

Telangana State Board of  
**INTERMEDIATE** Education  
**FIRST YEAR**



# COMMERCE



**BASIC LEARNING MATERIAL**  
For The Academic Year : 2021-2022





**TELANGANA STATE BOARD OF  
INTERMEDIATE EDUCATION**

**COMMERCE &  
ACCOUNTANCY**

**FIRST YEAR  
(English Medium)**

**BASIC LEARNING MATERIAL**

**ACADEMIC YEAR  
2021-2022**

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## **PREFACE**

The ongoing Global Pandemic Covid-19 that has engulfed the entire world has changed every sphere of our life. Education, of course is not an exception. In the absence and disruption of Physical Classroom Teaching, Department of Intermediate Education Telangana has successfully engaged the students and imparted education through TV lessons. In the back drop of the unprecedented situation due to the pandemic TSBIE has reduced the burden of curriculum load by considering only 70% syllabus for class room instruction as well as for the forthcoming Intermediate Examinations. It has also increased the choice of questions in the examination pattern for the convenience of the students.

To cope up with exam fear and stress and to prepare the students for annual exams in such a short span of time , TSBIE has prepared “Basic Learning Material” that serves as a primer for the students to face the examinations confidently. It must be noted here that, the Learning Material is not comprehensive and can never substitute the Textbook. At most it gives guidance as to how the students should include the essential steps in their answers and build upon them. I wish you to utilize the Basic Learning Material after you have thoroughly gone through the Text Book so that it may enable you to reinforce the concepts that you have learnt from the Textbook and Teachers. I appreciate ERTW Team, Subject Experts, who have involved day in and out to come out with the Basic Learning Material in such a short span of time.

I would appreciate the feedback from all the stake holders for enriching the learning material and making it cent percent error free in all aspects.

The material can also be accessed through our website [www.tsbie.cgg.gov.in](http://www.tsbie.cgg.gov.in).

**Commissioner & Secretary**  
Intermediate Education, Telangana.

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## Fundamentals of Business

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. Business**

Ans. "A human activity directed towards producing or acquiring wealth through buying and selling of goods".

**2. Profession**

Ans. A profession is an occupation or vocation interested to render personal service of a specialized and expert nature.

**3. Employment**

Ans. Employment is the relationship between two parties one party render his service on contractual basis. Hence the relationship between these two parties will be Employer-Employee.

**4. Risk**

Ans. Risk is the fear of loss and profit is reward for assuming risk.

**5. Home trade**

Ans. The trade carried on within the boundaries of a nation or country is called home trade.

**6. Entrepot Trade.**

Ans. Importing goods from one country with the function of exporting them to another country is called entrepot trade.

### SHORT ANSWER TYPE QUESTIONS (5 MARKS)

**1. Define Business. Explain its characteristic features.**

Ans. "a human activity directed towards producing or acquiring wealth through buying and selling of goods".

Main characteristic features of business.

1. **Economic Activity:** Business is an economic activity. It is performed with the main motive of earning money or profit.

2. **Deals with goods and service:** Every business enterprise produces or buys goods and services with the intention of selling them to others so as to earn profit.
3. **Creation of utilities:** Business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods.
4. **Continuity in dealings:** Dealings in goods and services become business only if undertaken on a regular basic.
5. **Profit motive:** The primary objective of busienss is to earn profit.

**2. Describe various “Objectives of a business”?**

Ans: **Objectives of Business**

**Economic Objectives**

1. Profit earning
2. creating customers.
3. Innovation

**Social objectives**

1. Availability of goods at reasonable prices
2. Fair remuneration to employees
3. Generating employment

**Human Objectives**

1. Welfare of employees
2. Developing Human Resources
3. Particpative Management

**National Objecting**

1. Optimum utilization of resources
2. Development of small scale industries
3. Development of Backward Regions

**3. What is commerce? Describe its branches.**

Ans: “Commerce is an organized system for the exchange of goods between the members of the industrial world”.

Branches of Commerce (1) Trade (2) Aids to trade

1. **Trade:** It connects with buying and selling of good and services trade may be classified into (a) home trade (b) foreign trade.
  - (a) **Home trade** is also known as domestic trade. Home trade is carried on within the boundries of the nation. Home trade is of two types (1) wholesaletrade (2) Retail trade

Wholesale trade: Buying and selling of goods in large quantities.

Retail Trade: Buying and selling of goods in small quantities

(b) **Foreign trade:** Buying and selling of goods and service between two or more countries, Foreign trade is of three types.

(a) Export trade (b) Import trade (c) Entrepot trade

**Export trade:** Sale of goods to foreign countries.

**Import Trade:** Purchase of goods from foreign countries.

**Entrepot Trade:** Buying goods from one country for the purpose of selling them to another country is called entrepot trade.

2. **Aids-to-trade:**

(1) Transport (2) Communication (3) Warehousing (4) Insurance (5) Banking  
(6) Advertising

4. **Define trade and explain various types of aids to trade.**

Ans. Trade is a branch of commerce it connects with buying and selling of goods and services various types of aids-to-trade.

- (1) **Transport:** It is one of the aids to trade, which facilitates the distribution of goods and service smoothly and timely, Transportation creates place utility to goods and services.
- (2) **Communication:** Information from one to another to finalise and settle the terms of sales such as prices of goods, discount allowed etc.
- (3) **Warehousing:** It is another aid to trade, which facilities to store the goods until they either get the demand or consumed by storing goods in the warehouse creating time utility to goods.
- (4) **Insurance:** Insurance reduces the problem of risks. Business is subject to risks and uncertainties.
- (5) **Banking:** Bank is a place or an institution which provides short-term and long-term finance to the business men or organization. It also solves the problem of payment and facilitates exchange between buyer and seller.
- (6) **Advertising:** Advertising helps the consumers to know about the various brands manufactured by several manufacturers.



## Forms of Business Organizations

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. Business Organisation**

Ans. A business organization is a concern company or enterprise which buys and sells is owned by one person or a group of persons and is managed under a specific set of operating policies.

**2. Sole proprietorship**

Ans. A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business.

**3. Active partner (or) Working partner**

Ans. The partner who actively participate in the day to day operations of the business are known as active partner or working partner.

**4. Limited liability Partnership firm**

Ans. "Limited liability partnership is a body corporate formed and incorporated under the act. It is a legal entity separate from its partners.

### SHORT ANSWER TYPE QUESTIONS (10 MARKS)

**1. Define sole proprietorship, Explain its features?**

Ans. **Definition** : A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business.

**Features of Sole Proprietorship:**

1. **Individual Initiative** : The sole proprietorship business is started by the initiative of a single person who start the business. He prepares the business plan and arranges various factors of production.
2. **Single ownership**: The sole proprietorship firm of business organisation has a single owner who himself /herself states the business by bringing together all the resource. He/she only looks after the business affairs.

