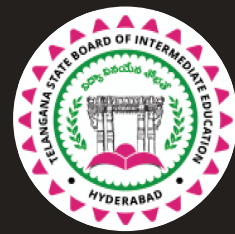


Telangana State Board of
INTERMEDIATE Education
FIRST YEAR



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 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.

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 employee-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 funsion of exporting them to another country is called enbepot trade.

7. Extractive Industry

An. An industry concerned with extraction or drawing out goods from the soil air or water is known as extractive industry.

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 basis.
5. Profit motive: The primary objective of business 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. Participative Management

National Objectives

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

3. What is meant by Industry? Explain various types of Industries with suitable examples.

Ans: Industry is that branch of business which is concerned with production of goods and services. The production side of business activity is referred as industry.

Various types of Industries

1. Primary Industry : primary Industry is concerned with production of goods by undertaking all types of farming and associated occupations basically related with nature. Eg: Agriculture farming.
2. Genetic Industry : Genetic industries are those industries which are engaged in re-production and multiplication of certain species of plants and animals. eg: poultry, cattle breeding.
3. Extractive Industry: Extractive industry is concerned with extraction or drawing out goods from the soil air or water eg: coal, oil.
4. Manufacturing Industry: Transforming raw materials into finished product with the help of machines and manpower. Eg: Textiles chemicals.
5. Construction Industry: Construction industries take up the work of construction of building dams etc.

4. What is commerce? Describe its branches.

Ans: "Commerce is an organized system for the exchange of goods between the member 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 boundaries of the nation. Home trade is of two types (1) wholesale trade (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

5. 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 facilitates to store the goods until they either get the demand or consumed by storing goods warehouse creates 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 manufactures.

Forms of Business Organizations

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. 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.

2. Cooperative Societies

Ans. Cooperative society as “a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles.”

3. Karta

Ans. The head of the family member of joint Hindu family business. he is known as karta”

4. Partnership Deed

Ans. Partnership deed is a document containing the terms and conditions of partnership, certain rights, duties and obligations of partner.

5. 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 a working partner.

6. 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 starts 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 starts the business by bringing together all the resources. He/she only looks after the business affairs.
3. Less legal formalities: The formation and operation involves less legal formalities. Thus the formation and winding up 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, becomes insolvent or is removed from the business.
6. Motivation: The sole proprietor enjoys all the profits and at the same time he bears all the losses. This helps 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 Separate Entity : The sole proprietorship business does not have an entity separate from the owner, proprietor and the business 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 proprietor has limited resources and managerial abilities, he/she has usefully limited areas of operations.

2. What are the features of Joint Hindu Family Business?

Ans: Introduction: A business, which continues from one generation to another generation, is known as joint Hindu family business “ The head of the family is the head of the business. He is known as ‘Karta’ and the members are known as “Co-parceners”.

Features of Joint Hindu Family Business

1. Formation: In Joint Hindu family business there must be at least two members in the family, having some ancestral property. It is not created by an agreement but created and continued by birth.
2. Governed by Hindu Law: The JHF business is a jointly owned business. The management and control of the JHF business is done according to Hindu succession Act, 1956.
3. Membership: The membership of the family can be acquired only by birth. Unlike other

business outsiders are not allowed to become the coparceners in the JFH business.

4. Management: The business is managed by the senior most member of the family known as 'karta' or manager. Other members do not have the right to practice in the management.
5. Profit sharing: The joint Hindu family business is jointly owned by all the members.
6. Liability: All the member in a joint Hindu family have limited liability to the extent of property. But the liability of the Karta is unlimited.
7. Continuity: Death of any coparceners does not affect the continuity of business. Even on the death of the karta it continues to exist as the eldest of the coparceners takes position of karta.
8. Accounts: The accounts are maintained by Karta (But this is not obligatory on his part. Karta is not accountable to any member and no member is supposed to ask what are the profits and losses of the business.

3. What is partnership Deed ? Explain its contents in detail?

Ans: Introduction: partnership deed is a document containing the terms and conditions of a partnership. It is an agreement in writing signed by all the partners duly stamped and registered, this defines rights, duties and obligations of partners.

The following points are generally included in the deed.

1. Name of the firm
2. Nature of the Business
3. Name and address of partners
4. Location of business
5. Duration of partnership, if decided.
6. Amount of capital to be contributed by each partner.
7. Profit and loss sharing ratio.
8. Duties, powers and obligations of partners.
9. Salaries and withdrawals of the partners.
10. Preparation of accounts and their audit.
11. Procedure for dissolution of the firm.
12. Procedure for settlement of disputes.

