VERY SHORT ANSWER QUESTIONS

ANSWER ALL THE QUESTIONS

QUESTION-1 **1X5=5 MARKS**

Answer in one word/one sentence

I. Why is Trading Account prepared?
   Ans- Trading account is prepared to find out gross result of the business done in the accounting year i.e., gross profit or gross loss of the business.

II. What is Depreciation?
   Ans- Depreciation is the process of deducting the cost of a business asset over a long period of time.

III. Which organisations prepare income and expenditure accounts?
   Ans- 'Not for Profit' concern prepares income and expenditure account.

IV. Which methods is adopted generally in those branches which are small in size?
   Ans- Debtors Method

V. Which books is prepared to maintaining the small expenses like carriage postage, entertainment etc.
   Ans- Petty cash book.

SHORT ANSWER QUESTIONS

QUESTION-1 **5X2=10 MARKS**

What is Trade Discount? Give an example.

Answer-

(1) **Trade Discount** :— The discount allowed by a seller to its customers at a fixed percentage on the listed price of goods is termed as Trade discount. No separate entry is passed for the Trade discount, as it is deducted from the cash memo or invoice of the goods. For example, if a trader sells goods of the list price of Rs. 10,000 at 20% trade discount for cash, the entry will be :—

Cash A/c Dr. 8,000
  To Sales A/c 8,000

If the goods sold at trade discount are returned by the customer, the amount of trade discount is again deducted from the list price of the returned goods.

QUESTION-2

What is Bad Debts? Give an example.

Answer-

Bad Debts

When the goods are sold to a customer on credit, and if the amount becomes irrecoverable due to his insolvency or for some other reason, the amount not recovered is called bad-debts. For recording it, bad debts account is debited and the customer's account is credited.

For example : Ravi who owed us Rs. 10,000 is declared insolvent and 30 Paise in a rupee is received from his estate. The journal entry will be :

Date	Particulars		L. F.	Amount Dr.	Amount Cr.
				Rs.	Rs.
	Cash A/c	Dr.		3,000	
	Bad Debts A/c	Dr.		7,000	
	To Ravi				10,000
	(For 30 p. in the rupee received from Ravi on his insolvency)				

LONG ANSWER QUESTIONS

ANSWER ANY FOUR QUESTIONS **15X4=60MARKS**

QUESTION-1

ILLUSTRATION 10. From the following particulars relating to Gaya Hospital, Gaya, prepare Income and Expenditure Account for the year ended 31st December, 2006 and Balance Sheet as on that date :

Receipts and Payments Account

Receipts	Amount	Payments	Amount
	Rs.		Rs.
To Cash in hand	4,600	By Misc. Expenses	250
To Subscriptions	55,400	By Medicines	35,000
To Donations	18,000	By Doctor's Honorarium	12,000
To Interest on Investments		By Salaries	16,800
@5% for full year	2,500	By Equipments	25,000
To Proceeds from Charity Show	10,500	By Expenses on Charity Show	1200
		By Cash in hand	750
	91,000		91,000

Additional Informations :

	On 1st Jan. 2006	On 31st Dec. 2006
	Rs.	Rs.
1. Subscription due	560	650
2. Subscription received in advance	250	290
3. Stock of medicines	12,400	11,800
4. Estimated value of equipments	23,200	36,200
5. Building (cost less Depreciation)	60,000	57,000
6. Amount due to Medicines Suppliers	3,700	8,100

Sol. **Income and Expenditure Account of Gaya Hospital for the year ended 31st December, 2006**

Expenditure		Amount	Income		Amount
		Rs.			Rs.
To Medicines Consumed		40,000	By Subscription	55,400	
To Salaries		16,800	*Add* : Advance (1-1-2006)	250	
To Doctor's Honorarium		12,000			
To Mics. Expenses		250	*Add* : Outstanding (31-12-06)	650	
To Depreciation :				56,300	
On Buildings	3,000		*Less* : Advance (31-12-06)	290	
				56,010	
On Equipments	12,000	15,000	*Less* : Outstanding (1-1-06)	560	55,450
			By Interest on Investments		2,500
			By Surplus from Charity Show	10,500	
			Less : Expenses	1,200	9,300
			By Deficit (Excess of Expenditure over Income)		16,800
		84,050			84,050

Capital Fund :

