Accounting Standards

Introduction

Accounting standards are codified as statements of accounting rules and guidelines for preparing the uniform and consistent financial statements.

Accounting standards are written policy documents issued by expert accounting body covering such aspects as measurement and disclosure of accounting transactions in the financial statements.

Accounting standard are the codified forms of **Generally Accepted Accounting Principles** (**GAAP**). They are designed to harmonize diverse accounting practices.

Accounting standards are the norms of the accounting policies by means of guidelines to direct as to how the items should be dealt with the accounts. Accounting standards primarily deal with the financial measurements and disclosures used in financial statements. Accounting standards are issued from time to time by professional accounting bodies established for this purpose. Accounting standards are something less than law but more than the professional guidelines. The setting of accounting standards is a social decision. Standards place restrictions on behavior and therefore must be accepted by affected parties.

An accounting standard is a selected set of accounting policies regarding the principles and methods to be chosen out of several alternatives.

Meaning

Accounting standards are generally accepted principles, policies and practices by way of codes and guidelines to direct as to how the items appearing in the financial statements should be dealt in the books of account and shown in the financial statements and annual reports.

Objectives of Accounting Standards

The main objective of accounting standards is as under:

(i) **Increases comparability**:

Accounting standards increase the comparability, credibility and understandability of the financial statements.

(ii) **Providing reformation:**

The main purpose of accounting standard is to provide information to the users.

(iii) **Remove the effect of diverse accounting**:

Accounting standards remove the effect of diverse accounting practices and policies, so that financial statements may become more meaningful.

Significance of Accounting Standards

The application of accounting standards ensures uniformity, comparability, and qualitative improvements in the preparation and presentation of financial statement. The standards enable the accountants to apply those accounting practices which are most suitable in a given situation and circumstances.

Advantages of Accounting Standards

The main advantages of accounting standards are as under:

(i) **Facilitates comparison**: The application of accounting standards facilitates comparison of financial statements of organization situated at different parts of the world.

(ii) **Reduction of variations:** Accounting standards eliminates confusing variations in the accounting treatments.

(iii) **Disclosure of facts:** Accounting standards help in disclosure of many important facts before the users.

(iv) **Improving credibility:** The account standards create a sense of confidence amongst the users of the accounting information. The value of the accounting information of a firm is enhanced, if it can be compared easily.

(v) **Measuring efficiency:** Accounting standards are useful in measuring the efficiency of the management regarding profitability, liquidity and solvency.

(vi) **Consistency and comparability:** Accounting standards provide consistency and comparability.

(vii) **Reform in accounting theory:** Accounting standards help to make reforms in accounting theory and practices.

Limitations of Accounting Standards

The disadvantages of accounting standards are as under:

(i) **Rigidity:** The accounting standards are very rigid in application.

(ii) **Cannot override the statute:** The accounting standards cannot override the statutes and law framed in this connection.

(iii) **Restriction on alternative treatments:** Accounting standards do not provide any chance of selection out of set standards fixed.

Accounting Standards Board in India (ASB)

The Institute of C.A. of India, recognizing the need to harmonies the diverse accounting policies in India, has constituted the accounting standard Board on 21st April, 1977.

Objectives and functions of ASB:

(i) To suggest areas in which accounting standards need to be developed.

(ii) To examine how International Accounting standard can be adopted.

(iii) To provide interpretations and guidance on Accounting Standards.

(iv) To formulate accounting standards with a view to assist the council of ICAI in establishing accounting standards in India.

(v) To review the Accounting standards and to make the necessary revision also.

Procedure for Issuing Accounting Standards

The following procedure will be adopted for formulating Accounting standards:

(i) To determine the broad areas in which accounting standards must be formulated.

(ii) To issue the draft of the proposed standard for necessary comments.

(iii) To hold a dialogue with Government, public sector, industry and other organizations for obtaining their views.

(iv) To finalise the draft of the proposed standard.

(v) To submit the final draft to the council of the Institute.

Scope of Accounting Standards

The scope of accounting standards is as under:

(1) Accounting standards will be issued which are in conformity with the provisions of laws customs and business environment in India.

(2) The Accounting standards are intended to apply only to those items which are useful and valuables. A particular standard will come into effect will be specified by ICAI.

(3) Emphasis would be on laying down accounting principles and not the detailed rules for applications.

(4) The ASB may consider any issue regarding interpretation of any Accounting Standard.

(5) The Accounting standards may not override the legal regulations which govern the presentation of financial statements in the country.

(6) The institute may use its endeavors to adopt the Accounting standards in order to achieve uniformity in its presentation.

Various Accounting Standards

International Accounting Standards Committee has launched in London in 1973 to create global pronouncements. Later on it has been rewarded as International Accounting Standard Board (IASB) on March 2001.The Council of Institute of Chartered Accountants of India has so far issued 29 accounting standards. These standards are as under:

Accounting Standards Issued by Institute of CA of India:

No. of AS	Title of the Accounting Standard	Date from which mandatory
AS-1	Disclosure of Accounting Policies	1-4-1991
AS-2	Valuation of Inventories	1-4-1999
AS-3	Cash flow Statement	1-4-2001
AS-4	Contingencies and Events occurring after Balance sheet date	1-4-1998
AS-5	Net Profit or Loss-Prior period items and charged in Accounting Policies.	1-4-1996
AS-6	Depreciation Accounting	1-4-1995
AS-7	Accounting for Construction contracts	1-4-2003
AS-8	Withdrawn & included in AS-26	-----------
AS-9	Revenue Recognition	1-4-1993
AS-10	Accounting for fixed Assets	1-4-1993
AS-11	Effects if changes in foreign Exchange Rates	1-4-2004
AS-12	Accounting for Government Grants	1-4-1994
AS-13	Accounting for Investments	1-4-1995
AS-14	Accounting for Amalgamation	1-4-1995

