FINANCIAL ACCOUNTING II

NON TRADING CONCERN

Some of the organizations or institutions are constituted to provide valuable services to the society with the objective not to earn profit. These organizations normally offer the services such as education, medical, social clubs, charitable trusts, trade unions, etc.

NON-TRADING ACCOUNT

Maintenance of proper books of accounts is necessary to safeguard the money of its members and general public from any kind of misuse or misappropriations. It is important to know the total receipts, total payments and also to know financial status of an institution. Hence, the account opened and maintained for and by the organizations is known as Non-trading account.

Normally, registration of members, minute book, cash receipt journal, cash payment journal, etc. are main record which is maintained by these organizations/ institutions in their non-trading accounts. At the end of an accounting period, these institutions prepare its final accounts, which include the following:

1. **Receipt and Payment Account**
2. **Income and Expenditure Account**
3. **Balance-Sheet**

1. Receipt and Payment Account

It is a real account. Basic rule of double entries is followed to prepare this account. It is prepared from a cash book at the end of the accounting period. Every transaction regarding the cash transactions is recorded in the Cash Book in a chronological order. We may say that the Receipt and Payment account is a summary of cash payment and cash receipts during the current year.

For example, if rent and salary paid on monthly basis all over the accounting period, and donation or subscription received during the current year recorded in a cash book date wise, but at the end of the accounting period, the Receipt and Payment account will contain total amount of rent paid, salary paid, subscription received and donation received. All cash receipt will be recorded on the debit side and all cash payment will be recorded on the credit side.

2. Income and Expenditure Account

Income and expenditure account is a nominal account and as an equivalent to Profit and Loss account.

Essential Features of an Income and Expenditure Account

1. Expenses and losses are recorded in the debit side of it and all incomes and gains are recorded on the credit side.
2. Capital income and expenditure are excluded and revenue income and expenses are included in it.
3. It is based on a mercantile system of accounting, therefore, the income and expenses related to preceding years or subsequent years are excluded while preparing the income and expenditure account.
4. The credit balance of an income and expenditure account shows surplus. Further, excess of income over the expenditure and the debit balance of it show deficit i.e. excess of the expenditure over income.
5. Only nominal accounts are considered in preparation of this account.

3. Balance Sheet

The date, on which a balance sheet is prepared, particulars of all the assets and liabilities are recorded in the same manner as we do in any other profit making firms. Its capital fund is made up of surplus income over expenditure and other incomes capitalized in the given period of time. Sometimes, two balance sheets need to be prepared.

1. At the beginning of the accounting year to know the opening capital fund
2. At the end of the financial year to know the financial position of the organization.

CONVERSION OF RECEIPT AND PAYMENT ACCOUNT INTO INCOME AND EXPENDITURE ACCOUNT

Following are the steps required to convert receipt and payment account into income & expenditure account

- Opening balance and closing balance of a receipt and payment account representing opening cash in hand, opening cash at bank, closing cash in hand, and closing cash at bank need to be ignored.
- Items of capital receipts and capital payment will be excluded while preparing an income and expenditure account.

- Revenue items of an income and expenditure will be considered only at the time of preparation of an income & expenditure account from the receipt and payment account.
- All adjustment regarding the outstanding expenses, prepaid expenses, provision for bad debts, provision for depreciation, income received in advance, and income receivable will be done.
- An income and expenditure relating to preceding year or subsequent year will be ignored, and the items only related to the current year will be considered.

ITEMS PECULIAR TO NON-TRADING CONCERN

There are certain peculiar items in the case of non-trading concerns, which require a special treatment

Donations

Non-trading concerns may receive donations time to time. The treatment of donation depends upon nature of donation.

There are two types of donation as explained below −

Specific Donation − Some donation may be received for any specific purpose, for example, for the construction of a room or building and then donation is termed as specific donation. The amount of such donation cannot be used for any other purpose. It should be shown on liabilities side of the Balance-sheet and used only for the same purpose it is meant for.