3. **Less legal formalities:** The formation and operators involves less legal formalities. Thus the formation and windingup is very easy and simple.
  4. **Unlimited liability:** The liability of the sole proprietor is unlimited. In case of less business assets are not enough to pay the business liabilities his personal property can also be utilised to pay off the liabilities.
  5. **Ownership and Management :** There is no separate existence of the business with the owner. The business is dissolved if the owner dies, become insolvent or is removed from the busienss.
  6. **Motivation:** The sole proprietor enjoys all the profits and at the same time he bears all the losses. This helping business expansion, he alone bears the risks and reaps the profits.
  7. **Secrecy :** All the important decisions are taken by the sole proprietor. He/She keeps all the business secrets only with himself / herself.
  8. **No Seperate Entity :** The sole proprietorship business does not have an entity separate from the owner, properiter and the busienss enterprise are one and the same.
  9. **One-Man Control :** The management and controlling power prepares various plans and executes them under own supervision.
  10. **Area of Operations :** The sole properitor has limited resources and managerial abilities, he/she has usefully limited areas of operations.
2. **What are the advantages and disadvantages of sole proprietorship?**

Ans. **Advantages:**

1. **Easy to form and wind-up:** It is very easy and simple to form a sole proprietorship form of business organization as it require less legal formalities and less time.
2. **Quick decision and prompt action:** Nobody interferes in the affairs of the sole proprietary business. Hence quick decisions can be taken.
3. **Direct motivation:** The entire profit is enjoyed by the sole proprietor this motivates and encourages the proprietor to work hard and run the business effectively and efficiently.
4. **Maintenance of business secrets:** The business secrets are known only to the proprietor.
5. **Personal contact with customers:** It is easy to maintain good personal contacts with the customers and employees.
6. **Self-employment:** The individuals can easily start small scale business as a sole trader.

**Disadvantages:**

1. **Limited resources:** The resources of a sole proprietorship are always limited. He cannot arrange sufficient funds.
2. **Unlimited liability:** Unlimited liability also restricts his/her working and tries to be cautious in taking risks.

3. **Limited managerial ability:** A sole proprietorship form of business organisation always suffers from lack of managerial expensive.
  4. **Lack of continuity:** The continuity of the business is linked with the life of the proprietor. Illness, death or insolvency of the proprietor can lead to closure of the business.
3. **Discuss any five types of partners?**

Ans. **I. Based on the extent of participation**

1. **Active partner or working partner:** the partners who actively participate in the day-to-day operations of the business are known as active or working partner.
2. **Sleeping partner :** The partner who does not participate in the day-to-day activities of the business is known as sleeping or ‘dormant partner’. He contibutes capital and shares the profits and losses.

**II. Based on sharing of profits**

1. **Nominal partner:** He allows the firm to use his name as partner. He / she neither invests any capital nor participates in the day-to-day operations. He is not entitled to share the profits of the firm.
2. **Partner in profits:** A person who shares the profits of the business without being liable for the losses is known as partner in profits.

**III. Based on liabilities**

1. **Limited Partner :** Based on liability of limited Partners is limited to the extent of his/her capital contribution. This firms can be seen in European countries and U.S.A.
2. **General partner :** The partner having unlimited liability is called as general or partner with unlimited liability.

**IV. Partner by Estoppel :**

1. A person, who behaves in the public in such a way as to give an impression that he/she is a partner of the firm is called partner by estoppel. He is not entitled to share the profits, but is fully liable if somebody suffers because of his / her false representation.
2. **Partner by Holdingout:** Partner or partnership firm declares that a particular person is a partner of their firm and such a person doesnt disclaim if, then he/she is known as partner by holding out. He is not entitled to profit but are fully liable with regard with this firms debt.

**LONG ANSWER TYPE QUESTIONS (10 MARKS)**

1. **Define partnership. Explain its advantages & Disadvantages?**

Ans: Definition of Section (4) partnership Act, 1932

“The relationship between persons who have agreed to share the profits of a business carried on by all or any one acting for all”

### Advantages of Partnership firm

1. **Easy to form:** Partnership can be formed easily without many legal formalities, not compulsory to get the firm registered, a simple agreement either in oral, writing or implied is sufficient to create a partnership firm.
2. **Larger resources:** Since two or more partners join hands to start partnership firm, it may be possible to pool more resources as compared to sole proprietorship form of business organisation.
3. **Better Decisions:** Each partner has a right to take part in the management of the business. All major decisions are taken in consultation with the consent of all partners.
4. **Benefits of specialisation:** All partners actively participate in the business as per their specialisation and knowledge.
5. **Flexibility in operations:** At any time the partners can decide to change the size or nature of business or area of its operation after taking the necessary consent of all the partners.
6. **Sharing of Risks:** The losses of the firm are shared by all the partners equally or as per the agreed ratio. Every partner bears less burden as compared to sole trader.
7. **Keen Interest:** Since partners share the profit and bear the losses they take keen interest in the affairs of the business.
8. **Protection of Minority Interests:** The rights of each partner and his/her interests are fully protected. If a partner is dissatisfied with any decision, he can ask for dissolution of the partnership or can withdraw from the partnership.
9. **Secrecy:** Business secrets of the firm are known to the partners only not disclose any information of the outsiders.
10. **More Credit Worthiness:** The partners have sufficient contents in the market. They can offer more securities of the financial institutions. Liability of the partners being unlimited, they will be able to raise more funds.

### Disadvantages of partnership firm

1. **Unlimited liability:** The liability of the partners is unlimited. i.e., the partners are personally liable for the debts and obligations of the firm. In other words their personal property can also be utilised for payment of firm liabilities.
2. **Instability:** Every partnership firm has uncertain life the death, insolvency, incapacity or the retirement of any partner brings the partnership to an end.
3. **Limited capital:** Total number of partners cannot exceed 20, the capacity to raise funds remains limited as compared to joint stock company.
4. **Burdens of Implied Authority:** A partner can bind the business by his acts. He / she can act as an agent of the business. A dishonest partner may lead the business to difficulties.

5. **Non-transferability of shares:** The share of interest of any partner cannot be transferred to the partner or to the outsiders.
6. **Possibility of conflict :** Every partner in the firm has an equal right to participate in management. Because of this some times there is a friction and quarrel among the partners.
7. **Lack of public faith :** The accounts of partnership concerns are not published therefore, public is inaccurate of the exact position of the business.
8. **Delay in Decision making:** All important decisions are taken by the consent of partners so decision making process becomes time consuming.



## Formation of Company as per Companies Act 2013

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. **Small company** : Company's share capital which does not exceed Rs. 50 lakhs and a company other than public company is called small company.
2. **Government Company** : Any company in which more than 51% of paid up share capital is held either by the central government or any state government or both governments is called government company.
3. **Holding Company** : Where one company holds more than 51% of paid up share capital of another company and controls the management of that another company, the controlling company is called 'Holding company'.

### LONG ANSWER TYPE QUESTIONS (10 MARKS)

1. **Define Joint Stock Company Explain the features of a joint stock company.**

Ans. As per the companies Act, 2013, "A company refers to an organisation incorporated under the companies Act, 2013 or under any previous company Law".