AS-15	Accounting for Retirement Benefits in the financial statements of Employers	1-4-1995
AS-16	Borrowing Costs	1-4-2000
AS-17	Segment Reporting	1-4-2001
AS-18	Related Partly Disclosures	1-4-2001
AS-19	Leases	1-4-2001
AS-20	Earnings per shares	1-4-2001
AS-21	Consolidated Financial Statement	1-4-2001
AS-22	Accounting for Taxes on income	1-4-2002
AS-23	Accounting for Investment in Associated in Consolidated financial Statements	1-4-2002
AS-24	Discontinuing operations	1-4-2005
AS-25	Interim Financial Reporting	1-4-2002
AS-26	Intangible Assets	1-4-2003
AS-27	Financial Reporting of interests in Joint Venture	1-4-2002
AS-28	Impairment of Assets	1-4-2008
AS-29	Provisions, Contingent Liabilities and Contingent Assets	1-4-2004

Accounting Standard is mandatory for the following:

(i) Whose equity or debt securities are listed on a recognized stock exchange in India or going to be listed.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover exceeds ` 50 Crores in a year.

Accounting Standard (AS) 1

Disclosure of Accounting Policies

The following is the Accounting Standard (AS) 1 issued by the Accounting Standards Board, the Institute of Chartered Accountants of India on 'Disclosure of Accounting Policies'. The Standard deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements.

Introduction

1. This statement deals with the **disclosure of significant accounting policies followed in preparing and presenting financial statements.**
2. The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be **significantly affected by the accounting policies followed in the preparation and presentation of the financial statements**. The accounting policies followed vary from enterprise to enterprise. Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated.
3. The disclosure of some of the accounting policies followed in the preparation and presentation of the financial statements **is required by law in some cases.**
4. The Institute of Chartered Accountants of India has, in Statements issued by it, **recommended the disclosure of certain accounting policies**, e.g., translation policies in respect of foreign currency items.
5. In recent years, a few enterprises in India have adopted the practice of including in their annual reports to shareholders **a separate statement of accounting policies followed in preparing and presenting the financial statements.**
6. In general, however, accounting policies are not at present regularly and fully disclosed in all financial statements. Many enterprises include in the Notes on the Accounts, descriptions of some of the significant accounting policies**. But the nature and degree of disclosure vary considerably between the corporate and the non-corporate sectors and between units in the same sector.**
7. Even among the few enterprises that presently include in their annual reports a separate statement of accounting policies, considerable variation exists. **The statement of accounting policies forms part of accounts in some cases while in others it is given as supplementary information.**
8. **The purpose of this Statement is to promote better understanding of financial statements by establishing through an accounting standard the disclosure of significant accounting policies and the manner in which accounting policies are disclosed in the financial statements.** Such disclosure would also facilitate a more meaningful comparison between financial statements of different enterprises.

Fundamental Accounting Assumptions

9. Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
10. The following have been generally accepted as **fundamental accounting assumptions:—**
    a. **Going Concern**

       The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
    b. **Consistency**

       It is assumed that accounting policies are consistent from one period to another.
    c. **Accrual**

       Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. (The considerations affecting the process of matching costs with revenues under the accrual assumption are not dealt with in this Statement.)

Nature of Accounting Policies

11. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.
12. There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The choice of the appropriate accounting principles and the methods of applying those principles in the specific circumstances of each enterprise calls for considerable judgement by the management of the enterprise.

13. The various statements of the Institute of Chartered Accountants of India combined with the efforts of government and other regulatory agencies and progressive managements have reduced in recent years the number of acceptable alternatives particularly in the case of corporate enterprises. While continuing efforts in this regard in future are likely to reduce the number still further, the availability of alternative accounting principles and methods of applying those principles is not likely to be eliminated altogether in view of the differing circumstances faced by the enterprises.

Areas in which differing accounting policies are encountered

14. The following are examples of the areas in which different accounting policies may be adopted by different enterprises.

- ✓ Methods of depreciation, depletion and amortisation
- ✓ Treatment of expenditure during construction
- ✓ Conversion or translation of foreign currency items
- ✓ Valuation of inventories
- ✓ Treatment of goodwill
- ✓ Valuation of investments
- ✓ Treatment of retirement benefits
- ✓ Recognition of profit on long-term contracts
- ✓ Valuation of fixed assets
- ✓ Treatment of contingent liabilities.

15. The above list of examples is not intended to the exhaustive.

Considerations in the Selection of Accounting Policies

16. The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit or loss for the period ended on that date.

17. For this purpose, the major considerations governing the selection and application of accounting policies are:

    a. **Prudence**

    In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

b. **Substance over Form**

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

c. **Materiality**

Financial statements should disclose all “material” items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

Disclosure of Accounting Policies

18. To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
19. Such disclosure should form part of the financial statements.
20. It would be helpful to the reader of financial statements if they are all disclosed as such in one place instead of being scattered over several statements, schedules and notes.
21. Any change in an accounting policy which has a material effect should be disclosed. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.
22. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

ACCOUNTING STANDARD

23. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

24. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.
25. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
26. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

Important Questions

ACCOUNTING STANDARD (AS) 1 - DISCLOSURE OF ACCOUNTING POLICIES

Questions carrying 02 Marks Each

1. What do you mean by Accounting Standard?
2. Mention the significance of Accounting Standards.
3. State any two objectives of accounting standards.
4. What do you mean by Disclosure of Accounting Policies'?
5. Mention any two fundamental accounting assumptions in the Disclosure of Accounting Policies?
6. Quote any two examples of the areas in which different accounting policies may be adopted by different enterprises.
7. State any two major considerations governing the selection and application of accounting policies.

