

MERCANTILE ACCOUNTING

PAPER-II

CLASSMATE
Date
Page

1

6.1 Indicate the registers/books/accounting documents which are required to prepare bank reconciliation Statement.

¹ Bank reconciliation Statement is a Statement showing causes of difference between the bank balance (as on date) appearing in the Cash Book and balance shown in the Bank Pass Book / Bank Statement."

1) Receipt entries in the Cash Book:-

The credit entries in the Bank Pass Book shall be compared with the debit entries in the Bank Column (of the Cash Book) and the entries appearing in both shall be ticked.

The unticked items shall represent cheques deposited into the bank but not credited by the bank.

2) Payment entries in the Cash Book:-

The debit entries in the Bank Pass Book shall be compared with credit entries in the Bank Column (of the Cash Book) and the entries appearing in both shall be ticked.

The unticked items shall represent cheques issued (to payee) but not presented.

3) Other entries in the Bank Statement:-

The other entries (both debit or credit) shown in the Bank Pass Book, are to be properly accounted for in the Cash Book, after verifying correctness, Based on appropriate bank advices. Such entries are to be made by preparing

appropriate adjustment / contra vouchers.

6.2 Explain the consequences if periodical bank reconciliation statement is not prepared.

- 1) Errors in the Cash Book Posting and / or in the Bank Pass Book can ~~both~~ rectified.
- 2) Transactions remained to be entered in the Cash Book can ~~not~~ be entered with update of respective balances.
- 3) In case of cheques dishonoured, action of recoveries can be initiated in time as also bank charges debited by the bank can be charged / Recovered.
- 4) Entries of time-barred cheques / stale cheques can ~~not~~ be taken in the Cash book. In such cases, the transaction / entry is recorded as follows.
Bank A/c Dr.
 To stale cheques A/c Cr.
- 5) Frauds if any, can be detected in time.

Q.7.

Ans:-

Explain the components (items) of Balance sheet.

"Balance sheet is an accounting statement which shows the financial position of all assets and liabilities of the business/organisation as on particular date."

"Different forms are prescribed for Income and Expenditure A/c and the balance sheet under various acts such as Public Charitable Trust Act, The Companies Act, Societies Act etc."

The items of Balance sheet are:-

① Liabilities:-

i) Capital:- which represents the amount due to the owner.

The drawings or personal Expenditure of the owner are reduced from the Capital and the Profit or Surplus generated is added to the Capital or loss or deficit is reduced from the Capital. These adjustments are

generally applicable in case of Proprietary or Partnership concerns only. In case of Company or Society, the Profit or surplus generated is not added in the Capital because it cannot be distributed to the owner. Such account is shown separately under the head "Income and expenditure A/c" on the liability side in case of accumulated Surplus or on asset side in case of accumulated deficit. In case of company, the Profit is shown under the "Reserves and Surplus" and accumulated loss it is shown under the head "Miscellaneous Expenditure" on Asset side.

ii) Funded funds or reserves:- amount kept aside by the organization for future liability such as

gratuity etc is shown under "Reserves".

ii) Loans:- Loans taken by the organization whether secured or unsecured are shown under the head 'loan' on liability side.

iv) Current liabilities and provisions:- These items generally represent the liabilities which are to be paid within a period of one year. It includes, creditors, outstanding expenses, provisions for taxation, advance received from customer etc.

③ Assets:-

i) Fixed Assets:- Include building, furniture, machines, Computers etc. The cost as well as the depreciation charged is shown separately. The Capital work in progress is also shown under this head.

ii) Investments:- The investment of surplus funds of an organisation in shares, debentures, bonds etc are shown under this head.

iii) Current Assets, loans and advances:- It includes interest accrued on investment, cash, bank balances, stock in hand, stores, staff loans, prepaid expenses, deposits paid etc.

iv) Deferred Revenue Expenditure:- The deferred revenue expenditure to the extent not written off is shown under this head.

Q.8

Indicate the accounting entry for transferring the following amounts to "Income & Expenditure A/c".

Salary	Rs. 10,00,000/-	Dr.
Elect. Charges	Rs. 20,000/-	Dr.
Repairs/Maintenance	Rs. 36,000/-	Dr.
Travelling Expenses	Rs. 15,000/-	Dr.
Insurance	Rs. 16,000/-	Dr.

Credit Amounts

Revenue Income	Rs. 27,00,000/-
Interest received	Rs. 25,000/-
Rent received	Rs. 50,000/-
Profit on sale of Property	Rs. 5,000/-
Un-Conditional Grant	Rs. 1,40,000/-

Ans:- Expenditure	Rs.	Income	Rs.
Salary	10,00,000/-	Revenue Income	27,00,000/-
Electrical charges	20,000/-	Interest Received	25,000/-
Repair & Maintenance	36,000/-	Rent Received	50,000/-
Travelling Expenses	15,000/-	Profit on sale of property	5,000/-
Insurance	16,000/-	Un-Conditional Grant	1,40,000/-
Total Expenditure	10,87,000/-		
To Surplus			
Excess of			
Income over	18,33,000/-		
Expenditure	29,20,000/-		29,20,000/-

Following are the ledger balances in the books of ABC Nagar Parishad as on 31-03-14. Prepare Trial Balance, Income - Expenditure A/c and Balance sheet.

