3. Other Related Matters

Students' Notes: This area covers other theoretical aspects of accounting. Also explains the method of measuring a transaction and Accounting Standards.

3.1 Bases of Accounting

1. **Meaning:** "Bases of Accounting" refers to the stage at which incomes and expenses are recorded in the Books of Accounts.
2. **Types:** There are 3 bases of Accounting – (a) Cash Basis (b) Accrual Basis and (c) Hybrid Basis. Explained as under –

Cash Basis	Accrual Basis (Otherwise called as Mercantile Basis)
Profit = Cash received in normal course of business (–) Cash paid in normal course of business	Profit = Revenue (earned) (–) Expenses (incurred)
Cash Receipts of any year, may relate to – (a) previous years, (b) current year, or (c) future years. No distinction is drawn for calculating profit / surplus.	When Cash and Revenue flow at different times, it is treated as under – (a) Cash received **before** revenue is earned = Income Received in Advance = **Liability.** (b) Cash received **after** revenue is earned = Income Receivable = **Asset.**
Cash Payments of any year, may relate to – (a) previous years, (b) current year, or (c) future years. No distinction is drawn for calculating profit / surplus.	When Cash and Expense are recognised at different times, it is treated as under – (a) Cash paid **before** expense is incurred = Prepaid Expense = **Asset.** (b) Cash paid **after** expense is incurred = Payables / Outstanding Liabilities = **Liability**.
Companies Act, 1956 does not permit the use of Cash Basis of Accounting.	Companies Act, 1956 specifically requires the use of accrual basis of accounting.
For example, ₹ 12,000 rent payable for 12 months. Actual rent paid is ₹ 10,000. ₹ 10,000 alone considered for computing profits	**For the same Example,** ₹ 12,000 is considered for computing the profits from the business.

Hybrid System or **Modified Accrual System**: In this method, the revenue are recognised on cash basis and expenses are recognized on Accrual Basis. This is a mixture of Realisation Concept and Accrual Concept.

3.2 Qualitative Features of Financial Statements

Financial Statements are prepared to ascertain the operating results and the financial position of the business. They should have the following features –

Aspect	Description
1. **Relevance**	Information must be relevant to the **decision–making needs** of the Users.
2. **Reliability**	Information in Financial Statements must be **reliable**, i.e. (a) free from material error and bias, and (b) can be depended upon by the User to faithfully represent the correct position.
3. **Understandability**	Financial Statements must be understandable to users. However, the required information should not be excluded, just because it may be complex or difficult for the users to understand.
4. **Comparability**	Information in Financial Statements should be comparable, (both for inter–firm and intra–firm comparison). This is possible only when **consistency** concept is applied, and accounting policies and changes therein are adequately disclosed. (However, Comparability ≠ Mere Uniformity).
5. **Materiality**	All material information should be disclosed in the Financial Statements. Information is material if its misstatement (i.e. omission / erroneous) could influence the economic decision of Users.
6. **Faithful Representation**	Information must **faithfully represent** the transactions & events which it represents. It should represent the balances of Assets and Liabilities, which can be used for analysis in good faith.
7. **Substance over Form**	The Financial Statements should reflect the **substance of the transaction than the mere legal form** thereof.
8. **Neutrality**	Information in Financial Statements must be **free from bias**, i.e. it should not influence the decision or judgement of the User, in order to achieve a pre–determined result or outcome.
9. **Prudence**	Prudence is the inclusion of a degree of **caution** in the exercise of the judgements needed in making the estimates required under conditions of uncertainty. Hence, Assets and Incomes should not be over–stated, and Liabilities and Expenses should not be under–stated.
10. **Disclosure**	All material items must be **fully, fairly and adequately disclosed** in the Financial Statements. **Fullness** implies nothing material should be omitted. **Fairness** implies true and fair view of Financial Statements. **Adequacy** implies disclosure of proper details and in a sensible manner.
11. **Completeness**	Information in Financial Statements must be **complete** within the limitations set by materiality & cost. An omission can cause information to be misleading, unreliable and irrelevant

3.3 Limitations of Accounting

1. Accounting involves **different assumptions** and conventions on which it is based. These assumptions, by themselves, become a limitation for accounting. ***Hence, Accounting is considered only as an art and not as pure science.***
2. There are **different accounting policies** for the treatment of the same item, e.g. Depreciation, Valuation of Stocks, etc. This may not ensure comparability among Financial Statements of various Firms.
3. **Certain accounting estimates** are based on the **personal judgement of the Accountant**, e.g. provision for doubtful debts, capital vs revenue expenditure, writing off intangible assets, etc. This may lead to the possibility of manipulations.
4. The Financial Position of the business as depicted by accounts is static and not dynamic. i.e it gives the position on a particular day on which it is prepared and does not predict future position.
5. **Inflation effect** is not considered in the general purpose Financial Statements.
6. The **worth** of an Entity may be assessed by various factors, but all cannot be measured in terms of money.
7. Accounting **ignores** the real assets which cannot be measured in terms of money, i.e. **Employees**. There is no generally accepted formula for the valuation of Human Resources in terms of money.

3.4 Accounting as Measurement Discipline

A. Elements of a Measurement Discipline

The three elements of Measurement Discipline and how Accounting satisfies these elements are as under –

Element / Condition	Does Accounting satisfy the condition?
1. Identification of objects or events to be measured.	Financial Transactions and Events are measured in Accounting. Non–financial transactions, however significant, are not considered.

Element / Condition	Does Accounting satisfy the condition?
2. Selection of Standard or Scale to be used.	The ruling currency of the country is used as the basis of money measurement, in Accounting. However – (a) Money is not a stable scale having universal applicability. (b) Exchange Rates between different currencies are not constant.
3. Evaluation of dimension of measurement standard	Money, as a valuation base, loses its value over period time. Hence, it is **not stable** in the dimension.

Conclusion: However, Accounting is not an exact measurement discipline because accounting measures information mostly in money terms which is – (a) not a stable scale (b) Not having universal applicability and (c) not stable in dimension for comparison over time.

B. Measurement Bases in Accounting

The measurement bases or valuation principles used in Accounting are –

Base	Valuation Rule for	
	Assets	**Liabilities**
1. **Historical Cost**	Cash or Cash Equivalent paid, or Fair Value of the Asset at the **time of acquisition**.	Proceeds received in exchange for the obligation, or the amount of cash / cash equivalent expected to be paid to satisfy it in the **normal course of business.**
2. **Current Cost**	Cash or Cash Equivalent which is to be paid if the same or an equivalent asset was **acquired currently. (PURCHASE ANGLE)**	Undiscounted amounts of Cash and Cash Equivalent that would be required to settle the obligation **currently.**
3. **Realisable Value**	Cash or Cash Equivalent that could currently be obtained by **selling** the assets in an **orderly disposal. (SALE ANGLE)**	Undiscounted amounts of Cash and Cash Equivalent that would be required to settle the obligation in the **normal course of business.**
4. **Present Value**	**Present Discounted Value** of Cash Inflows expected to be derived from such asset over its useful life.	**Present Discounted Value** of Cash Outflows expected to be required to settle the liabilities in the normal course of business.

Note: Different measurement bases, like Historical Cost / Current Costs / Net Realisable Value / Present Value, are used according to suitability (i.e. the situational needs) to depict true and fair view of the financial position of the reporting entity.