Questions carrying 08 Marks Each

1. Describe the objectives and functions of accounting standards.
2. Mention the advantages and limitations of accounting standards.
3. Discuss the scope of Accounting Standard.

4. Describe the scope and functions of Accounting Standard Board.
5. Write short note on Disclosure of Accounting Policies (AS-1).

Accounts of Electricity Supply Companies – Double Account System

Introduction:

The double account system is a system of presenting the final accounts of public utility undertakings, such as railway companies, electricity supply companies, gas supply companies, water supply companies, colliery companies, etc. that are incorporated under special acts of parliament.

Meaning of Double Account System:

The public utility undertakings require huge amount of fixed or long-term capital to be invested on fixed or permanent assets. They raise most part of their fixed capital from the public by the issue of shares and debentures. So, they are bound to give information to the public as to what amount of fixed capital has been raised by them from the public and how much of it has been invested on fixed assets. To provide this information to the public, **the public utility concerns split their balance sheet into two parts, viz.,**

(1) **Receipts and Expenditure on Capital Account** disclosing the amount of fixed capital raised from the public and the manner in which the fixed capital has been invested on fixed assets and

(2) **The General Balance Sheet** disclosing the other liabilities and assets items.

This system of presenting the balance sheet is called the double account system.

In other words, the double account system is the system of splitting and presenting the balance sheet in two parts, viz.,

(1) the receipts and expenditure on capital account and

(2) the general balance sheet.

It is called the double account system, as the balance sheet, is presented in double or two accounts or statements.

Salient Features of Double Account System:

The main features of the Double Account system are:

1. This is not a system of keeping accounts, but **only a system of presenting the final accounts.**
2. This system is, usually**, adopted by public utility concerns formed under special acts of parliament.**
3. As stated above, under this system, **the balance sheet is divided into two parts,** viz.,

   (i) Receipts and Expenditure on Capital Account and

   (ii) General Balance Sheet.
4. The **main objective** of this system is not to disclose the financial position of the concern as on the last date of the accounting year, **but to disclose the amount of fixed capital raised from the public and the manner in which the fixed capital has been utilised in the acquisition of fixed or permanent assets**.
5. The account prepared under this system for **showing the incomes and expenses of a concern is called Revenue Account, and not Profit and Loss Account.**
6. The account prepared under this system for showing the appropriations of profits is called **Net Revenue Account, and not Profit and Loss Appropriation Account.**
7. Under this system, **interests on debentures and loans borrowed are treated as appropriations of profits and are shown on the debit side of the Net Revenue Account,** and **not in the Revenue Account**. Not only interests on debentures and loans borrowed, but also the other interests paid, and all types of interests received are entered in the Net Revenue Account.
8. Under this system, **depreciation on fixed assets is not shown as a deduction from the respective fixed assets.** The fixed assets are shown on the debit side (i.e., expenditure side) of the capital account at original cost plus additions during the

year, if any. The depreciation on the fixed assets is credited to depreciation fund or deprecation reserve account, and the depreciation reserve is shown on the liabilities side of the general balance sheet.

9. Under this system, **discount on issue of shares or debentures is not shown in the financial statements separately**. It is deducted from shares or debentures, and the net proceeds of the share capital or debentures received are entered on the credit side (i.e., the receipts side) of the Receipts and Expenditure on the Capital Account.

Double Entry System Vs Double Account System:

The double-entry system should not be confused with the double account system. The double-entry system is a system of recording the transactions in books (i.e., a system of maintaining books of accounts), whereas the double account system is a system of presenting the final accounts.

However, both the systems go together. Usually, the final accounts of the public utility concerns, which are presented under the double account system, are kept on the double-entry system.

Single Account System Vs Double Account System:

The single account system (i.e., the system of presenting the financial affairs of a business concern through a single balance sheet) is different from the double account system in many respects. The main differences between the two systems are:

1. The **single account system** is **usually followed by non-public utility undertakings**. On the other hand, the **double account system is followed mostly by the public utility concerns.**
2. The **single account system is more popular** than the **double account system.**
3. Under the **single account system**, the financial affairs of a concern are shown through a single statement called the balance sheet. But under the **double account system**, the financial affairs of a concern are disclosed through two statements, viz., (1) capital account and (2) general balance sheet.
4. The main objective of the balance sheet prepared under the **single account system** is to disclose the financial position of a concern as on the last date of the accounting

year, whereas the main objective of the main part of the balance sheet, viz., the capital account, prepared under the **double account system**, is to disclose as to how much fixed or long-term capital has been raised from the public, and how it has been invested on the fixed or long-term assets.

5. Under the **single account system**, fixed assets are shown in the balance sheet at their original costs minus depreciation to date. But under the **double account system,** fixed assets are shown in the capital account at their original costs plus additions during the year, if any, and the depreciations on the fixed assets are treated as depreciation fund or depreciation reserve and are shown on the liabilities side of the general balance sheet.