4. 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 contributes 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 doesnot 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 Co-operative Society Explain its features?

Ans. **Introduction :** The term cooperation is defined from the latin word ‘Co-operari’. The word “Co” means with and operari means ‘to work’. Thus the term cooperation means working together’.

Definition: The Indian Cooperative societies Act 1912, Section (4): Cooperative society as “a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles”.

Features of Cooperative Societies

- 1) Voluntary Association: Every one is at liberty to enter or leave the cooperative society as and when he/she likes voluntary associations started with an aim of service to its members.
- 2) Open membership: The membership is open to all any person can volunteraly become a member irrespective of his / her caste, creed, religion, colour, sex etc.

- 3) **Number of Members:** A minimum of 10 ordinary persons are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state.
- 4) **Registration of the Society:** In India, Cooperative societies are registered under the cooperative societies Act, 1912 or under the state cooperative societies Act. The multi-state cooperative societies are registered under the multi state cooperative societies act 2002.
- 5) **State control:** The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.
- 6) **Capital:** The Capital is contributed by its members since the members contribution is very limited, often depends on the loan from governments and apex cooperative institution grants and assistance from state and central Government.
- 7) **Democratic Management:** Every Member has a right to take part in the management of the society, the members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by member.
- 8) **Service Motive:** The Primary objective of all the cooperative societies is to render service of its members, not to earn profits other forms of business organisations.
- 9) **One man one vote:** Every member has one vote irrespective of his/her contribution towards the capital. All the members have equal voice in the management of the society.
- 10) **Distribution of Surplus:** After giving limited dividend to the members for their investment, surplus profit is distributed in the form of bonus, certain percentage as reserve and for general welfare of the society.
- 11) **Return on Investment:** Before distribution of surplus in the form of bonus, the members are entitled to get return on their capital investment in the form of dividend.
- 12) **Cash Trading:** One of the important principles of cooperative societies is trading on cash basis only. This eliminates bad debts and collection expenses.

2. 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 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. Burden 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 their 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 because time consuming.

Formation of Company as per Companies Act 2013

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'.

VERY SHORT 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, returement 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	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 in 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. **Professional Promoter :** These are the promoters specialized in promotion. It is their whole time occupation.
3. **Capital Subscription :** A public company is allowed to raise their funds from the public by issuing shares and debentures.

VERY 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 take 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 raiser 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.

VERY SHORT ANSWER TYPE QUESTIONS (10 MARKS)

1. **What is memorandum of Association? Explain its clauses?**

Ans. The memorandum of Association is the constitution of the company. It defines the limitations and powers of the company. The contents of memorandum of Association known as clauses, which are as follows ;

Clauses

- i. Name Clause Section 4(1) (a) :** A company being a separate legal entity must have a name. A company may select any name which does not resemble the name of any other company, king, queen and name of the government bodies. The word “Limited” must be used at the end of the name of a public company and “Private Limited” used by a private company.
- ii. Registered office or Situation Clause Section 4(1) (b) :** This clause states the place and address of the registered office of the company. If the place is not decided at the time of incorporation, it can be intimated to the registrar within 30 days from the date of incorporation.
- iii. Objects Clause Section 4(1) (c) :** This clause defines the sphere of activities and the powers of the company. It sets out the objects for which a company is formed.
- iv. Liability Clause Section 4(1) (d) :** This clause contains the nature of liability of its members. It states that the liability of the members is limited to the value of shares held by them.
- v. Capital Clause Section 4(1) (e) :** This clause contains the capital structure of the company. The division of capital into equity shares, preference shares and the number of shares in each category and their value should be given.
- vi. Association Clause or Subscription Clause Section 13 (4) (c) :** This clause contains the names of the signatories to the memorandum of Association. The full addresses and occupations of subscribers and witnesses are also given.

VERY SHORT ANSWER TYPE QUESTIONS (5 MARKS)**1. What is prospectus? Explain the contents of prospectus.**

Ans. Prospectus is an invitation to the public to subscribe to the shares and debentures of a public company. The following are the contents of prospectus as per the Companies Act, 2013.

- i) Name and full address of the company.
- ii) The particulars of the signatories to the memorandum of association and the number of shares taken up by them.
- iii) Name addresses and occupations of members of the board of directors
- iv) The minimum subscription amount fixed by the promoters.
- v) The details of property acquired if any.
- vi) The capital structure of the company and particulars of issue.