#### Features

- i. **An artificial person created by law** : A company is an artificial and invisible legal person created by law.
- ii. **Separate legal entity** : A company has a separate legal entity entirely different from that of its members who constitute it.
- iii. **Formation** : A company is formed with the promoters. It comes into existence after preparation of several documents and it should be registered or incorporated under the Indian companies Act, 2013.
- iv. **Common seal as a substitute for signature** : As the company is not a natural person it cannot sign on its documents. The common seal with the name of the company engraved on it and signature of the offices is binding on the company.
- v. **Perpetual existence** : A company has a perpetual life and the death, lunary, retirement or insolvency of its members does not affect its existence. It continues for an unlimited period until it is legally dissolved.

- vi. Limited liability of members :** The liability of members of a company is limited to the extent of the amount of shares they hold. The members are not liable to pay anything towards the debts or losses of the company.
- vii. Transferability of shares :** The members of the public company are free to transfer the shares held by them to any persons as and when they like.
- viii. Membership :** To form a joint stock company, a minimum of 2 members and maximum of 50 members are required in private limited company. A minimum of 7 members and maximum there is no limit in public company.
- ix. Democratic management :** The company's day to day affairs are managed by the shareholder's elected representatives, who are called as directors.
- x. Statutory regulations :** A company is governed by the returns to the government and also its accounts have to be audited by a chartered accountant.

**2. Differentiate between a private company and a public company.**

Ans.

Point	Private Company	Public Company
1. Minimum number of members	Two (2)	Seven (7)
2. Maximum number of Members	Fifty (50)	Unlimited
3. Minimum paid up capital	Rs. 1,00,000	Rs. 5,00,000
4. Identification	Must suffix 'private limited' to its name	must suffix 'public limited' to its name
5. Transfer of shares	It cannot transfer its shares freely	It can freely transfer or sell their shares to others.
6. Public issue of capital	It cannot secure capital from the public	It can secure capital from the public
7. Board of directors	Minimum : Two (2) Maximum : No limit	Minimum : Three (3) Maximum : Twenty (20)
8. Loans	Directors can borrow money	Directors cannot borrow money
9. Quorum	Minimum members required for a meeting is two (2)	Minimum members required for a meeting is five (5)
10. Eligibility shares	Directors need not hold eligibility shares	Directors must and should hold eligibility shares

## 6. Formation of a Company

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. **Promoter :** A promoter is a person who does the necessary preliminary work incidentally to the formation of a company.
2. **Capital Subscription :** A public company is allowed to raise their funds from the public by issuing shares and debentures.

### SHORT ANSWER TYPE QUESTIONS (5 MARKS)

1. **What are the functions of a promoter?**

Ans. A promoter is one who undertakes to form a company. The promoter takes lead for bringing men, money, material and machinery together for establishing an enterprise.

#### Features

- i. A promoter conceives an idea for the setting up of a business.
- ii. A promoter makes preliminary investigation and ensures the future prospects of business.
- iii. A promoter brings together various individuals who agree to associate with him and share the business responsibilities.
- iv. A promoter prepares various documents and gets the company incorporated.
- v. A promoter raises the required finances and gets the company going.
- vi. A promoter gets into an agreement to acquire and obtain assets for the company.

## 7. Commencement of Business

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. **Minimum Subscription :** The minimum amount of capital to be collected out of the total issue by a public company. 90% of the issued capital is considered as minimum subscription.

**SHORT ANSWER TYPE QUESTIONS (5 MARKS)**

1. Discuss the differences between memorandum of Association and articles of Association.

Ans :

<b>Aspects</b>	<b>Memorandum of Association</b>	<b>Articles of Association</b>
1. Scope	It is a constitution of the company. The company works within the framework given in the memorandum.	The articles contain by-laws for the day to day working of the company as set out in the MOA
2. Need	It must be prepared by all the companies and filed with the registrar.	Public companies may not have their own articles.
3. Relationship	It defines the relationship between the company and outside world	It defines the relation between the company and the members among themselves.
4. Alteration	It can not be changed easily	It can be altered easily by the special resolution of shareholders.
5. Provisions	It is subordinate only to the Act	It is subordinate to the memorandum and the companies Act.

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## Sources of Business Finance

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. What is Business Finance?**

Ans. The requirement of funds by business to ease out its various activities is called business finance.

**2. What is working capital?**

Ans. Funds for its day to day operations is known as working capital

**3. What is Debentures?**

Ans. A Debenture is a form of bond or long term loan which is issued by the company. The debenture typically carries a fixed rate of interest over the course of the loan.

**4. What are Retained earnings?**

Ans. A portion of the net earnings may be retained in the business for use in the future, known as retained earnings.

### SHORT ANSWER TYPE QUESTIONS (5 MARKS)

**1. Explain the advantages and disadvantages of equity source of finance?**

Ans. The important advantages of raising fund through issuing equity shares are given below:

**Advantages (Merits):**

1. Equity shares do not create any obligation to pay a fixed rate of dividend.
2. Equity shares can be issued without creating any charge over the assets of the company.
3. It is a permanent source of capital and the company need not repay it except under liquidation.
4. Equity shareholders are the real owners of the company, they have the voting rights.
5. In case of profits, equity shareholders are the real gainers by way increased dividends.

**Disadvantages (Limitations)**

1. Investors who want steady income may not prefer equity shares as they get fluctuating returns.

2. The cost of equity shares is generally more as compared to the cost of raising funds through other sources.
3. Issue of additional equity shares dilutes the voting power and earnings of existing equity share holders.
4. More legal formalities and procedural delays are involved while raising funds.

### LONG ANSWER TYPE QUESTIONS (10 MARKS)

**1. What is Business Finance? Explain its need and Significance in the business organizations?**

Ans. **Business Finance:** The requirements of funds by business to carry out its various activities is called business finance.

The Significance and need of business finance is explained below

1. **To meet fixed capital requirement of business:** To purchase fixed assets like land and buildings plant and machinery, furniture etc, business requires finance.
2. **To meet working capital requirements:** Working capital is used for holding current assets such as stock of material, payment of wages, transportation etc.
3. **For growth and expansion:** For growth and expansion activities, a business requires finance. It may be required to increase production, to install more machines, to set up a R & D centre etc.
4. **For diversification:** Entering into new business and new lines of activities is known as diversification, for this business finance is needed.
5. **For Survival :** To carry out the various business operations in continuity, business finance is needed. Without the required finance organization a business cannot survive for long.
6. **Liabilities:** To meet liabilities be it long term or short term, a business requires sufficient finance. e.g. for payment of loan in instalments, payment of interests.
7. **For payment of expenses:** For paying salaries, wages, taxes, advertisements and rent finance is needed.

**2. What are various factors that determine the selection of sources of finance?**

Ans: The following are the various factor determining the choice of sources of finance.

- (i) **Cost:** There are two types of cost viz, the cost of procurement of funds and cost of utilizing the funds. Both those costs should be taken into account while deciding about the source of funds.
- (ii) **Financial strength and stability of operations:** In the choice of source of funds for business should be in a sound financial position so as to be able to repay the principal amount and interest on the borrowed amount.