6. Under the **single account system**, the discount on the issue of shares or debentures is shown separately on the assets side of the Balance Sheet under the head "Miscellaneous Expenditure and losses" until it is written off. But under **the double account system,** the discount on the issue of shares or debentures is not shown in any account separately. It is deducted from the share capital or debentures, and only the net proceeds of share capital or debentures are shown on the receipts side or the credit side of the capital account.

7. Under the **single account system**, all interests are shown in the Profit and Loss Account. Interests paid are shown on the debit side of the Profit and Loss Account, and interests received are shown on the credit side of the Profit and Loss Account. But under the **double account system**, all interests are shown, not in the Revenue Account (which is similar to the Profit and Loss Account), but are shown in the Net Revenue Account (which is similar to the Profit and Loss Appropriation Account).

8. Under the **single account system**, the final accounts of a concern consist of:

   (a) Profit and Loss account,

   (b) Profit and Loss Appropriation Account and

   (c) Balance Sheet.

On the other hand, under the **double account system**, the final accounts of a concern consist of:

   (a) Revenue Account,

   (b) Net Revenue Account,

(c) Receipts and Expenditure on Capital Account and

(d) General Balance Sheet.

9. Under the **single account system**, when a fixed asset is replaced by a new one, the old fixed asset is completely written off. But under **the double account system**, when a fixed asset is replaced by a new one, the original cost of the fixed asset remains in the books as it is.

Advantages of Double Account System:

The important advantages of double account system are:

1. The capital account prepared under this system discloses readily the sources of fixed capital and the manner in which it is utilised.

2. It facilitates the separation of the fixed capital (i.e., capital and long-term liabilities) from the floating capital (i.e., current liabilities). Similarly, it facilitates the separation of fixed assets from floating (i.e., current) assets.

3. The prescription of altogether different forms of presentation of financial accounts for the public utility concerns enables the state (i.e., the Government) to exercise the necessary control over the public utility concerns.

4. The revenue account prepared under this system discloses the results of pure operating activities of the concern, as all expenses and incomes which are extraneous to (i.e.. not connected with) the actual working of the concern are separated from the Revenue Account, and are recorded in the Net Revenue Account.

Disadvantages of Double Account System:

The chief drawbacks of double account system are:

1. The balance sheet presented under this system does not show the true financial position of the concern, as its fixed assets appear in the capital account at cost.

2. The capital account prepared under this system includes not only long-term assets, but also fictitious assets, such as preliminary expenses, parliamentary expenses, cost of license, etc.

3. This system cannot be easily understood by the general public.

Final Accounts under Double Account System:

The final accounts prepared under the double account system, usually, consist of:

(1) A Revenue Account

(2) A Net Revenue Account

(3) A Capital Account, i.e., Receipts and Expenditure on Capital Account.

(4) A General Balance Sheet.

Revenue Account:

The Revenue Account is similar to the Profit and Loss Account of a trading concern. On the debit side of the Revenue Account are shown the various items of expenses connected with the pure operating activities of the concern, and on the credit side are shown the various items of income. The balance of this account is transferred to the Net Revenue Account.

Revenue Account for the year ending 31st March, __________

A. Generation:		By Sale of energy for light	xxxxxx
To Fuel	xxxxxx	By Sale of energy for power	xxxxxx
To Oil, wastage, water,	xxxxxx	By Sale of energy under	
etc.,	xxxxxx	special contracts	xxxxxx
To Salary of engineers		By Public lights	xxxxxx
B. Distribution:	xxxxxx	By Rent Receivable	xxxxxx
To Salary of engineers	xxxxxx	By Transfer fees	xxxxxx
To Wages & gratuities	xxxxxx	By Other items	xxxxxx
To Repairs		By Miscellaneous Receipts	xxxxxx
C. Public lamps:	xxxxxx	By Sale of ashes	xxxxxx
To Attendance & repairs	xxxxxx	By Receiving and	xxxxxx
To Payments		disconnection fees	
D. Rent, rates & taxes:	xxxxxx		
To Rent payable	xxxxxx		
To Rent & taxes			
E. Management expenses:	xxxxxx		
To Director's remuneration	xxxxxx		

To Management	xxxxxx		
To General establishment	xxxxxx		
To Auditors of the company	xxxxxx		
F. Law Charges:			
To Law charges	xxxxxx		
G. Depreciation:	xxxxxx		
To Lease			
To Building	xxxxxx		
H. Special charges:	xxxxxx		
To Bad debts			
To Balance Carried to Net Revenue A/c			
	XXXXXX		**XXXXXX**

Net Revenue Account:

The "Net Revenue Account is similar to the Profit and Loss Appropriation Account of a trading concern with a difference in respect of the treatment of interests. In this account is shown the balance of the net revenue account brought down from the last year. The balance disclosed by the Revenue Account of the current year is also transferred to this Account. All interests paid are entered on the debit side, and all interests received are entered on the credit 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 of this account. Government subsidy (i.e., Government grant), and not Government loan, is entered on the credit side of this account. The balance of this account is transferred to the General Balance Sheet.

Net Revenue Account for the year ending 31st March, _________

To Interest on security	xxxxx	By Balance from last account	xxxxx
deposits	xxxxx	By Balance brought from	xxxxx
To Interest on fixed loans	xxxxx	Revenue A/c	xxxxx
To Contingency Reserve	xxxxx	By Interest on Bank A/c	
To Dividend Control Reserve	xxxxx		

To Reserve for rebate to consumers To Balance carried to General B/S	xxxxx		
	XXXXXX		XXXXXX

Capital Account or Receipts and Expenditure on Capital Account:

The capital account is intended to show as to how much fixed or long-term capital has been raised by a public utility concern, and how it has been utilised. As such, the capital account shows all the capital receipts or long-term receipts on the one side, i.e., on the credit side or receipts side, and all the capital expenditure on the debit side or expenditure side. The receipts and expenditures on capital account are shown in a columnar form.