3.5 Accounting Policies and Estimates

A. Meaning and Need of Accounting Policies

1. Accounting Policies refer to – (a) the specific accounting **principles,** and (b) the **methods** of applying those principles, adopted by the enterprise in the preparation and presentation of Financial Statements.
2. **Example:** Inventory is valued at Cost or Net Realisable Value, whichever is lower. This is a principle. Cost can be determined either by First in First out (FIFO) method or Weighted Average Cost (WAC) or other suitable **methods.**
3. **Need for disclosure:** Accounting Policies should be disclosed in the Financial Statements due to following reasons –
   (a) To promote better understanding of Financial Statements.
   (b) To provide meaningful Inter–Firm Comparison.
   (c) To ensure compliance with Law, for example, where in case of Companies, disclosure is mandatory.
   (d) To comply with ICAI Requirements, in order to bring uniformity in disclosure.

B. Choice of Accounting Policies

1. **Alternative accounting policies:** The differing circumstances in which enterprises operate and the situation of diverse and complex economic activities of the Company has given rise to acceptability of alternative accounting principles and methods of applying those principles.
2. **Decision Making:** The choice of the alternative principles and methods calls for considerable judgement by the management of the enterprise.

3. **Reduction in alternatives:** Various Statements issued by ICAI, together with the measures of Government, other regulatory agencies and progressive managements have reduced the number of acceptable alternatives, particularly for corporate enterprises. However, the availability of alternative accounting policies can at best be reduced, **not eliminated,** as different enterprises operate in differing circumstances.
4. **Illustrative List of areas of alternative accounting policies:**
   (a) Conversion or translation of Foreign Currency items.
   (b) Recognition of profit on Long–Term contracts.
   (c) Treatment of – (i) Expenditure during construction, (ii) Goodwill, (iii) Retirement Benefits, and (iv) Contingent Liabilities.
   (d) Valuation of – (i) Inventories, (ii) Investments, and (iii) Fixed Assets.

Note: Generally Companies disclose these accounting policies in the Notes on Accounts.

C. Principles for Selection of Accounting Policies

1. **True and Fair View:** The **primary consideration** in the selection of Accounting Policies by an enterprise is that the Financial Statements prepared and presented should represent a **true and fair view** as under –

In the case of the Balance Sheet	Of the **State of Affairs** of the enterprise as on a certain date.
In the case of Profit & Loss Account	Of the **Profit or Loss** for the period ended on that date.

2. **Factors:** To select and apply an accounting policy, the following points are considered – **(Secondary Consideration)**

(a) Prudence	(b) Substance over Form	(c) Materiality

3. **Change in Accounting Policies:** Accounting policies have to be consistent from year to year. However, change in accounting policies can be made in the following situations –
   (a) If the adoption of a different accounting policy is required by Statute, or
   (b) For compliance with an Accounting Standard, or
   (c) If it is considered that the change would result in a more appropriate presentation of the Financial Statements.

D. Disclosure of Accounting Policies

1. **Disclosure of Accounting Policies: All significant accounting policies** adopted in the preparation and presentation of Financial Statements should be **disclosed** to facilitate better understanding of the Financial Statements.
2. **Place of Disclosure:** Disclosures should form part of the Financial Statements. It should be disclosed at **one place,** instead of being scattered over several Statements, Schedules and Notes.
3. **Change in Accounting Policies:** Change in an accounting policy should be disclosed –
   (a) When such change has a material effect in the current period and
   (b) When such change is reasonably expected to have a material effect in later periods.
4. **Manner of Disclosure of change in accounting policies:**

Effect in Current Period	Expected Effect in later periods
• The impact of change on the Profit / Loss and the Balance Sheet items in current period should be **quantified, to the extent ascertainable.** • Where quantification is not possible, either wholly or in part, the **fact of such change** having a material effect should be disclosed.	• The fact of such change, and • The fact that it is likely to have effect in later periods, should be appropriately disclosed in the period in which the change is adopted.

5. **Disclosure of Accounting Assumptions:** Fundamental Accounting Assumptions viz. Going Concern, Consistency and Accrual, if followed, need not be disclosed. Even if one of them is not followed, the fact should be disclosed.
6. **Disclosure is not a Remedy:** Disclosure of Accounting Policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

E. Accounting Estimates

1. **Meaning: "Accounting Estimate"** means an **approximation** of the amount of an item in the absence of a precise means of measurement.

2. **Examples:** Depreciation – In this case, Rate of Depreciation is estimated based on the Useful Life of the Asset.
3. Other examples are –

(a) Reduction in the value of Inventory and Debtors to their estimated realisable value. (b) Provision for Taxation. (c) Accrued Revenue. (d) Provision for a loss from a lawsuit. (e) Provision to meet Warranty Claims.	(f) Amortisation of certain items like Goodwill and Deferred Revenue Expenditure. (g) Insurer's liability for Outstanding Claims. (h) Provision for Retirement Benefits in the Financial Statements of Employers. **Example:** Gratuity (i) Losses on Construction Contracts in Progress.

F. Fundamental Accounting Assumption vs Accounting Policy

Point	**Fundamental Accounting Assumption**	**Accounting Policy**
Number	3	No specified list
Disclosure	Not required if followed	Required
If not followed / Changed	The fact to be disclosed with reasons	The fact of change in the accounting policy along with the effect of change to be disclosed
Choice	Mandatory	The Entity has an option to choose from.

G. Accounting Estimates vs Accounting Policies

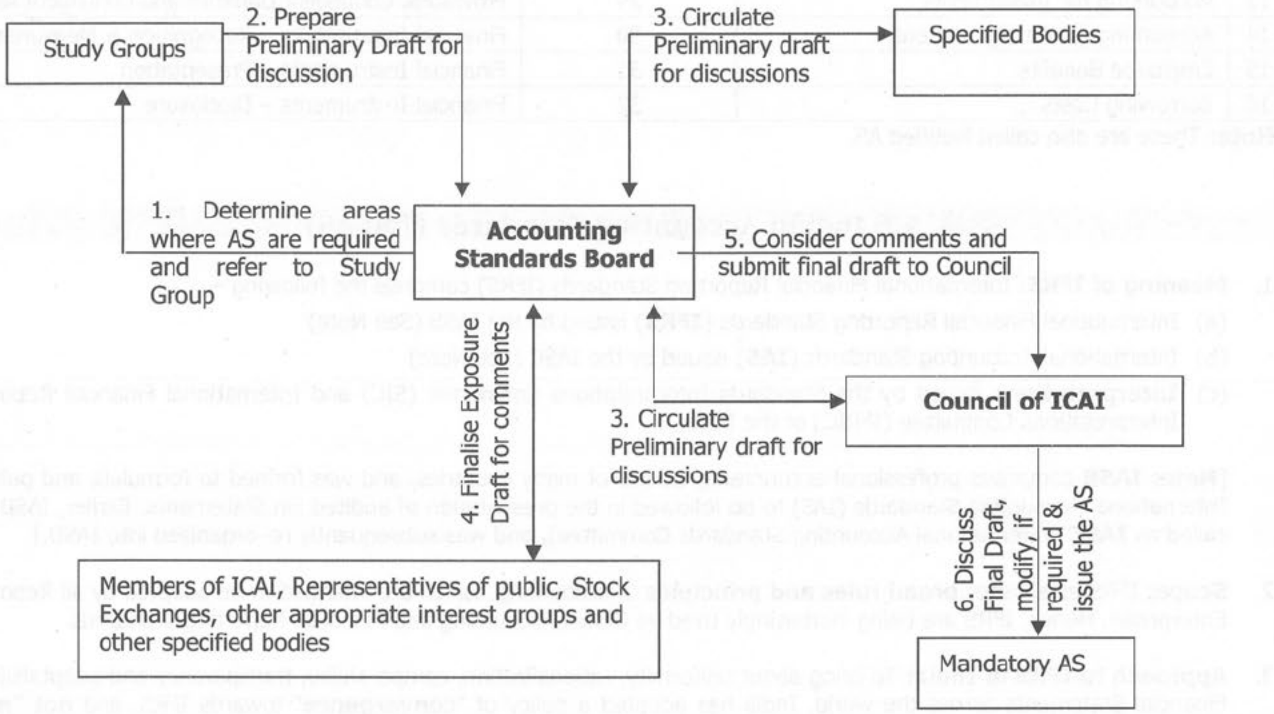
Particulars	**Accounting Estimate**	**Accounting Policy**
Meaning	Accounting Estimates refer to Financial Statement items, which cannot be measured with precision, but can be estimated based on informed judgments.	A Policy refers to a accounting principle and the method of applying that principle.
Frequency	Change in Accounting Estimate is a **routine matter** in accounting which is substantially based on estimates. For example an estimate of Bad Debts is made on the basis of information at subsequent date, i.e. insolvency of a Debtor known afterwards.	Change in Accounting Policy is **infrequent** and amounts to almost a permanent change in the basis of accounting in the concerned area. For example, the accounting policy for valuing inventory may be changed from FIFO to Weighted Average Method.
Causes / Reasons	Change in A/cing Estimate arises due to – • change in circumstances on which the estimate was based, or • availability of new information, etc.	Change in A/cing Policy is possible only for – • ensuring statutory compliance, or • ensuring compliance with another AS, or • more appropriate presentation of the Financial Statements.
Materiality	The accounting picture **may not get substantially altered** by the change in the Accounting Estimate.	A change in Accounting Policy, generally, has a far reaching, material and **long–term effect**.
Disclosure	The nature and amount of a change in Accounting Estimate which has a material effect in the current period or expected material effect in future should be disclosed in the Financial Statements.	A change in Accounting Policy which has a material effect should be disclosed, along with the impact of, and adjustments resulting from that change in the current period Financial Statements.