Balance Sheet of Gaya Hospital as on 1st January, 2006

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Subscription received in advance	250	Cash in hand	4,600
Creditors for Medicine Supply	3,700	Subscription due	560
Capital Fund :		Stock of Medicines	12,400
(Balancing Figure)	1,46,810	Equipments	23,200
		Buildings	60,000
		Investments (Rs. 2,500 × 100/5)	50,000
	1,50,760		1,50,760

Balance Sheet of Gaya Hospital as on 31st December, 2006

Liabilities		Amount	Assets		Amount
		Rs.			Rs.
Subscription received in advance		290	Cash in hand		750
Capital Fund :			Stock of Medicines		11,800
(Balance on 1-1-2006)	1,46,810		Investments		50,000
Less : Deficit	16,800	130,010	Subscription due		650
Donations		18,000	Equipments Less depreciation		36,200
Creditors for Medicine Supply		8,100	Building	60,000	
			Less : Depreciation	3,000	57,000
		1,56,400			1,56,400

QUESTION-2

Illustration 19. Prepare Trading and Profit & Loss A/c for the year ended 31st December, 2008 and Balance Sheet as at that date from the following particulars—

Account Title	Amount	Account Title	Amount
	Rs.		Rs.
Capital	20,500	Purchases	85,500
Creditors	15,000	Carriage Inwards	750
Outstanding Expenses	3,400	Wages	11,500
Rent Received	300	Power	4,000
Purchases Returns	2,000	Depreciation on Machinery	500
Sales	1,44,800	Salary	17,200
Provision for Bad Debts	300	Discount Received	900
Advertisement Development	4,000	General Expenses	4,100
Plant and Machinery	10,000	Prepaid Expenses	200Rs.
Goodwill	2,500	Salary to Agent	4,550
Agent's Sample	1,350	Rent and Insurance	9,950
Opening Stock	16,000	Discount Allowed	2,500
Debtors	7,300	Sales Return	300
Cash at Bank	1,000	Commission to Agent	1,445
Cash in hand	55		
Drawings	2,500		

Adjustments. (1) Closing Stock was valued at Rs. 25,000 (Market value Rs. 15,700). (2) Write off Rs. 500 as Bad Debts and Create a Provision for Doubtful Debts on Debtors at 5%. (3) Depreciate Agent's Samples by $33\frac{1}{3}$%. (4) Write off Advertisement Development by 25%. (5) Proprietor's withdrew Rs. 100 for his private use. This amount was included in general expenses.

Solution :

Trading and Profit & Loss Account
for the year ending 31st Dec., 2008

		Rs.			Rs.
To Opening Stock		16,000	By Sales	1,44,800	
To Purchases	85,500		*Less* : Sales Returns	300	1,44,500
Less : Purchases Returns	2,000	83,500	By Closing Stock (AS-2),		15,700
To Carriage inwards		750			
To Wages		11,500			
To Power		4,000			
To Gross Profit c/d		44,450			
		1,60,200			1,60,200
To Depreciation on Machinery		500	By Gross Profit b/d		44,450
To Salary		17,200	By Rent Received		300
To General Expenses	4,100		By Discount Received		900
Less : Drawings	100	4,000			
To Salary to Agent		4,550			
To Rent and Insurance		9,950			
To Discount allowed		2,500			
To Commission to Agent		1,445			
To Provision for Bad Debts					
Bad-debts	500				
Add : New Provision	340				
	840				
Less : Old Provision	300	540			
To Advertisement Development		1,000			
To Depreciation on Agent's Sample		450			
To Net Profit transferred to Capital A/c		3,515			
		45,650			45,650

Balance Sheet
as on 31st December, 2008

Liabilities		Amount	Asset		Amount
		Rs.			Rs.
Creditors		15,000	Cash in hand		55
Outstanding Expenses		3,400	Cash at Bank		1,000
Capital	20,500		Debtors	7,300	
Add : Net Profit	3,515		*Less* : Bad-debts	500	
	24,015			6,800	
Less : Drawings			*Less* : Provision for		
(Rs. 2,500+100)	2,600	21,415	Doubtful Debts	340	6,460
			Closing Stock (AS-2)		15,700
			Prepaid Expenses		200
			Advertisement Development	4,000	
			Less : Transferred to P & L A/c	1,000	3,000
			Agent's Samples	1,350	
			Less : Depreciation	450	900
			Plant & Machinery		10,000
			Goodwill		2,500
		39,815			39,815

QUESTION-3

Illustration 21. M/s Jay Company purchases 4 Cars at Rs. 1,50,000 each on 1st March 2006. On 1st Sept., 2008 one of the car is involved in an accident and is completely destroyed. Insurance Company pays Rs. 50,000 full settlement of claim. On the same day the Company purchases an old car for Rs. 80,000 and spends Rs. 10,000 on its repairing.

