

SRR & CVR Government degree College (A), Vijayawada

B.Com (CA) Sem-III: Advanced Accounting-

SPECIAL ASSIGNMENT - NOTES

Unit-I: Accounting for Non Profit Organisations

1. What are differences between Receipts and Payments Account and Income and Expenditure Account (Essay Question)

Meaning Non-Profitable Organizations

Non-Profitable (or Non-trading) Organizations are those organizations whose main object is not to earn profit but to render valuable services to its members and to the society. Clubs, associations, hospitals, educational institutions, trade unions, charitable institutions, etc.

Distinction between Receipts & Payments Account and Income & Expenditure Account

Following are the main points of distinction between the two accounts:

Basis of Distinction	Receipts and Payments Account	Income and Expenditure Account
1.Type of Account	It is a real account.	It is a nominal account.
2.In Lieu Of	It is prepared in non-trading concerns in lieu of cash book.	It is prepared in non-trading concerns in lieu of Profit and Loss Account.
3.Sides	Receipts are shown on the debit side and payments on the credit side.	Incomes (receipts) are shown on the credit side and expenditure (payments) on the debit side.
4. Opening Balance	There can be opening balance which represents cash in hand or at bank.	There is no opening balance.
5. Closing Balance	This shows cash in hand or at the bank at the end of the accounting year.	There is no closing balance but the difference between the two sides shows either surplus or deficit.
6. Capital and Revenue Items	All items whether of capital or revenue nature are shown in this account.	Only revenue items are taken into consideration while preparing this account i.e. , capital items are totally excluded.
7. Period	All receipts and payments whether relating to the current period, succeeding or preceding periods are taken into consideration.	Only current period's incomes and expenditures are taken into consideration while preparing this account i.e. , incomes and expenditures relating to succeeding or

		preceding periods are excluded.
8. Balance Sheet	It is not necessary to prepare balance sheet along with this account.	The balance sheet must be pre-pared in order to accommodate real and personal accounts along with this account.
9. Adjustments	No adjustments are required to be made at the end of the year.	In order to find out the true income or expenditure of the current year, all adjustments are made at the end of the year.
10. Non Cash Items	It does not record non-cash items e.g. Depreciation.	It records non-cash items.
11. Basis of Accountancy	It is prepared on cash basis of accountancy.	It is prepared on accrual basis of accountancy.

2. Define Non-Profit Organisation.

Non Profit making organizations are formed for social welfare or charity. They usually promote science, art, charity, commerce or religion for social development and not for personal profit. Such establishments can be registered under Section 8 of the Indian Companies Act, 2003.

It is a type of organization which does not gain profits for its owners, instead all the amount of money they earn as donation is utilized in pursuing objectives of it and in keeping it running. Typically these non-profit seeking organizations are under the non-profit sector and are tax-exempt charities or other types of public service organizations.

The sole objective of such companies is to extend necessary aid to a specific group of people or public at large. Usually, they do not perform credit transactions which are generally done in a profit making organization. Hence, they need not to keep a list of credit records, accounts for loss or profits as such.

However, they do keep a book of records which is then used to keep track of consumption of their funds and to assess the financial standing of the company during a fiscal year. This record is kept to maintain the transparency between the expenditure and income of that particular company and then submitted to statutory authority, also known as Registrar of Society.

3. Explain the features of Non-Profit Organisation. (OR) Characteristics of Not for Profit Organizations

Characteristics of Not for Profit Organizations

There are a few distinct features which make them different from regular organizations.

- **The Motive for Service** – Non-profit organisation meaning they are set up mainly to provide service to a specific group of people or public, without discriminating for their caste, creed and gender. They extend help free of cost or at a nominal price as profit making is not their motive. For example, they provide services like health care, education, food, recreation, shelter, clothing, sports facilities, etc.
- **Management** – Usually, a managing committee or executive committee looks after these organizations, and its members elect them.
- **Members** – Since these organizations are formed as charitable societies or trusts, the people who give subscriptions to these are its members.
- **Income Sources** – The primary source of these trusts are donations, subscriptions, government grants, incomes from investments, legacies and several others.
- **Surplus** – If a financial year surplus is generated, that will be credited to the capital fund.
- **Reputation** – These organizations generally earn a reputation for the contribution it makes through the services and not for any of its member's personal goodwill.
- **Accounting Information** – Generally, any present or potential contributors and its members can have access to its accounting information.