General Donation − When a donation is received for a common purpose is termed as General Donation. If the amount of donation is small, it will be treated as recurring income and will be recorded in the credit side of income & expenditure account.

Donation of the big amount should be fairly treated as capital receipts and will be shown in the liabilities side of the Balance sheet. However, donation is of a small amount or a big amount may depend upon the size of a concern and amount.

Legacy

Sometimes, as per the will of a person, an amount received is called as legacy. It is as good as donation. It is of a non-recurring nature, therefore should be treated as a capital receipt, and hence will be appeared in the liabilities side of a Balance sheet. However, it may also be treated as an income and may be taken to income & expenditure account.

Entrance Fees

A club or society usually charge admission fees or entrance fees for the membership. In case of club etc., admission fees or entrance fees usually charged as capital receipts, but in case of a hospital or educational institution, it is treated as a recurring income.

Life Membership Fees

The life membership fees may be taken from the members of institution only once in their lifetimes. On the basis of lifetime membership, members may enjoy certain benefits. Amount received as the Life Membership might be transferred to the "Life Membership Fees Account" of the institution and can be dealt in the accounts by any of the following methods − May be taken as liabilities side of a Balance sheet as Life Membership Fees."

Normal subscriptions of the members may be transferred from the Life Membership Fees account to the subscription account as an income and the balance may be carried forward to the following years.

On the basis of average life of a member, the amount may be transferred to the income and expenditure account annually and rest will be carried forward towards the following years.

Sale of Scrap or Old Newspapers

Without any dispute, it will be treated as recurring income and will appear in the credit side of an income and expenditure account.

Subscription

Subscription is the major source of an income for the non-trading concerns. Subscriptions are received from the members of a club or institution. A receipt and payment account records all the actual subscription received during the current year and an income & expenditure account shows the subscriptions, which relates to the current accounting period. Therefore, some adjustments require calculating the subscription of the current year.

ROYALTY ACCOUNTS

An Individual, Firm, Company or any other Institution pays a certain amount as per agreement for acquiring a Special Right for using other's property. This amount which is paid as a consideration for the use of Special Rights is called Royalty. It is the amount payable for make use of the benefits of certain rights vested with some other person.

Ex: The landlord possesses right over mine in his land.

The author of book possesses right over his books.

The owner of such rights can lease their property to others, upon such lease owner receives a consideration for the same which is called as Royalty.

Definition of Royalty

"Royalty is the remuneration payable to person in respect of the use of an asset, whether hired or purchased from such person, calculated by reference to and varying with quantities produced or sold as a result of such asset."

Lessee

The person who makes the payment to the owner of the asset is known as lessee.

Lessor

The owner of the asset to whom the payment is made known as lessor.

Difference between Rent and Royalty

(1) Rent is the consideration payable for the use of some tangible asset; tangible asset here means Building and Machinery, etc. Royalty is the consideration payable for the use of special right in a tangible or intangible asset.

(2) Rent is mostly payable according to time as per day, per week, per month or per year. etc., but payment of royalty depends on yield or production etc. In the following cases rent is taken in place of royalty; (i) for taking out or producing various articles from forests; (ii) for use of sand from river bed; (iii) for taking out fish etc., from the water.

Minimum Rent

Usually, the royalty agreements contain a clause for the payment of a fixed minimum amount to the lessor every year as royalty—irrespective of the actual benefit to be taken by the lessee simply in order to assure the lessor of a certain regular income from his property.

This minimum amount is known as “Minimum Rent, ‘Dead Rent’, etc. It is to be remembered that the Minimum Rent may or may not vary in different years. The Minimum Rent or actual royalty, whichever is higher, is to be paid to the lessor. For example, X leased a mine from Y at a Minimum Rent of Rs. 12,000 p.a. merging a royalty of Rs. 2 per ton of coal raised.

Now, if the quantity raised for the 1st year amounted to 4,000 tons and that of 2nd year 8,000 tons, in that case, X will have to pay Rs. 12,000 for the 1st year to Y, i.e., the Minimum Rent [since actual royalty (8,000 = 4,000 × 2) is less than Minimum Rent]. On the contrary, he will have to pay Rs. 16,000 to Y for the 2nd year [since actual royalty (16,000 = 8,000 × 2) is more than the Minimum Rent.].