Show Car Account, charging 10% p.a. depreciation by Fixed Instalment Method for three years. Accounts are closed on 31st December each year.

Solution :

Car Account

		Rs.			Rs.
2006			2006		
Mar. 1	To Cash A/c (Rs. 1,50,000 each × 4 Cars)	6,00,000	Dec. 31	By Depreciation A/c (Rs. 6,00,000 × 10 × 10/100 × 12)	50,000
			Dec. 31	By Balance c/d (Bal. fig.)	5,50,000
		6,00,000			6,00,000
2007			2007		
Jan. 1	To Balance b/d	5,50,000	Dec. 31	By Depreciation A/c (Rs. 6,00,000 × 10/100)	60,000
			Dec. 31	By Balance c/d (Bal. fig.)	4,90,000
		5,50,000			5,50,000
2008			2008		
Jan. 1	To Balance b/d	4,90,000	Sept. 1	By Depreciation A/c (1 car for 8 months) (Rs. 1,50,000 × 10 × 8/100 × 12)	10,000
Sept. 1	To Cash A/c				
	To Cash A/c (Repairing)	10,000		By A/c (Insurance Company)	50,000
				By Profit & Loss A/c (Loss on one Car)	62,500
			Dec. 31	By Depreciation A/c (On 3 cars) (Rs. 4,50,000 × 10./ 100)	45,000

		Dec. 31	By Depreciation A/C (Old Car for 4 months) (Rs. 90,000 x10 x 4 / 100 x 12)	3,000
		Dec. 31	By Balance c/d (Bal. fig.) 3 Cars (Rs. 45,000 – Rs. 37,500) Rs. 45,000 – Rs. 45,000)	3,22,500
			1 Old Car (Rs. 90,000 – Rs. 3,000)	87,000
	5,80,000			5,80,000

QUESTION-4

Illustration 8. A Head Office in Jamshedpur has a branch in Ranipath to which goods are invoiced by the Head Office at cost price plus 25%. All cash received by the branch is daily remitted to the Head Office. All expenses are paid from Jamshedpur. From the following particulars, show, how the Branch Account will appear in the Head Office Books (entries are made at Invoice Price) :

	Rs.	Rs.
Stock on 1st April, 2006 (at Invoice Price)		12,500
Debtors on 1st April, 2006		12,000
Goods invoiced from Jamshedpur		40,000
Remittances to Jamshedpur :		
Cash Sales	16,000	
Cash received from Debtors	29,500	45,500
Goods return to Head Office		2,400
Cheques received from Head Office :		
Wages	9,000	
Telephone	5,000	
Office Expenses	920	14,920
Stock on 31st March, 2007 (Invoice Price)		15,000
Debtors on 31st March, 2007		22,500

Sol.

In the Books of Head Office
Ranipath Branch Account

		Rs.			Rs.
To Balance b/d (Opening) :			By Bank Account :		
Stock	12,500		Sales	16,000	
Debtors	12,000	24,500	From Debtors	29,500	45,500
To Goods supplied to Branch A/c		40,000	By Goods supplied to Branch Account (Goods returned by branch)		2,400
To Bank Account :					
Wages	9,000				
Telephone	5,000		By Stock Reserve Account (Opening) (Rs. 12,500 × 25/125)		2,500
Office Expenses	920	14,920			
To Goods supplied to Branch Account (Rs. 2,400 × 25/125) – Loading		480	By Goods supplied to Branch A/c (Rs. 40,000 × 25/125) – Loading		8,000
To Stock Reserve Account (Closing) (Rs. 15,000 × 25/125)		3,000	By Balance c/d (Closing) : Stock	15,000	

To General Profit and Loss A/c (Balancing Figure)	13,000	Debtors	22,500	37,500
	95,900			95,900

QUESTION-5

Explain the "Basic Principles" of Accounting.

