(a) Perfect Competition (b) Duopoly (c) Monopoly (d) Oligopoly

19. The firm is said to be in equilibrium, when it's Marginal Cost (MC) Equals to___ . ( )

(a) Total cost (b) Total revenue (c) Marginal Revenue (d) Average Revenue

20. Charging very high price in the beginning and reducing it gradually is called ( )

(a) Differential pricing (b) Sealed bid pricing (c) Skimming pricing (d) Penetration pricing

21. What is the formula for Margin of Safety? ( )

(a) Break Even sales – Actual sales (b) Maximum sales – Actual sales (c) Actual sales – Break Even sales (d) Actual sales – Minimum sales

22. 'Contribution" is the excess amount of Actual Sales over ______. ( )

(a) Fixed cost (b) Sales (c) Variable cost (d) Total cost

UNIT-IV Financial Accounting

Accounting :

Accounting is the science of recording and classifying business transactions and events primarily of financial character, and the art of making significant, summaries, analysis and interpretations of those transaction and events, and communicating the results to persons who must make decisions or form judgment.

Accounting concepts and Conventions:

Concepts are the basic ideas, the theories on how and why certain categories of transactions should be treated in a particular manner.
Once the theories have been established and tested and proved to be acceptable, the task of the Conventions is to set out the limit of their applications.

Accounting Concepts :

1. **Business entity concept:** A business and its owner should be treated separately as far as their financial transactions are concerned.
2. **Money measurement concept:** Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.
3. **Dual aspect concept:** For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect.
4. **Going concern concept:** In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at "fire-sale" prices.
5. **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus

depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.

6. **Accounting year concept:** Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
7. **Matching concept:** This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
8. **Realisation concept:** According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

Accounting Conventions

There are four main conventions in practice in accounting:

Conservatism is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.

Consistency prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.

Materiality means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.

Full disclosure entails the revelation of all information, both favourable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

Accounting Equation:

Accounting equation describes that the total value of assets of a business is always equal to its liabilities plus owner's equity. This equation is the foundation of modern double entry system of accounting being used by small proprietors to large multinational corporations. Other names used for accounting equation are balance sheet equation and fundamental or basic accounting equation.

Accounting equation is simply an expression of the relationship among assets, liabilities and owner's equity in a business. The general form of this equation is given below:

Assets = Liabilities + Owner's Equity

Rules for maintaining Books of Accounts

Personal Account: these are the accounts of natural persons such as ram account, gopal account. Artificial person such as udayltd, syndicate bank. And representative personal account.

<u>Rule</u>: "Debit----The Receiver Credit---The Giver"

Real Accounts: accounts relating to properties or assets of a trader are known as real accounts. It includes tangible assests such as buildings, furniture,. Cash, etc and also intangible assets such as goodwill, trade marks, patent rights.

Rule: "Debit----What comes in

Credit---What goes out"

Nominal Accounts : account dealing with expenses, losses, gains and incomes are called nominal accounts, eg. Salaries, wages commission account etc.

Rule: "Debit----All expenses and losses

Credit---All incomes and gains"

Journal

Journal means a daily record of business transactions. Journal being a book of original entry. The transaction is first written in the journal from which it is posted to the ledger. The transactions will be recorded as and when they occur and in the order in which they occur.

Date	Particular	LF	Debit	credit
	Cash a/c----------------------------DR To ram a/c (narration)		20,000	 20,000

Where: ledger folio . in this column the pages numbers on which the various accounts appear in the ledger are entered.

Narration : an explanation of the entry in the particular column

Ledger

Ledger:

Ledger is a book in which various accounts such as personal, real and nominal account are opened. Every transaction is first recorded in the journal, and from it, transferred to the concerned account in the ledger. This process of transferring the transaction from the journal to the ledger is called posting.

Dr ledger a/c

Cr

Date	Particular	JF	Amount	Date	Particular	JF	Amount

Note:

Dr means debit side it is always start with TO, Cr means credit side it is always start with By

Balancing an account: after all transaction have been posted and the various accounts prepared they are balanced. The procedure for balancing ledger accounts is as follows.