3.5 Accounting Standards

1. **Meaning:** "Accounting Standards (AS)" represents the Statements issued by the Institute of Chartered of Accountants of India (ICAI), which contain basic principles for Accounting / disclosure for specific items in the Financial Statements.

2. **Applicability:** They shall apply to the General Purpose Financial Statements and other financial reporting. The Accounting Standards deal with issues like –
   (a) **Recognition** of Transactions and Events in the Financial Statements,
   (b) **Measurement** of these Transactions and Events,
   (c) **Presentation** of these Transactions and Events in the Financial Statements, in a manner that is meaningful and understandable to the users, and
   (d) **Disclosure Requirements** in Financial Statements, to that Users can take prudent and informed decisions.

3. **Procedure:** The Accounting Standards Board (ASB) of the ICAI is responsible for identification and issue of Accounting Standards. The procedure for issue of Accounting Standards is as under –



4. **Advantages and Disadvantages of Accounting Standards:**

Objectives / Advantages	Disadvantages
(a) To promote the dissemination of timely and useful financial information to all Stakeholders having an interest in a Company's economic performance.	(a) Where there are alternative solutions to specific accounting problems, each of these solutions may also be appropriate on the basis of sound arguments. A Standard which insists on one particular solution may be unduly restrictive.
(b) To reduce (or eliminate if possible), confusing variations in the accounting treatments used to prepare Financial Statements.	(b) AS may be applied in a rigid and inflexible manner, since the demand for Standards comes largely from an insatiable appetite for rules, and lack of reliance on judgement in technical accounting matters.
(c) To ensure disclosure of accounting principles and treatments where important information are not statutorily required to be disclosed.	(c) AS cannot override the laws of the land. Where there are conflicts between the AS and the law, the AS may be purposeless.
(d) To facilitate comparison of Financial Statements of various enterprises in the same country or different countries.	

5. **List of Notified Accounting Standards (AS) in India**

AS	AS Title	AS	AS Title
1	Disclosure of Accounting Policies	17	Segment Reporting
2	Valuation of Inventories	18	Related Party Disclosures
3	Cash Flow Statements	19	Leases
4	Events Occurring after Balance Sheet Date	20	Earnings Per Share
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	21	Consolidated Financial Statements (CFS)
6	– **withdrawn** – (Depreciation Accounting)	22	Accounting for Taxes on Income
7	Construction Contracts	23	A/cing for Investment in Associates in CFS
8	– **withdrawn** – (Accounting for R&D)	24	Discontinuing Operations
9	Revenue Recognition	25	Interim Financial Reporting
10	Property, Plant and Equipment	26	Intangible Assets
11	Effects of Changes in Forex Rates	27	Financial Reporting of Interests in Joint Ventures

AS	AS Title	AS	AS Title
12	Accounting for Government Grants	28	Impairment of Assets
13	Accounting for Investments	29	Provisions, Contingent Liabilities and Contingent Assets
14	Accounting for Amalgamations	30	Financial Instruments – Recognition & Measurement
15	Employee Benefits	31	Financial Instruments – Presentation
16	Borrowing Costs	32	Financial Instruments – Disclosure

Note: These are also called Notified AS.

3.6 Indian Accounting Standards (Ind AS)

1. **Meaning of IFRS:** International Financial Reporting Standards (IFRS) comprise the following –
   (a) International Financial Reporting Standards (**IFRS**) issued by the IASB (See Note)
   (b) International Accounting Standards (**IAS**) issued by the IASC (See Note)
   (c) **Interpretations** issued by the Standards Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

   [**Note: IASB** comprises professional accountancy bodies of many countries, and was formed to formulate and publish, International Accounting Standards (IAS) to be followed in the presentation of audited Fin.Statements. Earlier, IASB was called as **IASC** (International Accounting Standards Committee), and was subsequently re–organized into IASB.]

2. **Scope:** IFRS establishes **broad rules and principles** in accounting, which are intended to be adopted by all Reporting Enterprises. Hence, IFRS are being increasingly used as Global Accounting and Financial Reporting Standards.

3. **Approach to IFRS in India:** To bring about uniformity, rationalization, comparability, transparency and adaptability of Financial Statements across the world, India has adopted a policy of **"convergence"** towards IFRS, and **not "mere adoption"** of IFRS. Accordingly, IFRS–converged Indian Accounting Standards (Ind AS) are issued by ICAI's ASB. In formulating these Ind AS, efforts have been made to keep the Ind AS, as far as possible, in line with the corresponding IAS/IFRS, and departures (called Carve–In / Carve–Out) have been made only when absolutely essential.

4. **Need / Purpose of IFRS:** The need for convergence with Global Accounting and Financial Reporting Standards is due to the following reasons –
   (a) To facilitate Enterprises which decide to **raise Capital** from markets other than the country in which it is located, in translation and re–statement of Financial Statements.
   (b) To facilitate Analysts & Investors across the world, in comparing Financial Statements based on **harmonized Accounting Standards**, which will ensure – (a) uniformity, (b) rationalization, (c) comparability, (d) transparency, and (e) adaptability.
   (c) To reduce operational challenges for Accounting Firms in translation and re–statement of Financial Statements, and **focus their value and expertise** around a unified set of Standards.
   (d) To create a challenging opportunity for Standard Setters & Stakeholders to **improve the Fin.Reporting Model.**
   (e) To enable Investors compare their Investments on a global basis, and lower their risk of errors of judgement.