Answer- The basic accounting principles are as follows-

(I) **Duality Principle** :— According to this principle, every business transaction is recorded as having a dual aspect. In other words, every transaction affects atleast two accounts. If one account is debited, any other account must be credited. The system of recording transactions based on this principle is called as 'Double Entry System'. It is because of this principle that the two sides of the Balance Sheet are always equal and the following accounting equations will always hold good at any point of time :—

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

OR

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

Whenever a transaction is to be recorded, it has to be recorded in two or more accounts to balance the equation. If a transaction affects (increases or decreases) the one side of the equation, it will also affect (increase or decrease) the other side of the equation or increase one account and decrease another account on the same side of the equation. Equation remains balanced whenever a transaction takes place. For example, X commences business with Rs. 5 Lakhs in cash and takes a loan of Rs. 1 Lakh from the bank, and these 6 Lakhs are used in buying some assets, say, plant and machinery. The equation will be as follows :—

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

$$\text{Rs. 6 Lakhs} = \text{Rs. 1 Lakh} + \text{Rs. 5 Lakhs}$$

(II) **Verifiability and Objectivity of Evidence Principle** :— This principle means that all accounting transactions that are recorded in the books of accounts should be evidenced and supported by business documents. These supporting documents are cash memos, invoices, vouchers, bills receivables, bills payables, correspondence, agreements etc. These documents supply the necessary information on the basis of which entries are made in the books of accounts. Also these documents provide a base for audit.

Objectivity principle also requires that accounting data should be free from the personal bias of either management or the accountant who prepares the accounts. Accountants should follow the uniform method for stock valuation, estimating the likely amount of bad debts, allocation of certain costs over various periods etc.

(III) **Historical Cost Principle** :— According to this principle, an asset is ordinarily recorded in the books of accounts at the price at which it was acquired. This cost becomes the basis of all subsequent accounting for the asset. Since the acquisition cost relates to the past, it is referred to as historical cost. This cost is the basis of valuation of the assets in the financial statements. For example, if a business entity purchases a building for Rs. 5,00,000, it would be recorded in the books at this figure. Subsequent increase or decrease in the market value of the building would not be recorded in the books of accounts. If two years later the market value of the building shoots up to Rs. 10,00,000, the increased value will not be ordinarily* recorded in the books of accounts.

However, the historical cost concept does not mean that assets will be continuously shown at their acquisition price for as long as the business entity owns them. Their cost is systematically reduced from year to year by charging depreciation and the assets are shown in the balance sheet at cost less depreciation.

The **justification** for the historical concept lies in the following arguments :

(*i*) This cost is objectively verifiable because the cost recorded in the books is derived from an actual transaction and is not arbitrarily determined.

(*ii*) It is justified by the going concern concept which assumes that the enterprise will continue its activities indefinitely and thus there is no need of using the current values or liquidation values.

(*iii*) Market values or current values of assets are difficult to be determined. The valuation by one expert will not be the same as that of another.

(*iv*) Market values of the assets may change from time to time and it will be extremely difficult to keep track of up and down of the market price.

The drawbacks of the historical cost principle are :

(*i*) Assets for which nothing is paid will not be recorded. Thus a favourable location, brand name and reputation of the business, knowledge and technological skill built inside the enterprise will remain unrecorded though these are valuable assets.

(*ii*) During periods of inflation, the figure of net profit disclosed by profit and loss account will be seriously distorted because depreciation based on historical costs will be charged against revenues at current prices.

(*iii*) Information based upon historical cost may not be useful to management, investors, creditors etc.

(IV) **Principle of Revenue Recognition :—** Revenue means the amount which is added to the capital as a result of business operations. Revenue is earned by sale of goods or by providing a service. Principle of revenue recognition determines the time or the particular period in which the revenue is realised. Following basis may be used for determining the period in which the revenue is realised :—

(*i*) **On the basis of Sales :—** According to sales basis, the revenue is deemed to be realised when the title or the ownership of the goods has been transferred to the purchaser and when he has legally become liable to pay the amount. It should be remembered that revenue recognition is not related with the receipt of cash. For example, if a firm gets an order of goods on 1st January, supplies the goods on 20th January and receives the cash on 1st April, the revenue will be deemed to have been earned on 20th January, as the ownership of goods was transferred on that day.

(*ii*) **On the Basis of Cash :—** According to this basis, the revenue should be recognised when it is actually received in Cash. This basis is adopted when the goods have been sold on credit and there is a doubt about the collection of sale proceeds. This basis is also adopted in case of sales on instalment basis. Instalments received in respect of these goods are treated as revenue.