1. Take the totals of the two sides of the account on a rough sheet.
2. Ascertain the difference between the totals of two sides . the difference is called "balance"
3. Enter the difference in the amount column of the side showing less total. If the credit side total is less , write in the particulars column on the credit side of the account , By balance c/d. similarly if the debit side is less , write on the debit side of the account To balance c/d.

Trail Balance

The first step in the preparation of final accounts is the preparation of trail balance. In the double entry system of book keeping, there will be credit for every debit and there will not be any debit without credit. When this principle is followed in writing journal entries, the total amount of all debits is equal to the total amount all credits.

A trail balance is a statement of debit and credit balances. It is prepared on a particular date with the object of checking the accuracy of the books of accounts. It indicates that all the transactions for a particular period have been duly entered in the book, properly posted and balanced.

Thus a trail balance is a list of balances of the ledger accounts' and cash book of a business concern at any given date

PROFORMA FOR TRAIL BALANCE:

Trail balance for MR…………………………………… as on …………

NO	NAME OF ACCOUNT (PARTICULARS)	DEBIT AMOUNT(RS.)	CREDIT AMOUNT(RS.)

Final Accounts

In every business, the business man is interested in knowing whether the business has resulted in profit or loss and what the financial position of the business is at a given time. In brief, he wants to know (i)The profitability of the business and (ii) The soundness of the business.

The trader can ascertain this by preparing the final accounts. The final accounts are prepared from the trial balance. Hence the trial balance is said to be the link between the ledger accounts and the final accounts. The final accounts of a firm can be divided into two stages. The first stage is preparing the trading and profit and loss account and the second stage is preparing the balance sheet.

1. Trading account
2. Profit and loss account
3. Balance sheet.

Trading account

Trading account is a part of profit and loss account . trading account is prepared for ascertaining Gross profit or gross loss. The difference between the sales and the cost of the goods sold is gross profit. Cost of good sold can be ascertained by adding opening stock , purchases, direct expenses for purchase of goods and deduction there from closing stock and sales.

Proforma of Trading Account

Trading account of ------------- for the year ended 31 march ----

Particular	Amount	Particular	Amount
To opening stock	Xxxx	By Sales xxxxx	Xxxx
To Purchase xxxx Less: purchase return xxxx	Xxxx	Less; Sales return xxxxx	
To carriage inwards	Xxx	By closing stock	Xxxx
To wage	Xxxx		
To freight , duty clearing charges	Xxxx		
To fuel and power	Xxxx		
To coal, gas, and water	Xxxx		
To motive power	Xxxx		

To factory rent To manufacturing expenses To direct expenses To factory lighting To gross profit	Xxxx Xxxx Xxxx Xxxx Xxxx		
	Xxxxxxx		xxxxxxx

Profit and Loss Account

Profit and loss account is prepared to ascertain the net profit or net loss of the business for a particular period. All indirect expenses such as management and office expenses, financial expenses, selling and distribution expenses are taken on the debit side. Gross profit and other items of incomes such as interest received , discount received, etc. are taken on credit side. The different between two sides is either net profit or net loss which is transferred to capital account.

The business man is always interested in knowing his net income or net profit.Net profit represents the excess of gross profit plus the other revenue incomes over administrative, sales, Financial and other expenses. The debit side of profit and loss account shows the expenses and the credit side the incomes. If the total of the credit side is more, it will be the net profit. And if the debit side is more, it will be net loss.

