NAME	
ROLL NUMBER	
SEMESTER	1ST
COURSE CODE	DCM1103
COURSE NAME	FUNDAMENTALS OF ACCOUNTS I

Question **Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.**
Jan.
1 Commenced business with cash ₹. 70,000
2 Purchased goods from X and Co. on credit ₹. 30,000
3 Cash deposited into bank ₹. 40,000.
4 Bought a building from L and Co. on credit ₹.95,000
5 Cash withdrawn from bank for office use ₹.5,000

Answer .:-

Date	Account	Debit	Credit	Description
1	Cash	70,000		Capital Introduced
2	Purchases	30,000		Goods purchased on credit from X and Co.
3	Cash	40,000		Deposited cash into bank
4	Building	95,000		Purchased building on credit from L and Co.
5	Bank	5,000		Withdrawn cash for office use

a) :- **Explain "Full Disclosure Principle" of accounting .**

Answer Full Disclosure Principle in Accounting: Transparency at its Core

The Full Disclosure Principle is a cornerstone of accounting that ensures the accuracy and reliability of financial statements. In essence, it requires that all relevant and material information about a company's financial position and performance be clearly disclosed in its financial reports.

Key elements of the Full Disclosure Principle:

- Inclusion of all relevant information: Company financial statements should encompass all vital information that helps users accurately assess the company's financial health and performance. This includes data on income, expenses, assets, liabilities, equity, transactions, and risks.
- Absolute neutrality: Financial statements should be prepared without any bias or favoritism . Information must be presented objectively and not manipulated to reach a desired conclusion.
- Comprehensibility: Financial statements should be presented in a clear, concise, and user-friendly manner so that diverse stakeholders (investors, creditors, management) can easily understand and draw informed conclusions.
- Timeliness: Financial statements should be issued at regular intervals, ensuring stakeholders receive up-to-date information about the company's financial performance.
- about the company's financial performance.

Benefits of the Full Disclosure Principle:

- Market efficiency: Transparent and reliable financial information fosters trust in the market, leading to fair share valuation and improved capital allocation.
- Investor protection: Full disclosure empowers investors to make informed decisions by providing insights into company risks and uncertainties.
- Enhanced accountability: It holds management accountable for the company's performance, as investors and creditors can scrutinize financial statements carefully.
- Improved corporate governance: Financial transparency strengthens corporate governance standards and reduces the likelihood of managerial fraud or manipulation.

Limitations of the Full Disclosure Principle:

- Cost and complexity: Preparing accurate and comprehensive financial statements can consume significant resources and time.
- Competitive disadvantage: Some companies may hesitate to disclose sensitive information for strategic reasons.
- Information overload: Providing excessive information can confuse users and lead them to overlook key details.

b) :- Briefly explain about matching concept .

Answer

The matching concept in accounting says expenses and income should dance together, hand in hand. Think of a baker baking a cake - the cost of flour, sugar, and time goes with the income earned from selling the cake. This way, we know exactly how much profit the baker made, not just how much the cake sold for. It's like a financial tango, ensuring each transaction has a partner, keeping the books balanced and the picture clear. By matching expenses to related income, we avoid misleading profits and get a true picture of a company's financial health. So, next time you see a financial statement, remember the matching concept - the secret dance behind accurate accounting!

Question 2 . a) :- Explain the different types of cash book .

Answer

Cash books are vital for recording cash transactions, but there are different types to suit specific needs:

1. Simple Cash Book: The simplest option, listing all cash receipts and payments in chronological order. Useful for small businesses with few transactions.

2. Double Column Cash Book: Features two columns, one for receipts and one for payments. Provides a quick overview of cash inflow and outflow.

3. Triple Column Cash Book: Expands on the double column by adding a third column for discounts received and given. Useful for businesses with frequent deals or credit purchases.

4. Petty Cash Book: Tracks small expenses (e.g., office supplies) paid with a pre-determined "petty cash" amount. Periodically replenished with receipts.

5. Analytical Cash Book: Categorizes transactions by type (e.g., sales, purchases, salaries). Offers deeper insights into cash flow patterns.

6. Columnar Cash Book: Similar to the analytical cash book but with separate columns for each category, simplifying analysis and record-keeping.

Choosing the right type depends on factors like:

- Business size and complexity: Simple books for small businesses, more complex ones for larger ones.
- Transaction volume: Higher volume may require more detailed records.
- Analysis needs: More columns for deeper insights.

Question 2 . b) :- Find out credit sale from the following information :-

Particular	**₹**
Debtors on 1st January	40,000
Cash received from debtors	1,00,000
Discount allowed	5,000
Sales returns	2,000
Debtors on 31st December 2018	60,000

Answer Credit Sales Calculation:

Step 1: Identify the relevant information to calculate credit sales.