For instance, Amnesty International is an example of a non-profit organization. Now, try searching and noting down the names of other 5 such renowned international non-profit organizations

Unit-II: Single Entry System

4. Define the Single entry system and write the features of Single Entry system.

Definitions:

Carter: Single Entry is a method or a variety of methods employed for recording of transactions, which ignores the two-fold aspect, and consequently fails to provide the businessman with the information necessary for him to be able to ascertain the position.

Kohler: Single Entry system is a system of book-keeping in which as a rule only records of cash and personal accounts are maintained. It is always incomplete double entry varying with circumstances.

Features of Single Entry system:

The following are the features of single entry system of accounting.

- 1. Incomplete, unscientific and unsystematic system of accounting:** This system of accounting is erratic due to the partial recording of transactions. It is not authentic and hence not acceptable to tax authorities.
- 2. Only Personal accounts are prepared:** Real accounts and nominal accounts are not prepared. Generally, cash book and personal accounts are prepared.
- 3. Limited use:** It is used by sole trader and partnership who have a few transactions. Companies are not permitted to prepare their books of accounts according to single entry system.
- 4. Improper Maintenance of Cash Book :** Cash book maintained under this system mixes cash and credit transactions. Sometimes, private transactions of business men are also recorded in it.
- 5. Partial recording of transactions:** All the transactions are not recorded in the books of account. Some of them are recorded in the books of accounts, certain transactions are noted in the diary and some others are in memories of businessman.
- 6. Estimated Profit only:** Profit ascertained under the system is only an estimate. True net income cannot be calculated.
- 7. Ascertainment of true financial position not possible:** True financial position cannot be ascertained as Balance Sheet is not prepared.

5. Advantages and disadvantages of Single Entry System.

Advantages of Single Entry system.

The following are the advantages of single entry system.

- 1. Simple Method:** It is an easy and simple method of recording transactions. It does not require special knowledge of accounting, as in the case of double entry system. This method is very useful for those who do not have the complete knowledge of double entry system.
- 2. Economical :** Single entry system requires a few books for recording accounts, i.e. , maintenance of cash book and ledger books are sufficient. The accounting staff required for maintaining the books is also limited in number compared to the double entry system.
- 3. Economy of time:** The transactions are limited. The maintenance of account books are also limited. Therefore, more time can be saved under this system.
- 4. Useful for small firms:** This method is most suitable for firms of small businesses because it is not very costly. This method is also useful for those concerns, where cash transactions are numerous and large numbers of personal accounts are there. It is less expensive than double entry system of book keeping.
- 5. Computing the financial position is easy:** Profit and loss of an accounting period can easily be ascertained by comparing the financial position of the business at the end of the accounting period: with that at the beginning.

limitations of Single Entry system.

The limitations or the defects of the single entry system are given below.

- 1. Incomplete System:** The accounts maintained under this system are incomplete. All the transactions. are not recorded in this system.
- 2. Unscientific system:** There are no set of rules of maintaining records under this system. Hence, it is unscientific.
- 3. No trial balance:** Trial balance cannot be prepared due to non-maintenance of complete records.
- 4. Preparation of financial statements difficult:** It is very difficult to calculate profit earned or loss. sustained by a concern. It is very difficult to know the financial position because the balance sheet cannot be prepared.
- 5. Legally not recognized:** Companies and certain other organizations are not permitted to maintain accounts under single entry system.

Unit-III: Hire Purchase System

6. What are the features of Installment Purchase System?

Features of Hire Purchase System

Following are the main features of the hire purchase system:

- a) **Agreement.** There is an agreement between the seller and the buyer.
- b) **Possession.** The possession of goods immediately passes from the seller to the buyer on signing the agreement.
- c) **Installments.** The buyer will make payment in installments over a period of time.
- d) **Ownership.** The ownership of the goods will remain with the seller and passes to the buyer on the payment of the last installment.
- e) **Constituents of Hire Purchase.** Each installment is treated as hire charge till the last installment is paid.
- f) **Option to return goods.** The buyer has an option to return the goods to the seller and can terminate the agreement if he does not want to pay the rest of the installments.
- g) **Repossession.** If there is any default in payment of any installment, the seller has a right to repossess the goods sold on hire purchase and forfeit the amount already received either as down payment or in installments.