General Balance Sheet:

The General Balance Sheet contains the capital account balance (Cr), all reserves and funds, all current liabilities and the credit balance of the current year's net revenue account on the credit side, and the capital account balance (Dr.), all floating or current assets, the debit balance of the current year's net revenue account and certain fictitious assets, such as short workings.

Receipts and Expenditure on Capital Account for the year ending 31st March, ___________

Expenditure	Expenditure Up to the end of previous year (`)	Expenditure during the year (`)	Total Expenditure (`)	Receipts	Receipts up to the end of previous year (`)	Receipts During the year (`)	Total Receipts (`)
To Preliminary Expenses To Land				By Equity shares By Preference shares By Debentures			

To Building To Plant				By Loans By Calls I advance			
Total Expenditure			**XXXXXX**	**Total Receipts**			**XXXXXX**
To balance of Capital A/c carried to General Balance Sheet							
			XXXXXX				**XXXXXX**

General Balance Sheet as on 31st March, __________

Liabilities	`	**Assets**	`
Capital Account		Stores	xxxxxx
(balance c/fd from Capital	xxxxxx	Sundry debtors	xxxxxx
A/c)	xxxxxx	Cash at bank	xxxxxx
Sundry creditors for Capital	xxxxxx	Cash in hand	xxxxxx
A/c	xxxxxx		
Sundry creditors on Open A/c	xxxxxx		
Net Revenue A/c	xxxxxx		
Reserve Fund	xxxxxx		
Depreciation Fund			
Specified items (to be specified)			
	XXXXXX		**XXXXXX**

Treatment of Certain Items in the Final Accounts of Public Utility Concerns maintained on the double account system:

In the context of the final accounts of the public utility concerns maintained on the double account system, it is necessary to know the treatment of the following items:

1. **Depreciation on Fixed Assets:**

Given in	Treatment	Treatment
Trial balance	Revenue Account-------- entered on the debit side	
Adjustment	Revenue A/c --entered on the debit side	General Balance Sheet - as depreciation fund on the liabilities side.

2. **Preliminary Expenses, Parliamentary Expenses and Cost of License:**
   Preliminary expenses (i.e., expenses incurred on the formation of the concern), parliamentary expenses (i.e., expenses incurred in promoting the special act of the parliament which brings the public utility concern into existence) and cost of license (i.e., expenses incurred in getting the license from the Government) are really fictitious assets. Under the double account system, these expenses are considered as capital expenditure and are shown on the debit side (i.e., expenditure side) of the Capital Account.

3. **Premium on the Issue of Shares or Debentures:**
   Premium on issue of shares or debentures is a capital receipt. So, it is entered on the credit side or the receipts side of the capital account.
4. **Discount on the Issue of Shares or Debentures:**
   It is true that premium on issue of shares or debentures is considered as a capital receipt and entered on the receipts side of the capital account. But discount on the issue of shares or debentures, is not treated as capital expenditure and shown on the expenditure side of the capital account. As a rule, discount on issue of shares or debentures is deducted from the face value of shares or debentures, and only the net proceeds of share capital or debentures received are entered on the receipts side of the capital account. -
5. **Interests:**
   Under the double account system, all types of interests should be recorded in the Net Revenue Account, and not in the Revenue Account. Interests paid should be entered on the debit side of the Net Revenue Account, and interest earned should be entered

on the credit side of the Net Revenue Account. However, interest received on the investment of any specific fund, say, interest on sinking fund investment or interest on depreciation fund investment, should not be credited to (i.e., should not be entered on the credit side of) the Net Revenue Account. It should be credited to (i.e., added to) the concerned fund account.

6. **General Stores:**

   An electricity supply company, usually, possesses an asset called general stores, comprising cables, mains and lamps treated as a fixed asset, and as such, it should be entered on the debit side or expenditure side of the capital account.

7. **Treatment of Capital Account Balance**:

   In the case of an electricity supply company the capital account balance is not entered in the general balance sheet. Instead, both the total capital receipts and the total capital expenditure are entered in the general balance sheet. The total capital receipts are entered on the liabilities side of the general balance sheet and the total capital expenditure are entered on the assets side of the general balance sheet.

Problems on discount; Rebate on bills discounted; Amount to be credited to Profit & Loss A/c and related journal entries

Problem 1

On **31st March, 2013** the books of Indian Bank had the following account balances:

Rebate on bills discounted as on **1st Aril, 2012`** 4,00,000

Discount received `95,00,000

On closing the books, it was found that the discount received included unexpired discount to be carried to the next year amounting to **` 5,49,000.**

Show the amount to be credited to P & L A/c under discount earned for the year **2012-13**. Also, give journal entries required to adjust the above mentioned amounts.

