

**Theoretical questions**

1. Examine the importance of the accrual concept.
2. Explain the difference between accrual concept and matching concept.
3. Why is the matching concept central to the determination of profit?
4. Explain the importance of dual aspect concept in understanding the balance sheet
5. What is an accounting equation?
6. Distinguish between expenses and payments.
7. Distinguish between incomes and receipts.
8. Why incomes are not same as receipts?
9. Name three receipts which are not incomes.
10. Name three payments which are not expenses
11. Name three financial items which are shown in the income statement but may not result in any cash outflow.
12. Explain the impact of issue of shares at a discount on the accounting equation.
13. Explain the impact of issue of shares at a premium on the accounting equation
14. Examine the impact of buy-back of shares on the accounting equation.
15. What is capital employed and owners fund?
16. Explain the difference between stock dividend and cash dividend.
17. Explain the difference between bonus shares and rights shares.
18. Explain different methods of presenting balance sheet.
19. Examine the impact of the following on the owners fund:
  - Purchased goods for cash
  - Sold goods at profit to Mr. X on credit
  - Sold goods at cost to Ms. Y for cash.
  - Collected 90% of money due from Mr. X. Balance allowed as discount.
  - Purchased plant on credit.
  - Purchased shares for cash
  - Depreciation on plant
20. Examine the impact of the following transactions on accounting equation:
  - Borrowing of Packing-credit Loan (Long-term Loan)
  - Increase in Financing charges due to increase in Long term loans
  - Purchase of Fixed Assets leading to an increase in Gross Block
  - Increase in Depreciation as a result of increase in Gross Block
  - Incurring Research and Development Expenditure
  - Issue of shares in 2004
  - Bonus Issue out of general reserve
  - Amortization of Goodwill
  - Write Down in the value of inventory due to fall in market price
  - Operating lease expense of Rs.198,692 paid for the year 2005
  - Dividend paid during the year

- Employee Incentives Paid

### Numerical questions

**1) Following are the transactions of Mr. R**

- R started business with Rs. 10000
- Purchased goods worth of Rs. 8000
- Purchased furniture worth of Rs. 5000 (40% paid in cash)
- Sold all goods at a profit of 50%

Required: Accounting Equation

**2) Following are the transactions of Ms. Y**

- Started business using her computer costing Rs. 25000
- Received a business order from a school to develop a accounting software.
- Received advance from the school: Rs. 20000
- Purchased AIS book for Rs. 15000
- Paid salary to her assistant: Rs. 5000
- Delivered the software to the school and received the balance: Rs.25000

Required: Accounting Equation

**3) Following the transactions of Mr. Dalal**

- Purchased shares of Infosys: Rs. 45000
- Purchased shares of Dr. Reddy's Lab.: Rs.20000
- Purchased shares of SBI: Rs. 50000
- Sold Infosys shares: Rs. 50000
- Sold 50% of SBI shares: Rs. 35000

Required: Accounting Equation

**4) Explain the transactions behind the equations**

Accounting Equations of X Ltd.							
	Sources			Assets			
	Profit +	X (creditor) +	Capital =	Cash +	Stock +	Debtors +	Shares
Day 1		20,000	100,000	70,000	50,000		
Day 2		20,000	150,000	70,000	50,000		50,000
Day 3	10,000	10,000	150,000	60,000	20,000	40,000	50,000
Day 10	30,000	0	150,000	120,000	20,000	40,000	0

5) Following are the financial items of A Ltd.:

- Debtors = 50,000,
- Land = 100,000
- Loan = 50,000,
- Payables = 20,000
- Cash in hand = 10,000
- Cash at Bank = 20,000,
- Stock of material = 50,000
- Bonds = 50 000,

Required: Find the missing item using the Accounting Equation

6) On 31<sup>st</sup> March 2006 ABC Ltd had the following financial items: Capital = 50,000; Networth = 20,000; Fixed Assets = 50,000; Investments = 30,000; Networking capital = 20,000.

Required: Accounting Equation and Balance sheet

7) On 31<sup>st</sup> March 2006 ABC Ltd had the following financial items: Capital = 50,000; Networth = 10,000; Fixed Assets = 50,000; Investments = 30,000; Networking capital = 20,000.

Required: Long term loans and accumulated profits.

8) Following is the balance sheet of Altd.

Balance Sheet of Altd. as on 1st April 2005			
Sources	Amount	Assets	Amount
Capital	100000	Cash	150000
12% Loan	200000	Plant	80000
		Stock	70000
	300000		300000

In April 2005, spent Rs. 12000 towards advertisement in the local TV (to be amortised equally over 12 months). Cash sales per month: Rs. 5000 (sold at a profit of 50% on Sales).

**Required:**

- Net worth as on 1<sup>st</sup> July 2005
- Balance Sheet as on 1<sup>st</sup> April 2006.

