(1) Distinction Between Real Account and Nominal Account

S.No.	Base	Real Account	Nominal Account
(1.)	**Nature**	It relates to assets.	It relates to income and expenditure.
(2.)	**Accounting**	Accounting rule is *"Debit what comes in and credit what goes out."*	Accounting rule is *"Debit all expenses and losses and credit all incomes and gains."*
(3.)	**Balance**	These accounts usually show a *debit balance.*	Accounts *relating to expenditure usually have debit* while those *relating to income shows credit balance.*
(4.)	**Appearance in Balance Sheet**	These accounts are *shown* in the Balance Sheet, *usually on right hand side (asset side).*	Nominal accounts are *not shown* in Balance Sheet.
(5.)	**Appearance in P/L Account**	Real accounts are *not shown* in the Profit and Loss Account	Accounts relating to *expenditure are shown in the debit side* of P/L account, while those of *income are shown in the credit side* in order to ascertain the operating results during the financial period.
(6.)	**Balancing**	Closing balances become opening balance next year.	Accounts are closed same year.

(2) Distinction Between Commission and Discount

S. No.	Base	Commission	Discount
(1.)	**Mode**	Commission is *paid to employees or agents* of the business in consideration of rendering services.	Discount is allowed or received by business *to enhance bulk purchasing or prompt payment.*
(2.)	**Accounting**	Commission is *always entered in books*.	Trade discount is *not recorded in books while cash discount is recorded*.
(3.)	**Nature**	It is always *revenue in nature*, but may be of capital nature if paid to underwriters.	It may be of capital nature if relates to shares issued at discount.
(4.)	**Effect on Total debtors and Creditors**	It does not affect.	Discount allowed reduces the amount receivable from debtors and discount received reduces the amount payable to creditors.

(3) Distinction Between Cash Discount and Trade Discount

S. No.	Base	Cash Discount	Trade Discount
(1.)	**Occurrence**	Cash discount is *allowed at the time of payment, if received within specified time.*	Trade discount is *allowed at the time of purchase.*
(2.)	**Purpose**	It is allowed in order *to enhance prompt payment.*	It is allowed in order *to enhance bulk purchasing.*
(3.)	**Accounting**	It is *recorded* in the books of accounts.	It is *not recorded* in the books; entry is made with the amount of net sales or purchases.
(4.)	**Rate**	Rate of cash discount *depends upon the period of payment.*	Rate of trade discount *depends upon the quantity purchased.*
(5.)	**Affect on profit**	It *affects net profit* as it is shown in the P/L account.	Since net purchase/sales are recorded in Trading Account *the Gross Profit is affected.*

(3) Distinction Between Capital and Revenue Expenditure

S. No.	Base	Capital Expenditure	Revenue Expenditure
(1.)	**Purpose**	Capital expenditure is incurred either for *acquiring new fixed asset or for improving the existing ones*.	Revenue expenditure is incurred either for *maintaining* the existing asset or for meeting the *routine expenses* of the business.
(2.)	**Affect on Earning Profit**	Capital expenditure *increases the earning capacity* of the business.	Revenue expenditure merely helps in *maintaining the existing earning capacity* of the business.
(3.)	**Benefits**	The benefits of capital expenditure are available	The benefits of revenue expenditure are

		over a *long period of time*.	*available only for the accounting period in which they it has been incurred.*
(4.)	**Writing Off**	A portion of capital expenditure is written off to the P/L A/c each year in the form of *depreciation.*	*Total amount* expended is debited (written off) to P/L A/c each year.

(4) Distinction Between Capital and Revenue Receipts

S. No.	Base	Capital Receipts	Revenue Receipts
(1.)	**Receipt**	It consists of *additional payments* made to the business either by shareholders or by the proprietors.	Amount received in the course of *normal business transactions* is called revenue receipt.
(2.)	**Sale**	Amount received by the *sale of fixed assets* is capital receipt.	Amount received by *the sale of trading goods* or by *rendering services* is revenue receipt.
(3.)	**Affect on P/L A/c**	Capital receipt *does not affect P/L A/c* but it increases liability or reduces value of assets.	It *affects the P/L A/c* and increases profit.
(4.)	**Appearance in the Balance Sheet**	It appears in the *liability side of the Balance Sheet* as a loan to the trade.	It *does not appear* in the Balance Sheet.

(5) Distinction Between Capital and Revenue Profit

S. No.	Base	Capital Profit	Revenue Profit
(1.)	**Occurrence**	Capital profit arises when any fixed asset is sold at a price above its original cost.	Revenue profit arises in the normal course of business or when an asset is sold at a price above it's written down value but subject to its original cost.
(2.)	**Accounting**	It is not shown in the P/L A/c.	It is credited to P/L A/c
(3.)	**Appearance in B/S**	It is shown or transferred to capital reserve.	It is disclosed as revenue reserve.
(4.)	**Amount**	The amount is equal to the difference between selling price and original cost.	Amount of revenue profit can never exceed the difference between original cost and written down value of asset (i.e.; depreciation charged).