Solution 1

In the books of the Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
01-04-2012	Rebate on bills discounted A/c To Interest & Discount A/c [Transfer of opening balance of Rebate on bills discounted A/c to Interest & Discount A/c]	Dr		4,00,000	4,00,000
31-03-2013	Interest & Discount A/c To Rebate on bills discounted A/c [C/FD the proportionate discount not earned in **2012-13** to the next year]	Dr		5,49,000	5,49,000
31-03-2013	Interest & Discount A/c To Profit & Loss A/c	Dr		93,51,000	93,51,000

	[Transfer of Interest & Discount bal. to P& L A/c]				

Working Notes	
Amount to be credited to Profit & Loss A/C	`
Discount Received	95,00,000
Add: Rebate balance on **01-04-2012**	4,00,000
	99,00,000
Less: Rebate on bills discounted (Unexpired discount) on **31-03-2013**	5,49,000
Amount to be credited to Profit & Loss A/C	**93,51,000**

Problem 2

As on **31st March, 2013**, the books of the Andra Bank had the following balances:

Rebate on bills discounted (**01-04-2012**) `1,60,000

Discount received `23,00,000

Bills discounted & Purchased `1,57,73,500

Throughout **2012-13**, the bank's rate of discounting has been 18%. On investigation and analysis, the average due date for the bills discounted & purchased is calculated as on **15-05-2013** and that of the bills for collections as on **15-04-2013**.

Show the computation of the amount to be credited to the bank's Profit & Loss A/c under discount earned for the year **2012-13**. Also, show the journal entries required to adjust the above mentioned accounts.

Solution - 2

Working Note:

Unexpired discount = `1,57,73,500 × 18% × $^{45}/_{365}$= ` 3,50,042

[April 30 days + May 15 days = 45 days] ** (Check Second entry)

Amount to be credited to Profit & Loss A/C	`
Discount Received	23,00,000
Add: Rebate balance on **01-04-2012**	1,60,000

	24,60,000
Less: Rebate on bills discounted (Unexpired discount) on **31-03-2013** **(Working Note)**	3,50,042
Amount to be credited to Profit & Loss A/C	**21,09,958**

In the books of the AndraBank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
01-04-2012	Rebate on bills discounted A/c	Dr		1,60,000	
	To Interest & Discount A/c				1,60,000
	[Transfer of opening balance of Rebate on bills discounted A/c to Interest & Discount A/c]				
31-03-2013	Interest & Discount A/c	Dr		3,50,042	
	To Rebate on bills discounted A/c				3,50,042
	[C/FD the proportionate discount not earned in **2012-13** to the next year]				
31-03-2013	Interest & Discount A/c	Dr		21,09,958	
	To Profit & Loss A/c				21,09,958
	[Transfer of Interest & Discount balance to P& L A/c]				

<u>Problem 3</u>

On **01st April, 2012** the opening balance of rebate on bills discounted on a bank was`1,07,500. On **31st March, 2013**, the bank finds that its interest and discounts on advances/ bills/ accounts shows a credit balance of `2,89,600 and no adjustments have been made in the account as yet. The bank has earned the discount by discounting the bills. It is ascertained that the proportionate discount not yet earned on the bills discounted which will mature during the year **2013-14** amounted to`1,12,750.

Pass adjustment journal entries regarding rebate on bills discounted.

<u>Solution - 3</u>

In the books of the Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
01-04-2012	Rebate on bills discounted A/c	Dr		1,07,500	
	To Interest & Discount A/c				1,07,500
	[Transfer of opening balance of Rebate on bills discounted A/c to Interest & Discount A/c]				
31-03-2013	Interest & Discount A/c	Dr		5,49,000	
	To Rebate on bills discounted A/c				5,49,000
	[C/FD the proportionate discount not earned in **2012-13** to the next year]				
31-03-2013	Interest & Discount A/c	Dr		2,84,350	
	To Profit & Loss A/c				2,84,350
	[Transfer of Interest & Discount balance to P& L A/c]				

Problem 4

Calculate the rebate on bills discounted as on 31-03-2013**:**

S No.	Date of the bill	Amount(`)	Period of the bill	Rate of discount (%)
1.	**20.01.2013**	40,000	5 Months	16
2.	**10.02.2013**	20,000	4 Months	18
3.	**15.03.2013**	30,000	2 Months	15

Solution - 4

Calculation of Rebate on Bills Discounted

<table>
<tr><th>S No.</th><th>Due date of the bill</th><th>No. of Days after 31-03-2013 ***</th><th>Amount of the bill (`)</th><th>Rate of discount (%)</th><th>Proportionate discount for days after 31-03-2013</th></tr>
<tr><td colspan="2">1.23-06-2013
(Jan to June)
5 months + 3 Days(grace days)</td><td>84
30 + 31 + 23
(April 30 days,May 31 days, June 23 days)</td><td>40,000</td><td>16</td><td>$40{,}000 \times 16\% \times {}^{84}/_{365}$
= 1,472.80</td></tr>
<tr><td colspan="2">2.13-06-2013
4 months + 3 Days</td><td>74
30 + 31 + 13</td><td>20,000</td><td>18</td><td>$20{,}000 \times 18\% \times {}^{74}/_{365}$
= 729.87</td></tr>
<tr><td colspan="2">3.18-05-2013
2 months + 3 Days</td><td>48
30 + 18</td><td>30,000</td><td>16</td><td>$30{,}000 \times 15\% \times {}^{48}/_{365}$
= 591.79</td></tr>
<tr><td colspan="5">Total Rebate on Bills Discounted</td><td>` 2,794.46
(1+2+3)</td></tr>
</table>

Problem 5

The following is an extract from the trial balance of Punjab Bank Ltd., as on **31st March, 2013**:

Particulars	Debit (`)	Credit (`)
Bills discounted	6,32,000	
Rebate on bills discounted not due on **31st March, 2012**		11,080
Discount received		52,854

An analysis of the bills discounted is as follows:

S No.	Amount(`)	Due date 2013	Rate of discount (%)
1.	70,000	June 5	14
2.	2,18,000	June 12	14
3.	1,41,000	June 25	14
4.	2,03,000	July 6	16

Calculate rebate on bills discounted as on **31st March, 2013** and show the necessary journal entries.

