

# ACCOUNTS (858)

## Aims:

1. To provide an understanding of the principles of accounts and practice in recording transactions and interpreting individual as well as company accounts.
2. To develop an understanding of the form and classification of financial statements as a means of communicating financial information.

## CLASS XI

*There will be one paper of 3 hours duration of 100 marks divided into two parts.*

**Part I (30 marks)** will be compulsory and will consist of **two questions** based on the entire syllabus.

**Question 1 (20 marks)** will include compulsory short answer questions, testing knowledge, application and skills relating to elementary/ fundamental aspects of the syllabus.

**Question 2 (10 marks)** will be a compulsory numerical question.

**Part II (70 marks):** Candidates will be required to answer **five** questions out of **eight** questions from this section. Each question shall carry 14 marks.

### 1. Basic Accounting Concepts

Background of accounting and accountancy: knowledge and understanding of GAAP; accounts - types and classification; basic terms used in accounting, Accounting Standards and Accounting Equation.

- (a) *Evolution of accounting; difference between bookkeeping, accounting and accountancy; functions, characteristics, objectives, advantages and limitations of accounting; users of accounting information; subfields of accounting - meaning of financial accounting, cost accounting and management accounting.*
- (b) *Accounting concepts – GAAP - money measurement, dual aspect, going concern, periodicity, accrual, matching; realisation, business entity, materiality, consistency, conservatism, historical cost, disclosure and objectivity.*
- (c) *Basic Terms: Debtors, Creditors, Assets, Liabilities, Goods, Stock, Profit, Loss, Expense, Expenditure, Revenue, Income, Transactions, Drawings and Capital.*
- (d) *Accounting Standards – meaning and usefulness.*

(e) *Basis of accounting – cash basis and accrual basis.*

(f) *Accounting equation.*

### 2. Journal and Ledger

- (i) Journal: recording of entries in journal with narration.
  - a) *Classification of Accounts.*
  - b) *Double Entry System.*
  - c) *Rules of journalising.*
  - d) *Meaning of journal.*
  - e) *Format of journal.*
  - f) *Simple and compound journal entries (with specimens to practice).*
  - g) *Advantages of using a journal.*
  - h) *Sub-division of journal - cash book (including petty cash book), sales day book, purchases day book, sales return day book, purchases return day book, bills receivable book, bills payable book and Journal proper.*
- (ii) Ledger: posting from journal to respective ledgers.
  - a) *Meaning of ledger.*
  - b) *Format of a ledger.*
  - c) *Mechanics of posting.*
  - d) *Balancing of various ledger accounts.*
  - e) *Practical problems on journal and ledger.*

### 3. Cash Book and Bank Reconciliation Statement

- (i) Cash book (including petty cash book): single column; double column; triple column.
  - a) *Cash Book: single, double and triple column cash book.*
    - *Meaning, need and importance.*
    - *Recording transactions in a cash book.*

- b) *Petty Cash Book -*
  - *Meaning and advantages.*
  - *Analytical Petty Cash Book.*
  - *Meaning and advantages of the Imprest System including practical problems.*

(ii) Bank reconciliation statement.

- a) *Meaning and need for bank reconciliation statement.*
- b) *Preparation of a bank reconciliation statement given in the cash book balance or the pass book balance or both.*
- c) *Preparation of a bank reconciliation statement given an extract of the cash book as well as the pass book relating to the same month.*

#### 4. Trial Balance, Rectification, Capital and Revenue Expenditure and Income

(i) Trial balance.

- a) *Meaning, objectives, advantages and limitations of a trial balance.*
- b) *Preparation of the trial balance from given ledger account balances.*
- c) *Redrafting of a trial balance.*

(ii) Errors and types of errors: errors of omission; errors of commission; errors of principles; compensating errors.

- a) *Errors disclosed by the trial balance.*
- b) *Errors not disclosed by the trial balance.*
- c) *Rectification of errors after the preparation of trial balance and use of suspense account.*

(iii) Capital and revenue expenditure/income.

- a) *Meaning and difference between expenditure and expense, income and receipt.*
- b) *Meaning and difference between capital expenditure and revenue expenditure with examples.*
- c) *Meaning and difference between capital income and revenue income with examples.*
- d) *Meaning and difference between capital profit and revenue profit with examples.*
- e) *Meaning and difference between capital loss and revenue loss with examples.*

- f) *Meaning of deferred revenue expenditure with examples.*

**NOTE:** *Rectification of errors after the preparation of final accounts is not required.*

#### 5. Depreciation, Provisions and Reserves

(i) Depreciation.

