CH-4 "V.V. easy"

"BASES" OF ACCOUNTING

CASH Basis	ACCRUAL BASIS
Transactions are recorded in the Books on cash being received or paid.	Transactions are recorded in the books when they are incurred, whether cash is received / paid or not.

Rent expense???

10,00,000 — 1 April 2022 — 12 months. — 31 March 2023 — 12,00,000

RENT = 1,00,000 p.m

10 month → pay (✓) $\boxed{₹10,00,000}$

pay (x)
1,00,000 x
1,00,000 x
$\boxed{₹200000}$

income = Revenue (आ रहा है) (−) expense (जा रहा है)

Illustration 3.

Michael gives following information about his income and expenses for the year ended 31st March, 2021:

		₹
Expenses paid (Cash गया)	160,000	1,60,000
Expenses paid in advance (included in ₹ 1,60,000)	↑advance — Next year — Accrual → NO	40,000 (−)
Expenses not yet paid (Outstanding)	Accrual → Yes	20,000 (+)
Income received (→ Cash आया)		2,40,000
Income received in advance (included in ₹ 2,40,000)	advance में मिली — Accrual → NO	30,000 deduct
Income not yet received (Accrued Income)	Accrual → Yes →	24,000 Add

Determine his $\boxed{\text{income}}$ if he adopts (i) Cash Basis of Accounting, and (ii) Accrual Basis of Accounting. (profit)

$\boxed{240000 - 30000 + 24000}$

$\boxed{160000 (-) 40000 (+) 20000}$

Sol:-

(i) Cash Basis

Income = Revenue (Cash आया) − Expense (Cash गया)

= 240,000 − 160,000

= **80,000**

(ii) Accrual Basis

Income = Revenue (−) Expense.

= 234,000 (−) 140,000

= **94,000**

= 80,000 | = 94,000

x ——— x ——— x ——— x ——— x ——— x ——— x.

eg :- Rent paid ₹ 80,000

80000
(-) 5000
(+) 10000

Prepaid Rent included in ₹ 80,000 is ₹ 5,000 (-) advance

Outstanding Rent → ₹ 10,000 (+)

Income received ₹ 165,000 (including advance ₹ 15,000)

Find profit (i) Cash Basis = 165000 - 80000 = 85,000

(ii) Accrual Basis 150000 (-) 85000

= 65,000

* Outstanding expense.

↓

expense incurred but not paid

Cash Basis :	Record (x)
Accrual Basis :	Record (✓)

pay नहीं करा But देना चाहिए

* Prepaid expense

↓

expenses that have been paid in advance

Cash Basis :	Record (✓)
Accrual Basis :	Record (x)

इस साल का Rent है?

Rent 2024

pay कर दिया advance में (पैसे दे दिए पर देने नहीं चाहिए)

* Accrued Income

↓

Income earned during the year but not received.

Cash Basis :	Record (x)
Accrual Basis :	Record (✓)

₹ 1,000

income मिलनी चाहिए पर मिला नहीं.

* Income received in advance

↓

income which has been

class 12th.

पैसे मिले

income which has been received before it has been earned

पैसे मिले पर मिलने नही चाहिए

Cash Basis : Record (✓)
Accrual Basis : Record (x)

Illustration 4. IMP.

From the following information, determine the profit earned or loss incurred when (*i*) Cash Basis of Accounting is followed, and when (*ii*) Accrual Basis of Accounting is followed:

Revenue   expense

		₹
Cash Sales	पैसे मिले	5,00,000 ✓
Credit Sales	Accrual (Revenue)	2,00,000 ✓
Outstanding Salary and Wages		4,000
Insurance Paid in Advance		2,500
Outstanding Electricity Expenses	Accrual	1,000
Income Received (excluding income received in advance)		5,000
Income Received in Advance	Accrual	~~1,000~~
Income Earned but not Received	(Accrued Income) — Accrual	3,000
Cash Purchases		2,75,000
Credit Purchases	Accrual =	1,25,000
Salary and Wages Paid		44,000
Electricity Expenses Paid		11,000
Insurance Expenses Paid (including prepaid)	2500 10,000 − 2500 = 7500	10,000