Short-working

The excess of Minimum Rent over actual royalty is known as short-working. Therefore, question of short-working will only arise when the actual royalty is less than the Minimum Rent. Short-workings which are recoupable will appear in the assets side of the Balance Sheet as a current asset.

In the above example, short-working for the 1st year will be Rs. 4,000 [i.e., Rs. 12,000 – Rs. 8,000 (4,000 × Rs. 2)], since actual royalty is less than the Minimum Rent. But, in the 2nd year, there will be no such short-working since actual royalty is more than the Minimum Rent.

Recoupment of Short-working

Usually, in a royalty agreement, a further provision is included about the recoupment of short-working, i.e., the lessor allows the lessee the right to carry forward and set off the short-working against the excess or surplus of royalties over the Minimum Rent in the subsequent years.

In other words, the lessor promises to adjust or return the excess which was charged in the first few years out of excess earned in the later or subsequent years. This right is known as the right of recoupment of short-working.

It can be presented in the following manner

(a) Fixed;

(b) Floating.

(a) Fixed:

If the lessor or landlord agrees to compensate the losses which were incurred in the first few years (say, three or four years) the same is known as fixed, i.e., if any short-working falls beyond this period, the same cannot be reimbursed.

(b) Floating:

If the lessor or landlord agrees to compensate the loss which were incurred in the first few years, in the next or following or subsequent three or four years, the same is known as floating as the same can be adjusted in any year if short-working arises, i.e., each year's short-working will have to be adjusted against the excess royalties earned in the subsequent years accordingly.

Royalty Table

Year	Output	Minimum Rent	Royalty	Short Working/ surplus	Short Working Recovered	Short Working Irrecoverable	Amount Paid to Landlord

<u>ACCOUNTING TREATMENT</u>

ACCOUNTING TREATMENT IN THE BOOKS OF LESSEE:

The accounting treatment in the books of lessee can be done by using any one of the methods.

1. When minimum rent account is not required (without minimum rentaccount).
2. When minimum rent account is required (with minimum rent account).

1. **When minimum rent account is not required (without minimum rentaccount)**

When royalties are less than the minimum rent

	Dr	Cr
For royalties payable Royalties a/c Dr. Short Workings a/c Dr. To Land Lord a/c	 XXX XXX 	 XXX
For payment of royalty Land Lord a/c Dr. To Bank a/c	 XXX 	 XXX
For transfer of royalties to profit and loss account Profit and Loss a/c Dr. To Royalties a/c	 XXX 	 XXX

When actual royalties are more than the minimum rent and shortworkings are recovered

	Dr	Cr
For royalties payable		
Royalties a/c Dr.	XXX	
To Short Workings a/c		XXX
To Land Lord a/c		XXX
For payment of royalty		
Land Lord a/c Dr	XXX	
To Bank a/c		XXX
For transfer of royalties to profit and loss account		
Profit and Loss a/c Dr.	XXX	
To Royalties a/c		XXX
For transfer of irrecoverable short workings to profit and loss account		
Profit and Loss a/c Dr.	XXX	
To Short working Account a/c		XXX

2. **When minimum rent account is required (with minimum rent account)**

When actual royalties are less than the minimum rent.

	Dr	Cr
For minimum rent payable		
Minimum Rent a/c Dr.	XXX	
To Land Lord a/c		XXX
For royalties payable		
Royalties a/c Dr.	XXX	
Short Workings a/c Dr.	XXX	
To Land Lord a/c		XXX
For payment of royalty		
Land Lord a/c Dr.	XXX	
To Bank a/c		XXX

For transfer of royalties to profit and loss account Profit and Loss a/c Dr. To Royalties a/c	 XXX	 XXX

When actual royalties are more than the minimum rent and short workings are recovered