- vii) Particulars about reserves and surpluses.
- viii) The amount of preliminary expenses.
- ix) The name and address of auditor.
- x) 'Disclosure of investors' grievances and redressal system.

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

Ans :

Aspects	Memorandum of Association	Articles of Association
1. Scope	It is a constitution of the company. The company works within the framework given in the memorandum.	The articles contain bye - 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.

Sources of Business Finance

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is Business Finance?

Ans. The requirement of funds by business to carry 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. Who 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, 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 needed business finance.
5. For Survival : To carry out the various business operations in continuity, business finance is needed. Without the required finance organization cannot survive for long.
6. Liabilities: To meet liabilities business, be it long term or short, a business requires sufficient finance. e.g. for payment of loan in statements, creations.
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 factors 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 a source of funds for business should be in a source financial position so as to be able to repay the principal amount and interest on the borrowed amount.
- (iii) Form 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. For long term 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 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.

2. Differentiate between the equity shares and preference shares?

Ans:

Equity Shares	Preference shares
1. Issue of these shares is compulsory	1. Issue of these shares is not compulsory
2. Dividend is paid after paying dividends on preference shares	2. Dividend is paid before paying dividends on equity shares.
3. Rate of dividend is not fixed and it is recommended by the board of directors of the company.	3. Rate of dividend is fixed and pre-communicated.
4. In case of winding up, capital is refunded after the payment of preference share capital.	4. In case of winding up capital is repaid before the payment of equity share capital.
5. Equity shareholders are the real owners of the company who have the voting rights.	5. Do not have any voting rights.
6. It is high risky as compared to preference shares	6. It is less risky as compared to equity shares.
7. Scope for speculation	7. No scope for speculation.

3. Differentiate between share and a debenture?

Ans:

Shares	Defentures
1. A share is a Part of owned capital	1. A debenture is an acknowledge of debt.
2. Share holders are paid dividend on shares hold by them	2. Debenture holders are paid interest on debentures
3. The Rate of dividend depends upon the amount of divisible profiles and the policy of he Board of directors	3. A fixed rate of interest is paid on debentures irrspectire of profits or loss.
4. Share holders have voting rights. They have control over the management of the compnay	4. Debenture holders are only creditors of the company.
5. Shares are not redeemable (with the exception of redeemable preference shares) during the life of the company.	5. Debentures are redeemed after certain period.
6. At the time of liquidation of the company, share profit is payable after meeting all outside liabilities	6. Debentures are payable in priority over share capital

MSME's and MNC's**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 Globalization?

Ans. Globalization refers to the increasing integration of markets and production to include the mobility of capital, labour, organization and knowledge.

3. What is Foreign Direct Investment(FDI)?

Ans. FDI is an investment made by a firm or individual in one country into business located in another country.

4. What are Multi National Corporations?

Ans. A corporate business enterprise having extended its productive activity in many nations beside its home country.

5. 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.

6. What is E-Banking?

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

7. What is E-Commerce?

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

VERY 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 refereed 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. State the advantages of MNCs.

Ans. The following are the various advantages of MNCs:

1. Economic Development: MNCs can provide the required financial, technical and other resources to the needy countries in exchange for economic gains.
2. Technology Gap: The services of MNCs can be of great help to bridge the technological gap between developed and developing countries.
3. Industrial Growth: MNCs are dynamic and offer growth opportunities for domestic industries.
4. Marketing opportunities: MNCs have access to many markets in different countries. They have the necessary skills and expertise to market products at international level.
5. Work Culture: MNCs introduce a work culture of excellence, professionalism and transparency in dealings.
6. Export promotion: MNCs help developing countries in earning foreign exchange revenue.

5. 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 buy 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.

6. Explain the opportunities of business enterprise in 21st century.

Ans. The following are the opportunities of business enterprises in 21st century:

1. LPG: The economic reforms initiated in the form of Liberalization, Privatization and Globalization have brought structural changes which ultimately created favorable environment for business enterprises in India.
2. Increasing Size and Diversification: The 21st century business enterprises are characterized with large sized and highly diversified organizations.
3. Increase in per capita income: Per capita income is the measure of living standards of its people in a country. As India's per capita income is increasing, the business opportunities are also increasing in India.
4. Market Economies: With changes in the international economic order, India had converted itself into a market economy.
5. E-Commerce - A gate way to global markets: Improved cash flow, customer retention and service satisfaction are few of the benefits gained from e-commerce.