- (iii) **Forms of organisation and legal status:** The form of business organisation and status influences the choice of a source for raising money.
- (iv) **Purpose and time period:** Business should plan according to the time period for which the funds are required. A short term need can be met through trade credit, commercial paper etc. and the long term needs can be met through issue of shares and debentures.
- (v) **Risk-Profile:** Business should evaluate each of the source of finance in terms of the risk involved. For e.g. there is a least risk in issuing equity share capital. A loan on the other hand is a high risk.
- (vi) **Control:** A particular source of fund may affect the control and power of the owners on the management of a firm.
- (vii) **Effect on creditworthiness:** The dependence of business on certain sources may affect its credit worthiness in the market.
- (viii) **Flexibility and ease :** Another aspect affecting the choice of a source of finance is flexibility and ease of obtaining funds.
- (ix) **Tax benefits:** Various sources may also be weighed in terms of their tax benefits. For e.g. while the dividend on preference shares is not tax deductible.

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**MSME's and MNC's****VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)****1. What is a Service Enterprise?**

Ans. The enterprises which are involved in providing or rendering services are called as service enterprises.

**2. What is E-Business?**

Ans. Performance of business activities, such as designing products, managing supply-chain, operations, marketing and offering services to various stakeholders using electronic technologies.

**3. What is E-Banking?**

Ans. Performing all banking operations by using their mobile phones is known as E-Banking.

**4. What is E-Commerce?**

Ans. Buying and selling of goods or services through computer mediated networks.

**SHORT ANSWER TYPE QUESTIONS (5 MARKS)****1. Explain the problems faced by Indian MSME sector in detail.**

Ans. The various problems faced by Indian MSMEs under MSMED Act 2006 are discussed below:

1. **Lack of Credit from banks:** The loan providing process of the bank is very time consuming and proper adequate amount of loan is not provided to the MSMEs.
2. **Competition from multinational companies:** Multi National Corporations are providing quality goods at cheaper price and the Indian MSMEs are facing problem in competing with them.
3. **Poor infrastructure:** With poor infrastructure their production capacity is very low and production cost is high.
4. **Non-availability of raw material and other inputs:** The lack of availability of skilled labour and required raw material the MSMEs are unable to produce the products at reasonable prices.

5. **Lack of advanced technology:** Due to use of outdated technology in their operations they are unable to meet the expectations of the market demand.
6. **Lack of distribution of marketing channels:** Their advertisement and sales promotion strategies are comparatively weaker than the multinational companies leading in poor selling and low profits.
7. **Lack of training and skill development program:** The proprietors are not aware of the innovative methods of production. Various development programs are not reaching the needy.

**2. Discuss the privileges offered to MSMEs in India.**

Ans. MSMEs are enjoying specific privileges and advantages when compared to other enterprises.

1. **Exclusive Manufacturing of Certain products by MSMEs:** The reservation policy by MSMED Act 2006, reserves manufacturing of certain items in MSMEs.
2. **Space allocation:** To encourage the MSMEs, the Special Economic Zones(SEZs) are required to allocate 10% space for the small scale units.
3. **Timely payment for Goods and Services:** Under the MSMED Act, protection are offered in relation to timely payment for goods and services by buyers to MSMEs.
4. **Strong support and Encouragement from the Government:** The government has been offering packages of schemes and incentives through its specialized financial institutions in from of training, marketing, finance, etc.
5. **Interest for Delayed Payment by the Buyer:** If a buyer fails to make payment as required by the seller within the agreed time the interest payable is three times the bank rate.
6. **Reference of Disputes:** any dispute relating to amount payable for any goods or services and any interest thereon, any be referred by any party to the Micro and Small Enterprises Facilitation Council.

**3. What are the promotional Measures initiated for strengthening of MSMEs in India?**

Ans. The following are the measures of promotion:

1. Organizing programs to facilitate development of skills among the employees, management and entrepreneurs.
2. Provision of credit facilities to ensure timely and smooth flow of credit to such enterprises.
3. Preferential procurement by the government, its aided institutions and the public sector enterprises for the goods and services produced or provided by such enterprises.
4. Government grants to the notified fund or funds constituted to be utilized exclusively for the promotion and development of such enterprises.

**4. What are the four benefits of E-Business?**

Ans. The following are the benefits of E-Business:

1. **Convenient shopping:** E-Business enables customers to shop or do any transactions 24 hours a day, round the year from almost any location.
2. **Wider choices:** E-Business enables the customers to have more choices or more alternative products and services online.
3. **Cost savings to Organizations:** Reduces the cost of creating, processing, distributing, storing and retrieving information to the organizations.
4. **Environmental Benefits:** Since customers can put their required products/ services online with a click of button either from their place of work or home reducing traffic congestion, air and sound pollution.

\* \* \* \* \*

## Intruduction to Accounting

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. What is a Transaction?**

Ans. The economic, goods and services activities related to the exchange of value is called a transaction. These are two types: Cash transaction and credit transaction.

**2. What is Accounting Cycle?**

Ans. An Accounting circle is a complete sequence of accounting process that begins with the recording of business transactions Journal, ledger trial balance and financial statements. Such as trading account profit and loss account and Balance sheet.

**3. Define Accounting.**

Ans. “The Process of identifying measuring and communicating economic information to permist informed judgements and decisions by users of the information”.

**4. What is an account?**

Ans. An account is summary of relevant transaction at one place relating to a particular head it has three parts A) Title of Account B) Left side of the Debit C) Right side of the Credit.

**5. What is a Journal?**

Ans. The day to day transactions as per chronological order are recorded in the book called Journal. This is also called original entry book or book of primary entry.

**6. What is Ledger?**

Ans. A book called Ledger is kept to maintain all the accounts is Real Personal and Nominal accounts the collection of all accounts in book is called ledger.

### SHORT ANSWER TYPE QUESTIONS (5 MARKS)

**1. State any 5 (Five) advantages of Accounting?**

Ans. Advantages of Accounting

- 1. Permanent and Reliable Record:** Accounting Provides Permanent record for all business transactions and provides reliable information.
- 2. Net Result of Business operations:** Accounting provide the operational result of business for given period of time.

3. **Ascertainment of financial position:** The proprietor requires a full picture of the financial position to plan for the next year's business. Balance sheet provides the financial status of the business.
  4. **Helps Management:** Accounting helps Management on important Issues like ascertainment of cost and price fixation of goods and services.
  5. **Evidence:** Accounting records act as an approved evidence in legal matters.
- 2. Briefly explain any 5 Concepts of Accounting?**
- A.1. **Business entity concept:** As per this concept. Business organizations are treated as a separate entity which can be distinguished from the "Owners" or stakeholden who provide capital to the business.
  2. **Dual Aspect concept:** Dual aspect concept is the basis for double entry system of book-keeping. All business transactions recorded in accounts have two aspects: receiving benefit and giving benefit.
  3. **Going Concern concept:** As per this concept it is assumed that the organizations will continue for a long time unless it is closed as per the law to which it is subject. The financial statements we prepared at the end of each financial year.
  4. **Money Measurement concept:** In accounting all the trasations are recorded in terms of money.
  5. **Cost Concept:** As per this concept an asset is ordinarily recorded at the price actually paid or incurred to acure it is at its cost and this cost becomes the basis for all subsequent accounting treatment for the asset.
- 3. State the objectives of Accounting.**
- Ans. The main objectives of accounting are:
- |   |   |
|---|---|
| 1. To maintain accounting records       | 2. To find out the result of operations     |
| 3. To ascestain the financial position. | 4. To communicate the information to users. |
- 4. Explain Accounting Conventions?**
- A.1. **Convention of Disclosure:** Accounting statements should disclose full and completely all the significant information based on which, decisions can be taken by various interested parties.
  2. **Convention of Materiality:** The materiality principle require the discloure of the significant information exclusion of which would influence the decisions unimportant and insignificant information are either left out or merged with other items.
  3. **Convention of Consistency:** The convention of consistency facilitates comparison of finaicial performance of an entity from one accounting period to another wich is possible with the accounting principle follwed by an eality are consistently applied over the year an organisation should not change its method.