*Depreciation - meaning, need, causes, objectives and characteristics.*

(ii) Methods of charging depreciation (straight line and WDV method).

*a) Method of recording depreciation – charging to asset account, creating provision for depreciation / accumulated depreciation, treatment of disposal of assets.*

*b) Change of method (Retrospective method only – Accounting Standard – 6).*

(iii) Application of depreciation with the above mentioned methods: problems with purchase and sale of assets. Change in method (Retrospective method as per AS - 6).

*Application of depreciation with the above mentioned methods; problems with purchase and sale; retrospective change of method.*

(iv) Provisions and Reserves.

*Meaning, importance; difference between provisions and reserves; types of reserves - revenue reserve, capital reserve, general reserve, specific reserve and secret reserve.*

#### 6. Final Accounts and Manufacturing Accounts – Concept of Manufacturing, Trading, Profit and Loss account and Balance Sheet (with and without adjustments), Marshalling of Balance Sheet

(i) Concept of Manufacturing Accounts.

*Find out the cost of manufacturing and preparation of a manufacturing account.*

(ii) Meaning and preparation of Manufacturing, Trading, Profit and Loss account and Balance Sheet of sole tradership. (Horizontal format) – without adjustments.

(iii) Preparation of Trading Account, Profit and Loss Account and Balance Sheet with necessary adjustments.

*Adjustments relating to closing stock, outstanding expenses, prepaid expenses, accrued income, income received in advance,*

*depreciation and bad debts, provision for doubtful debts, provision for discount on debtors and creditors, manager's commission, goods sold on approval basis, abnormal loss, adjustments pertaining to goods, interest on capital and drawings.*

- (iv) Marshalling of a Balance Sheet: Order of liquidity and Order of permanence.

*Self explanatory.*

## 7. Single Entry - Accounts from incomplete records

- (i) Single entry and difference with double entry.  
 (a) *Meaning, characteristics and limitations.*  
 (b) *Applications to practical problems/exercises.*  
 (c) *Difference between Statement of Affairs and Balance Sheet.*
- (ii) Ascertainment of profit/loss by statement of affairs method including application.

*Self explanatory.*

- (iii) Application to Problems.

*Various types of problems under statement of affairs method/Balance Sheet approach.*

### **NOTE:**

*Single entry system as applied to partnerships is not required.*

## 8. Non Trading Organisation

- (i) Non trading organization: meaning, objectives, necessity and treatment of specific items.  
*Self explanatory.*
- (ii) Different books maintained and differences between them.  
 (a) *Receipts and Payments Accounts: meaning, features, differences between Receipts and Payments Account and Cash Book.*  
 (b) *Income and Expenditure Accounts: meaning, features, difference, between Income and Expenditure account and profit and loss account.*  
 (c) *Balance Sheets and their respective roles.*
- (iii) Application of non-trading exercises involving: preparation of Receipts and Payments Account; Income and Expenditure Account and Opening and Closing Balance Sheet.

- (a) *Preparation of Income and Expenditure Account and Balance Sheet when trial balance and other information is given.*  
 (b) *Preparation of Income and Expenditure Account and Balance Sheet when Receipts and Payments Account and other information is given.*  
 (c) *Preparation of Receipts and Payments Account when Income and Expenditure account, Balance Sheet and other information is given.*  
 (d) *Preparation of opening and closing balance sheets when Receipts and Payments Account and Income and Expenditure Account and other information is given.*

**NOTE:** *Preparation of a Receipts and Payments Account only or an Income and Expenditure Account with a Balance Sheet from incomplete records need not be covered.*

## 9. Bills of Exchange

- (i) Introduction to Negotiable Instruments: explanation of basic terms.  
*Meaning of negotiable instruments; Bills of exchange, promissory note, cheque, advantages and disadvantages of Bills of Exchange, explanation of basic terms - drawer, drawee, payee, endorser, endorsee, bill at sight, bill after date, tenure of the bill, days of grace, due date, dishonour of a bill, noting charges, notary public, renewal of a bill and retirement of a bill.*
- (ii) Applications to practical problems/exercises.  
*Applications to practical problems including insolvency.*

**NOTE:** *Accommodation Bill is not required.*

## 10. Introduction to the use of Computers in Accounting

- (i) Applications of Computers in Accounting.  
 (a) *Automation of accounting process.*  
 (b) *MIS reports.*
- (ii) Comparison of Manual and Computerized Accounting.  
*Meaning, advantages and limitations of Manual and Computerized System of Accounting.*
- (iii) Accounting Software.  
*Readymade and computerized accounting softwares. Advantages and disadvantages of each.*

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**Part II (70 marks):** Candidates will be required to answer **five** questions out of **eight** questions from this section. Each question shall carry 14 marks.