5. **List of Ind AS:** The following is the list of Ind AS –

Ind AS	Title	Ind AS	Title
101	First Time Adoption of Ind AS	12	Income Taxes
102	Share Based Payment	16	Property, Plant and Equipment
103	Business Combinations	17	Leases
104	Insurance Contracts	18	Revenue
105	Non Current Assets held for Sale & Discontinued Operations	19	Employee Benefits
106	Exploration for and Evaluation of Mineral Resources	20	Accounting for Government Grants and Disclosure of Government Assistance
107	Financial Instruments – Disclosures	21	The Effects of Changes in Foreign Exchange Rates
108	Operating Segments	23	Borrowing Costs
109	Financial Instruments	24	Related Party Disclosures
110	Consolidated Financial Statements	27	Separate Financial Statements

Ind AS	Title	Ind AS	Title
111	Joint Arrangements	28	Investment in Associates and Joint Ventures
112	Disclosure of Interests in Other Entities	29	Financial Reporting in Hyperinflationary Economies
113	Fair Value Measurement	32	Financial Instruments – Presentation
114	Regulatory Deferral Accounts	33	Earnings Per Share
1	Presentation of Financial Statements	34	Interim Financial Reporting
2	Inventories	36	Impairment of Assets
7	Statement of Cash Flows	37	Provisions, Contingent Liabilities and Contingent Assets
8	Accounting Policies, Changes in Accounting Estimates & Errors	38	Intangible Assets
10	Events after the Reporting Period	40	Investment Property
11	Construction Contracts	41	Agriculture

6. **Applicability of Ind AS:**

Applicability of AS / Ind–AS

Corporate Entities

1. Company or NBFC – either Listed, or in the process of Listing, or
2. Unlisted Co. or NBFC with Net Worth ≥ 250 Crores, or
3. Holding / Subsidiary / Associate / Joint Venture of above.

Cos. (Ind–AS) Rules, 2015 apply. [For NBFC, separate provisions.]

Companies with Net Worth ≥ 500 Crore or its Holding / Subsidiary / Associate / Joint Venture → Ind–AS apply from 01.04.2016

Other Companies → Ind–AS apply from 01.04.2017

Any other Companies → Existing AS under Companies (AS) Rules, 2006 are applicable. [**AS–10** Property, Plant and Equipment is applicable.]

Non–Corp.Entities → Existing AS including AS–10 Fixed Assets.

Illustrations for Dual Aspect Concept (Proof for Accounting Equation)

Meaning - Dual Aspect Concept:

(a) Every Transaction has two equal aspects.

(b) This leads to the following accounting equation: **Capital + Other Liabilities = Assets**

Illustration 1:– Mr.M started a chocolate trading business on 01.01.11. He invested ₹ 10,000 in cash.

Two Aspects (From business angle): (a) Cash received (b) It is received from M (otherwise called as capital)

Before	Capital	+	Other Liabilities	=	Assets
Impact	M's Contribution of ₹ 10,000		N.A.		Cash increases by ₹ 10,000
After	**₹ 10,000**	**+**	**0**	**=**	**₹ 10,000**

Illustration 2:– Mr.M purchased Eclairs Chocolates for ₹ 5,000 for Cash.

Two Aspects (From business angle): (a) Cash Paid (b) Chocolates received (Otherwise called as Stock)

Before	Capital (₹ 10,000)	+	Other Liabilities (0)	=	Assets (₹ 10,000)
Impact	N.A.		N.A.		Cash Decreases by ₹ 5,000; Stock Increases by ₹ 5,000
Effect	0	+	0	=	– 5,000 + 5,000 = 0
After	**₹ 10,000**	**+**	**0**	**=**	**₹ 10,000**

Illustration 3:– Mr.M purchased Eclairs Chocolates for further ₹ 12,000 on Credit from Mr.R

Two Aspects (From business angle): (a) Chocolates received (Otherwise called as Stock) (b) Money payable to R

Before	Capital (₹ 10,000)	+	Other Liabilities (0)	=	Assets (₹ 10,000)
Impact	N.A.		Payable to R		Stock Increases by ₹ 12,000

Effect	0	+	12,000	=	12,000
After	**₹ 10,000**	**+**	**₹ 12,000**	=	**₹ 22,000**

Illustration 4:– Mr.M took a loan from the Bank for ₹ 9,000 and repaid the same to Mr.R, the Creditor

Two Aspects (From business angle)**:** (a) Bank Loan Received (b) Settlement to Mr.R (amount due to him reduced)

Before	Capital (₹ 10,000)	+	Other Liabilities (₹ 12,000)	=	Assets (₹ 22,000)
Impact	N.A.		Bank Loan increases by ₹ 9,000; Amount payable to R decreases by ₹ 9,000		N.A.
Effect	0	+	+ 9,000 – 9,000	=	0
After	**₹ 10,000**	**+**	**₹ 12,000**	**=**	**₹ 22,000**

Illustration 5:– Mr.M paid the balance amount due to Mr.R i.e. ₹ 3,000

Two Aspects (From business angle)**:** (a) Cash Paid (b) Settlement to Mr.R (amount due to him becomes 'Nil')

Before	Capital (₹ 10,000)	+	Other Liabilities (₹ 12,000)	=	Assets (₹ 22,000)
Impact	N.A.		Amount payable to R decreases by ₹ 3,000		Cash decreases by ₹ 3,000
Effect	0	+	– 3,000	=	– 3,000
After	**₹ 10,000**	**+**	**₹ 9,000**	**=**	**₹ 19,000**

Observations:

Thus, it could be seen from above illustrations, that the Accounting Equation holds goods for all transactions.

Question Types in this Chapter

Questions Types
7. **Direct Theory Questions** – Based on Accounting Concepts, Conventions and Assumptions, Measurement bases, Accounting Standards, Accounting Definition
8. **Conceptual Questions** – A particular situation given. Students have to find out which Principle is followed / violated.
9. **Problem Questions – Determination of Closing Capital of the Firm (Refer Below)** (a) **Given:** Opening Capital, Drawings, Profits/(losses) and Additional Capital; **To find:** Closing Capital (b) **Given:** Opening Capital, Drawings, Add. Capital, Incomes and Expenses; **To find:** Closing Capital (c) **Given:** Assets, Other Liabilities; **To find:** Capital **(OR) Given:** Assets, Capital; **To find:** Other Liabilities

Problem Types (3 Types)

1. **Situation I – Given:** Opening Capital, Drawings, Profits / (losses) and Additional Capital; **To find:** Closing Capital

Solution: Use the following formula to determine the closing capital

Opening Capital (±) Profits/(Losses) (+) Additional Capital (–) Drawings (+) Int. on Capital (–) Int. on Drawings

Note: *Any other combination of information may be given.* ***Example:*** *Closing Capital may be given and profits may be asked. Substitute the available values in the above formula to ascertain the required value as a balancing figure.*

Illustration 1:

What is the Closing Capital, given the following:

Opening Capital as on 1st April	₹ 90,000	Capital introduced	₹ 25,000
Drawings made	₹ 35,000	Profits during the Financial Year	₹ 10,000

Solution:

Closing Capital = Opening Capital + Profits (+) Additional Capital (–) Drawings (+) Int. on Capital (–) Int. on Drawings
= 90,000 + 10,000 + 25,000 – 35,000 = ₹ **90,000**

Illustration 2:

What is the Profits / Losses during the year, given the following:

Opening Capital as on 1st April	₹ 90,000	Capital introduced	₹ 25,000
Drawings made	₹ 35,000	Closing Capital at end of Financial Year	₹ 1,00,000

Solution:

Closing Capital = Opening Capital + Profits (+) Additional Capital (–) Drawings (+) Int. on Capital (–) Int. on Drawings

₹ 1,00,000 = 90,000 + Profits / Losses + 25,000 – 35,000

⇒ Profits / (Losses) = 1,00,000 – 90,000 – 25,000 + 35,000 ⇒ **Profits = ₹ 20,000**

2. **Situation II – Given:** Opening Capital, Drawings, Additional Capital, Incomes and Expenses; **To find:** Closing Capital

Steps	Solution
Step I	Determine Profits / losses of the business using the formula = Profits/(Losses) = Incomes (–) Expenses. **(Notes)**
Step II	**Determine the Closing Capital as** – Opening Capital (±) Profits / (Losses) (+) Additional Capital (–) Drawings (+) Interest on Capital (–) Interest on Drawings

Notes:

Consider the following items	Ignore the following items
• If the **Sales Value** and also **Cost** of such goods sold are given, then the net income equal to (Sales Value – Cost of Goods) considered. • Depreciation, Interest payment. • Payments for personal expenses considered as drawings (separately) • (Amount due from Debtor – Amount received) considered as **Expense** • (Amount due to Creditor – Amount paid to him) considered as **Income**	• Purchases Values • Payments to Creditors/receipts from Debtors / Advances paid / received • Purchase of Assets like car, building.