4. **Convention of Conservatism:** The essence of this principle is “anticipate no profit but provide for all possible losses” this means that all prospective losses are taken into considerations. However no doubtful income is taken into consideration in recording of transactions.

**5. State the rules of debit and credit with examples?**

Ans. (1) personal Accounts	Debit the Receiver
(Natural Artificial, Representative persons)	Credit the giver
(2) Real Accounts	Debit what comes in
(Assets)	Credit what goes out
(3) Nominal Accounts	Debit all expenses and losses
(Expenses Losses Incomes and gains)	Credit all incomes and gains

**Journal Entries**

**1. Journalise the following transactions**

2019	₹
March - 1 Chandra kiran started business with cash	20,000
March 2 Purchased Machinery	8,000
March 5 Sold furniture	6,000
March 6. Rent paid	2,000

Ans: Journal entries in the book of chandra kiran

Date	Particulars	LF	Debit Amount (₹)	Credit Amount (₹)
2019 March 1	Cash a/c Dr. To Capital a/c (Being business Commenced with cash)		20,000	20,000
March 2	Machinery a/c Dr. To Cash a/c (Being Machinery Purchased)		8,000	8,000
March 5	Cash a/c Dr. To Furniture a/c (Being furniture sold)		6,000	6,000
March 6	Rent a/c Dr. To Cash a/c (Being rent paid)		2,000	2,000

**2. Journalise the following transactions**

2020	₹
April - 1 Mani Teja started business with	50,000
April - 2 Cash Sales	10,000
April - 5 Sold Machinery	8,000
April - 10 Purchased furniture	5,000

**3. Journalise the following transactions**

2020	₹
September - 1 Nishitha Started business with	30,000
September - 5 Purchases goods for cash	15,000
September - 10 Salaries paid	5,000
September - 15 Interest Received	15,000

**4. Journalise the following transactions**

2019	₹
May - 1 Sarathsri Started business with	25,000
May - 6 Cash Sales	5,000
May - 15 Sold furniture	2,000
May - 20 Rent Paid	800

**Ledger Accounts****1. Prepare Nishitha account from the following**

2020	₹
March - 1 Amount due for Nishitha	10,000
March - 4 Goods sold to nishitha	13,000
March - 12 Goods returned by Nishitha	5,000
March - 16 Cash Received from Nishitha	4,000
March - 20 Received Cheque from Nishitha	3,000

Ans:

**Nishitha's Account**

Dr.

Cr.

Date	Particulars	LF	Amount	Date	Particulars	JF	Amount
2020				2020			
March 1	To Balance b/d		10,000	March-12	By Sales returns a/c		5,000
March 4	To Sales A/c		13,000	March-16	By Cash A/c		4,000
				March-25	By Bank A/c.		3,000
				March-31	By Balance c/d		11,000
			23,000				23,000
Apr-1	To Balance b/d		11,000				

**2. Prepare Mani Tej's account from the following**

2020	₹
May - 2 Amount due to Mani Tej	10,000
May - 9 Goods Purchased from Mani Tej	14,000
May - 16 Goods returned by Mani Tej	3,000
May - 21 Cash paid to Mani Tej	12,000
May - 25 Goods Purchased from Mani Tej	7,000
	[Ans: 16,000]

**3. Prepare Chandra Kiran's Account from the following**

2018	₹
April - 7 Balance due from Chandra Kiran	3,500
April - 7 Sold goods to Chandra Kiran	1,500
April - 10 Purchased goods from Chandra Kiran	1,000
April - 15 Paid cash to Chandra Kiran	800
April - 23 Received cash from Chandra Kiran	500
April - 25 Returned goods to Chandra Kiran	200
	[Ans: 4,500]

**4. Prepare Sony Account from the following**

2021	₹
March - 1 Goods Purchased from Sony	40,000
March - 4 Cash Paid to sony	7,000
March - 12 Goods returned to sony	2,500
March - 18 Paid to sony by cheque	9,800
March - 21 Discount allowed by Sony	500
March - 25 Goods purchased from sony for cash	1,500
March - 28 Furniture purchased from sony	6,000
	[Ans: 26,200]

\* \* \* \* \*

## Subsidiary Books

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. What is Cash Discount?**

Ans. It is offered by the creditor to his debtor for prompt payment. It is recorded in the cash book.

**2. What is Trade Discount?**

Ans. It is offered by the seller to the buyer on the catalogue price of the product.

**3. What is Debit Note?**

Ans. Debit note is a statement sent by the purchaser to the seller giving particulars of the goods returned and reasons for returning them.

**4. What is Credit Note?**

Ans. It is a document prepared and sent to the customer to inform that his account is credited with the amount of goods returned by him.

### SHORT ANSWER TYPE QUESTIONS (5 MARKS)

**1. Explain the various types of subsidiary boosk.**

A: Subsidiary books are classified into 8 types.

- |                     |                          |
|---------------------|--------------------------|
| 1. Purchase book    | 2. Purchase returns book |
| 3. Sales book       | 4. Sales returns book    |
| 5. Cash book        | 6. Journal proper        |
| 7. Bills receivable | 8. Bills payable         |

\*\*\*\*\*

## CashBook and Bank Reconciliation Statement

### BANK RECONCILIATION STATEMENT

#### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. Cash Discount**

Ans. The creditor to his debtor for prompt payment or making early payment.

**2. Contra entry**

Ans: Transactions involving both bank and cash will be entered on the both sides of the trile column cash book are called contra entries.

**3. What do you mean by Bank Reconciliation Statement?**

Ans. Bank Reconciliation Statement isa statemetn prepared to reconcile the differences between the balances as per the bank column of the cash book and pass book on any given date.

**4. What is an overdraft?**

Ans. When a businessman withdraws excess amount from the bank account under this situation, the pass book shows a debit balance. This balance is called “Overdraft Balance” as per pass book.

#### LONG ANSWER TYPE QUESTIONS (10 MARKS)

**1. Describe the causes of disagreement between the balance shown in the cash book and pass book.**

Ans: **Reasons for differences**

**I.** Items entered in the bank columns of the cash book, but not in the bank statement.

- (a) **Cheques not credited by the bank:** Cheques received by the firm debited in the cash book, but not sent to bank. This will appear only on the debit side of the cash book.
- (b) **Cheques not presented to the bank:** Cheques drawn by the firm and which have not yet been presented to the bank for payment. This appears only on the credit side of the cash book.