### 1. Inventory Valuation

#### (i) Inventory Valuation.

*Meaning and importance of the periodic and perpetual inventory systems.*

#### (ii) Meaning of goods received note, stores requisition note, material return note and materials transfer note.

*Self-explanatory.*

#### (iii) Methods of inventory valuation.

*FIFO and LIFO with meaning, merits and demerits of both.*

#### (iv) Meaning and format of a Bin Card

*Practical application not required.*

#### (v) Practical problems on LIFO and FIFO including surplus and returns; normal and abnormal losses.

*(a) Periodic Method.*

*(b) Perpetual Method.*

*(c) Preparation of Trading Account based on LIFO and FIFO.*

#### **NOTE:**

*(a) Stock reconciliation statement is not required.*

*(b) When a question does not specify whether shortage is normal or abnormal in nature, any method may be used.*

*(c) When the problem is silent perpetual inventory system to be followed.*

### 2. Cost Sheet

#### (i) Concept of cost sheet.

*Concept of cost sheet; definition of cost; classification of cost; meaning of cost centre and cost unit; concept of cost accounting and financial accounting; objective of costing; advantages of cost accounting; format of a cost sheet; uses of a cost sheet.*

#### (ii) Application of cost sheet.

*Application of cost sheet to include valuation of finished goods, determining cost per unit and total cost (closing stock valuation both by LIFO or FIFO method).*

**NOTE:** Budgeted cost sheet based on price escalation is not required.

### 3. Joint Venture

*Joint Venture: objectives; necessity and methods of accounting (recording of transactions in the books of one Joint Venturer, recording of transactions in the books of all Joint Venturers, recording of transactions in separate set of books).*

*Joint Venture: meaning, features, objectives and application of Joint Venture problems under three different methods of accounting.*

*a) Recording of transactions in the books of one Joint Venturer.*

*b) Recording of transactions in the books of all Joint Venturers.*

*c) Recording of transactions in separate set of books.*

#### **NOTE:**

*Valuation of closing stock in Joint Venture and Joint Ventures for underwriting shares are included.*

### 4. Self Balancing and Sectional Balancing System

#### (i) Meaning of Self Balancing System and application of the system in solving practical problems.

*Meaning, classification of ledgers, transfer between subsidiary ledgers, advantages, and application of problems relating to adjustment accounts.*

- (ii) Meaning of Sectional Balancing System and application of the system in solving practical problems.

*Meaning, classification of ledgers and application of problems relating to control accounts.*

**NOTE:** Rectification of errors relating to Self-Balancing and Sectional Balancing are not required.

## 5. Partnership Accounts

- (i) Partnership: definition, features – meaning and importance of partnership deed.

*Self explanatory.*

- (ii) Practical problems on preparation of Profit and Loss Appropriation Account and Capital Accounts.

*(a) Profit and Loss Appropriation Account.*

*(b) Partners' capital accounts: types - fixed and fluctuating.*

*Interest on capital, interest on drawings, salary, commission to partners, transfer to reserves and division of profit among partners.*

**NOTE:**

- *Interest on partner's loan to be taken as a charge against profits.*
- *Interest on loan should be credited to a separate loan account.*
- *Rent paid to a partner is a charge against profit and not an appropriation of profit and so it is to be debited to profit and loss account and not to profit and loss appropriation account and credited to partners' current account in case of fixed capital system or to partners' capital account when capitals are fluctuating.*
- *Only the application (not the accounting treatment) of Joint Life Policy needs to be covered.*

**NOTE:** Adjustment of partnership net profits of prior years as well as adjustment of profits when a manager is treated as a partner and guarantee are not required.

- (iii) Admission: Goodwill - concept and mode of valuation.

*a) Meaning of Goodwill.*

*b) Mode of Valuation.*

- *Average profit method.*
- *Super profit method.*

- (iv) Accounting treatment of goodwill on admission of a partner.