(*iii*) **On the basis of Production :—** This basis is adopted when sales basis and cash basis fail to identify revenue. In case of long term construction projects, it is difficult to postpone the revenue till the completion of full contract. In such cases, that proportionate part of revenue which is equal to the part of contract completed by the end of the year is recognised as realised.

(V) **Principle of Matching** :— This principle is very important for correct determination of net profit. According to this principle, in determining the net profit from business operations, all costs which are applicable to revenue of the period should be charged against that revenue. Accordingly, for matching costs with revenue, first revenues should be recognised and then costs incurred for generating that revenue should be recognised. Following points must be considered while matching costs with revenue :—

1. When an item of revenue is included in the profit and loss account, all expenses incurred on it, whether paid or not, should be shown as expenses in the profit and loss account. On the basis of this principle, outstanding expenses, though not paid in cash are shown in the profit and loss account.

2. When some expense, say insurance premium is paid partly for the next year also, the part relating to next year will be shown as an expense only next year and not this year. This means that, that part of the insurance premium against which benefit will be derived or revenue will be earned in future should be shown in the balance sheet as an asset and the rest is treated as an expense during the current year.

3. Cost of the goods remaining unsold at the end of the year together with the expenses incurred on it must be carried forward to the next year, as these goods will be sold only during the next period. As such, the closing stock is carried over to the next period as opening stock.

4. Similarly, incomes receivable must be added in revenues and incomes received in advance must be deducted from revenues.

(VI) **Principle of full disclosure** :— This principle requires that all significant information relating to the economic affairs of the enterprise should be completely disclosed. In other words, there should be a sufficient disclosure of information which is of material interest to the users of the financial statements such as proprietors, present and potential creditors, investors and others. The principle is so important that the Companies Act makes ample provisions for the disclosure of essential information in the financial statements of a Company. The proforma and contents of Balance Sheet and Profit and Loss Account are prescribed by Companies Act. Various items or facts which do not find place in accounting statements are shown in the Balance Sheet by way of footnotes. Such as :—

(*i*) **Contingent Liabilities** :— For instance, a claim of a very big sum pending in a court of law against the enterprise should be brought to the notice of the users of the financial statements, otherwise the statements would be misleading.

(*ii*) If there is a change in the method of valuation of stock, or for providing depreciation or in making provision for doubtful debts, it should be disclosed in the Balance Sheet by way of a footnote.

(*iii*) Market value of investments should be given by way of a footnote.

Disclosing of material facts does not mean leaking out the secrets of the business but disclosing **sufficient** information which is of material interest to the users of the financial statements.

QUESTION-6

Define the term Depreciation. Explain the main causes of providing depreciation and also explain any two methods of depreciation.

ANSWER-

Meaning :— In every business there are certain assets of a fixed nature that are needed for the conduct of business operations. Some examples of such assets are Building, Plant and Machinery, Motor Vehicles, Furniture, Office equipments etc. These assets have a definite span of life after the expiry of which the assets will lose their usefulness for the business operations. Fall in the value and utility of such assets due to their constant use and expiry of time is termed as depreciation. In other words, the process of allocation of the cost of a fixed asset over its useful life is known as depreciation.

Definitions :— Some of the well-known definitions of depreciation are given below :—

1. "Depreciation is the gradual and permanent decrease in the value of an asset from any cause." — **R.N. Carter**
2. "Depreciation may be defined as the permanent and continuing diminution in the quality, quantity or the value of an asset." — **William Pickles**
3. "Depreciation is the measure of the exhaustion of the effective life of an asset from any cause during a given period." — **Spicer & Peglar**
4. "It is a matter of common knowledge that all fixed assets such as plant, machinery, building, furniture etc. gradually diminish in value as they get older and become worn out by constant use in the business." — **J.R. Batliboi**

Causes of Depreciation :— Main causes of depreciation are as follows :—

(1) **By Constant Use** :— Due to the constant use of fixed assets in business operations wear and tear arise in them which results in the reduction of their values.

(2) **By Expiry of Time** :— The value of majority of assets decreases with the passage of time even if they are not being put to use in the business. Natural forces such as rain, winds, weather etc. contribute to the deterioration of their values.

(3) **By Expiry of Legal Rights** : There are certain assets which have a definite span of life such as Lease. For example, if a lease has been obtained for 20 years for Rs. 5,00,000, it will lose 1/20th, *i.e.,* Rs. 25,000 of its value each year whether utilised or not, so that at the end of 20th year its value is reduced to zero.