Illustration 3:

(a) Shri Ram commenced business with ₹ 30,000	(j) Goods destroyed by fire (cost ₹ 300, Sale Price ₹ 360)
(b) Paid rent in advance ₹ 1,200	(k) Paid half the amount owed to Mohan for Furniture
(c) Purchased a typewriter for ₹ 4,200	(l) Paid cash ₹ 300 for loan and ₹ 180 for interest
(d) Bought furniture from Mohan on credit for ₹ 1,800	(m) Withdrew goods for self-use (Price ₹ 366, Cost ₹ 360)
(e) Purchased goods from Sohan for cash ₹ 21,000	(n) Received ₹ 29,700 from Shyam in full settlement
(f) Sales to Shyam for cash ₹ 24,000 (costing ₹ 18,000)	(o) Paid ₹ 17,820 to Ramesh in full settlement
(g) Bought goods from Ramesh for ₹ 18,000	(p) Paid salary ₹ 300 and salary outstanding ₹ 60
(h) Sold goods to Shyam costing ₹ 18,000 for ₹ 30,000	(q) Charged depreciation of ₹ 180 on furniture and ₹ 60 on typewriter
(i) Purchased household goods for ₹ 9,000 giving ₹ 3,000 in cash and the balance through a loan	

Step I: Determination of Profits / Losses of the Business:

Particulars	₹	Reason
Rent in Advance	Nil	It is not an expense. It is advance
Typewriter	Nil	It is not an expense. It is an asset.
Furniture	Nil	It is not an expense. It is an asset.
Purchases from Sohan	Nil	It is ignored, since cost of goods sold given
Sales to Shyam	6,000	Since cost of sales given, net income must be taken (24,000 – 18,000)
Bought from Ramesh	Nil	It is ignored, since cost of goods sold given
Sales to Shyam	12,000	Since cost of sales given, net income must be taken (30,000 – 18,000)
Purchase of household goods	Nil	Considered as drawings separately
Goods destroyed by fire	(300)	Cost of loss to be considered. Sale Value not relevant
Paid to Mohan for furniture	Nil	Not considered as it is payment to creditors
Paid cash for loan and interest	Nil	As loan is for personal expense, it is considered as drawings separately
Withdrew goods for personal use	Nil	Considered as drawings separately
Receipt from Shyam (discount allowed)	(300)	Discount allowed =(30,000 – 29,700)
Paid to Ramesh (only discount recd.	180	Discount received = (18,000 – 17820)
Salary (Paid + Outstanding)	(360)	
Depreciation (180 + 60)	(240)	
Net Profits / (Losses)	**16,980**	

Note: Drawings:

Particulars	₹	Reason
Purchase of Household goods using business cash	3,000	Balance ₹ 6,000 loan is not relevant as it is a personal loan and not business loan.
Payment towards loan and interest	480	As loan is for personal expense, payment towards is treated as drawings
Drawings of goods for personal use	360	Only cost of drawings shall be considered and not sale price.
Total Drawings	**3,840**	

Step II:
Closing Capital = Opening Capital + Profits (+) Additional Capital (–) Drawings (+) Int. on Capital (–) Int. on Drawings
= 30,000 + 16,980 +0 – 3,840 ⟹ **₹ 43,140**

3. **Situation III** – (i) **Given:** Assets, Other Liabilities; **To find:** Capital **(OR)** (ii) **Given:** Assets, Capital; **To find:** Other Liabilities

Solution: Use Accounting Equation ⟹ Capital + Other Liabilities = Assets

Note: *Certain Questions may require the Students to find out the Total of Assets side alone, after giving a list of transactions. In that case, the Students have to analyse the impact of each transaction on the Assets. The total of changes due to all transactions is the total of Assets Side.*

Appendix: Terms Used in Financial Statements

No.	Term	Description
1	**Absorption Costing**	A method whereby the cost is determined so as to include the appropriate share of both variable and fixed costs.
2	**Acceptance**	The drawee's signed assent on bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.
3	**Accounting Policies**	The specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.
4	**Accrual**	Recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur irrespective of the actual receipts or payments.
5	**Accrual /Mercantile Basis of Accounting**	The method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts in the period in which they accrue. The 'accrual basis of accounting' includes considerations relating to deferrals, allocations, depreciation and amortisation.
6	**Accrued Asset**	A developing but not yet enforceable claim against another person which accumulates with the passage of time or the rendering of service or otherwise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.
7	**Accrued Expense**	An expense which has been incurred in an accounting period but for which no enforceable claim has become due in that period against the enterprise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.
8	**Accrued Liability**	A developing but not yet enforceable claim by another person which accumulates with the passage of time or the receipt of service or otherwise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.
9	**Accrued Revenue**	Revenue which has been earned in an accounting period but in respect of which no enforceable claim has become due in that period by the enterprise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.
10	**Accumulated Depletion**	The total to date of the periodic depletion charges on Wasting Assets.
11	**Accumulated Depreciation**	The total to date of the periodic depreciation charges on Depreciable Assets.
12	**Ad–valorem**	A method of levying tax or duty on goods by using their assessable value as the tax base.
13	**Advance**	Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.

No.	Term	Description
14	**Amortisation/ Amortisable Amount**	The gradual and systematic writing off of an asset or an account over an appropriate period. The amount on which amortisation is provided is referred to as Amortisable Amount. Depreciation accounting is a form of amortisation applied to depreciable assets. Depletion accounting is another form of amortisation applied to wasting assets. Amortisation also refers to gradual extinction or provision for extinction of a debt by gradual redemption or sinking fund payments or the gradual writing off to revenue of Miscellaneous Expenditure carried forward, e.g. Share Issue Expenses, Preliminary Expenses, etc.
15	**Amortised Value**	The amortisable amount less any portion already provided by way of amortisation.
16	**Annual Report**	The information provided annually by the management of an Enterprise to the owners and other interested persons concerning its operations and financial position. It includes the information statutorily required, e.g. in the case of a Company, the B/s, P& L Statement and Notes on Accounts, the Auditor's Report thereon, and the report of the Board of Directors. It also includes other information voluntarily provided, e.g. Value Added Statement, Graphs, Charts, etc.
17	**Appropriation Account**	An account sometimes included as a separate section of the Profit and Loss Statement showing application of profits towards Dividends, Reserves, etc.
18	**Assets**	Tangible Objects or Intangible Rights owned by an Enterprise, and carrying probable future benefits.
19	**Auditor's Report**	The formal expression of opinion by an Independent External Auditor on the Fin.Statements of an Enterprise including such reservations, qualifications and negations as may be called for and incorporating, where appropriate, such statutory affirmations as may be prescribed.
20	**Authorised/ nominal Share Capital**	The number and par value, of each class of shares that an enterprise may issue in accordance with its instrument of incorporation.
21	**Average Cost**	The cost of an item at a point of time as determined by applying an average of the cost of all items of the same nature over a period. When weightages are also applied in the computation, it is termed as **Weighted Average Cost.**
22	**Bad Debts**	Debts owed to an enterprise which are considered to be irrecoverable.
23	**Balance Sheet**	A Statement of the Financial Position of an Enterprise as at a given date, which exhibits its Assets, Liabilities, Capital, Reserves and other Account Balances at their respective book values.
24	**Bill of Exchange**	An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.
25	**Bonus Shares**	Shares allotted by capitalisation of the reserves or surplus of a corporate enterprise.
26	**Book Value**	The amount at which an item appears in the books of account or financial statements. It does not refer to any particular basis on which the amount is determined e.g. cost, replacement value, etc.
27	**Call**	A demand pursuant to terms of issue to pay a part or whole of the balance remaining payable on shares or debentures after allotment.
28	**Called–up Share Capital**	That part of the Subscribed Share Capital which Shareholders have been required to pay.
29	**Capital**	Generally refers to the amount invested in an enterprise by its owners e.g. paid–up Share Capital in a corporate enterprise. It is also used to refer to the interest of owners in the assets of an enterprise.
30	**Capital Assets**	Assets, including investments not held for sale, conversion or consumption in the ordinary course of business.
31	**Capital Commitment**	Future liability for capital expenditure in respect of which contracts have been made.
32	**Capital Employed**	The finances deployed by an enterprise in its Net Fixed Assets, Investments and Working Capital. Capital employed in an operation may, however, exclude investments made outside that operation.
33	**Capital Profit/ Capital Loss**	Excess of the proceeds realised from the sale, transfer, or exchange of the whole or a part of a capital asset over its cost. When the result of this computation is negative, it is referred to as **Capital Loss.**
34	**Capital Redemption Reserve**	A reserve created on redemption of the Redeemable Preference Shares of a corporate enterprise out of its profits which would otherwise have been available for distribution as dividend. *(This is also required in case of Buyback of Equity Shares)*