Intruduction to Accounting

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. What is Accounting Circle?

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

2. Define Accounting?

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

3. What is Book-keeping?

Ans. Book-keeping is an art at recording in the books of accounts the monctary aspects of commercial or financial transactions.

4. What is a voucher?

Ans. It is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher cash receipt invoice etc.

5. 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.

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?

Ans.

1. Business entity concept: As per this concept. Business organizations are treated as a separate entity which can be distinguished from the "Owners" or stakeholders 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 transactions 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 acquire 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 ascertain the financial position.
4. To communicate the information to users.

4. Explain Accounting Conventions?

Ans. 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 disclosure 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 pacilitates comparison of finaicial performance of on entity from one accounting period to another wich is possible with the accounting principle follwed by an eality are consistently aplied over the year an organisation should not change its method.
4. Convention of Consovalism: The essence of this financial is “anticipale no profit but provide for all possible losses” this means that all prospective losses we taken into considerations. However no doubtful income is taken into consiteration in recording of transulations.

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

Ans. (1) personal Accounts	Debit the Receiver
(Natural Articial, Representative persons)	Credit the given
(2) Real Accounts	Debit what comes in
(Assets)	Credit what goes out
(3) Nominal Accounts	Debit all exfenses and losses
(Expenses Losses Incomes and hairs)	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 entires in the book of chandra kiran

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

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 funiture	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
Apri-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

Subsidiary Books

1. Prepare, Purchase book purchase returns books from the following transactions

		₹
2021		
Jan 1	Purchased goods from Teja	10,000
Jan 2	Purchased goods from Rishi	20,000
Jan 6	Purchased goods from Ritwik	30,000
Jan 11	Purchased goods from Shiva	50,000
Jan 13	Returned goods to Teja	1,000
Jan 15	Goods Returned to Rishi	2,000
Jan 20	Goods Returned to Ritwik	3,000

Solution

Purchase Book

Date	Particulars	Inward Invoice No.	LF No	Detials	Amount ₹
2021					
Jan 1	Teja				10,000
Jan 2	Rishi				20,000
Jan 6	Ritwik				30,000
Jan 11	Shiva				50,000
	Total				1,10,000

Purchase Returns Book

Date	Particulars	Debit Note No.	LF No	Amount ₹
2021				
January 13	Teja			1,000
January 15	Rish			2,000
January 20	Ritwik			3,000
	Total			6,000

Subsidiary Books Practice problems

1. Prepare Subsidiary Books from the following transation

2021		₹
March 1	Purchased goods from Vijay	5,000
March 2	Purchased goods from Sai	4,000
March 3	Goods purchased from Srinu	3,000
March 10	Purchased goods from Venkat	6,000
March 12	Returned goods to Vijay	500
March 13	Returned goods to Sai	1,000
March 15	Goods Returned to Srinu	2,000

2. Prepare Subsidiary Books from the following transation

2021		₹
June 1	Purchased goods from Divya	1,000
June 5	Purchased goods from Sravanthi	2,000
June 10	Goods purchased from nandini	3,000
June 13	Purchased goods from Sunitha	4,000
June 15	Returned goods of Divya	200
June 16	Returned goods of Sravanthi	300
June 18	Goods Returned to nandini	500

Write the opening Journal entry as on march 31, 2021/April 1 2021

Cash	5,000
Sundry Debtors	20,000
Stock	10,000

Machinery	15,000
Sundry Creditors	10,000
Bills payable	5,000

Journal Proper

Date	Particulars	Lt No.	Debit Amount	Credit Amount
2021	Cash Account	Dr	5,000	
March 31	Sundry Debtors A/c	Dr	20,000	
/ April 1	Stock A/c	Dr.	10,000	
	(Machinery Account	Dr.	15,000	
	To Sundry Creditors A/c			10,000
	To Bills Payable A/c			5,000
	To Capital Account			35,000
	(Beering the Opening entry for the above asset and liabilities)			

Journal Propal

Opening Entry Practice Problems

1. Write the opening Journal Entry from the following particulars

2021		₹
January 1	Cash	10,000
	Stock	20,000
	machinery	30,000
	Bills Receivables	40,000
	Creditors	20,000
	Bills payables	10,000