(4) **By Obsolescence** :— Quite often, due to new inventions and improved techniques the old assets become obsolete and may have to be discarded even if they can be put to use physically.

(5) **By Accident** :— Sometimes a machine may be destroyed due to fire etc. or a vehicle may be damaged due to accident.

(6) **By Depletion** :— Depletion is the decrease in the value of wasting assets such as mines, oil-wells etc. due to their constant working.

(7) **By Permanent fall in Market Price** :— Though, the fluctuations in the market value of fixed assets are not recorded because such assets are not meant for resale but for use in the business, sometimes the fall in the value of certain fixed assets is treated as depreciation such as permanent fall in the value of investments.

Methods of providing depreciation are-

(1) Straight Line Method

This method is also termed as **'Original Cost Method'** because under this method depreciation is charged at a fixed percentage on the original cost of the asset. The amount of depreciation remains equal from year to year and as such the method is also known as **'Equal Instalment Method'** or **'Fixed Instalment Method'.** Under this method, the amount of depreciation is calculated by deducting the scrap value from the original cost of the asset and then by dividing the remaining balance by the number of years of its estimated life. The depreciation so calculated and charged annually will reduce the original cost of the asset to zero, or its scrap value, as the case may be, at the end of its estimated life. Under this method, the amount of depreciation is calculated by the following formula :—

$$\text{Yearly Depreciation} = \frac{\text{Original Cost of the Asset} - \text{Estimated Scrap Value}}{\text{Estimated Life of the Asset}}$$

For example, if the original cost of the asset is Rs. 1,00,000 and its scrap value is likely to be Rs. 15,000 after its estimated life of 10 years, the depreciation written off will be $\frac{1,00,000 - 15,000}{10}$ = Rs. 8,500 every year.

(2) Written Down Value Method

Under this method, as the value of asset goes on diminishing year after year, the amount of depreciation charged every year also goes on declining. For example, if a machine is purchased for Rs. 10,000 and depreciation is to be charged at 10% p.a. according to 'Written Down Value Method', the depreciation will be charged as under :—

		Rs.
1st Year on Rs. 10,000 @ 10%	=	1,000
2nd Year on Rs. 9,000, *i.e.*, $10,000 - 1,000 = 9,000 \times \frac{10}{100}$	=	900
3rd Year on Rs. 8,100, *i.e.*, $9,000 - 900 = 8,100 \times \frac{10}{100}$	=	810
4th Year on Rs. 7,290, *i.e.*, $8,100 - 810 = 7,290 \times \frac{10}{100}$	=	729

and so on.

It will be observed from the above calculations that each year's depreciation is calculated on the book value of the asset at the beginning of that year, rather than on the original cost. As the value of the asset and also the depreciation charged on it goes on reducing year after year, the method is also known as **'Reducing Instalment Method'** or **'Diminishing Balance Method'.**

QUESTION 7
What do you mean by Receipts & Payment and Income & Expenditure account? Distinguish between Receipts & Payment and Income & Expenditure account.
ANSWER-

Receipts and Payments Account

This account is merely a summary of the transactions appearing in the Cash Book. According to William Pickles : "Receipts and Payments Account is nothing more than a summary of the Cash Book (Cash and Bank transactions) over a certain period, analysed and classified under suitable headings. It is the form of account most commonly adopted by the treasurers of societies, clubs, associations etc. when preparing the results of the year's working."

As such, a receipt and payment account is prepared at the end of the year from the Cash Book. All receipts and payments which are entered in the Cash Book are also entered in the receipts and payments account, of course, in a summary form. For example, if a club receives subscriptions from its members on different dates, they will be recorded in the Cash Book in a chronological order, whereas the Receipt and Payment Account will contain the total subscriptions received during the year. Any transaction which is not recorded in the Cash Book will not be entered in the receipt and payment account also.

Special features of Receipts and Payments Account :

(1) It is a real account and hence the rule of real account, *i.e.*, 'Debit what comes in and Credit what goes out' is followed while preparing it. Thus receipts are recorded on its debit side and payments on the credit side.

(2) It starts with the opening balance of cash in hand and cash at bank. Cash in hand always shows a debit balance and will, therefore, be written on its debit side. Cash at bank may show a debit or favourable balance, in which case it will be written on its debit side. But if bank balance is an overdraft or unfavourable balance, it will be placed on the credit side.