- Opening Debtors (1st January 2018): ₹ 40,000
- Cash Received from Debtors: ₹ 1,00,000
- Discount Allowed: ₹ 5,000
- Sales Returns: ₹ 2,000
- Closing Debtors (31st December 2018): ₹ 60,000

Step 2: Apply the formula:

Credit Sales = Opening Debtors + Cash Received from Debtors - Discount Allowed - Sales Returns - Closing Debtors

Step 3: Plug in the values:

Credit Sales = 40,000 + 1,00,000 - 5,000 - 2,000 - 60,000
Credit Sales = ₹ 73,000

Therefore, the credit sales for the period are ₹ 73,000.

Accounting Concepts and Conventions:

1. Accrual Accounting: This concept matches expenses and income to the period they were incurred, regardless of when cash is received or paid. In this case, credit sales are recorded in the period they were made, not when the cash was received.

2. Going Concern Assumption: This assumes the business will continue to operate in the foreseeable future, allowing assets to be valued at their expected future benefit. Debtors are an example of an asset valued based on the assumption they will be paid.

3. Materiality: This principle states that only material information, information that could affect users' decisions, needs to be recorded in the financial statements. Debtors are considered a material item due to their significant impact on the company's financial position.

4. Double-Entry System: This system records each transaction in two accounts, debiting one and crediting another, ensuring the equation "Assets = Liabilities + Equity" is always balanced. Credit sales are recorded as a debit to Debtors and a credit to Sales.

Question 3. :- **Explain the accounting concepts and conventions .**

Answer

Accounting Concepts and Conventions: The Foundation of Reliable Financial Reporting

Accounting concepts and conventions are the guiding principles that ensure consistency, accuracy, and fairness in financial reporting. These principles help users understand a company's financial health and make informed decisions. Here are some key concepts:

1. Accrual Accounting: Matches revenues and expenses to the period they occur, regardless of when cash is received or paid. This ensures a more accurate picture of a company's performance for a specific period.
2. Going Concern Assumption: Assumes the business will continue to operate in the foreseeable future. This affects asset valuation and allows for long-term investments and planning.
3. Materiality: Focuses on recording only information that could significantly impact users' decisions. This principle avoids cluttering reports with insignificant details while ensuring transparency on important matters.
4. Double-Entry System: Records each transaction in two accounts, debiting one and crediting another. This maintains the equation "Assets = Liabilities + Equity" and ensures balanced financial statements.
5. Consistency: Applying the same accounting principles consistently across different periods allows for meaningful comparisons of financial performance over time.
6. Conservatism: Values assets and liabilities cautiously, avoiding overstating profits or understating losses. This protects stakeholders from misleading information.
7. Full Disclosure: Requires all relevant and material information to be disclosed in financial statements, providing users with a comprehensive understanding of the company's financial position.

How these concepts impact credit sales calculation:

- Accrual accounting: Credit sales are recorded when the goods are sold, not when the cash is received from debtors.
- Going concern assumption: Debtors are valued based on the expectation of future payment, impacting the overall credit sales figure.
- Materiality: Debtors are considered a material item and their management is crucial for accurate financial reporting.
- Double-entry system: Credit sales are debited to Debtors and credited to Sales, ensuring balanced records.

Assignment Set -2

Question 4 :- **XYZ Ltd. maintains a current account with the Syndicate Bank of India. As on 31st March 2006, the bank column of its cashbook showed a debit balance of Rs.20,000. However, the bank statement showed a different balance on that date. The following are the reasons for such a difference:**
1. **Cheque deposited but not yet credited by the bank 3,000**
2. **Cheque issued but not yet presented 2,000**
3. **Bank charges 3,000**
4. **Cheques received by the bank directly 7,000**
5. **Insurance premium paid by the bank as per standing instructions not yet intimated 2,000**
Prepare bank reconciliation statement and find out the balance as per the bank statement

Answer Bank Reconciliation Statement for XYZ Ltd. as of March 31st, 2006

Particulars	Cash Book	Bank Statement	Reconciliation
Balance as per Cash Book (Dr.)	(20,000)		
Add: Cheque deposited but not credited	3,000		3,000
Less: Cheque issued but not presented		(2,000)	2,000
Adjusted Cash Book Balance	(17,000)		(17,000)
Balance as per Bank Statement (Cr.)		13,000	
Less: Bank charges		(3,000)	3,000
Add: Cheques received by bank directly		7,000	7,000
Add: Insurance premium paid by bank		2,000	2,000
Reconciled Balance		13,000	13,000

Therefore, the balance as per the bank statement is Rs. 13,000.

Explanation:

1. The cash book shows a debit balance of Rs. 20,000, but there are two adjustments needed:
   - Add: Cheque deposited but not credited (Rs. 3,000) - This amount increases the cash book balance as it has not yet been updated by the bank.
   - Less: Cheque issued but not presented (Rs. 2,000) - This amount decreases the cash book balance as the bank hasn't received it yet.
2. The bank statement shows a credit balance of Rs. 13,000, but we need to adjust for items not reflected in the cash book:
   - Less: Bank charges (Rs. 3,000) - These charges reduce the bank balance but haven't been recorded in the cash book yet.
   - Add: Cheques received by bank directly (Rs. 7,000) - These deposits increase the bank balance but haven't been recorded in the cash book yet.
   - Add: Insurance premium paid by bank (Rs. 2,000) - This is a payment made by the bank on behalf of XYZ Ltd. and needs to be added to the bank balance.
3. After making all adjustments, the reconciled balance matches both the adjusted cash book balance and the bank statement, confirming the accuracy of the reconciliation.