2. Write the opening Journal Entry from the following particulars

2021		₹
Feb 1	Furniture	20,000
	Stock	5,000
	Machinery	30,000
	Debtors	15,000
	Creditors	10,000
	Bank over draft	5,000
	Bills payable	20,000

3. Write the opening Journal Entry from the following particulars

2021		₹
March 1	Cash	50,000
	Stock	30,000
	Bills Receivable	20,000
	Buildings	30,000
	Creditors	10,000
	Bills payables	20,000

TSBIE

CashBook and Bank Reconciliation Statement

BANK RECONCILIATION STATEMENT

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

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

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

2. **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. **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

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

- Balance as per cash book ₹ 15,000
- Cheques deposited into bank but not cleared or collected ₹ 1,200
- Cheques issued to Sridevi but not presented for payment ₹ 1,800
- Interest on deposits credited by bank ₹ 250
- 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 in the pass book	1,500	1,750
Less :		36,750
a. Cheques issued to Greeshma not presented for 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 entered 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)

Unfavourable Balance/Overdraft Balance

1. Prepare a bank Reconciliation Statement as on 30-6-2020 for M/s. Vedanth from the information given below:

	₹
a) Bank Overdraft as per cash book	14,500
b) Cheques issued to Aparna on 20-06-2020 but not yet presented for payment	1,500
c) Cheques deposited but not yet credited in the bank	3,000
d) Bills receivable directly collected by bank	1,000
e) Interest on Overdraft debited by bank	200
f) Amount wrongly debited by bank	100

Ans. Bank reconciliation statement of M/s. Samved as on 30.6.2020

Particulars	Amount ₹	Amount ₹
Overdraft balance as per cash book	-	14,500
Add:-		
a. Cheques deposited but not yet credited in the bank	3,000	
b. Interest on overdraft debited by bank	200	
c. Wrong debit by bank	100	3,300
Less :		17,800
a. Cheques issued to Aparna but not presented fro payment	1,500	
b. Bills Receivable directly collected by bank	1,000	2,500
Overdraft balance as per pass book.		15,300

2. Prepare a Bank Reconciliation Statement of M/s. Janki as on 31-03-2021

	₹
a) Bank Overdraft as per cash book	22,000
b) Cheques issued to Aparna on 25-03-2021 but not yet presented for payment	700
c) Cheques deposited but not yet credited by bank	1,200
d) Bills receivable directly collected by bank	2,000
e) Interest on Overdraft debited by bank	500
f) Amount wrongly debited by bank	1,000

[Ans: Balance as per pass book overdraft ₹ 22,000]

3. Prepare a Bank Reconciliation Statement of M/s. Sonu as on 31-08-2021

	₹
a) Bank Overdraft as per cash book	21,000
b) Cheques issued to Sai on 27-08-2021 not presented for payment	1,000
c) Cheques deposited but not yet credited by bank	800
d) Bills receivable directly collected by bank	500
e) Interest on Overdraft debited by bank	600
f) Amount wrongly debited by bank	900

[Ans: Overdraft balance as per pass book ₹ 20,800]

CASH BOOK

1. From the following transactions prepare a simple cash book on January 1 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)

- 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 |
- 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

- 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			" 3	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

Prepare three cloumn cash book from the following transaction

1.	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 allwed	1,000
March 21	Cash withdrawn from bank for office use	5,000
March 28	paid salaries throughts 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** : Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books.
2. **Suspense Account** : Difference in the trial balance may be temporarily posted to a special account known as suspense account.

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.

3. Rectify the following errors :

- a) A sale of goods to Kirshor for Rs. 5000, was passed through the purchases book.
- b) Salary of Rs. 1000 paid to Kiran was wrongly debited to his personal account.
- c) Stock purchased on credit from Raju for Rs. 2000 was entered in the purchases book.
- d) Rs. 10,000 spent on the extension of machinery was debited to Machinery repairs account.
- e) Goods returned by Raghu Rs. 1500 were entered in the return outwards book.