*Based on Para 36 of Accounting Standard – 10 issued by the Institute of Chartered Accountants of India.*

*a) Premium for goodwill paid privately.*

*b) Premium for goodwill paid (in cash or kind) and retained in the business.*

*c) Premium for goodwill paid and withdrawn by the old partners.*

*d) When the incoming partner cannot bring premium for goodwill.*

*e) When a loan account is raised in the name of the incoming partner.*

*f) Hidden goodwill.*

*g) When the incoming partner brings personal goodwill into the business.*

*h) When goodwill appears in the old Balance Sheet and the incoming partner pays premium for goodwill or pays partly the premium for goodwill.*

- (v) Preparation of Revaluation Account or Memorandum Revaluation Account.

*a) Preparation of a Revaluation Account where changes in the values of assets and liabilities are reflected in the new Balance Sheet after reconstitution of a partnership firm.*

*b) Preparation of a Memorandum Revaluation Account where changes in the values of assets and liabilities are not reflected in the new Balance Sheet after reconstitution of a partnership firm.*

- (vi) Accounting treatment of accumulated profits and losses and Joint Life Policy.

*Self explanatory.*

- (vii) Adjustment of Capitals.

*Problems pertaining to capital adjustments.*

(viii) Retirement and death of a partner.

- a) *Adjustment with regard to goodwill.*
- b) *Adjustment with regard to undistributed profits and losses.*
- c) *Adjustment with regard to joint life policy.*
- d) *Adjustment with regard to share of profits from the date of the last Balance Sheet to the date of retirement or death (on the basis of time or turnover).*

(ix) Preparation of Revaluation Account or Memorandum Revaluation Account on retirement or death of a partner and construction of loan account and adjustment of capital as per new ratio.

*Preparation of Revaluation Account or Memorandum Revaluation Account on retirement and death of a partner and construction of loan account and executor's account and adjustment of capital as per new profit and loss sharing ratio with or without the use of current account .*

(x) Dissolution.

- (a) Meaning of dissolution, modes of dissolution, modes of settlement of accounts.
- (b) Preparation of Realization Account.
- (c) Treatment of undistributed profits and losses and Joint Life Policy.
- (d) Preparation of Cash / Bank Account.
- (e) Where at least one partner is insolvent
  - Prior to ruling in Garner Vs Murray.
  - Application of Garner Vs Murray.
  - Application of Garner Vs Murray in Indian context.

*(With reference to fixed and fluctuating capital).*

(f) Where all partners are insolvent.

**NOTE:**

- *When an asset or liability is taken to the realization account any related fund or*

*reserve is also transferred to realization account and not to capital account.*

- *When accounts are prepared on a fixed basis partners current account balances are to be transferred to capital account. No adjustments are required to be passed through current account.*
- *When a question on insolvency is silent, then Garner Vs Murray is to be applied.*
- *When Garner Vs Murray is being used and a solvent partners capital account shows a debit balance, he does not bring in his share of loss on realization in cash and does not bear the deficiency of insolvent partner/ partners.*
- *Admission cum retirement, amalgamation of firms and conversion/sale to a company together with piecemeal distribution not required.*

## 6. Joint Stock Company Accounts

### A. Issue of Shares.

Application of problems on issue of shares.

- (a) Issue of shares at par, premium or at discount under Companies Act.
- (b) Issue of shares for considerations other than cash:
  - To promoters.
  - To underwriters.
  - To vendors.
- (c) Calls in arrears, calls in advance and interest thereon.
- (d) Over and undersubscription (including prorata allotment).

**NOTE:** *In prorata allotment when shares are issued at a premium, excess money received on application will first be adjusted towards the share capital. Any excess thereon will be utilized towards the securities premium.*

(e) Forfeiture and reissue of shares.

*Self explanatory.*

**NOTE:** Issue of bonus and rights shares, private placement of shares, sweat equity shares, employees stock option scheme, reservations for small individual participants and minimum tradable lots are not required.

## B. Issue of Debentures

Application of problems on issue of debentures – at par, at discount or at premium.

*Application of problems on issue of debentures to include:*

- (a) *Issue of debentures at par, premium or at discount under Companies Act.*
- (b) *Interest on debentures.*
- (c) *Writing off discount on issue of debentures.*
- (d) *Accounting entries at the time of issue when debentures are redeemable at premium.*
- (e) *Issue of debentures as collateral security for a loan.*
  - *To promoters.*
  - *To underwriters.*
  - *To vendors*
- (f) *Issue of debentures for considerations other than cash.*

### **NOTE:**

*Premium on the redemption of debentures to be recorded under the sub-head 'Provisions'.*

## C. Final Accounts of Companies

Application of Schedule VI of Companies Act including Profit and Loss Appropriation Account of companies.