9) A has a capital of Rs. 100000 and 12% loan of Rs. 500000. Invested the entire money in shares. Sold the shares at a profit of 25% on cost in the first year. No transactions in the second and third year. Show the accounting equation for the first three years and the all possible financial statements.

- 10) A and B started a software development business. A contributed Rs. 10000 as capital and a loan of 4% loan of Rs.2000. B contributed a computers costing Rs. 2000 and furniture costing Rs.500. Show the accounting equation.
- 11) A ltd. has assets worth of Rs.. 600000. Assets were financed by Debt and Equity in the ratio of 2:1. Assets are depreciated on SLM method. Show the accounting equation.
- 12) A ltd. has capital of Rs. 50000 and 3% loan of Rs. 50000. 25% of the funds were utilized for acquiring plant and machinery, 40% of the funds were utilized for acquiring stock of finished goods at the beginning of the year. 50% of the stock was sold at 50% profit on credit to Mr. X and balance was sold for cash at a profit of 40% . Assets were depreciated on SLM. Show the accounting equation and financial statements.
- 13) A ltd has capital of Rs. 50000 and 3% loan of Rs.25000. Assets on that day were Rs.50000. Company decided to revalue the assets to Rs.100000. Show the accounting equation before and after the revaluation.
- 14) Explain the effect of the following transactions on Accounting Equation:  
( Capital + Profits + Borrowing = Cash + Other Assets):
- Issue of bonus shares: Rs.50000
  - Expenses due but not paid: Rs. 2000
  - Interest on loan paid: Rs.5000
  - Advertising expenses amortised over 5 years: Rs.10000
  - Increase in DER from 1:1 to 3:1 by availing new loans.

**15) Show the impact of the following on the accounting equation**

- S started a education business with Rs. 250000 cash
- She contributed furniture, black board etc. worth of Rs. 100000
- A student joins the institute and deposits fee of Rs.1500 cash and deposits Rs. 15000 in the Institute's account in the bank (SBI).
- Five more students join the institute depositing only 1720 each as installment fee.
- Later a student wanted refund of Rs. 1720. Institute refunds after deducting Rs. 200 as cancellation charges.
- S had 20 employees with a monthly salary of Rs.2000 for two peon paid in cash and for the other 18 paid by cheque Rs.12750 per month..
- Purchased books worth of Rs.75000 on credit from A Books Store.
- Availed loan of Rs.500000 from SBI to purchase a bus.
- Released an advertisement in the local newspaper by paying to Rs.100000

**Accounting in Real Life**

1. Following table shows the financial items of Asian Paints Ltd.

<b>Financial Items of Asian Paints Ltd as on 31st March 2005 (Rs. In million)</b>			
Capital Work-in-Progress	82.78	Share Capital	959.2
Other Receivables	190.12	Net Current Assets	1,086.99
Cash & Bank Balances	210.42	Provisions	1,117.03
Secured Loans	283.65	Sundry Debtors	1,489.63
Deferred Tax Liability	305.38	Investments	2,584.27
Unsecured Loans	555.12	Net Block	3,112.31
Loans and Advances	727.25	Inventories	3,307.89
Liabilities	3,721.32	Gross Block	7,127.04
Accumulated Depreciation	4,014.73	Reserves & Surplus	4,763.00

**Required:**

- Accounting Equation
- Net-worth
- Capital employed

2. Refer to the above question. Convert the accounting equation into a balance sheet.

3. Following are the relevant financial items (Rs. In crores) from the balance sheet of ITC (March 2005):

- Shareholders' Fund: 7897
- Deferred Tax Liability: 376
- Working Capital: 505
- Fixed Assets 4138
- Investments: 3875
- Total Assets : 11552

**Required**

- Accounting Equation
- Balance Sheet
- Capital employed

4. Following table shows the financial items of Tata Motors Ltd. For the year-ending 2005 and 2004.

Financial Items of Tata Motors Ltd.		
	2004-05	2003-04
Gross Block	6611.95	?
CURRENT LIABILITIES AND PROVISIONS	6600.83	?
Current Liabilities	?	4224.3
Reserves & Surplus	3749.6	3236.77
Accumulated Depreciation	?	3023.69
Net Block	3157.67	2961.71
Investments	2912.06	3056.77
Loans, Advances & Deposits	2722.35	1162.75
Unsecured Loans	2005.61	317.12
Cash & Bank Balances	?	770.49
Inventories	1601.36	?
Provisions	1126.06	430.64
Sundry Debtors	811.32	614.99
DEFERRED TAX	565.28	514.15
NET CURRENT ASSETS	545.36	-959.24
Capital Work-in-Progress	?	286.09
Secured Loans	489.81	942.65
Share Capital	361.79	356.83
Miscellaneous Expenditure	18.16	22.19
Interest accrued on investments	6.12	0.03

Required

- Find the missing figures of Tata Motors ltd.
- Show the accounting equation as on 31<sup>st</sup> March 2005 and 31<sup>st</sup> March 2004.