No.	Term	Description
35	**Capital Reserve**	A reserve of a corporate enterprise which is not available for distribution as dividend.
36	**Capital WIP**	Expenditure on capital assets which are in the process of construction or completion.
37	**Cash Basis of Accounting**	Method of recording transactions by which Revenues and Costs and Assets and Liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.
37	**Cash Discount**	A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.
38	**Cash Profit**	The Net Profit as increased by non–cash costs, such as depreciation, amortisation, etc. When the result of the computation is negative, it is termed as **cash loss.**
39	**Changes in Financial Position, Statement of,**	A Financial Statement which summarises, for the period covered by it, the changes in the financial position including the sources from which funds were obtained by the enterprise and the specific uses to which such funds were applied. Referred to as **Fund Flow Statement.**
40	**Charge**	An encumbrance on an asset to secure an indebtedness or other obligations. It may be fixed or floating.
41	**Cheque**	A bill of exchange drawn upon a specified banker and not expressed to be payable otherwise than on demand.
42	**Collateral Security**	Security which is given in addition to the principal security against the same liability or obligation.
43	**Contingency**	A condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence or non–occurrence of one or more uncertain future events.
44	**Contingent Asset**	An asset the existence, ownership or value of which may be known or determined only on the occurrence or non–occurrence of one or more uncertain future events.
45	**Contingent Liability**	An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non–occurrence of one or more uncertain future events.
46	**Contra Account**	One or two or more accounts which partially or wholly off–set another or other accounts.
47	**Cost/ Actual Cost**	Amount of expenditure incurred on or attributable to a specified article, product or activity.
48	**Cost of Purchase**	The purchase price including duties and taxes, freight inwards and other expenditure directly attributable to acquisition, less trade discounts, rebates, duty drawbacks, and subsidies in respect of such purchase.
49	**Cost–plus Contract**	A contract under which the contractor is reimbursed for allowable or otherwise defined costs as increased by a percentage of such costs or an agreed fee.
50	**Cost of Goods Sold**	The cost of goods sold during an accounting period. In manufacturing operations, it includes (a) Cost of Materials, (b) Labour and Factory Overheads, Selling and Administrative expenses are normally excluded.
51	**Cost of Sales**	Cost of Goods Sold plus Selling and Administrative Expenses.
52	**Conversion Cost**	Cost incurred to convert raw materials or components into finished or semi–finished products. This normally includes costs which are specifically attributable to units of production, i.e. Direct Labour, Direct Expenses and Sub–contract work, and Production Overheads as applicable in accordance with either the direct cost or absorption costing method. Production Overheads exclude expenses which relate to General Administration, Finance, Selling and Distribution.
53	**Convertible Bond / Debenture**	A Debenture which gives the holder a right to its conversion, wholly or partly, in shares in accordance with the terms of issue.
54	**Cumulative Dividend**	Dividend payable on Cumulative Preference Shares which, if unpaid, accumulates as a claim against the earnings of a corporate enterprise, before any distribution is made to the other shareholders.
55	**Cumulative Preference Shares**	A class of Preference Shares entitled to payment of cumulative dividends. Preference Shares are always deemed to be cumulative, unless they are expressly made non–cumulative.
56	**Current Assets**	Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business.
57	**Current Liability (Short Term Liab)**	Liability including Loans, Deposits and Bank Overdraft which falls due for payment in a relatively short period, normally not more than twelve months.
58	**Debenture/ Bonds**	A formal document constituting acknowledgment of a debt by an enterprise usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.

No.	Term	Description
59	**Debenture Red–emption Reserve**	A Reserve created for the redemption of debentures at a future date.
60	**Deferral**	Postponement of recognition of a revenue or expense after its related receipt or payment (or incurrence of a liability) to a subsequent period to which it applies. Common examples of deferrals include prepaid rent and taxes, unearned subscriptions received in advance by Newspapers and Magazine Selling Companies, etc.
61	**Deferred Revenue Expenditure**	Expenditure for which payment has been made or a liability incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods.
62	**Deferred Revenue**	Revenue or income received or recorded before it is earned and carried forward to a subsequent period or periods to which it relates.
63	**Deficiency**	The excess of Liabilities over Assets of an enterprise at a given date. The debit balance in the Profit and Loss Statement.
64	**Deficit**	The debit balance in the Profit and Loss Statement.
65	**Depletion**	A measure of exhaustion of a wasting asset represented by periodic write off of cost or other substituted value.
66	**Depreciable Amount**	The historical cost, or other amount substituted for historical cost of a depreciable asset in the financial statements, less the estimated residual value.
67	**Depreciable Asset**	Asset which is expected to be used during more than one accounting period, has a limited useful life, and is held by an enterprise for use in the production or supply of goods, and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.
68	**Depreciation**	A measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. It is allocated so as to charge a fair proportion in each accounting period during the useful life of the asset. It includes amortisation of assets whose useful life is predetermined and depletion of wasting assets.
69	**Depreciation Method**	Any method of calculating depreciation for an accounting period.
70	**Depreciation Rate**	A percentage applied to the historical cost or the substituted amount of a depreciable asset (or in case of diminishing balance method, the historical cost or the substituted amount less accumulated depreciation).
71	**Development Allowance Reserve**	A Reserve created in compliance with one of the conditions for claiming development allowance under the Income–Tax Act, 1961.
72	**Development Rebate Reserve**	a reserve created in compliance with one of the conditions for claiming development rebate under the Income–Tax Act, 1961.
73	**Diminishing Balance / Written down value method**	A method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value).
74	**Direct Cost**	An item of cost that can be reasonably identified with a specific unit of product or with a specific operation or other cost center.
75	**Direct Costing**	A method whereby the cost is determined so as to include the appropriate share of variable costs only, all fixed costs being charged against revenue in the period in which they are incurred.
76	**Discount**	A reduction from a list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity.
77	**Dividend**	A distribution to Shareholders out of Profits or Reserves available for this purpose.
78	**Dividend Equali–sation Reserve**	A Reserve created to maintain the rate of dividend in future years.
79	**Earnings Per Share**	The earnings in monetary terms attributable to each equity share, based on the net profit for the period, before taking into account prior period items, extraordinary items and adjustments resulting from changes in accounting policies but after deducting tax appropriate thereto and preference dividends, divided by the number of equity shares issued and ranking for dividend in respect of that period.
80	**Entity Concept**	The view of the relationship between the accounting entity and its owners which regards the entity as a separate person, distinct and apart from its owners.