**II.** Items entered in the bank pass book, but not in the cash book

- (a) **Direct transfer:** Payments made by some of the business customers directly to the bank. This appears only on the credit side of the bank statement.
- (b) **Bank charges:** Charges paid by the business for using some of the bank services. This will appear on the debit side of the bank statement.

**III.** Difference caused by Errors

- (a) **Errors committed in recording transactions by the Bank:** Sometimes, bank may also commit errors. Eg: omission or wrong recording of transactions relating to cheques deposited etc.

**2. Prepare a bank Reconciliation Statement of M/s. Vagdevi & Co. from the following Particulars**

- 1) Balance as per cash book ₹ 20,000
- 2) cheques issued to Uma but not presented for payment ₹ 1,000
- 3) Cheques deposited into bank but not collected ₹ 3,000
- 4) Bank charges debited in the pass book only ₹ 100
- 5) Interest on investments credited by bank ₹ 1,500

Ans. Bank reconciliation statement of M/s. Vagdevi & Co.

As on .....

Particulars	Amount ₹	Amount ₹
Balance as per cash book		20,000
Add:-		
1. Cheques issued to uma not yest presented in bank	1,000	
2. Interest on investments credited by bank	1,500	2,500
Less :		22,500
1. Cheques deposited not cleared	3,000	
2. Bank charges debited	100	3,100
Balance as per pass book		19,400

**3. Prepare a Bank Reconciliation Statement of M/s. Gayatri as on 31-03-2021**

- a) Balance as per cash book ₹ 15,000
- b) Cheques deposited into bank but not cleared or collected ₹ 1,200
- c) Cheques issued to Sridevi but not presented for payment ₹ 1,800
- d) Interest on deposits credited by bank ₹ 250
- e) Bank debited its charges ₹ 50

(Ans: Balance as per pass book ₹ 16,800)

**3. Prepare Bank Reconciliation Statement of M/s. Rishik & Co.**

- Balance as per Cash book ₹ 8,000
- Cheques issued to Manju but not presented for payment ₹ 600
- Cheques deposited into bank but not cleared ₹ 1,500
- Bank charges debited in pas book only ₹ 100.
- Interest on investments credited in pass book ₹ 200

(Ans: Balance sa per pass book ₹ 7,200)

**FAVOURABLE BALANCE AS PER BOOK****1. Prepare a bank Reconciliation Statement of Mr. Sanved as on 31-3-2020**

- Balance as per pass book ₹ 35,000
- Cheques of ₹ 1,000 & ₹ 2,000 issued to to Greeshma well net presented for payment.
- A cheque of ₹ 1,500 sent to bank for collection was not entered in the pass book.
- Bank allowed interest of ₹ 100 and charged ₹ 250 as bank commission in pass book only.

Ans. Bank reconciliation statement of M/s. Sanved as on 31.3.2020

Particulars	Amount ₹	Amount ₹
Balance as per cash book		35,000
Add:-		
a. Cheque sent to bank for collection not entered in the pass book	1,500	
b. Bank commission debited int he pass book	1,500	1,750
Less :		36,750
a. Cheques issued to Greeshma not presented fro payment (1,000+2,000)	3,000	
b. Interest Credited by bank	100	3,100
Balance as per pass book		33,650

**2. Prepare a Bank Reconciliation Statement of Mr. Vedanth as on 31-03-2021**

- Balance as per pass book ₹ 42,000
- Cheques of ₹ 5,000 issued to arush were not presented for payment.
- Cheques of ₹ 3,500 sent to bank for collection was not entred in the pass book.
- Bank allowed interest of ₹ 200 and charged ₹ 300 as bank commission in pass book only.

(Hint: Balance as per each book ₹ 40,600)

**3. Prepare Bank Reconciliation Statement of M/s. Aneesh as on 31-3-2019.**

- Balance as per Pass book ₹ 15,000
- Two cheques of ₹ 4,000 & ₹ 800 issued to Jaya on 25.3.2019 were presented for payment on 2-4-2019
- Cheques of ₹ 6,000 sent to bank for collection was not entered in the pass book.
- Bank allowed interest of ₹ 150 and charged ₹ 100 as bank commission in pass book only.

[Hint: a) Bank Balance as per cash book ₹ 16,150 b) cheques issued on 25.3.2019 and presented on 2.4.2019 must be added)

**CASH BOOK****1. From the following transactions prepare a simple cash book on January 1 2021**

	₹
2021	
January 1 Sai Commenced business with cash	20,000
January 2 Cash sales	6,000
January 3 Purchases	3,000
January 4 Received cash from vijay	10,000
January 10 Purchased Stationery	10,000
January 12 Received Commission	1,000
January 18 Paid Salaries	3,000
January 31 Paid Rent	2,000

**Simple (Single Column Cash Book)**

Dr.				Cr.			
Date	Particulars	LF No.	Amount ₹	Date	Particulare	LF No	Amount ₹
2021				2021			
Jan 1	To Cpaital A/c		20,000	Jan 3	By Purchase A/c		3,000
jan 2	To Sale A/c		6,000	Jan 10	By Stationery A/c		10,000
Jan 4	To Vijay A/c		10,000	Jan 18	By Salaries A/c		3,000
Jan 12	To Commission A/c		1,000	Jan 31	By Rent A/c		2,000
				Jan 31	By Balance c/d		19,000
			37,000				37,000
Feb 1	To Balance b/d		19,000				

**SIMPLE CASH (BOOK PRACTICE PROBLEMS)****1. Prepare simple column cash book from the following transaction**

2021		₹
March 1	Srinu Commenced Business with Cash	50,000
March 2	Cash Sales	10,000
March 3	Cash Purchases	5,000
March 5	Received Cash from Venkat	20,000
March 6	Purchased Computer	20,000
March 10	Paid Salaries	5,000
March 20	Received Rent	10,000
March 28	Received Commission	5,000

**2. Prepare simple column cash book from the following transaction**

2021		₹
June 1	Commencement of Business with cash	30,000
June 3	Cash sales	30,000
June 5	Cash Purchase	20,000
June 10	Received Cash from Teja	10,000
June 15	Purchased Stationery	5,000
June 20	Received Rent	1,000
June 25	Paid Salaries	10,000
June 30	Paid Repair	5,000

**Three Column Cash Book****1. Prepare three column cash book from the following transaction**

2021		₹
March 1	Cash in hand	5,000
	Cash at bank	10,000
March 5	Cash Sales	10,000
March 6	Cash deposited into bank	5,000
March 8	Paid of Ritwik 2,500 discount received cash	500
March 10	Received Commission	1,000
March 18	Received cash from Vijay	5,500
March 20	Withdrawn cash from bank for office use	2,000
March 25	paid salaries	1,000
March 31	Paid Telephone bill	500