(7) Distinction Between Errors of Principle and Errors of Omission

S. No.	Base	Errors of Principle	Errors of Omission
(1.)	**Nature**	It is an error which relates to *principle of accounting.*	It is a *clerical error.*
(2.)	**Cause**	This type of error is caused by treating an income as a liability or treating a capital expenditure as revenue expenditure.	This error I caused by *omission* of any accounting entry from the books either partially or completely.
(3.)	**Affect on Trial Balance**	Errors of principal *do not effect* the agreement of Trial Balance.	If it is *partial* then the Trial Balance *will not agree* and if it is *complete* omission then the Trial Balance will *tally.*
(4.)	**Profit/Loss**	Profit is *affected.*	Profit *may or may not be affected*
(5.)	**EFFECT ON Balance Sheet**	Value of assets or liabilities will be *affected.*	It *may or may not affect* the value of assets or liabilities.

(8) Distinction Between Trial Balance and Balance Sheet

S. No.	Base	Trial Balance	Balance Sheet
(1.)	**Meaning**	The Trial Balance is a statement containing various ledger balances at a particular date.	Balance Sheet is a statement containing various assets and liabilities at a particular date.
(2.)	**Nature**	It is *summary* of ledger balances.	It is a *classified summary* of the balances of accounts remained after nominal accounts have been closed by transfer to Manufacturing

			Trading & P/L Account.
(3.)	**Object**	The Trial Balance is prepared to check the Arithmetical accuracy of the account books.	The Balance Sheet is prepared *to ascertain the financial position* of the business at a specific point of time.
(4.)	**Time of Preparation**	It is prepared *before P/L A/c and Balance Sheet.*	It is prepared *after Trial Balance and P/L A/c.*
(5.)	**Classification**	The Trial Balance is *divided in to debit and credit sides.*	Balance Sheet is *classified in to assets and liability sides.*
(6.)	**Errors**	Errors *affect* Trial Balance, and cause difference.	Balance Sheet is *prepared after rectification of errors.*

(9) Distinction Between Deferred Expenses and Prepaid Expenses

S. No.	Base	Deferred Expenses	Prepaid Expenses
(1.)	**Meaning**	Deferred expenses are revenue expenses the benefit of which is available for 3 to 5 years.	Prepaid expenses are revenue expenses paid in advance.
(2.)	**Nature**	The account of deferred revenue expenditure is nominal in nature.	This account is of personal nature.
(3.)	**P/L Account**	Every year a proportionate amount is debited o P/L Account.	Prepaid expense is debited to P/L Account in the year in which it becomes due.
(4.)	**Balance Sheet**	Balance of deferred revenue expenditure is shown in the Balance Sheet under the head "Miscellaneous Expenses and Losses (to the extent not written off)".	Prepaid expenses are shown in the asset side of the Balance Sheet under the head "Current Assets, Loans and Advances".

(10) Distinction between Provisions and Reserves

S. No.	Base	Provisions	Reserves
(1.)	**Meaning**	The amount set apart for *expected contingencies* is known as provisions.	The amount set apart for *unforeseen contingencies* is called reserve.
(2.)	**Nature**	Provisions are *specific liabilities* or *expected loss*; and *charge* against profit.	Reserves are *appropriation* of profits.
(3.)	**Affect on Proprietor's fund**	Creation of provision *decreases* proprietor's fund in the business.	Creation of reserve *increases* the proprietor's fund in the business.
(4.)	**Affect on the Financial position**	It *helps in maintaining* the existing financial position.	Creation of reserves *strengthens* the financial position.
(5.)	**Change in Constitution**	On change of constitution of firm this will be *maintained as such.*	Reserves are *transferred to Capital Account.*

(11) Distinction Between Straight Line and Diminishing Balance Method of depreciation

S. NO.	Base	Straight Line Method	Diminishing Balance Method
(1.)	**Mode of charging**	A suitable *percentage of original cost* is written off the asset every year.	Depreciation is charged at a *fixed percentage on the book value* of the asset every year.
(2.)	**Amount of depreciation**	Under this method the amount of depreciation is *same throughout the life* of the asset.	In this method the amount of depreciation *reduces* each year.
(3.)	**Value at the end**	The value of the asset *can be reduced to zero (or to its scrap value)* under this method.	The value of the asset *can never be brought down to zero* under this method.

(4.)	**Burden**	The total charge for use of asset (i.e.; depreciation and repairs) goes on increasing from year to year though the asset might have been used uniformly year to year, because repairs goes on increasing every year. Thus the each subsequent year is burdened with a greater charge for the use of asst on account of increasing cost of repairs.	This method puts an equal burden for use of the asset on each subsequent year. The amount of depreciation goes on decreasing for each subsequent year, while the charge for repairs goes on increasing. Thus the increase in the cost of repairs is compensated by the decreasing amount of depreciation, for each subsequent year.

(12.) Distinction between Fixed Capital and fluctuating Capital

S. NO.	Fixed Capital	Fluctuating Capital
(1.)	In the fixed capital system capital of the business is kept fixed and constant.	In fluctuating capital system *capital keeps on changing.*
(2.)	In this method two accounts are prepared i.e.; capital account and current account.	Only one account i.e.; capital account is maintained.
(3.)	Entries for profit, interest on capital, interest on drawings, salary are recorded in current account.	These entries are recorded in capital account
(4.)	Drawings are recorded in current account but drawings of permanent nature are recorded in capital account.	All drawings whether permanent or temporary are recorded in capital account.