	Dr	**Cr**
For royalties payable Royalties a/c Dr. To Short Workings a/c To Land Lord a/c	 XXX	 XXX XXX
For payment of royalty Land Lord a/c Dr. To Bank a/c	 XXX	 XXX
For transfer of royalties to profit and loss account Profit and Loss a/c Dr. To Royalties a/c	 XXX	 XXX
For transfer of irrecoverable short workings to profit and loss account Profit and Loss a/c Dr. To Short Working a/c	 XXX	 XXX

ACCOUNTING TREATMENT IN THE BOOKS OF LESSOR

When actual royalties are less than the minimum rent

	Dr	Cr
When royalty is due Lessee's a/c Dr. To Short workings suspense a/c To Royalty Receivable a/c	 XXX	 XXX XXX

When Royalty is received Bank a/c Dr. To Lessee's a/c	 XXX 	 XXX
When royalty is transferred Royalty Receivable a/c Dr. To Profit and loss a/c	 XXX 	 XXX

When actual royalties are more than the minimum rent and short workingsare recovered

	Dr	Cr
When royalty is due Lessee's a/c Dr. Short workings suspense Dr. To Royalty Receivable a/c	 XXX XXX 	 XXX
When Royalty is received Bank a/c Dr. To Lessee's a/c	 XXX 	 XXX
When royalty is transferred Royalty Receivable a/c Dr. To Profit and loss a/c	 XXX 	 XXX
When Short workings irrecovered is transferred Short workings suspense a/c Dr. To Profit and loss a/c	 XXX 	 XXX

DEPARTMENTAL ACCOUNTING

Department:

Department means an activity centre (profit or cost centre) usually located in the same roof but carrying distinct type of activities.

Departmental Accounting:

The book of accounts maintained by each department is called departmental accounts. It enables to ascertain the individual performance or results of each department. It is essential to know the profit and loss account of each departmental store at the end of the accounting year. However, it can be done by maintaining the department wise Trading & Profit and Loss account.

OBJECTIVES OF DEPARTMENTAL ACCOUNTING

- To compare the results of a particular department with previous year and also with the other departments of the same concern.
- To help the proprietor in formulating policy to expand the business on proper lines so as to optimize the profits of the concern
- To allow departmental managers' commission on the basis of the profits of their departments
- To generate information, which may be helpful for planning, control and evaluation of performance of each department and for taking various managerial decisions.

ADVANTAGES OF DEPARTMENTAL ACCOUNTING

- It is helpful in evaluating the result of each department.
- It helps to know the profitability of each department.
- Investors and outsiders may know the detailed information.
- It is helpful in making comparison of each expenses (same department) of the different accounting years and different expenses (other departments) of the same accounting year.

METHODS AND TECHNIQUES OF DEPARTMENTAL ACCOUNTING

(i) When accounts are finalized, departmental trading and Profit & loss account is prepared in columnar form to find gross profit and net profit of each department.

(ii) Maintenance of Records

Firms with huge turnover and large number of transactions can maintain separate subsidiary books for each department. Medium and small sized firms can maintain purchases book, sales book and returns books with appropriate columns for each department.

DEPARTMENTALIZATION OF EXPENSES

In order to find out profit and loss of each department apart from sales, purchases, return and stocks, various expenses must be charged to the departments appropriately.

(a) Direct expenses

Expenses which can be directly identified with or incurred for particular department are called direct expenses. For eg. Wages, carriage inwards, insurance of stock, etc.

(b)Indirect expenses

Expenses which cannot be identified with a particular department, but incurred for their common benefit are called indirect expenses.

Indirect expenses are further sub-divided into

(1)Expenses which cannot be apportioned.

(2)Expenses which can be apportioned.