No.	Term	Description
81	**Equity Share**	A share which is not a Preference Share. Also called as **Ordinary Share.**
82	**Expenditure**	Incurring a liability, disbursement of cash or transfer of property for the purpose of obtaining assets, goods or services.
83	**Expense**	A cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period.
84	**Expired Cost/ Expense**	That portion of an expenditure from which no further benefit is expected.
85	**Extraordinary Item**	Gain or loss which arises from events or transactions that are distinct from ordinary activities of the enterprise and which are both material and expected not to recur frequently or regularly. It includes material adjustments necessitated by circumstances, which, though related to previous periods, are determined in the current period.
86	**Fair Market Value**	The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and not under any compulsion to transact. Arm's length is a term applied to any transaction on the assumption that the parties to the transaction would act without being influenced by each other or by any other person.
87	**Fictitious Asset**	Item grouped under assets in a balance sheet which has no real value (e.g. the debit balance of the profit and loss statement).
88	**First Charge**	A charge having priority over other charges.
89	**First In, First Out (FIFO)**	Computation of the cost of items sold or consumed during a period as though they were sold or consumed in order of their acquisition.
90	**Fixed Asset**	Asset held for the purpose of providing or producing goods or services and that is not held for resale in the normal course of business.
91	**Fixed Cost**	That cost of production which by its very nature remains relatively unaffected in a defined period of time by variations in the volume of production.
92	**Fixed Deposit**	Deposit for a specified period and at specified rate of interest.
93	**Fixed or Specific Charge**	A charge which attaches to a particular asset which is identified when the charge is created, and the identity of the asset does not change during the subsistence of the charge.
94	**Floating Charge**	A general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.
95	**Foreign Currency, Translation of**	The process of expressing amounts stated in a foreign currency into equivalent amounts in local currency by using an exchange rate between the two currencies.
96	**Foreign Currency Conversion**	The process of expressing amounts stated in a foreign currency into equivalent amounts in local currency by using the exchange rate at which the foreign currency is bought or sold.
97	**Forfeited Share**	A share to which title is lost by a member for non–payment of call money or default in fulfilling any engagement between members or expulsion of members where the articles specifically provide therefor.
98	**Free Reserve**	A reserve the utilisation of which is not restricted in any manner.
99	**Functional Classification**	A system of classification of expenses and revenues and the corresponding assets and liabilities to each function or activity, rather than by reference to their nature.
100	**Fund**	An account usually of the nature of a reserve or a provision which is represented by specifically earmarked assets.
101	**Fundamental Accounting Assumptions**	Basic accounting assumptions which underlie the preparation and presentation of Financial Statements. They are going concern, consistency and accrual. They are not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
102	**Gain**	A monetary benefit, profit or advantage resulting from a transaction or group of transactions.
103	**General Reserve**	A revenue reserve which is not earmarked for a specific purpose.
104	**Going Concern Assumption**	An accounting assumption according to which an enterprise is viewed as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.
105	**Goodwill**	An Intangible Asset arising from business connections or trade name or reputation of an enterprise.

No.	Term	Description
106	**Gross Margin or Gross Profit/ Gross Loss**	The excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling, distribution and financing expenses. When the result of this computation is negative it is referred to as **Gross Loss**.
107	**Income and Expenditure Statement**	A Financial Statement, often prepared by non–profit making enterprises like Clubs, Associations, etc. to present their revenues and expenses for an accounting period and to show the excess of revenues over expenses (or vice versa) for that period. It is similar to Profit & Loss Statement and termed as **Revenue & Expense Stmt.**
108	**Intangible Asset**	Asset which does not have a physical identity e.g. goodwill, patents, copyright etc.
109	**Internal Audit**	An independent appraisal activity within an enterprise whether by the staff of the enterprise or by a firm of accountants appointed for that purpose, for the review of accounting, financial and other operations and controls as a basis for service to management. It involves a specialised application of the techniques of auditing.
110	**Internal Check**	A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee or group of employees is checked continuously by correlating it with the work of others. An essential feature is that no one employee or group of employees has exclusive control over any transaction or group of transactions.
111	**Internal Control**	The entire system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the accuracy and completeness of the records.
112	**Interim Report**	The information provided with reference to a date before the close of the accounting period by the management of an enterprise to owners or other interested persons concerning its operations or financial position.
113	**Inventory**	Tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.
114	**Investment**	Expenditure on assets held to earn interest, income, profit or other benefits.
115	**Investments**	Assets held not for operational purposes or for rendering services i.e. assets other than Fixed Assets or Current Assets (e.g. Securities, Shares, Debentures, Immovable Properties).
116	**Investment Allowance Reserve**	A Reserve created in compliance with one of the conditions for claiming Investment Allowance under the Income–Tax Act, 1961.
117	**Issued Share Capital**	That portion of the authorised share capital which has actually been offered for subscription. This includes any bonus shares allotted by the corporate enterprise.
118	**Last In, First Out (LIFO)**	Computation of the cost of items sold or consumed during a period on the basis that the items last acquired were sold or consumed first.
119	**Liability**	The financial obligation of an enterprise other than Owners' Funds.
120	**Lien**	Right of one person to satisfy a claim against another by holding or retaining possession of that other's assets/property.
121	**Long–Term Liability**	Liability which does not fall due for payment in a relatively short period, i.e. normally a period not more than twelve months.
122	**Materiality**	An accounting concept according to which all relatively important and relevant items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.
123	**Mortgage**	A transfer of interest in specific immovable property for the purpose of securing a loan advanced, or to be advanced, an existing or future debt or the performance of an engagement which may give rise to a pecuniary liability. The security is redeemed when the loan is repaid or the debt discharged or the obligations performed.
124	**Net Assets**	The excess of the book value of assets (other than fictitious assets) of an enterprise over its liabilities. Also termed as **Net Worth** or **Shareholders' Funds.**
125	**Net Fixed Assets**	Fixed assets less accumulated depreciation thereon up–to–date.
126	**Net Profit/ Net Loss**	The excess of revenue over expenses during a particular accounting period. When the result of this computation is negative, it is referred to as **Net Loss**. The net profit may be shown before or after tax.