Proforma of Profit and Loss Account

Profit and loss of --------------- for the year ended 31 march xxx

Particular	Amount	Particular	Amount
To Salaries xxx Add : outstanding salaries xxx	Xxx	By gross profit	Xxx
To Rent	Xxx	By Discount receive	Xxx
To Discount allowed	Xxx	By Interest receive	Xxx
To Office expenses	Xxx	By Commission receive	Xxx
To Rate and tax	Xxx		
To Lighting	Xxx		
To Printing and stationery	Xxx		
To Postage and telegrams	Xxx		
To Telephone charges	Xxx		
To Legal expenses	Xxx		
To Telephone charges	Xxx		
To Audit fee	Xxx		
To General expenses	Xxx		
To Advertisement	Xxx		
To Insurance	xxx		
To interest on capital	Xxx		
To deprecation on assets(machinery , building , furniture,	Xxx		

land.etc) To repair To carriage outward To written off bad debts To travelling expenses To interest on loan To net profit	 Xxx Xxx Xxx Xxx Xxx Xxx		
	Xxxxxx		xxxxxx

Balance Sheet:

The second point of final accounts is the preparation of balance sheet. It is prepared often in the trading and profit, loss accounts have been compiled and closed. A balance sheet may be considered as a statement of the financial position of the concern at a given date.

DEFINITION: A balance sheet is an item wise list of assets, liabilities and proprietorship of a business at a certain state.

J.R.botliboi: A balance sheet is a statement with a view to measure exact financial position of a business at a particular date.

Thus, Balance sheet is defined as a statement which sets out the assets and liabilities of a business firm and which serves to as certain the financial position of the same on any particular date. On the left-hand side of this statement, the liabilities and the capital are shown. On the right-hand side all the assets are shown. Therefore, the two sides of the balance sheet should be equal. Otherwise, there is an error somewhere.

PROFORMA OF BALANCE SHEET

Balance sheet of Mr.------------------------------ for the year ending on 31 march xxxxx

Liabilities	Amount	Assets	Amount
Capital xxxx Add: interest on capital xxxx Net profit xxxx ------ Xxxx	 Xxx	Plant and machinery Xxx Less: depreciation on plant machinery xxx Building xxx Less : depreciation on building xxx Land	 Xxx Xxx Xxx

Less: drawings xxxx Net loss xxxx		xxx Less ; depreciation on land xxx	
Sundry creditor	xxx	Sundry debtor xxx Less : written of bad debts xxx	Xxx
Bank overdraft	Xxx	Cash in hand	Xxx
Outstanding expenses	Xxxx	Cash at bank	Xxx
Reserves	Xxx	Investment	Xxx
Long term loans	Xxx	Bill receivable	Xxxx
Bill payable	Xxx	Prepaid expenses	Xxx
		Prepaid expenses	Xxx
		Vehicle	Xxx
		Closing stock	Xxx
	Xxxxx		xxxxx

Advantages: The following are the advantages of final balance .

1. It helps in checking the arithmetical accuracy of books of accounts.
2. It helps in the preparation of financial statements.
3. It helps in detecting errors.
4. It serves as an instrument for carrying out the job of rectification of entries.
5. It is possible to find out the balances of various accounts at one place.

Final Accounts -- Adjustments

We know that business is a going concern. It has to be carried on indefinitely. At the end of every accounting year. The trader prepares the trading and profit and loss account and balance sheet. While preparing these financial statements, sometimes the trader may come across certain problems .The expenses of the current year may be still payable or the expenses of the next year have been prepaid during the current year. In the same way, the income of the current year still receivable and the income of the next year have been received during the current year. Without these adjustments, the profit figures arrived at or the financial position of the concern may not be correct. As such these adjustments are to be made while preparing the final accounts.

The adjustments to be made to final accounts will be given under the Trial Balance. While making the adjustment in the final accounts, the student should remember that "every adjustment is to be made in the final accounts twice i.e. once in trading, profit and loss account and later in balance sheet generally". The following are some of the important adjustments to be made at the time of preparing of final accounts:-

1.*Closing Stock* :-

(i)*If closing stock is given in Trail Balance*: It should be shown only in the balance sheet "Assets Side".

(ii)*If closing stock is given as adjustment* :

1. First, it should be posted at the credit side of "Trading Account".
2. Next, shown at the asset side of the "Balance Sheet".

2.*Outstanding Expenses* :-

(i)*If outstanding expenses given in Trail Balance*: It should be only on the liability side of Balance Sheet.