ALLOCATION OF EXPENSES IN DEPARTMENTAL ACCOUNTING

Sales of each department

- Salesman's commission
- Discount allowed
- Bad debts
- Carriage outwards
- Advertisement
- Traveling salesman's salary and commission

Purchase of each department

- **Discount received**
- **Carriage inward**
- **Freight duty**

Area of floor space of each department

- **Rent**
- **Rates and taxes**
- **Repair and maintenance of building**
- **Insurance on building**

Value of assets in each department

- Depreciation of machinery
- Repairs and maintenance of plant
- Insurance premium

Number of workers

- Workmen's compensation insurance
- Canteen expenses
- Labor welfare expenses
- Timekeeping

Direct wages

- Compensation to workers
- Provident fund contribution
- Group insurance premium

Number of light points

- Lighting expenses

Horse power of machine and/or production hours

- Electric power

Time devoted by him for each department

- Work manager's salary

STEPS FOR PREPARATION OF DEPARTMENTAL ACCOUNTS

1. Preparation of departmental trading account
2. Preparation of departmental profit and loss account
3. Preparation of general profit and loss account (if needed)
4. Preparation of a consolidated balance sheet

BRANCH ACCOUNTING

As a business grows, it may open branches in different towns and cities within country or outside country in order to market its product over a large territory and, thus, increase its profits. A branch may be defined as a section of an enterprise, geographically separated from the rest of the business, controlled by a Head Office and generally carrying on the same activities as of the enterprise. For example, Bata Shoe Co. has branches in various cities all over the country.

MEANING OF BRANCH

The term 'Branch Accounts' refer to record of transaction of branches, whether relating to deal with Head Office or with outsiders or deal between different branches in the books of Head office. In order to exercise greater control over the branches, it is necessary to ascertain profit or loss made by such branches separately. For this purpose, a proper accounting system is to be adopted for recording business transactions between Head Office and Branches. The accounting system to be adopted for the branch depends upon the size and nature of branch and the degree of control required by the Head Office.

TYPES OF BRANCH

A. Dependent Branch
B. Independent Branch
C. Foreign Branch

A. Dependent Branch

Dependent branches are those branches which are not keeping their own separate set of books of accounts. The relation between head office and branch is just like agency, therefore, these are also known as agency branches.

B. Independent Branch

The branches that can keep their accounts themselves and sell goods that are sent by the head office, as well as those purchased by themselves, are known as independent branches. When the size of the branches is very large their function becomes complex. Independent Branch, like the Head Office, keeps all its records separately and independently on Double Entry System

C. Foreign Branch

A foreign branch is nothing but an independent branch and located outside country. It maintains its accounts in a foreign currency because all transactions are made in the currency of that country. Trial balance is prepared form the foreign branch books and send to the head office for incorporating in its books.

FEATURES OF DEPENDENT BRANCH

- These branches generally depend upon the head office for supply of goods. However, the branch may be allowed to make purchases from the local parties.
- All expenses of the branch are directly paid by the head office.
- In order to meet the petty expenses of the branch, e.g., conveyance expenses, entertainment expenses etc., may be provided with the petty cash from the head office.
- Normally branches receiving goods from head office selling for cash only but also selling on credit if it is authorised by the head office.
- Cash received from branch from its debtors or on account of cash sales is daily remitted to head office or deposited into a bank account opened in the name of the head office.
- Such branches maintain certain memorandum records only such as cash book, debtors account and stock registers.

FEATURES OF INDEPENDENT BRANCH

- Such branch gets goods from head office and from outside parties. It has its own bank account.
- It prepares its own trial balance, trading and profit, and loss account and balance sheet.
- There may be inter-branch transactions. That is, goods transferred by one branch to another branch of the same head office.
- A combined balance sheet of branch and h.O is prepared by the branch

ACCOUNTING PROCEDURE

In case of a dependent branch, the head office may keep accounts of the branch according to the following methods:

Debtors or Direct Method
Stock and Debtors Method
Wholesale Branch Method
Final Accounts Method

Debtors or Direct Method

Under this method, head office opens one account for one branch. This account is called Branch Account . The object of this account is to disclose branch profit or loss. This branch account is a nominal account. The head office maintains this account in its books. Normally this method is followed in case of branches of small size.