No.	Term	Description
127	**Net Realisable Value**	The actual/estimated selling price of an asset in the ordinary course of the business less cost of completion and cost necessarily to be incurred in order to make the sale.
128	**Obsolescence**	Diminution in the value of an asset by reason of its becoming out–of–date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, or legal or other restrictions.
129	**Operating Profit**	The net profit arising from the normal operations and activities of an enterprise without taking account of extraneous transactions and expenses of a purely financial nature.
130	**Paid–up Share Capital**	That part of the Subscribed Share Capital for which consideration in cash or otherwise has been received. This includes bonus shares allotted by the corporate enterprise.
131	**Pari Passu Charge**	Charge created by an Enterprise on its assets in favour of more than one person on the condition that each such person has equal rights of realisation out of the assets as the other(s).
132	**Pledge**	Deposit of goods by one person (pledgor or pawnor) to another person (pledgee or pawnee) as a security for payment of a debt or performance of a promise. The pledgee has a special lien/right on the property in the pledged goods with a right to sell the same after notice if the pledgor fails to discharge the debt or perform his promise on the stipulated date.
133	**Preference Share Capital**	That part of the share capital of a corporate enterprise which enjoys preferential rights in respect of payments of fixed dividend and repayment of capital. Preference shares may also have full or partial participating rights in surplus profits or surplus capital.
134	**Preferential Payment**	Payment which in a winding up or insolvency has to be made in priority to all other debts as per statute.
135	**Preliminary Expenses**	Expenses relating to the formation of an enterprise. These include legal, accounting and share issue expenses incurred for formation of the enterprise.
136	**Pre–paid Expense**	Payment for Expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).
137	**Prime Cost**	Total Cost of Direct Materials, Direct Wages and other Direct Production Expenses.
138	**Prior Period Item**	A material charge or credit which arises in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.
139	**Profit/ Loss**	A general term for the excess of revenue over related cost. When the result of this computation is negative it is referred to as **Loss**.
140	**Profit & Loss Statement/ A/c**	A Financial Statement which presents the revenues and expenses of an enterprise for an accounting period and shows the excess of revenues over expenses (or vice versa).
141	**Promissory Note**	An instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.
142	**Propriety Concept**	A concept of evaluating performance or specific transactions of an enterprise with reference to the tests of commonly accepted norms, customs and standards of conduct including those based on considerations of public interest.
143	**Provision**	An amount written off or retained by way of providing for depreciation or diminution in value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.
144	**Provision for Doubtful Debts**	A provision made for debts considered doubtful of recovery.
145	**Prudence**	A concept of care and caution used in accounting according to which (in view of the uncertainty attached to future events) profits are not anticipated, but recognised only when realised, though not necessarily in cash. Under this concept, provision is made for all known liabilities and losses, even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.
146	**Public Deposits**	Fixed deposits accepted by an enterprise from the public in accordance with the prevailing Rules made in this behalf.
147	**Redeemable Preference Share**	The preference share that is repayable either after a fixed or determinable period or at any time decided by the management (by giving due notice), under certain conditions prescribed by the instrument of incorporation or the terms of issue.

No.	Term	Description
148	**Redemption**	Repayment as per given terms normally used in connection with preference shares and debentures.
149	**Reduction of Capital**	The extinguishment or reduction of shareholders' liability on any of the shares of a corporate enterprise in respect of the Share Capital not fully paid up or the cancellation of Paid–Up Share Capital of a Company which is not represented by available assets. It also refers to the return of any Paid–Up Share Capital in excess of requirements.
150	**Reserve**	The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability. The reserves are primarily of two types – (a) Capital Reserves and (b) Revenue Reserves.
151	**Revaluation Reserve**	A reserve created on the revaluation of assets or net assets of an enterprise represented by the surplus of the estimated replacement cost or estimated market values over the book values thereof.
152	**Revenue/ Income**	The gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. It excludes amounts collected on behalf of third parties such as certain taxes. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.
153	**Revenue Reserve**	Any Reserve other than a Capital Reserve.
154	**Right Share**	An allotment of shares on the issue of fresh capital by a Corporate Enterprise to which a Shareholder is entitled on payment, by virtue of his holding certain Shares in the enterprise in proportion to the number of shares already held by him. (Shares allotted to certain categories of Debenture Holders pursuant to the rights enjoyed by them are sometimes called Right Shares.)
155	**Sales Turnover**	The aggregate amount for which sales are effected or services rendered by an enterprise. The terms **Gross turnover** and **Net Turnover** are used to distinguish between the sales aggregate before and after deduction of returns and trade discounts.
156	**Secured Loan**	Loan secured wholly or partly against an asset.
157	**Self–Insurance**	The assumption by an enterprise of a risk which is not covered by an external insurance agency and for which internal allocations or provisions have been made.
158	**Share Capital**	Aggregate amount of money paid or credited as paid on the shares and/or stocks of a corporate enterprise.
159	**Share Discount**	The excess of the face value of shares over their issue price.
160	**Shareholders' Equity**	The interest of the shareholders in the net assets of a corporate enterprise. However, in the case of liquidation it is represented by the residual assets after meeting prior claims.
161	**Share Issue Expenses**	Costs incurred in connection with the issue and allotment of shares. These include legal and professional fees, advertising expenses, printing costs, underwriting commission, brokerage, and also expenses in connection with the issue of prospectus and allotment of shares.
162	**Share Premium**	The excess of the issue price of shares over their face value.
163	**Sinking Fund**	A fund created for the repayment of a liability or for the replacement of an asset.
164	**Social Cost Benefit Analysis**	The identification, measurement and reporting of social costs and benefits related to a project or an enterprise.
165	**Social Cost**	Cost or the loss to society resulting from the operations of an Enterprise in its particular circumstances. Such costs are often not readily measurable in monetary terms. This term is also used in a specific sense to denote the costs incurred by an enterprise in providing social amenities.
166	**Social Benefit**	The benefits or income to society resulting from operations of an enterprise in its particular circumstances. Such benefits are often not readily measurable in monetary terms.
167	**Standard Cost**	A pre–determined cost of an activity, operation, process or product, established as a basis for control and reporting.
168	**Straight Line Method**	The method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.

No.	Term	Description
169	**Subscribed Share Capital**	That portion of the Issued Share Capital which has actually been subscribed and allotted. This includes any bonus shares allotted by the corporate enterprise.
170	**Substance over Form**	An accounting concept according to which the substance and not merely the legal form of transactions & events governs their a/cing treatment & presentation in Financial Statements.
171	**Sundry Creditor**	Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as **Creditor / Trade Creditor** or **Account Payable.**
172	**Sundry Debtor**	Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as **Debtor, Trade Debtor, Account Receivable.**
173	**Surplus**	Credit balance in the Profit and Loss Statement after providing for proposed appropriations, e.g. Dividend or Reserves.
174	**Test Check**	Examination of representative items selected from an account or record for the purpose of arriving at an opinion on the entire account or record.
175	**Trade Discount**	A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.
176	**Transfer Price**	The price charged (or value assigned) to a product or service which is transferred within an enterprise from one segment/division to another.
177	**Unclaimed Dividend**	Dividend which has been declared by a corporate enterprise and a warrant or a cheque in respect whereof has been despatched but has not been encashed by the shareholder concerned.
178	**Unexpired Cost**	That portion of an expenditure whose benefit has not yet been exhausted.
179	**Unissued Share Capital**	That portion of the Authorised Share Capital for which shares have not been offered for subscription.
180	**Unpaid Dividend**	Dividend which has been declared by a Corporate Enterprise but has not been paid, or the warrant or cheque in respect whereof has not been despatched within the prescribed period.
181	**Useful Life**	Life which is either – (a) the period over which a depreciable asset is expected to be used by the enterprise, or (b) the number of production or similar units expected to be obtained from the use of the asset by the enterprise.
182	**Value Added**	The increase in value of a product or service resulting from an alteration in the form, location or availability excluding the cost of bought–out materials or services. Also referred to as **Added Value.**
183	**Value Added Statement**	A statement of the value added that an enterprise has been able to generate and its distribution among those contributing to its generation. Also referred as **Added Value Statement.**
184	**Variable Cost**	That cost which varies directly, or nearly directly, with the volume of activity.
185	**Wasting Asset**	Natural Resource which is subject to depletion through the process of extraction or use, e.g. Mines, Quarries.
186	**Working Capital**	The funds available for conducting day–to–day operations of an enterprise. Also represented by the excess of current assets over current liabilities including short–term loans.
187	**Work in Process**	Work in Process includes all materials which have undergone manufacturing or processing operations, but upon which further operations are necessary before the product is ready for sale.