(ii)*If outstanding expenses given as adjustment* :

1. First, it should be added to the concerned expense at the debit side of profit and loss account or Trading Account.
2. Next, it should be added at the liabilities side of the Balance Sheet.

3.*Preapid Expenses* :-

(i)*If prepaid expenses given in Trial Balance*: It should be shown only in assets side of the Balance Sheet.

(ii)*If prepaid expense given as adjustment* :

1. First, it should be deducted from the concerned expenses at the debit side of profit and loss account or Trading Account.
2. Next, it should be shown at the assets side of the Balance Sheet.

4.*Income Earned But Not Received [Or] Outstanding Income [Or] Accured Income*:-

(i)*If incomes given in Trial Balance*: It should be shown only on the assets side of the Balance Sheet.

(ii)*If incomes outstanding given as adjustment*:

1. First, it should be added to the concerned income at the credit side of profit and loss account.
2. Next, it should be shown at the assets side of the Balance sheet.

5. *Income Received In Advance: Unearned Income*: -

(i)*If unearned incomes given in Trail Balance* : It should be shown only on the liabilities side of the Balance Sheet.

(ii)*If unearned income given as adjustment* :

1. First, it should be deducted from the concerned income in the credit side of the profit and loss account.
2. Secondly, it should be shown in the liabilities side of the Balance Sheet.

6.*Depreciation*: -

(i)*If Depreciation given in Trail Balance*: It should be shown only on the debit side of the profit and loss account.

(ii)*If Depreciation given as adjustment*

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deduced from the concerned asset in the Balance sheet assets side.

7.*Interest On Loan [Or] Capital*:-

(i)*If Interest On Loan (Or) Capital Given In Trail Balance* :It should be shown only on debit side of the profit and loss account

(ii)*If Interest On Loan (Or)Capital Given As Adjustment* :

First, it should be shown on debit side of the profit and loss account.
Secondly, it should added to the loan or capital in the liabilities side of the Balance Sheet.

8.*Bad Debts*:-

(i)*If bad debts given in Trail balance* :It should be shown on the debit side of the profit and loss account.

(ii)*If Bad Debts Given As Adjustment*:

1. First, it should be shown on the debit side of the profit and loss account.
2. Secondly, it should be deducted from debtors in the assets side of the Balance Sheet.

9.*Interest On Drawings* :-

(i)*If interest on drawings given in Trail balance*: It should be shown on the credit side of the profit and loss account.

(ii)*If interest on drawings given as adjustments* :

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be deducted from capital on liabilities side of the Balance Sheet.

10.*Interest on Investments* :-

(i)*If Interest on The Investments Given In Trail Balance* :It should be shown on the credit side of the profit and loss account.

(ii)*If interest on investments given as adjustments*

1. First, it should be shown on the credit side of the profit and loss account.
2. Secondly, it should be added to the investments on assets side of the Balance Sheet.

Questions

1.Define Accounting. Desribe briefly Accounting Concepts and Accounting Conventions?

2. Explain various types of Accounts and their Rules with examples?

3. State the advantages of Double Entry system of Accounting?

4. Write short notes on

(a) Journal (b) Assets (c) Expenditure

5.Draw the proforma of Trial Balance?

6. What is Trial Balance? Why it is prepared?

7. Journalise the following transactions and post them to ledger.

i. Ram invests Rs.10,000 in cash.

ii. He bought goods worth Rs. 2,000 from Shyam.

iii. He bought a machine for Rs. 5,000 from Lakshman on account

iv. He paid to Lakshman Rs. 2,000

v.He sold goods for cash Rs.3,000

vi. He sold goods to A on account Rs. 4,000

vii. He paid to Shyam Rs.1,000

viii. He received amount from A Rs.2,000

8.In the books of Kishore, prepare Trading and profit and loss account for the year ended 30th June, 2003:

Stock (1.7.2002) 1,06,000 Purchases 3,00,000 Wages 2,50,000 Office salaries 60,000 Discount on sales 20,000 Carriage inwards 20,000 Carriage outwards 60,000 Stationery 3,000 Rent (¾ to Factory) 48,000 Postage 3,500 Transport and conveyance 25,000 General charges 3,500 Commission 26,000 Power 55,000 Rebate on purchases 10,000 Sales 10,00,000.

