



INDIAN SCHOOL DARSAIT
DEPARTMENT OF COMMERCE



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| Sub.: Accountancy | Bases of Accounting | Worksheet : 4 |
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| Class and Div. XI C & D | | |

4th Chapter

1. Distinguish Between Accrual Basis of Accounting And Cash Basis of Accounting

| Basis | Accrual Basis of Accounting | Cash Basis of Accounting |
|------------------------|---|---|
| Nature of Transactions | This basis records both cash as well as credit transactions | This basis records only Cash transactions |
| Legal Position | This basis is the only system recognized by the Companies Act 1956 | This system is not recognized by the Companies Act 1956 |
| Suitability | This basis is adopted by business enterprises with profit motive | This basis is suitable for professionals like doctors, lawyers etc. |
| Reliability | It is a reliable basis of accounting because it records all cash as well as credit transactions for calculating Profit/loss | It is not a reliable basis of accounting because only cash transactions are recorded for calculating profit/loss. |
| Technical knowledge | This basis of accounting is technical because it involves the adjustments of accounts for preparing final accounts | This basis of accounting is simple because it does not require any technical knowledge |

2. Distinguish Between Trade Discount And Cash Discount.

| Basis | Trade Discount | Cash Discount |
|------------------------|--|---|
| Nature | It is allowed on a certain quantity being purchased | It is allowed on payment being made on or before a certain date |
| Recording | Trade discount is not recorded separately in the books of account. | Cash discount is recorded separately in the books of account. |
| Deduction from invoice | The amount of Trade discount is deductible from the invoice | The amount of Cash discount is not deductible from the invoice |
| Nature of Transaction | It is allowed both on cash and credit transactions | It is allowed only on payment. |
| Consideration | The consideration for allowance is Purchase | The consideration for allowance is Payment |
| Relation | It is related to Sales and Purchase | It is related to Payment. |

3. Differentiate Between ‘Profit’ And ‘Gain’ In Accounting.

| Profit | Gain |
|---|--|
| The excess of revenues of a period over its related expenses during an accounting year profit. Profit increases the investment of the owners. | A profit that arises from events or transactions which are incidental to business such as sale of fixed assets, winning a court case, appreciation in the value of an asset. |

4. Differentiate Between An ‘Expense’ And ‘Expenditure’.

| Basis | Expense | Expenditure |
|-------------------|---|---|
| Meaning | Costs incurred by a business in the process of earning revenue are known as expenses. | Spending money or incurring a liability for some benefit, service or property received is called expenditure. |
| Benefit exhausted | Within one year | More than one year |
| Examples | depreciation, rent, wages, salaries, interest, cost of heater, light and water, | purchase of machinery, furniture, etc. |