Debtors system - In the books of head office

Particular	Amount	Particular	Amount
To Balance b/d Stock Petty cash Furniture Prepaid Debtors **To Goods sent to Bank A/c** **To Cash A/c** Rent Salaries Other exp **To Balance c/d** Creditors Outstanding exp. **To General P&L**		**By Balance b/d** Creditors Outstanding exp **By Cash** Cash sales Cash from Debtor **By Goods Return to H.O** **By Balance c/d** Stock Petty Cash Furniture Prepaid Exp. Debtors	

STOCK AND DEBTORS SYSTEM

If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained under what is described as the stock and debtors method. In this method, the head office keeps separate accounts relating to various types of transactions at the branch instead of one branch account. The following accounts are kept in the head Office books relating to a branch under this system

Branch Stock Account

Branch Debtors Account.

Branch Expenses Account.

Branch Adjustment Account (required only when the goods are sent at invoice price)

Branch Profit and Loss Account.

Goods sent to the Branch Account

DIFFERENCE BETWEEN DEPARTMENT AND BRANCH ACCOUNTING

BRANCH ACCOUNTING	DEPARTMENT ACCOUNTING
Branch Accounts is for different locations of a business.	Departmental Accounts is for different departments within the same location.
Branch Accounts keeps track of income and expenses separately for each location.	Departmental Accounts keeps track of income and expenses separately for each department.
Branch Accounts helps to monitor the financial performance of each location.	Departmental Accounts helps to monitor the financial performance of each department.
Branch Accounts can help identify the profitable and non-profitable locations.	Departmental Accounts can help identify the profitable and non-profitable departments.
Branch Accounts can help in the decision-making process for expansion or closing of a particular location.	Departmental Accounts can help in the decision-making process for restructuring or changing the focus of a particular department.

SINGLE ENTRY SYSTEM

FEATURES

a. Unsystematic method of recording transactions.
b. Generally records cash transactions and personal accounts are properly maintained, but there is no information regarding revenue / gains and expenses / losses, assets and liabilities.
c. Personal transactions of owners may also be recorded in the cash book.
d. Lack of uniformity, because different organizations are maintaining records according to their needs.
e. Very difficult to ascertain profit or loss.
f. Less accuracy for accounting information.

WHY TRADERS PREFER INCOMPLETE RECORDS (REASONS FOR INCOMPLETENESS)

1. It is suitable to small concerns which have mainly cash transactions and do not have many assets and liabilities to be recorded in detail.
2. This system is economical since lesser number of books is maintained.
3. Lack of knowledge about double entry system.
4. Ignorance of businessman to the statutory requirements of keeping proper books of accounts.
5. Intentional omission to take advantage of taxation.

ADVANTAGES OF ACCOUNTING FROM INCOMPLETE RECORDS

1. Simple method: it is a simple and easy method of recording business transaction.
2. Economical: this system is less expensive, because it requires lesser books of accounts.
3. Suitable for small traders: it is suitable for small traders and professionals because they can not spend large amount on keeping records.
4. Tax evasion: this system is used to evade the tax as full details are not available under this system.

LIMITATIONS OF INCOMPLETE RECORDS

1. Arithmetical accuracy cannot be ensured.

2. In the absence of nominal accounts, it is difficult to determine the exact profit or loss.

3. As real accounts are not maintained, the value of assets and liabilities stated in the Balance Sheet is not reliable.

4. It increases the chances of errors and fraud.

5. It will not be accepted by the authorities like tax department, banks etc.

There are two approaches used to determine the profit or loss under the single entry system:

- Balance sheet approach (or net worth method)
- Transaction approach (or conversion method)

1. <u>The Balance Sheet Approach (Net Worth Approach)</u>

If the books of a business are maintained under the single entry system, then profit or loss cannot be calculated using the trading account and profit and loss account.

The reason for this is that the records kept under the single entry system are incomplete. To calculate the profit or loss under the single entry system, the following fundamental equation for the balance sheet can be used:

Capital (Net Worth) = Assets — Liabilities

This method is also known as the statement of affairs method. This is because, using this method, two balance sheets (statements of affairs) are prepared.

The first statement of affairs prepared at the start of the year will show "Opening Capital," whereas the second statement prepared at the end of the year will give "Closing Capital."