(3) All cash receipts are shown on the debit side of this account irrespective of the fact whether they are of capital nature or of revenue nature or whether they relate to previous year, current year or next year. For example, receipt of subscription is a revenue receipt and receipt from sale of furniture is a capital receipt, but both will be recorded on its debit side. Moreover, the receipt for subscription whether for the year 1992, 1993 or for 1994, will be written on its debit side.

(4) Likewise, all cash payments are shown on its credit side, irrespective of the fact whether they are of capital nature or of revenue nature and whether they relate to current year, previous year or next year.

(5) This account is balanced at the end of the year, by entering the closing balance of cash in hand and at bank, on the credit side.

(6) This account records only the actual receipts and payments of cash. Non-cash items such as depreciation, outstanding expenses and accrued incomes are ignored while preparing it.

(7) This account does not tell us whether the current incomes exceed the current expenditure or *vice-versa*. In order to ascertain the net income or loss of a particular

period, Income and Expenditure Account has to be prepared with the help of Receipts and Payments Account and after considering the various adjustments.

Income and Expenditure Account

It is similar to the Profit & Loss Account of a profit seeking entity and is prepared to ascertain whether the current incomes are in excess of current expenditure or *vice-versa.* In other words, it reveals the surplus or deficit arising out of the organisation's activities during a particular period. It is prepared in the same manner in which a Trading and Profit and Loss Account is prepared in case of trading organisations. Hence, all expenses and losses of a revenue nature are recorded on its debit side while all incomes and gains of a revenue nature, on its credit side. The end product of this account is surplus or deficit. If credit side of this account exceeds the debit, it is known as excess of income over expenditure (surplus) and on the contrary, if the debit side exceeds the credit, it is excess of expenditure over income (deficit).

Special Features of Income and Expenditure Account :

(1) It is a nominal account and hence the rule of nominal account, *i.e.,* 'Debit all expenses or losses and credit all incomes and gains' is followed while preparing it.

(2) Only items of **revenue** nature are recorded in it. All items of **capital** nature are ignored while preparing it. For example, amount received from the sale of furniture will not be recorded in it but the profit earned or loss suffered on the sale of furniture will be recorded in it.

(3) No opening and closing balance of cash and bank are recorded in it.

(4) This account is prepared in the same manner in which a Profit and Loss Account is prepared. As such, all adjustments relating to the current year such as depreciation, outstanding expenses, prepaid expenses, earned income etc. are taken into consideration while preparing the income and expenditure account.

(5) It excludes all items of income and expenditure which do not pertain to the current period. In other words, all items relating to previous years and future years are excluded while preparing it.

(6) The closing balance of this statement reveals surplus or deficit. If the credit side exceeds the debit, it reveals surplus and on the other hand, if the debit side exceeds the credit, it reveals deficit. The surplus is added to the capital fund and the deficit is deducted from it.

Difference Between Receipts & Payments Account and Income & Expenditure Account

Basis of Difference	*Receipts and Payments Account*	*Income and Expenditure Account*
1. Nature	It is a summary of the Cash book.	It is like a Profit and Loss account of a profit seeking entity.
2. Sides	Debit side of this account records receipts and credit side records payments.	Debit side of this account records expenses and losses and credit side records incomes and gains.

3.	Type of Account	It is a real account.	It is a nominal account.
4.	Opening Balance	It starts with the opening balance of cash and bank.	It has no opening balance.
5.	Closing Balance	Closing balance of this account represents the closing cash in hand and at bank or overdraft at bank.	Closing balance of this account indicates either excess of income over expenditure (surplus) or excess of expenditure over income (deficit).
6.	Capital and Revenue items	It records receipts and payments both of capital and revenue nature.	It records income and expenditure of only revenue nature.
7.	Period of Income and Expenses	It records all receipts and payments made during the year whether they relate to current, previous or next year.	It records incomes and expenditures of the current year only.
8.	Adjustments	Adjustments are not considered while preparing it, because it is prepared on cash basis of accounting.	It is necessary to consider adjustments while preparing it, because it is prepared on accrual basis of accounting.
9.	Balance Sheet	It need not necessarily be accompanied by a Balance Sheet because all revenue as well as capital items are included in it.	Balance Sheet must accompany this account because it includes only revenue items, whereas the Balance Sheet contains the remaining balances.
10.	Transfer of closing balance	Closing balance of this account is transferred to the receipt and payment account of the next period.	Closing balance of this account is transferred to the capital fund in the Balance Sheet.