## Three Column cash Book

Dr.						Cr.					
Date	Particulars	LE No.	Cash ₹	Bank ₹	Dis. allowed	Date	Particulars	LE No.	Cash ₹	Bank ₹	Dis. allowed
2021						2021					
March						March					
" 1	To balance b/d		5000	10000		" 6	By Bank A/c	(C)	5000		
" 5	To Sales A/c		10000			" 8	By Ritwik A/c		2500		500
" 6	To Cash A/c	(C)		5000		" 20	By Cash A/c	(C)		3000	
" 10	To Commssion A/c		1000			" 25	By Salaries A/c		1000		
" 18	To Vijay A/c		5500		100	" 31	By Telephone Bill A/c		500		
" 20	To bank A/c	(C)	3000			" 31	By Balance c/d		15500	12000	
			24500	15000	100				24500	15000	500
April											
1	To Blance b/d		15500	12000							

## THREE CLOUMN CASH BOOK PRACTICE PROBLEMS

## 1. Prepare three cloumn cash book from the following transaction

2021		₹
January 1	Cash in hand	10,000
January 3	Cash at bank	20,000
January 4	Cash purchase	3,000
January 9	Depsoited cash into bank	2,000
January 10	Received cash from Dinesh	2,000
	Discount allowed	200
January 18	Purchased stationery	1,000
January 20	Cash paid to Nani	2,000
	Discount received	500
January 25	Cash with drawn from bank for office use	1,000
January 28	Paid Rent	500
January 31	Received interest	200

**2. Prepare three column cash book from the following transaction**

2021		₹
March 1	Cash in hand	5,000
	Cash at bank	10,000
March 5	Purchases	1,000
March 8	Sales	3,000
March 10	Deposited cash into bank	1,000
March 12	Purchased stationery	500
March 18	Received cash from Rajesh	10,000
	Discount allowed	1,000
March 21	Cash withdrawn from bank for office use	5,000
March 28	paid salaries through cheque	1,000
March 29	Received Rent	1,000
March 31	Paid Interest	100

\* \* \* \* \*

## Trial Balance and Rectification of Errors

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

#### 1. Trial Balance

Ans. Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books.

### VERY SHORT ANSWER TYPE QUESTIONS (5 MARKS)

#### 1. What are the errors disclosed by Trial balance?

Ans. The errors which are revealed by the trial balance are known as errors disclosed by trial balance.

- i. **Error of posting of transaction to the wrong side of an account** :Example, discount allowed posted to the credit side of discount account.
- ii. **Error of posting of wrong amount** : Example, purchases of Rs. 10,000 posted as Rs. 1000 to purchase account.
- iii. **Errors in totalling** : Wrong totalling made either in subsidiary books or in ledgers affects the agreement of trial balance.
- iv. **Errors of carrying forward** : If a mistake is committed in carrying forward a total of one page to the next page.  
Ex : Sales book total is carried forward Rs. 2000 instead of Rs. 200.
- v. **Error of partial omission** : Some times accountant may post only one aspect of the entry to the ledger account.
- vi. **Error of double posting** : An account may be recorded twice in the journal. Ex : wages paid Rs. 500 debited twice to wages account.

**2. What are the errors not disclosed by Trial balance?**

Ans. This type of errors cannot be traced out in the preparation of trial balance.

- i. Error of Principle :** Transactions are recorded by violating the accounting principles are known as errors of principle. Ex : Machinery purchased, debited to purchases account.
- ii. Errors of Omission :** When a transaction is completely or partly omitted from the books of accounts such error is known as error of omission. Ex : One transaction is completely not recorded in the journal.
- iii. Error of Commission :** This error arises due to wrong recording, wrong posting, wrong casting, wrong balancing, wrong carrying forward etc.
- iv. Compensating Errors :** Committing an error to compensate the previous or another error is known as compensating error. Two or more errors are committed and one error nullifies another error, the net effect is unchanged.
- v. Error of Posting to Wrong Head of Account :** Instead of recording in one account, recording in another account is known as error of posting to wrong head of account. Ex : Paid to Rajesh Rs. 2000 is debited to Naresh account.

\* \* \* \* \*

## Final Accounts

### VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

**1. What is interest on Capital?**

Ans. It is the amount of the Interest Payable on owner's capital by the business organisation. The interest on capital is an expenditure is debited to the Profit and Loss account.

**2. What is interest on Drawings?**

Ans. Interest should be calculated at a given rate on the drawings amount. The interest on drawings is an income. It is credited to profit and loss account.

**3. Given the meaning of Bad debts?**

Ans. When goods are sold on credit basis, some of the customers may not be pay the amount. The debts which are not collected and recoverable are known as Bad debts.

**4. What is Accrued Income?**

Ans. The Income which is earned but not received during the accounting year is called accrued Income.

**5. What is the meaning of adjustment?**

Ans. An addition or subtraction of the amounts from the relevant items in trading, profit and loss account and balance sheet is called as Adjustment.

**6. What is 'Depreciation'?**

Ans: Decrease in the value of the asset is called 'Depreciation'.

**ESSAY ANSWER TYPE QUESTIONS (20 MARKS)**

1. From the following trial Balance, Prepare Rishi Traders final accounts for the year ended 31-03-2018.

**Trial Balance**

<b>Debit Balance</b>	<b>Amount ₹</b>	<b>Credit Balances</b>	<b>Amount ₹</b>
Opening Stock	5,000	Capital	22,000
Purchases	4,700	Creditors	3,000
Wages	800	Bills Payable	5,400
Carriage	500	Discount	2,400
Rent	1,000	Sales	9,000
Salaries	1,200	Overdraft	2,000
Discount	400		
Advertisement expenses	800		
Customs Duty	600		
Factory Insurance	300		
Machinery	12,000		
Debtors	6,000		
Furniture	9,000		
Speed Post Charges	700		
Bad Debts	800		
	<u>43,800</u>		<u>43,800</u>

**Adjustments**

- Value of Closing Stock : ₹ 5400
- Prepaid wages : ₹ 300
- Outstanding Rent : ₹ 400
- Depreciation on Machinery 5%, Depreciation on Furniture : 10%

**Solution:**

Trading Account of Rishi Trader's for the year ended 31-03-2018.

Dr		Cr	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	5,000	By Sales	9,000
To Purchased	4,700	By Closing Stock	5,400
To Wages                      800			
(-) Prepaid Wages            300	500		
To Carriage	500		
To Customs duty	600		
To Factory Insurance	300		
To Gross Profit	2,800		
	14,400		14,400

Profit and loss account of Rishi Trader's for the year ended 31-03-2018.