*Application of problems.*

*Schedule VI Part I under Companies Act - Preparation of a company Balance Sheet. (Horizontal/Vertical Form) – Major Heads only.*

*Schedule VI Part II under Companies Act - preparation of a company Profit & Loss*

*Account and Profit & Loss Appropriation Account.*

*Preparation of Final Accounts of a company from a trial balance with or without adjustments.*

### **NOTE:**

*Managerial remuneration and taxation are not required.*

## 7. Cash Flow Statement and Ratio Analysis

- (i) Meaning, importance and preparation of a Cash Flow Statement.

**NOTE:** *Based on Accounting Standard – 3 (revised) issued by the Institute of Chartered Accountants of India.*

- (ii) Calculation of net cash flows from operating activities based on Indirect Method only.

*Preparation of a Cash Flow Statement from two consecutive years' Balance Sheet with or without adjustments.*

**NOTE:** *Any adjustment or an item in the Balance Sheet relating to issue of bonus shares, Foreign Currency Cash Flows; Extraordinary items; Investment in Subsidiaries, Associates and Joint Ventures; Acquisitions and Disposals of Subsidiaries and other Business Units; and Non Cash Transactions are not required.*

- (iii) Preparation of Cash Flow Statement on basis of operating, investing and financing activities.

*The following items are to be taken when calculating net cash flows from financing activities:*

- *Issue of shares and debentures at a premium.*
- *Interest paid on debentures and public deposits.*
- *Cash proceeds from public deposits.*
- *Repayment of bank loan.*
- *Share issue expenses paid off.*

- (iv) Ratio Analysis.

*Meaning, advantages and limitations of ratio analysis.*

- (v) Application of ratio analysis including calculations of various ratios (excluding interpretation, analysis, comparisons, conclusions and the preparation of Trading, Profit & Loss Account and Balance Sheet).

(a) *Balance Sheet Ratios:*

1. *Proprietary ratio*

$$= \frac{\text{Shareholders' Fund}}{\text{Total Assets - Fictitious Assets}}$$

2. *Current ratio*

$$= \frac{\text{Current assets}}{\text{Current liabilities}}$$

3. *Quick/Liquid/Acid test ratio*

$$= \frac{\text{All current assets - stock - prepaid expenses}}{\text{All current liabilities - bank overdraft}}$$

[Note: Shareholders' fund is equal to Equity share capital + Preference share capital + Reserves and Surplus – Fictitious assets.]

4. *Total assets to debt ratio*

$$= \frac{\text{Total assets}}{\text{Long term debts}}$$

5. *Debt-equity ratio*

$$= \frac{\text{Long term debts}}{\text{Shareholders' fund}}$$

(b) *Revenue Statement Ratios:*

1. *Gross profit ratio*

$$= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

2. *Net profit ratio*

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

3. *Operating ratio*

$$= \frac{\text{Cost of goods sold} + \text{operating expenses}}{\text{Net Sales}} \times 100$$

4. *Operating Profit Ratio =*

$$\frac{\text{Operating Profit}}{\text{Net sales}} \times 100$$

5. *Earning per share =*

$$\frac{\text{PAT}}{\text{number of equity shares}}$$

**[NOTE:** Financial expenses and non-operating expenses are to be ignored.]

Operating expenses = Administrative expenses + Selling and Distribution expenses.

(c) *Balance Sheet and Revenue Statement Ratios:*

1. *Debtors turnover ratio*

$$= \frac{\text{Net credit sales}}{\text{Average debtors} + \text{Average bills receivable}} \\ = \text{number of times}$$

2. *Creditors turnover ratio*

$$= \frac{\text{Net credit purchases}}{\text{Average creditors} + \text{Average bills payable}} \\ = \text{number of times}$$

3. *Working capital turnover ratio*

$$= \frac{\text{Net sales}}{\text{Working Capital}} = \text{number of times}$$

4. *Stock turnover ratio*

$$= \frac{\text{Cost of goods sold}}{\text{Average stock}} = \text{number of times}$$

**NOTE:**

Net = Gross – returns

$$\text{Average} = \frac{\text{opening} + \text{closing}}{2}$$

Working capital = current assets – current liabilities

Current assets = cash in hand, cash at bank, marketable securities, short-term investments, sundry debtors, bills receivable, accrued income, prepaid expenses, stock in trade.

Current liabilities = Sundry creditor, bills payable, liability for taxes, outstanding expenses, income received in advance, provision for taxation, proposed dividend, bank overdraft.