Ans : **Rectification Entries**

Sl.No	Particulars	L.F.	Debit Rs.	Credit Rs.
a)	Kirshor A/C To sales A/C To purchases A/C (Being credit sales wrongly recorded in purchases a/c rectified)	Dr	10,000	5,000 5,000
b)	Salaries a/c To Kiran a/c (Being salary paid to Kiran debited to his a/c is rectified)	Dr	1000	1000
c)	Stock a/c To purchases a/c (correction of wrong debit to purchase a/c for stock purchased)	Dr	2000	2000

d)	Machinery a/c To machinery repairs a/c (Being entry to rectify the mistake debiting repairs instead of machinery)	Dr		10,000	10,000
e)	Purchase returns a/c Sales returns a/c (Being entry to rectify the mistake of purchase returns book)	Dr Dr		1500 1500	

Problems

1. Rectify the following errors

- A sale of goods to Naresh for Rs. 3000, was passed through the purchases book.
- Salary of Rs. 1500 paid to Haresh was wrongly debited to his personal account.
- Stock purchased on credit from Suresh for Rs. 2500 was entered in the purchases book.
- Rs. 8000 spent on the extension of Buildings was debited to Buildings repairs a/c
- Goods returned by Mahesh Rs. 2000 were entered in the return outwards book.

2. Rectify the following errors.

- Sale of furniture for Rs. 4000, was credited to sales account.
- Repairs on Machinery Rs. 2000 debited to machinery account.
- Stock purchased on credit from Bharat for Rs. 3000 was recorded through purchases book.
- Goods returned by Sharath Rs. 2500 were entered in the return outwards book.
- Wages of Rs. 3500 paid to Shashanth was wrongly debited to his personal account.

VERY SHORT ANSWER TYPE QUESTIONS (2 MARKS)

1. Prepare trial balance of Mohan as on 31-12-2020 from the following balances.

Particulars	Amount ₹	Particulars	Amount ₹
Opening stock	18,000	Bill Receivable	12,000
Capital	25,000	Creditors	20,000
Bills payable	15,000	Machinery	10,000
Debtors	10,000	Buildings	10,000

Ans. Trial Balance of Mr. Mohan as on 31-12-2020

Particulars/Name of the Account	L.F.	Debit Balances ₹	Credit Balances ₹
Opening stock		18,000	-
Capital		-	25,000
Bills payable		-	15,000
Debtors		10,000	-
Bills Receivable		12,000	-
Creditors		-	20,000
Machinery		10,000	-
Buildings		10,000	-
Total		60,000	60,000

Problems

1. Prepare Trial balance of Pavan from the following particulars.

Particulars	Amount ₹	Particulars	Amount ₹
Sales	28,000	Bank overdraft	12,000
Furniture	20,000	Purchases	25,000
Cash in bank	26,000	Capital	30,000
Salaries	14,000	General Reserve	15,000

2. Prepare Trial balance of Madhav from the following particulars.

Particulars	Amount ₹	Particulars	Amount ₹
Sales	22,000	Purchases	33,000
Sales returns	2,000	Purchase returns	3,000
Capital	30,000	Closing stock	15,000
Plant	25,000	Bank loan	20,000

3. Prepare Trial balance of Praveen from the following particulars

Particulars	Amount ₹	Particulars	Amount ₹
Capital	30,000	Discount allowed	5,000
Drawings	10,000	Baddebts	15,000
Wages	8,000	Discount Received	20,000
Good will	22,000	Sundry creditors	10,000

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 on 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 precoverable 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.

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

Debit Balance	Amount ₹	Credit Balances	Amount ₹
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 Oxfenses	800		
Customs Duty	600		
Factory Insurance	300		
Machinery	12,000		
Debtors	6,000		
Furniture	9,000		
Spend Post Charges	700		
Bed Debits	800		
	43,800		43,800

Adjustments

1. Value of Closing Stock : ₹ 5400
2. Prepaid wages : ₹ 300
3. Outstanding Rent : ₹ 400
4. Depreciation on Maclinery 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
	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
	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	111,400
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
		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		
	65,850		65,800

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

Debit Balances	Amount ₹	Credit Balances	Amount ₹
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		
	1,14,000		1,14,000

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 Purchased	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		
To Office expences	600		
To Commission	300		
To Depreciation on Furunture	200		
To Insurance	400		
(-) Perpaid Insurance	100		
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		5,200	for Bad debts	1,250	23,750
Bank Over draft		5,500	Machinery		12,000
Outstandign Rent		800	Bank Balance		4,000
Outstanding Salaries		1,000	Bills Recaiable Cash		2,000
			Furntiture	5,000	
			(-) 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

Debit Balances	Amount ₹	Credit Balances	Amount ₹
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		
	1,09,600		1,09,600

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

Debit Balances	Amount ₹	Credit Balances	Amount ₹
Slaries	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		
Machinary	10,000		
Insurance	400		
Bank Balance	4,000		
Bills Receivable	2,000		
Cash	1,100		
	87,800		87,800

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