Dr		Cr	
Particulars	Amount ₹	Particulars	Amount ₹
To Salaries	1,200	By Gross Profit	2,800
To Rent                      1000		By Discount	2,400
(+) Outstanding Rent        400	1,400		
To Discount	400	By Net Loss	1,600
To Advertisement expenses	800	(transferred to capital a/c)	
To Speed Post Charges	700		
To Depreciation on Furniture	900		
To Bad Debts	800		
	6,800		6,800

## Balance Sheet of Rishi trader's as on 31-3-2018

Liabilities		Amount	Assets		Amount
		₹			₹
Capital	22,000		Machinery	12,000	
(-) Net loss	1600	20,400	(-) Depreciation	600	11,400
Creditors		3,000	Furniture	9,000	
Bills Payable		5,400	(-) Depreciation	900	8,100
Overdraft		2,000	Debtors		6,000
Outstanding Rent		400	Closing Stock		5400
			Prepaid wages		300
		31,200			31,200

## Practice Problems

1. From the following Trial Balance, Prepare Final accounts of Sanvi Trader's for the year ended 31-03-2019.

Debit Balance	Amount	Credit Balances	Amount
	₹		₹
Cash	3,000	Bank Overdrft	1,000
Purchase	5,000	Sales	9,000
Wages	1,000	Purchase Returs	500
Openng Stock	2,500	Capital	15,000
Salaries	1000	Commission Received	1,200
Insurance	900	Creditors	1,000
Corriage on Purchases	500		
Funiture	2,000		
Sales Returns	600		
Rent	800		
Machinery	5,000		
Debtors	4,000		
Discount	400		
Bills Receivable	1,000		
	27,700		27,700

**Adjustments**

- (1) Closing Stock : ₹ 4,500 (2) Out standing Salaries ₹ 500  
 (3) Prepaid Insurance ₹ 400, (4) Depreciation on machinery : 10%

2. From the following Trial Balance, Prepare Final accounts of Ravi Trader's for the year ended 31-03-2018.

**Trial Balance**

Debit Balances	Amount ₹	Credit Balances	Amount ₹
Opening Stock	1,000	Sales	20,000
Cash in hand	6,000	Returns	800
Cash at Bank	1,500	Capital	40,000
Purchases	11,000	Creditors	4,250
Wages	3,000	Discount	800
Returns	1,000		
Carriage Inwards	1,000		
Carriage Outwards	500		
Investments	10,000		
Patents	7,000		
Salaries	1,300		
Legal Expenses	600		
Insurance	800		
Drawings	1000		
Debtors	12,000		
Discount	750		
Printing of Stationery	1,400		
Machinery	6,000		
	<b>65,850</b>		<b>65,800</b>

**Adjustments**

- (1) Closing Stock : ₹ 2,100 (2) Out standing Stationery ₹ 600  
 (3) Depreciation on machinery : 10% (4) Prepaid wages ₹ 500

**Example Problem -2:**

From the following Trial Balance Saritha Trader's Prepare Final Accounts for the year ended 31-03-2018.

**Trial Balance**

<b>Debit Balances</b>	<b>Amount ₹</b>	<b>Credit Balances</b>	<b>Amount ₹</b>
Purchases	20,000	Sales	52,000
Salaries	5,000	Creditors	18,500
Wages	7,800	Capital	30,000
Buildings	24,000	Interest Received	2,000
Carriage on Purchases	400	Bills payable	5200
Gas, Coal & Water	200	Bank Overdraft	5500
Office expenses	600	Outstanding Rent	800
Commission	300		
Debtors	25,000		
Opening Stock	6,000		
Machinery	12,000		
Insurance	400		
Bank Balance	4,000		
Bills Receivable	2,000		
Cash	1,300		
Furniture	5,000		
	<b>1,14,000</b>		<b>1,14,000</b>

**Adjustments**

- (1) Closing Stock : ₹ 9,000
- (2) Out standing Stationery ₹ 1000
- (3) Prepaid Insurance ₹ 100
- (4) Create 5% provision for bad Debts.
- (5) Depreciation on Furniture: ₹ 200

**Solution:**

Trading and Profit & Loss Account of Saritha Trader's for the year ended 31-03-2018.

Dr		Cr	
Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	6,000	By Sales	52,000
To Purchases	20,000	By Closing Stock	9,000
To Wages	7,800		
To Carriage on Purchases	400		
To Gas, Coal & Water	200		
To Gross Profit	26,600		
	61,000		61,000
To Provision for Bad dedts	1250	By Gross Profit	26,600
To Salaries                      5,000		By Interest Received	2,000
(+) Outstanding Salaries      1000	6,000		
To Office expences	600		
To Commission	300		
To Depreciation on Furunture	200		
To Insurance                      400			
(-) Perpaid Insurance            100	300		
To Net profit	19,950		
	28,600		28,600

## Balance Sheet of Saritha Traders as on 31-03-2018.

Liabilities		Amount	Assets		Amount
		₹			₹
Capital	30,000		Buildings		24,000
(+) Net Profit	19,950	49,950	Debtors	25,000	
Creditors		18,500	(-)5% provision		
Bills Payable		5200	for Bad debts	1250	23,750
Bank Over draft		5,500	Machinery		12,000
Outstanding Rent		800	Bank Balance		4,000
Outstanding Salaries		1000	Bills Recaiable		2,000
			Cash		1,300
			Furntiture	5000	
			(-) Depresiating	200	4,800
			Closing Stock		9,000
			Prepaid Insurance		100
		80,950			80,950

**Practice Problem :**

From the following Particulars, Prepare Final Accounts of Hari Trader's for the year ended 31-03-2018.

**Trial Balance**

<b>Debit Balances</b>	<b>Amount ₹</b>	<b>Credit Balances</b>	<b>Amount ₹</b>
Stock on 1-4-2017	2,000	Capital	60,000
Plant & Machinery	14,000	Sales	30,000
Wages	1,200	Discount	1,200
Returns	500	Creditors	4,200
Land & Buildings	30,000	Return Outwards	500
Purchases	15,000	Interest	1,500
Bills Receivable	9,300	Overdraft	6,000
Debtors	15,000	Commission	1,200
Cash at Bank	10,000	Bills Payable	5,000
Rent	2,500		
Legal Expenses	1,200		
Insurance	600		
Salaries	1,500		
Furniture	5,000		
Gas & Water	400		
Carriage	600		
Freight	800		
	<b>1,09,600</b>		<b>1,09,600</b>

**Adjustments**

- (1) Closing Stock on 31-3-2018 : ₹ 5,600
- (2) Out standing Wages: ₹ 700
- (3) Prepaid Insurance: ₹ 200
- (4) Provide Depreciation on Furniture 10%
- (5) Write off 1500 as Bad Debts.

**Practice Problem :**

**Prepare Final Accounts from the Trial Balance of Brundavan Trader's for the year ended 31-03-2018.**

**Trial Balance**

<b>Debit Balances</b>	<b>Amount</b> ₹	<b>Credit Balances</b>	<b>Amount</b> ₹
Salaries	6,000	Sales	47,000
Purchases	22,000	Creditors	10,000
Wages	7,800	Capital	25,000
Carriage on purchases	400	Bills Payable	5,800
Office expenses	500		
Commission	600		
Debtors	30,000		
Furniture	3,000		
Machinery	10,000		
Insurance	400		
Bank Balance	4,000		
Bills Receivable	2,000		
Cash	1,100		
	<b>87,800</b>		<b>87,800</b>

**Adjustments**

- (1) Out standing Wages: ₹ 2000
- (2) Out standing salaries: ₹ 1000
- (3) Create 5% Reserve for Bad debts on Debtors
- (4) Depreciation on Furniture ₹ 150 and on Machinery ₹ 500
- (5) Closing Stock: ₹ 11,000

\* \* \* \* \*