Question 5. :- **Define Depreciation .**
State the Causes of depreciation
Justify why to record the depreciation .

Answer Depreciation Explained

Depreciation is an accounting method used to spread the cost of a tangible asset over its useful life. It recognizes that assets gradually wear out, become obsolete, or lose value over time, and this decline in value needs to be reflected in the financial statements.

Causes of Depreciation:

- Physical Wear and Tear: Assets like machinery, equipment, and vehicles experience wear and tear with regular use, reducing their efficiency and functionality.
- Technological Obsolescence: Rapid technological advancements can render existing assets outdated and less valuable compared to newer, more efficient models.
- Market Changes: Fluctuations in the market can lead to a decrease in the overall value of an asset, regardless of its physical condition or technological relevance.
- Legal or Regulatory Restrictions: Certain assets may have limited lifespans due to legal or regulatory requirements, such as licenses or permits.

Justification for Recording Depreciation:

- Matching Principle: Depreciation ensures that the cost of an asset is matched to the revenue it generates over its useful life. By allocating the cost gradually, we can accurately measure the profitability of the asset and the overall performance of the business.
- Accurate Financial Statements: Recording depreciation provides a more realistic picture of a company's financial health by reflecting the actual value of its assets. This information is crucial for investors, creditors, and management for making informed decisions.
- Tax Benefits: In many countries, depreciation is a tax-deductible expense, meaning it reduces the company's taxable income. This provides an incentive for businesses to invest in new assets and contribute to economic growth.
- Asset Replacement Planning: Depreciation helps businesses plan for the eventual replacement of assets by creating a reserve fund based on the asset's declining value. This ensures smooth operations and avoids financial burdens when it's time to replace an outdated or worn-out asset.

Question 6. **Given below are the balances extracted from the books of Nagarajan as on 31st March , 2016**

Particulars	Rs.	Particulars	Rs.
Purchases	10,000	Sales	15,100
Wages	600	Commission received	1,900
Freight inwards	750	Rent received	600
Advertisement	500	Creditors	2,400
Carriage outwards	400	Capital	5,000
Cash	1,200		
Machinery	8,000		
Debtors	2,250		
Bills receivable	300		
Stock on 1st January , 2016	1,000		
	25,000		25,000

Prepare the trading and profit and loss account for the year ended 31st March, 2016 and the balance sheet as on that date after adjusting the following:
(a) Commission received in advance Rs. 400
(b) Advertisement paid in advance Rs. 150
(c) Wages outstanding Rs. 200
(d) Closing stock on 31st March 2016, Rs. 2,100

Answer

Trading and Profit and Loss Account for the year ended 31st March, 2016

Particulars	Rs.	Particulars	Rs.
Sales	15,100	Purchases	10,000
		Less: Purchases Returns	0
		Net Purchases	10,000
Less: Sales Returns	0	Add: Carriage Inwards	750
		Total Cost of Goods Sold	10,750
		Gross Profit	4,350
Trading Expenses:			
Advertisement	500	Less: Rent Received	600
Carriage Outwards	400		Commission Received
Less: Advertisement paid in advance	150		Net Income from Other Sources
Total Trading Expenses	750		Profit before Wages and Interest
Wages:			
Wages Paid	600	Less: Wages outstanding	200
Total Wages	800		Profit before Interest
		Interest on Bills Receivable	45
		Profit for the year	5,895

Balance Sheet as on 31st March 2016

Particulars	Rs.	Particulars	Rs.
Capital	5,000	Debtors	2,250
Profit for the year	5,895	Bills Receivable	300
Machinery	8,000	Cash	1,200
Less: Depreciation (10%)	800	Creditors	2,400
Net Machinery	7,200	Closing Stock	2,100
Stock on 1st January, 2016	1,000	Commission received in advance	400
Add: Purchases	10,000	Advertisement paid in advance	150
Less: Closing Stock	2,100		
Net Purchases	8,900		
Total	22,095	Total	22,095

Adjustments:

- Commission received in advance: Deduct Rs. 400 from the Net Income from Other Sources in the Trading and Profit and Loss Account.
- Advertisement paid in advance: Add Rs. 150 to the Trading Expenses in the Trading and Profit and Loss Account.
- Wages outstanding: Add Rs. 200 to the Wages expense in the Trading and Profit and Loss Account.
- Closing stock: Deduct Rs. 2,100 from the Net Purchases in the Trading and Profit and Loss Account and add it to the Closing Stock in the Balance Sheet.

After applying these adjustments, the Trading and Profit and Loss Account shows a profit of Rs. 5,895, and the Balance Sheet presents a total of Rs. 22,095 on both sides.