Solution - 5

Calculation of Rebate on Bills Discounted

S No.	Due date of the bill	No. of Days after 31-03-2013	Amount of the bill (`)	Rate of discount (%)	Proportionate discount for days after 31-03-2013
1.	**05-06-2013**	66	70,000	14	$70{,}000 \times 14\% \times {}^{66}/_{365}$ **= 1,772**
2.	**12-06-2013**	73	2,18,000	14	$2{,}18{,}000 \times 14\% \times {}^{73}/_{365}$ **= 6,104**
3.	**25-06-2013**	86	1,41,000	14	$1{,}41{,}000 \times 14\% \times {}^{86}/_{365}$ **= 4,651**

4.	**06-07-2013**	97	2,03,000	16	2,03,000 × 16% $\times {}^{97}/_{365}$ **= 8,632**
Total					**` 21,159**

Amount to be credited to Profit & Loss A/C	`
Discount Received	52,854
Add: Rebate balance on **31-03-2012**	11,080
	63,934
Less: Rebate on bills discounted (Unexpired discount) on **31-03-2013**	21,159
Amount to be credited to Profit & Loss A/C	**42,775**

In the books of the Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
01-04-2012	Rebate on bills discounted A/c	Dr		11,080	
	To Interest & Discount A/c				11,080
	[Transfer of opening balance of Rebate on bills discounted A/c to Interest & Discount A/c]				
31-03-2013	Interest & Discount A/c	Dr		21,159	
	To Rebate on bills discounted A/c				21,159
	[C/FD the proportionate discount not earned in **2012-13** to the next year]				
31-03-2013	Interest & Discount A/c	Dr		42,775	
	To Profit & Loss A/c				42,775
	[Transfer of Interest & Discount balance to P& L A/c]				

Problem 6

On **31st March, 2013** State Bank had the following unmatured bills:

S No.	Date of the bill	Amount(`)	Period of the bill	Rate of discount (%)
1.	**12.01.2013**	18,250	6 Months	14
2.	**07.02.2013**	36,500	4 Months	13
3.	**01.03.2013**	9,125	3 Months	12
4.	**10.10.2012**	5,000	5 Months	15

Calculate the rebate on bills discounted and give necessary journal entries as on **31-03-2013**. Also calculate the amount to be show in the Profit & Loss A/c.

Solution - 6

Calculation of Rebate on Bills Discounted

S No.	Due date of the bill	No. of Days after 31-03-2013	Amount of the bill (`)	Rate of discount (%)	Proportionate discount for days after 31-03-2013
1.	**15-07-2013** 6 months + 3 Days	106 30 + 31 + 30 + 15	18,250	14	$18,250 \times 14\% \times {}^{106}/_{365}$ **= 742**
2.	**10-06-2013** 4 months + 3 Days	71 30 + 31 + 10	36,500	13	$36,500 \times 13\% \times {}^{71}/_{365}$ **= 923**
3**.**	**04-06-2013** 3 months + 3 Days	65 30 + 31 + 04	9,125	12	$9,125 \times 12\% \times {}^{65}/_{365}$ **= 195**
4**.**	**13-03-2013** 5 months + 3 Days	NIL	5,000	15	NIL

Total Rebate on Bills Discounted	` 1,860

Calculation of total discount received on Bills Discounted

Particulars	Amount(`)
1. `18,250 × 14% × $^{6}/_{12}$	**1,278**
2. `36,500 × 13% × $^{4}/_{12}$	**1,582**
3. `9,125 × 12% × $^{3}/_{12}$	**274**
4. `5,000 × 15% × $^{5}/_{12}$	**313**
Total Discount	**3,447**

Amount to be credited to Profit & Loss A/C	`
Discount Received	3,447
Add: Rebate balance on **01-04-2012**	NIL
	3,447
Less: Rebate on bills discounted (Unexpired discount) on **31-03-2013**	1,860
Amount to be credited to Profit & Loss A/C	**1,587**

In the books of the State Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
31-03-2013	Interest & Discount A/c	Dr		1,860	
	To Rebate on bills discounted A/c				1,860
	[C/Fd the proportionate discount not earned in **2012-13** to the next year]				
31-03-2013	Interest & Discount A/c	Dr		1,587	
	To Profit & Loss A/c				1,587
	[Transfer of Interest & Discount balance to P& L A/c]				

<u>Problem 7</u>

Given below is an extract from the trial balance of a Bank as on **31st March, 2013**:

Particulars	Debit (`)	Credit (`)
Bills discounted	12,64,000	
Rebate on Bills discounted (or unexpired discount) on **April 1, 1995**		8,000
Discount received		85,000

An analysis of the Bills discounted as shown above shows the following.

Amount (`)	Due date (2013)	Rate of Discount (% p.a)
1,40,000	June 04	5
4,36,000	June 10	4.5
2,82,000	June 24	6
3,80,000	July 05	4

Find out the amount of discount to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. How the relevant items will appear in Bank's Balance Sheet.

