Profit	90,000		
(50% on Cost or 33.33 on Sales)			
	5,80,200		5,80,200

(i) Loss of Stock:

Stock on the date of fire	Rs.3,10,200
(-) Stock Salvaged	<u>(62,040)</u>
	2,48,160

(ii) Amount of claim applying Average clause:

$$\begin{aligned}
 \text{Amount of claim} &= \frac{\text{Amount of Policy}}{\text{Value of stock at the date of fire}} \times \text{Actual Loss} \\
 &= \frac{2,40,000}{3,10,200} \times 2,48,160 \\
 &= \text{Rs.1,92,000}
 \end{aligned}$$

(b) Mr. V had taken a mine on lease from Mr. R at a royalty of Rs.12,500 per year. Each year's excess of minimum rent over royalties is recoverable during the first three years of lease. In the event of strike and minimum rent not being reached, it was provided that the actual royalties earned for the year would fulfill all rental obligations.

The output for the first four years was as follows:

1st year – 2000 tons

2nd year – 2500 tons

3rd year – 4000 tons

4th year – strike (2400 tons) Royalty is Rs.4 per ton.

Prepare Short workings account and Mr. R account in the books of Mr. V.

[10]

Answer:6(b)

Royalties Table

Year	Output in tons	Royalties @ 4 per ton	Minimum Rent	Short Workings	Surplus	Short workings recouped	Short workings irrecovered transfer to P/L A/c	Amount paid to landlord
1	2,000	8,000	12,500	4,500	-	-	-	12,500 (MR)
2	2,500	10,000	12,500	2,500	-	-	-	12,500 (MR)
3	4,000	16,000	12,500	-	3,500	3,500	3,500	12,500 (R-SWR)
4	2,400	9,600	9,600	-	-	-	-	9,600 (R)
	(Strike)							

In the Books of Mr. V (Lessee)

Dr.

Short Workings Account

Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1 st year	To Vamsi A/c (arrival)	4,500	1 st year	By bal c/d	4,500
		4,500			4,500

2nd Year	To Bal b/d	4,500	2nd Year	By Bal c/d	7,000
	To Vamsi A/c (arrival)	2,500			
		7,000			7,000
3rd Year	To Bal b/d	7,000	3rd Year	By Vamsi (recovered)	3,500
				By P/L A/c (irrecauped)	3,500
		7,000			7000

Dr.			Mr. R Account (Lessor)			Cr.		
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.			
1st year	To Bank A/c	12,500	1st year	By Royalties A/c	8,000			
				By Short working A/c	4,500			
		12,500			12,500			
2nd Year	To Bank A/c	12,500	2nd Year	By Royalties A/c	10,000			
				By Short working A/c	2,500			
		12,500			12,500			
3rd Year	To Short workings recovered A/c	3,500	3rd Year	By Royalties A/c	16,000			
	To Bank	12,500						
		16,000			16,000			
4th year	To Bank A/c	9,600	4th year	By Royalties A/c	9,600			
		9,600			9,600			

7. (a) Rs.9,90,000 was incurred on a contract work upto 31.03.2022. Certificates have been received to date to the value of Rs.12,00,000 against which Rs.10,80,000 has been received in cash. The cost of work done but not certified amounted to Rs. 22,500. It is estimated that by spending an additional amount of Rs.60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is Rs.12,50,000. Derive a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. [6]

Answer: 7(a)

As per AS – 7 when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date.

Thus, estimated profit amounting Rs.1,88,571 should be recognised as revenue in the Statement of Profit and Loss.

Particulars	Rs.
Expenditure incurred upto 31.03.2022	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
A. Estimated Cost	10,50,000
B. Contract Price	12,50,000
C. Total estimated profit [(A-B)]	2,00,000
D. Percentage of Completion (9,90,000/10,50,000)×100	94.29%
Computation of estimate of the profit to be taken to Profit and loss Account:	
= Total estimated profit × (Expenses incurred till 31.03.2022/ Total estimated cost)	
= 2,00,000 × (9,90,000/10,50,000)	
= Rs.1,88,571.	