9. Following figures have been extracted from the records of Fancy Stores a proprietary concern as on 31- 12-2003: Furniture 15,000 Insurance 6,000 Proprietors capital a/c 54,000 Rent 22,000 Cash in hand 3,000 Sundry debtors 60,000 Opening stock 50,000 Sales 6,00,000 Fixed deposit 1,34,600 Advertisement 10,000 Drawings 5,000 Postages and Telephone 3,400 Provision for bad debts 3,000 Bad debts 2,000 Cash at bank 10,000 Printing and stationery 9,000 Purchases 3,00,000 General charges 13,000 Salaries 19,000 Sundry creditors 40,000 Carriage inwards 41,000 Deposit from Customers 6,000

Prepare Trading, Profit and loss account and balance sheet after taking into consideration the following information.

Objective Questions

1.In which Book-keeping system, business transactions are recorded as two separate accounts at the same time? ( )

(a) Single entry (b) Triple entry (c) Double entry (d) None

2. In which Concept "Business is treated separate from the Proprietor? ( )

(a) Cost concept (b) Dual aspect concept (c) Business entity concept (d) Matching concept

3. When a deduction allowed from the gross or catalogue price to traders; then it is called as ____. ( )

(a) Cash discount (b) Credit discount (c) Trade discount (d) None

4. "Out standing wages" is treated as _________. ( )

(a) Asset (b) Expense (c) Liability (d) Income

5. How many types of accounts are maintained to record all types of business transactions? ( )

(a) Five (b) four (c) Three (d) Two

6. Which connects the link between Journal and Trial Balance? ( )

(a) Trading Account (b) Profit & Loss account (c) Ledger (d) Balance sheet

7.Which assets can be converted into cash in short period? ( )

(a) Fixed Assets (b) Intangible Assets (c) Current Assets (d) Fictious Assets

8. "Bank over draft" is a ________. ( )

(a) Asset (b) Expense (c) Liability (d) Income

9. Profit and Loss account is prepared to find out the business ____. ( )

(a) Gross result (b) Financial position (c) Net result (d) Liquidity position

10. The statement of “Debit and credit balances of Ledger accounts” is called as ________( )

(a) Journal (b) Ledger (c) Trial balance (d) Balance sheet

11. ______ is called as ‘Book of Original Entry’. ( )

(a) Ledger (b) Trial Balance (c) Journal (d) Trading account

12. Debit what comes in; Credit what goes out is ____ account principle? ( )

(a) Nominal (b) Personal (c) Real (d) None

13. The process of entering transactions in to Ledge accounts known as __. ( )

(a) Journal entry (b) First entry (c) Posting (d) None

14. Debit Expenses and Losses; Credit Incomes and Gains is ___ account Principle ( )

(a) Personal (b) Real (c) Nominal (d) None

15. “Prepaid Insurance Premium” is treated as _________. ( )

(a) Gain (b) Income (c) Asset (d) Liability

Unit -V Financial Analysis through Ratios

Concept of Ratio Analysis, Liquidity Ratios, Turnover Ratios, Profitability Ratios, Proprietary Ratios, Solvency, Leverage Ratios (simple problems).

Introduction to Fund Flow and Cash Flow Analysis (simple problems).

Ratio Analysis

Ratio analysis is used to evaluate relationships among financial statement items. The ratios are used to identify trends over time for one company or to compare two or more companies at one point in time.

Types of Ratios

Liquidity ratios measure the ability of a company to repay its short-term debts and meet unexpected cash needs.

Current ratio: The current ratio is also called the working capital ratio, as working capital is the difference between current assets and current liabilities. This ratio measures the ability of a company to pay its current obligations using current assets. The current ratio is calculated by dividing current assets by current liabilities