We know from our common experience that if the goods are purchased for cash, the price will be less than if the goods are purchased under hire purchase system. This is because of the fact that hire purchase price includes some element of interest (i.e., financing charges) besides the cash price (i.e., $H.P. \text{ Price} = \text{Cash Price} + \text{Interest}$). It is essential to split the total hire purchase price into two parts, i.e., (i) payment towards cash price to be treated as capital expenditure for the purchase of an asset, and

(ii) interest to be charged to profit and loss account treating it as a revenue expense.

7. What are the differences between Hire Purchase System and Installment Purchase System?

Following are the main points of distinction between the two systems:

- (1) **Nature of Agreement.** Hire purchase is an agreement of hiring whereas installment purchase system is an agreement of sale.
- (2) **Transfer of Ownership.** Under hire purchase system, ownership remains with the seller until the payment of last installment but under installment purchase system the ownership passes from seller to the buyer immediately upon entering the agreement.
- (3) **Return of Goods.** Under hire purchase agreement, goods can be returned if the buyer does not want to pay rest of the installments, but under installment purchase system, the

goods cannot be returned by the buyer to the seller unless there is some default on the part of the seller .

- (4) **Rights of Disposal.** Under hire purchase system, the buyer cannot sell, destroy, transfer, damage or pledge the goods but under installment purchase system, the buyer can do all these things.
- (5) **Rights of Seller.** Under hire purchase system, the seller can repossess the goods if the buyer makes default in the payment of any installment but under installment purchase system, the seller can sue in the court of law for price if the buyer makes default in payment of any installment.
- (6) **Right of Forfeiture of Installments Received under Hire Purchase System.** In case of default in the payment of installments, hire vendor has a right to forfeit the installments already received treating it as hire charge but in case of installment purchase system, the seller cannot forfeit the installments already received he can sue only for the unpaid balance .
- (7) **Risk under Hire Purchase System.** Under hire purchase system, loss occurring to goods has to be borne by the hire vendor as the risk lies with the ownership but in case of installment purchase system, any such loss will have to be borne by the buyer.
- (8) **Responsibility of Normal Repairs.** Under hire purchase system, the responsibility of normal repairs lies with hire vendor being owner of goods but in case of installment purchase system, the seller is not at all responsible for the normal repairs as the purchaser is the owner of goods from the very beginning.

Unit-IV: Partnership Accounts

8. Explain the features Partnership. (or) What are the Characteristics of Partnership?

The essential features and characteristics of a partnership are given below.

1. **Existence of an Agreement:** The partnership arises out of an agreement between two or more persons. However, a formal or written agreement is not necessary to create a partnership.
2. **Profit sharing:** There should be an agreement among the partners to share the profits of the business.
3. **Lawful business:** The business to be carried on by a partnership must always be lawful. A partnership can exist only in business. It is not the agreement alone which creates a partnership. A partnership comes into existence only when partners begin to carry on business in accordance with their agreement.
4. **No. of partners:** There must be at least two persons to form a partnership. The maximum number of partners should not exceed 100 as per the provisions of Companies Act, 2013. However, Rule 10 of Companies (Incorporation) Rules, 2014 specifies the limit as 50. Thus, maximum number of members in a partnership form are 50.
5. **Unlimited liability:** The liability of every partner is unlimited, joint and several.

6. **Principal-agent relationship:** Every partner is an agent of the firm. He can act on behalf of the firm. He is responsible for his own acts and also the acts on behalf of the other partners.
7. **Collective management:** The firm and the partners are one. When a contract is made in the name of the firm all the partners are responsible for it individually and collectively.
8. **Non-transferability of shares:** A partner cannot transfer his share of interest to others without the consent of the other partners.
9. **Minor as a partner:** A minor can be added in partnership firm. But the condition is that he can be admitted to share profit only. He cannot be made to share losses of the firm. If the partnership firm suffers loss that it will be borne by other major partners is their profit sharing ratio.

9.Fixed or fluctuating Capital system.

Difference between Fixed Capital and Fluctuating Capital Methods

Basis of Distinction	Fixed Capital	Fluctuating Capital
1.Change in capital	It normally remains unchanged except under special circumstances.	It fluctuates quite frequently from period to period.
2.No. of accounts maintained	In case of fixed capital two accounts are maintained for each partner viz. (a) Fixed capital account (b) Current account.	In case of fluctuating capital only one account (viz., Capital account) is maintained for each partner.
3.Adjustments for drawings etc.	All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit / loss are made in Current account.	All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit/loss are made in Capital account.
4.Negative balance	Fixed capital account can never show a negative balance.	Fluctuating capital account can show a negative balance.