By comparing "Opening Capital" and "Closing Capital," we can calculate the profit or loss. If closing capital is greater than opening capital, this indicates an increase in capital (i.e., "Profit").

On the other hand, if "Closing Capital" is less than "Opening Capital," it indicates a decrease in the capital, corresponding to a loss for the period.

2. Transaction Approach (Conversion Method)

This approach is applicable where the double entry system is maintained. In this approach, every transaction is analyzed and the net result of the business is calculated.

Under this approach, a sequence of steps is adopted, as described in this section.

First of all, transactions are recorded in the journal. After recording transactions, these are classified into the ledger. In turn, to check the arithmetical accuracy of the work done, a trial balance is prepared from the ledger.

Adjusting entries are then passed to record the internal transactions, including depreciation. The next step is to prepare the second trial balance, which is called the adjusted trial balance, to incorporate adjusting entries.

From the trial balance, nominal accounts are subsequently transferred to the trading account and profit and loss account. Finally, the trading account and profit and loss account indicate the gross profit and net profit of the business.

QUESTION BANK

Unit-I

1. The parent establishment known as head office and its off shoots are termed as **branches.**

2. **Dependent branch** means a branch which does not maintain its own set of books.

3. Dependent branch sells only those goods supplied by the **head office**.

4. The goods may be supplied to the branch by the head office at **cost or at invoice price.**

5. Debtors system is also known as **synthetic** method.

6. **Debtors** system is adopted in case of branches of small size

7. **Independent branch** means branches which maintain its own set of books.

8. **Goods in transit** are the difference between goods sent by head office and received by the branch.

9. **Branch debtors** account is prepared to record all the transactions relating to branch debtors and ascertain the closing balance of debtors or credit sales.

10. **Goods sent to branch** account is prepared to find out the net value of goods sent to the branch.

11. Under debtors system, branch account is a **nominal** account.

12. The objective of branch accounting is to know the **profit or loss** of each branch.

13. Selling expenses should be divided among the different departments on the basis of **sales.**

14. Expenses which can be directly identified with or incurred for particular departments are called **direct expenses**.

15. Expenses which cannot be identified with a particular department, but incurred for their common benefit are called **indirect expenses**.

16. Goods transferred from one department to another department are called as **inter departmental transfer**.

17. The interdepartmental transfer may be made at **cost price or usual selling price**.

18. When goods or services are transferred at a price above cost, the **receiving** department must be debited with the amount of transfer in the departmental trading account.

19. All the departments are located within **single premises**.

20. All the accounting records are **centralize**d and maintained within the same premises for all the departments.

Unit –II

1. Consignment of goods is not a **sale.**
2. The relationship between consignor and consignee is that of **principal** and **agent.**
3. The consignee sells goods at the risk of **consignor.**
4. Consignment is a contract between **consignor** and **consignee.**
5. In consignment the legal ownership of goods remains with the **consignor.**
6. A periodic statement sent by the consignee to the consignor is called **account sale.**
7. **Commission** is a remuneration paid to the consignee for selling consigned goods.
8. Commission is a calculated on **gross sale proceeds.**
9. The person who sends the goods on consignment is called **consignor or principal.**
10. The person to whom the goods are sending on consignment is known as **consignee or Agent.**
11. **Overriding** Commission is given to the consignee to sell the goods higher than the price prescribed by the consignor.
12. **Delcredere commission** is allowed to the consignee to undertake the risk of bad debts.
13. All the expenses which are incurred till the goods reach the godown of the consignee are known as **non-recurring** expenses.
14. The expense incurred after the goods reach the consignee's godown are called **recurring expenses.**
15. Accident loss or loss due to negligence is termed as **abnormal** loss.
16. Abnormal loss is **credited** in the consignment account.
17. Losses which due to unavoidable causes are called **normal loss.**
18. Consignment is mere transfer or **possession** of goods.
19. Consignment account is **Nominal** account.
20. The sale proceeds of consignment belong to the **consignor.**