Sol:- **Cash Basis**

profit = Revenue (−) Expense

= 506,000 (−) 340,000

= 166,000 (✓)

Accrual Basis

4M

profit = Revenue (−) Expense

= (500000 + 200000 + 5000 + 3000) − (4000 + 1000 + 275000 + 125000 + 44000 + 11000 + 7500)

= 708,000 − 467,500

= 2,40,500 (✓)

Sol:- Income = Revenue − expense   expenses paid = 40,000

= 90,000 − 40,000

= 50,000

Sol:- Income = Revenue − expense   expenses paid = 10,000
= 90,000 − 40,000
= 50,000

of an enterprise. Do you agree? ...

6. During the financial year 2020–21, Mohan had cash sales of ₹ 90,000 and ~~credit sales~~ of ₹ 60,000. His expenses for the year were ₹ 70,000 out of which ₹ 30,000 is still to be paid. Find out Mohan's income for 2020–21 following the Cash Basis of Accounting. **[Ans.:** ₹ *50,000.***]**

Accrual Basis :- Income = 150,000 (−) 70,000 = 80,000

7. Taking the figures given in Q. 6, find out the net income according to Accrual Basis of Accounting. **[Ans.:** ₹ *80,000.***]**

8. Vijay, a consultant, during the financial year 2020–21 earned ₹ 4,00,000. Out of which he received ₹ 3,50,000. He incurred an expense of ₹ 1,70,000, out of which ₹ 40,000 are outstanding. He also received consultancy fee relating to previous year ₹ 45,000 and also paid ₹ 20,000 expenses of last year.
You are required to determine his income for the year if
(*i*) he follows Cash Basis of Accounting, and
(*ii*) he follows Accrual Basis of Accounting.
[Ans.: (*i*) ₹ *2,45,000;* (*ii*) ₹ *2,30,000.***]**

Revenue

→ Accrual (X)

paid expense = 130,000

Sol:

Cash Basis	Brain Accrual Basis
Income = Revenue − expense	Income = Revenue − expense
= (350000 + 45000) − (130000 + 20,000)	= 400,000 − 170,000
= 395000 − 150,000	= 230,000
= 245,000	

4M

Basis	Accrual Basis of Accounting	Cash Basis of Accounting
1. Nature of Transactions	Both cash and credit transactions are recorded.	Cash transactions are recorded.
2. Prepaid/Outstanding Expenses Accrued Income/Income Received in Advance	Prepaid and outstanding expenses are accounted ~~in the Profit and Loss Account~~. adjust. Accrued income and income received in advance are also accounted ~~and shown in the Balance Sheet~~.	Prepaid and outstanding expenses are not adjusted. Similarly, accrued income and income received in advance are not adjusted.
3. Profit or Loss	Correct profit or loss is ascertained because it records both cash and credit transactions.	Correct profit or loss is not ascertained because it records only cash transactions.
4. Technical Knowledge	The Accrual Basis of Accounting requires technical knowledge as many adjustments like prepaid, outstanding, capital and revenue are required to be made.	It does not require much of technical knowledge as is required for Accrual Basis of Accounting.
5. Legal Position	Accrual Basis of Accounting is recognised by the Companies Act, 2013.	Cash Basis of Accounting is not recognised by the Companies Act, 2013. नकली
6. Acceptability	Accrual Basis of Accounting is more acceptable in business as it reveals correct income and expense besides assets and liabilities.	Cash Basis of Accounting is not acceptable in business as it does not reveal the required information.
7. Reliability	Accrual Basis of Accounting is more reliable as it records both cash and credit transactions and thus, reveals correct profit or loss besides assets and liabilities.	Cash Basis of Accounting is less reliable as it records only cash transactions and as a result does not reveal correct profit or loss and also assets and liabilities.
8. Suitability	Accrual Basis of Accounting is suitable for businesses as it requires information that is complex. It can be made available by Accrual Basis of Accounting.	Cash Basis of Accounting is suitable for Not-for-Profit Organisations and Professionals such as chartered accountants, lawyers, etc., since they require comparatively less information.

	made available by Accrual Basis of Accounting.	chartered accountants, lawyers, etc., since they require comparatively less information.