- (b) (i) What is the significance of a Computerised Accounting System?
 (ii) List the advantages of Pre-packaged Accounting Software. [3+6=9]

Answer:7(b)

- (i) Following are the significance of Computerised Accounting System
- The speed with which accounts can be maintained is several fold higher.
 - Automatic Correct Balancing of Ledger Accounts
 - Automatic Talled Trial balance unless some mistake is made while recording the opening balance.
 - Automatic Income Statement
 - Automatic Balance Sheet

- (ii) Advantages of pre-packaged accounting software

1. 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.
2. Relatively Inexpensive	These packages are available at very cheap prices
3. 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.
4. Simple Backup Procedure	Housekeeping section provides a menu for backup. The backup can be taken on CD or hard disk.
5. Certain Flexibility of Report Formats Provided by some of the Software's	This allows the user to make the invoice, challan, GRNs look the way they want.
6. Very Effective for Small and Medium size Businesses	Most of their functional areas are covered by these standard disced packages.

8. Write short notes on any three of the following: [3×5=15]
- (a) Differences between Receipts and Payments Account and Income and Expenditure Account;
- (b) Advantages of Self-Balancing System;
- (c) Renewal of Bills and Retirement of Bills;
- (d) Features of a Trial Balance

Answer: 8

- (a) Differences between Receipts and Payments Account and Income and Expenditure Account

Sl. No.	Receipts & Payments Account	Income & Expenditure Account
1	It is a summarised Cash Book	It closely resembles the Profit & Loss Account of a Trading concern
2	Receipts are debited and Payments are credited.	Incomes are credited and Expenditures are debited.
3	Transactions are recorded on Cash basis.	Transactions are recorded on Accrual Basis
4	Amounts related to previous period or future period may remain included. Outstanding amount for current year is excluded.	Transactions are recorded on accrual basis. All amounts not related to the current period are excluded. Outstanding amounts of current period are added.

5	It Records both Capital and Revenue transactions	It records Revenue transactions only.
6	It serves the purpose of a Real Account.	It serves the purpose of a Nominal Account
7	It starts with opening Cash and Bank Balances and ends with closing Cash and Bank Balances	It does not record such balances, rather its final balance shows a surplus or a deficit for the period
8	It does not record notional loss or noncash expenses like bad debts, depreciations etc.	It considers all such expenses for matching against revenues
9	Its closing balance is carried forward to the same account of the next accounting Period.	Its closing balance is transferred to Capital Fund or General Fund or Accumulated Fund in the same period's Balance Sheet.
10.	It helps to prepare an Income & Expenditure A/c.	It helps to prepare a Balance Sheet

(b) Advantages of Self-Balancing System:

- (a) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.
- (b) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the abstraction of individual personal ledger balances.
- (c) Various works can be done quickly as this system provides sub-division of work among the different employees.
- (d) This system is particularly useful
 - (i) where there are a large number of customers or suppliers and
 - (ii) where it is desired to prepare periodical accounts.
- (e) Committing fraud is minimized as different ledgers are prepared by different clerks.
- (f) Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.

(c) Renewal of Bills and Retirement of Bills

Renewal of Bills

Sometimes the drawee of a bill is not able to meet the bill on due date. He may request the drawer to draw a new Bill for the amount due. Sometimes he pays a certain amount out and accepts a first bill for the balance for which he has to pay a certain amount of interest which is either paid in cash or is included with the fresh bill. This bill is known as Renewal of Bills. That, the amount of the new bill will be face value of the original bill minus cash payment, if any, plus interest for the renewed period.

Retirement of Bill

Sometimes the drawee pays the bill before the date of maturity. Under the circumstances, the drawer allows certain amount of rebate or discount which is calculated on certain percentage p.a. basis. The rebate is calculated from the date of payment to the date of maturity.

(d) Following are the features of Trial Balance:

- 1. It is a list of debit and credit balances which are extracted from various ledger accounts.
- 2. It is a statement of debit and credit balances.
- 3. The purpose is to establish arithmetical accuracy of the transactions recorded in the Books of Accounts.

4. It does not prove arithmetical accuracy which can be determined by audit.
5. It is not an account. It is only a statement of account.
6. It is not a part of the final statements.
7. It is usually prepared at the end of the accounting year but it can also be prepared anytime as and when required like weekly, monthly, quarterly or half-yearly.
8. It is a link between books of accounts and the Profit and Loss Account and Balance Sheet.