Unit III

1. Amount payable by one person to another person for using the right of an asset is called **Royalty.**
2. Royalty account is in the nature of **nominal account.**
3. The person from whom royalty is received is called **lessee.**
4. The person to whom royalty is paid is called **landlord or lessor.**
5. A minimum amount guaranteed by lessee to lessor is **minimum rent.**
6. Minimum rent is also called **dead rent or rock rent or fixed rent or flat rent.**
7. Excess of minimum rent over actual royalty is knows as **short workings.**
8. Royalty paid on the basis of output, is transferred to **production account.**
9. Royalty paid on the basis of units sold, is transferred to **profit & loss account.**
10. Royalty is an agreement between **landlord and tenant.**
11. Royalty payable by the lessee is an **expenditure.**
12. Royalty receivable by landlord is an **income.**
13. Excess of actual royalty over minimum rent is knows as **surplus.**
14. The right to recover the short workings by the lessee is knows as **recoupment.**
15. Short working is also knows **redeemable minimum rent.**
16. Allowing the lessee to recoup any short working over the first four years is called **fixed recoupment.**
17. Allowing the lessee to recoup any short workings within specified period is called **fluctuating recoupment**.
18. Opening stock + production – closing stock= **sales.**
19. In the books of lessee, short workings recoverable in future years are treated as **an asset.**
20. After the expiry of right to recoup short workings, the balance in short workings account is transferred to **profit & loss account.**

Unit IV

1. **Single entry** system is not a scientific method of accounting.
2. Single entry system is adopted by **small** firms.
3. In single entry system only **personal and cash** accounts are recorded.
4. Credit purchase is ascertained by preparing **total creditors** account.
5. Credit sales are ascertained by preparing **total debtors** account.
6. Single entry is changed into double entry system through **conversion** method.
7. Statement of affairs is like **balance sheet**.
8. **Statement of affairs** is prepared to know the capital at the beginning or at the end.
9. To know the true and fair view of the business, single entry system is converted into **double entry**.
10. Net worth method is also known as **statement of affairs** method.
11. In single entry system **final accounts** cannot be prepared.
12. In single entry system **real and nominal** accounts are not recorded.
13. It is very difficult to assess the value of **business** under single entry system.
14. In single entry system profit or loss can be found through **net worth or conversion** method.
15. **Internal check** is not possible in single entry system.
16. Closing capital + drawings-additional capital-opening capital=**netprofit or loss.**
17. Cash sales + credit sales=**total sales**.
18. In single entry system **accounting principles** are not followed.
19. Cash purchases + credit purchases=**total purchases.**
20. Opening stock + purchases + wages-closing stock=**cost of goods sold**.

Unit-V

1. **Income and expenditure** account is prepared by non-profit organization.
2. Receipts and payments account is a **real account**.
3. Income and expenditure account is a **nominal account**.
4. Receipts and payments account is prepared in lieu of **cash book**.
5. Only **revenue** items are recorded in income and expenditure account.

6. **Capital fund** is the excess of assets over liabilities.
7. **Subscriptions** are considered as a primary source of income of a non-trading organization.
8. Subscription are **credited** to income and expenditure account.
9. The account received from the general public by non-trading organization is called **donation**.
10. Donation received for a specific purpose is termed as a **specific donation.**
11. A donation not received for a specific purpose is treated as a **general donation.**
12. **Legacy** is the amount given to non-profit organization by the will of deceased person.
13. Life membership fees are shown on the **liabilities side** of the balance sheet.
14. Receipts and payments account includes both the **revenue** and **capital** items.
15. The balance of the income and expenditure account will be **surplus or deficit**.
16. Fees paid by new members at the time of joining the organization are called **entrance fees**.
17. **Honorarium** refers to the amount paid to a person to reimburse the actual expenses incurred for delivering a lecture or giving his performance as an artist.
18. Receipts and payments accounts start with **opening balance of cash** and ends with **closing balance of cash**.
19. Income and expenditure account reveals only **revenue** items.
20. Income and expenditure account is based on **mercantile** system.