Cash in hand	
Bank Balance	Rs. 7000/- Dr.
Property Tax Income	Rs. 2,10,000/-
Water Tax Income	Rs. 25,50,000/-
Octroi Income	Rs. 10,70,000/-
Govt. Loan	Rs. 30,20,000/-
Repairs/Maintenance	Rs. 11,00,000/-
Salary	Rs. 22,44,000/-
Office Building	Rs. 22,55,000/-
Pumping station	Rs. 13,00,000/-
Machinery	Rs. 17,00,000/-
Travelling Exp.	Rs. 1,00,000/-
Un-Conditional Grant	Rs. 84,000/-
Depreciation Reserve	Rs. 7,60,000/-
Investments	Rs. 50,000/-
	Rs. 50,000/-

The following provisions are to be provided for,
Depreciation

	10%
Tele. Exp. Unpaid a/c	Rs. 10,000/-
Rent Receivable	Rs. 20,000/-

Entries for these are to be passed and all the three statements of accounts are to be compiled considering these entries.

Ans:-

ABC Nagar Parishad

Trial Balance as at 31.03.2014

Sr. No.	Particulars	L.F.	Debit (Rs)	Credit (Rs)
01	Cash in hand		7,000/-	
02	Cash in Bank		2,10,000/-	
03	Property Tax Income			25,50,000/-
04	Water Tax Income			10,70,000/-
05	Octroi Income			30,20,000/-
06	Govt Loan			11,00,000/-
07	Repair/Maintenance		28,44,000/-	
08	Salary		22,55,000/-	
09	Office Building		13,00,000/-	
10	Pumping Station		11,00,000/-	
11	Machinery		7,00,000/-	
12	Travelling Exp.		84,000/-	
13	Un-conditional Grant			7,60,000/-
14	Depreciation Reserve			50,000/-
15	Investment		50,000/-	
	Total		85,50,000/-	85,50,000/-

ABC - Nagar Parishad
Income and Expenditure A/c
For the year ended on
(31.03.2014)

<u>Expenditure</u>	<u>Rs.</u>	<u>Income</u>	<u>Rs.</u>
Repair/maintenance	22,44,000	Property Tax income	25,50,000
Salary	22,55,000	Water Tax income	10,70,000
Travelling Exp.	84,000	Octroi Income	30,29,000
Telephone Exp Unpaid	10,000	Un-Conditional Grant	7,60,000
Investment	50,000	Rent Receivable	20,000
Office Building	13,00,000	Grant Loan	11,00,000
Pumping Station	17,00,000		
Machinery	1,00,000		
	83,43,000		
Surplus	1,77,000		
	85,20,000		85,20,000

ABC Nagar Hospital Balance sheet as at 31.03.2014

Liabilities	Rs.	Assets	Rs.
Bank Balance	2,10,000	Property Tax	25,50,000
Cash in hand	7,000	Water Tax	10,70,000
Travelling Exp.	84,000	Other Income	30,20,000
Sundry	22,55,000	Govt. Loan	71,00,000
Repair	22,44,000	Un-conditional Grant	7,60,000
Building Exp.	13,00,000	Rent Receivable	20,000
Pumping station	1700,000		
Machinery	7,00,000		
	37,00,000		
Depreciation 10%	370,000		
	33,30,000		
Depreciation	50,000		
Reserved			
Tel. Exp.	33,80,900		
Unpaid	10,000		
			85,20,000

Q.10 Indicate the various functions related to Store Management and Concerned Department / Society / Individual responsible for each function.

Ans:- Stores Management:-

The total stores management involves co-ordination of various functional heads. Their responsibilities are narrated below.

Functional Responsibilities:-

The various functions as stated above normally carried out by the following sections.

Activity	Dept. Concerned.
Procurement of Material	Purchase Dept.
Receipt/issue of material, valuation of material, maintain stores ledger.	Store Keeper (Stores Incharge)
Passing of bills, preparing Journal entries, Posting in the books of accounts.	Accounts Dept.
Annual verification of stock	Organisation Incharge or Office so authorised
Reconciliation between stock ledger and financial ledger	Accountant and Store Keeper

<u>Activity</u>	<u>Dept Concerned</u>
Preparing material requisition	Material drawing officer
Preparing material credit note	Officer in charge of works who returns excess material.
Preparing and valuation of material requisition and credit notes for shortages and excesses,	Store keeper