Unit-V: Electricity Supply Companies

10. Give Advantages and disadvantages of Double Accounting System.

Double Account System Vs Single Account System

The single account system is nothing but preparation of a single balance sheet disclosing the financial position of a business concern on a particular date. This system differs from double account system in many respects. The main difference between these two are summarized as follows :

Single Account System	Double Account System
1. It is usually maintained by non-Public utility undertakings	1) It is generally maintained in Public utility undertakings.
2. The financial affairs of a concern are shown through a single balance sheet.	2) The financial affairs of a concern are shown through two statements viz. , (i) Capital A/c and General balance sheet.
3. The main object of preparing the balance sheet is to show the financial position of the concern.	3) The main object of preparing two separate statements is to show how the Capital is raised and how it is invested in fixed assets.
4. A 'Profit & Loss A/e' is prepared to calculate the Profit earned during the year.	4) A Revenue A / e ' is prepared to ascertain the current year's profit.
5. A 'Profit & Loss Appropriation A/e' is prepared to indicate the various appropriations of profits.	5) A 'Net Revenue A/c' is prepared to disclose the appropriations of profits.
6. Interest paid / Payable and interest received / accrued are shown in the Profit & Loss account.	6) Interest paid / payable and interest received / accrued are shown in the Net Revenue A / c.
7. Under this system, fixed assets are shown at depreciated value	7) Under this system, fixed assets are shown at original cost in capital account and depreciation fund is shown on the liabilities side of General balance sheet.
8. Discount on issue of shares and debentures is shown separately in the Balance sheet under the head 'Miscellaneous expenses and losses'.	8) Discount on issue of shares and debentures is subtracted from the share or debenture capital in the Capital A/c.
9. When an old fixed asset is replaced by a new fixed asset, the old fixed asset is completely written off in the books.	9) When an old fixed asset is replaced by a new fixed asset, the original cost of the old asset continues to appear in the books, even after replacement.

11. Revenue Account:

It is in the nature of Profit & Loss Account. All the expenses are shown on the debit side of this account and all the incomes are shown on the credit side of this account. The balance found in this account represents either Profit or Loss which will be transferred to Net Revenue Account. The following is a specimen form of a Revenue account :

Dr. Revenue A / c for the year ended
Cr.

Particulars	Rs.	Particulars	Rs.
To Staff Salaries	Xxx	By Incomes (except interest earned and government subsidy)	Xxx
To Rent, rates & taxes	Xxx		
To Printing & Stationery	Xxx		
To Postage & Telegrams	Xxx	By Net Revenue A/c (Loss - if any, transferred) (Bal .fig.)	xxx
To Repairs & Renewals	Xxx		
To Depreciation on Fixed assets	Xxx		
To Discount allowed	Xxx		
To Miscellaneous expenses	Xxx		
To Net Revenue A/c (Bal. fig.)	Xxx		
	xxx		xxx

12. Net Revenue Account:

It is similar to the ordinary Profit & Loss Appropriation Account. This account starts with the balance of the net revenue account brought forward from the last year. The balance disclosed by the Revenue Account of the current year is shown in this account. All interests paid are entered on the debit side and all interests received are entered on the credit side of this account. In the case of railway companies, even the rents paid on leased lines and rent charges and Chief rents (i.e., rent paid on leasehold properties) are entered on the debit side of this account. All appropriations of Profits such as transfer to any reserve, income tax on profits, interim dividends and final dividends are entered on the debit side. Government subsidy (i.e., Govt. grant) and not Government loan, is entered on the credit side. The balance of this account is transferred to the General Balance Sheet. The following is a specimen form of Net Revenue Account :

Dr. Net Revenue A/c for the year ended
Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b / d (if any)	Xxx	By Balance b / d	Xxx
To Revenue A / c	Xxx	(Balance from last year)	
(Loss of current year transferred from Revenue A / c)	Xxx	By Revenue A / c	Xxx
To Interest on debentures	Xxx	(Profit of Current year transferred from Revenue A / c)	
To Interest on Loans	Xxx	By Government subsidy	Xxx
To Interest on Security deposits	Xxx	By Interest earned	Xxx
To Contingency Reserve	Xxx	By Transfer from Reserve	Xxx
To Dividend Control Reserve	Xxx	By General Balance Sheet (Loss	Xxx
To General Balance Sheet	Xxx	- if any, transferred to general	Xxx
(Bal . fig .)		balance sheet - Bal. fig.)	
	xxx		xxx