

## Unit I

1. Define accounting.

**American Accounting Association** has defined accounting as “the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information”.

2. List any two functions of accounting.

### Measurement

- Accounting works as a tool for measuring the performance of the business enterprises.
- It also shows the financial position of the business enterprises

### Forecasting

- With the help of the various tools of accounting, future performance and financial position of the business enterprises can be forecasted

3. What are the steps involved in the process of accounting ?

1. Identifying the transactions and journalising
2. Posting and balancing
3. Preparation of trial balance
4. Preparation of profit and loss account
5. Preparation of balance sheet

4. Who are the parties interested in accounting information ?

### A) Internal Users

- ❖ Owners
- ❖ Management
- ❖ Employees

### B) External users

- ❖ Creditors and financial institutions
- ❖ Investors
- ❖ Customers
- ❖ Tax authorities and other regulatory bodies
- ❖ Government
- ❖ Researchers
- ❖ General public

5. Name any two bases of recording accounting information.

- i. Cash basis
- ii. Accrual or mercantile basis
- iii. Mixed or hybrid basis.

3 marks

1. Explain the meaning of accounting.

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

- (i) the resources available
- (ii) how the available resources have been employed and
- (iii) the results achieved by their use.

2. Discuss briefly the branches of accounting.

1. Financial Accounting

- It provides financial information to the users for taking decisions.

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- It is concerned with identification, recording, classifying and summarising of financial transactions and events
- 2. **Cost Accounting**
- It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purposes of cost control and managerial decision making.
- 3. **Management Accounting**
- It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day-to-day operations of an enterprise.
- 4. **Social Responsibility Accounting**
- It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them.
- 3. Discuss in detail the importance of accounting.
  - (i) **Systematic records**
  - All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts. The records are classified under common heads and summaries are prepared
  - (ii) **Preparation of financial statements**
  - Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements namely, income statement or trading and profit and loss account and balance sheet.
  - (iii) **Assessment of progress**
  - Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses. Management is provided with a complete picture of the liquidity, profitability and solvency of the business
  - (iv) **Aid to decision making**
  - Management of a firm has to make routine and strategic decisions while discharging its functions. Accounting provides the relevant data to make appropriate decisions. Future policies and programmes can be planned by the management based on the accounting data provided
  - (v) **Satisfies legal requirement**
  - Various legal requirements like maintenance of Provident Fund (PF) for employees, Employees State Insurance (ESI) contributions, Tax Deducted at Source (TDS), filing of tax returns are properly fulfilled with the help of accounting. Preparation of accounts and financial statements as per the legal requirements is also facilitated
  - (vi) **Information to interested groups**
  - Accounting supplies appropriate information to different interested groups like owners, management, creditors, employees, financial institutions, tax authorities and the government
  - (vii) **Legal evidence**
  - Accounting records are generally accepted as evidence in courts of law and other legal authorities in the settlement of disputes
  - (viii) **Computation of tax**
  - Accounting records are the basic source for computation and settlement of income tax and other taxes.
  - (ix) **Settlement during merger**
  - When two or more business units decide to merger, accounting records provide information for deciding the terms of merger and any compensation payable as a consequence of merger.

4. Why are the following parties interested in accounting information ?

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(a) Investors (b) Government

## Investors

- Persons who are interested in investing their funds in an organisation should know about the financial condition of a business unit while making their investment decisions.
- They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

## Government

- The scarce resources of the country are used by business enterprises.
- Information about performance of business units in different industries helps the government in policy formulation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc.

4. Discuss the role of an accountant in the modern business world.

(i) Record keeper

- The accountant maintains a systematic record of financial transactions.
  - He also prepares the financial statements and other financial reports.
- (ii) Provider of information to the management
- The accountant assists the management by providing financial information required for decision making and for exercising control
- (iii) Protector of business assets
- The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.
  - He advises the management about insurance of various assets and the maintenance of the same.
- (iv) Financial advisor
- The accountant analyses financial information and advises the business managers regarding investment opportunities, strategies for cost savings, capital budgeting, provision for future growth and development, expansion of enterprise, etc.
- (v) Tax manager
- The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time.
  - The accountant can advise the managers regarding tax management, reducing tax burden, availing tax exemptions, etc.
- (vi) Public Relation officer
- The accountant provides accounting information to various interested users for analysis as per their requirements

## Unit 2

### Very short answer questions

1. Define book-keeping.  
“Book-keeping is an art of recording business dealings in a set of books”. – J.R.Batlilboi.
2. What is meant by accounting concepts ?
  - Accounting concepts are the basic assumptions or conditions upon which accounting has been laid. Accounting concepts are the results of broad consensus.
3. Briefly explain about revenue recognition concept.
  - The revenue recognition principle states that revenue should be recognized and recorded when it is realized or realizable and when it is earned.
  - Revenue should be recorded when the business has earned the revenue.
  - This is a key concept in the accrual basis of accounting because revenue can be recorded without actually being received.