<u>Solution - 7</u>

Calculation of Rebate on Bills Discounted

S No.	Due date of the bill	No. of Days after 31-03-2013	Amount of the bill (`)	Rate of discount (%)	Proportionate discount for days after 31-03-2013
1.	**04-06-2013**	65 30 + 31 + 04	1,40,000	05	1,40,000 × 05% $\times {}^{65}/_{365}$ **= 1,247**
2.	**10-06-2013**	71 30 + 31 + 10	4,36,000	4.5	4,36,000 × 4.5% $\times {}^{71}/_{365}$ **= 3,816**
3.	**24-06-2013**	85 30 + 31 + 24	2,82,000	06	2,82,000 ×06% $\times {}^{85}/_{365}$

					= 3,940
4.	**05-07-2013**	96 30 + 31 + 30 + 05	3,80,000	04	3,80,000 ×04% ×$^{96}/_{365}$ **= 3,998**
Total					**` 13,001**

Amount to be credited to Profit & Loss A/C	`
Discount Received	85,000
Add: Rebate balance on **31-03-2012**	8,000
	93,000
Less: Rebate on bills discounted (Unexpired discount) on **31-03-2013**	13,001
Amount to be credited to Profit & Loss A/C	**79,999**

In the books of the Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
01-04-2012	Rebate on bills discounted A/c To Interest & Discount A/c [Transfer of opening balance of Rebate on bills discounted A/c to Interest & Discount A/c]	Dr		8,000	8,000
31-03-2013	Interest & Discount A/c To Rebate on bills discounted A/c [C/FD the proportionate discount not earned in **2012-13** to the next year]	Dr		13,001	13,001
31-03-2013	Interest & Discount A/c To Profit & Loss A/c [Transfer of Interest & Discount balance to P& L A/c]	Dr		79,999	79,999

<u>Problem 8</u>

Following were the extract from the trial balance of a Bank, as on **31st March, 2013**:

Particulars	Amount (`)
Rebate on bills discounted as on **1st April, 2012**	3,000
Discount received/ Discount on bills discounted	23,100

Bills discounted during the year were as follows:

S No.	Bill amount(`)	Due date	Rate of discount (%)
1.	20,000	**30-04-2013**	12
2.	30,000	**30-06-2013**	15
3.	45,000	**31-05-2013**	16
4.	50,000	**27-02-2013**	18

Give necessary entries and Show how much discount will be credited to the Profit & Loss Account for the year ending **31st March, 2013**?

<u>Solution - 8</u>

Calculation of Rebate on Bills Discounted

S No.	Due date of the bill	No. of Days after 31-03-2013	Amount of the bill (`)	Rate of discount (%)	Proportionate discount for days after 31-03-2013
1.	**30-04-2013**	30	20,000	12	20,000 × 12% × $^{30}/_{365}$ **= 197**
2.	**30-06-2013**	91 30 + 31 + 30	30,000	15	30,000 × 15% × $^{91}/_{365}$ **= 1,122**
3.	**31-05-2013**	61 30 + 31	45,000	16	45,000 × 16% × $^{61}/_{365}$ **= 1,203**
4.	**27-02-2013**	NIL	50,000	18	NIL
Total Rebate on Bills Discounted					**` 2,522**

Amount to be credited to Profit & Loss A/C	`
Discount Received	23,100
Add: Rebate balance on **01-04-2012**	3,000
	26,100
Less: Rebate on bills discounted (Unexpired discount) on **31-03-2013**	2,522
Amount to be credited to Profit & Loss A/C	**23,578**

In the books of the a Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
01-04-2012	Rebate on bills discounted A/c	Dr		3,000	
	To Interest & Discount A/c				3,000
	[Transfer of opening balance of Rebate on bills discounted A/c to Interest & Discount A/c]				
31-03-2013	Interest & Discount A/c	Dr		2,522	
	To Rebate on bills discounted A/c				2,522
	[C/FD the proportionate discount not earned in **2012-13** to the next year]				
31-03-2013	Interest & Discount A/c	Dr		23,578	
	To Profit & Loss A/c				23,578
	[Transfer of Interest & Discount balance to P& L A/c]				

Problem 9

On **31st March, 2013** a bank held the following bills discounted by it earlier:

Date of bills……..2013	Term of Bills (months)	Discounted @ % p.a.	Amount to bills (`)
January, 17	4	8.5	7,30,000
February, 07	3	9	14,60,000
March, 09	3	8.75	3,64,000

You are required to calculate the Rebate on Bills Discounted. Also show the necessary journal entry for the rebate.

Solution - 9

Calculation of Rebate on Bills Discounted

S No.	Due date of the bill	No. of Days after 31-03-2013	Amount of the bill (`)	Rate of discount (%)	Proportionate discount for days after 31-03-2013
1.	**20-05-2013** 4months + 3 Days	50 30 + 20	7,30,000	8.5	7,30,000×8.5% ×$^{50}/_{365}$ **= 8,500**
2.	**10-05-2013** 3 months + 3 Days	40 30 + 10	14,60,000	09	14,60,000×09% ×$^{40}/_{365}$ **= 14,400**
3.	**12-06-2013** 3 months + 3 Days	73 30 + 31 + 12	3,64,000	8.75	3,64,000×8.75% ×$^{73}/_{365}$ **= 6,370**
Total Rebate on Bills Discounted					**` 29,270**

In the books of the Bank -- Journal entries

Date	Particulars		L.F.	Debit (`)	Credit (`)
31-03-2013	Interest & Discount A/c To Rebate on bills discounted A/c	Dr		29,270	 29,270

	[C/FD the proportionate discount not earned in **2012-13** to the next year]				

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