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4. What is “Full Disclosure Principle” of accounting.
  - The full disclosure principle states that information that would “make a difference” to financial statement users or would be useful in decision–making should be disclosed in the financial statements.
  - This way investors or creditors can see a total picture of the company before they choose to take any action.
5. Write a brief note on ‘Consistency’ assumption.
  - The consistency principle states that companies should use the same accounting treatment for similar events and transactions over time.
  - In other words, companies shouldn’t use one accounting method today, use another tomorrow, and switch back the day after that.
  - Similar transactions should be accounted for using the same accounting method over time.
  - This creates consistency in the financial information given to creditors and investors.

### III Short answer questions

1. What is matching concept ? Why should a business concern follow this concept ?
  - The matching principle states that expenses should be recognized and recorded when those expenses can be matched with the revenues those expenses helped to generate.
  - This matches the revenues and expenses in a period.
  - In this sense, the matching principle recognizes expenses as the revenue recognition principle recognizes income.
  - the benefits of an asset or revenue should be linked to the costs of that asset or revenue.
2. “Only monetary transactions are recorded in accounting”. Explain the statement.
  - The monetary unit assumption assumes that all business transactions and relationships can be expressed in terms of money or monetary units.
  - Money is the common denominator in all economic activity and financial transactions.
  - That is why we assume that money is a good basis for comparing companies and other accounting measurements.
  - In other words, accounting looks at transactions that can be communicated in money or monetary units.
3. “Business units last indefinitely”. Mention and explain the concept on which the statements based.

“Business units **last indefinitely** – **Going Concern Concept**

  - ❖ The going concern concept or going concern assumption states that businesses should be treated as if they will continue to operate **indefinitely** or at least long enough to accomplish their objectives.
  - ❖ In other words, the going concern concept assumes that businesses will have a long life and not close or be sold in the immediate future.
  - ❖ Companies that are expected to continue are said to be a going concern.
  - ❖ Companies that are expected to close in the near future are not a going concern.
4. Write a brief note on Accounting Standard

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial

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statements and also for other disclosures affecting the different users of accounting information.

Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

### Unit 3 Prime entry

#### Very short answer questions

1. What is mean by source of documents  
Source documents are the authentic evidences of financial transactions
2. What are source documents ?
  - (i) Cash receipt/voucher
  - (ii) Invoice
  - (iii) Debit note
  - (iv) Credit note
  - (v) Pay-in slip
  - (vi) Cheque
3. What is accounting equation ?
  - ❖ The **basic accounting equation**, also called the balance sheet equation, represents the relationship between the **assets**, **liabilities**, and **owner's equity** of a business.
  - ❖ It is the foundation for the **double-entry bookkeeping system**.
  - ❖ For each transaction, the total debits equal the total credits.
  - ❖  $\text{Assets} = \text{Liabilities} + \text{Equity}$
3. Write any one transaction which
  - a. **Increase in capital and increase in asset**  
Commenced business with cash ` 1,00,000
  - b. **Decrease in liability and decrease in asset**  
Paid creditors ` 10,000
  - c. **Decrease in one asset and increase in another asset**  
Bought furniture costing ` 5,000 by paying cash
  - d. **Decrease in one liability and increase in another liability**  
Accepted a bill drawn by creditors for ` 20,000
  - e. Transactions affecting more than two accounts  
Goods costing ` 30,000 sold for ` 40,000
4. What is meant by journalising ?



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- Natural person means human beings.
- Example: Vinoth account, Malini account

### ❖ Artificial person's account:

- Artificial person refers to the persons other than human beings recognised by law as persons.
- They include business concerns, charitable institutions, etc.  
Example: BHEL account, Bank account

### Representative personal accounts:

- These are the accounts which represent persons natural or artificial or a group of persons.
- Example: Outstanding salaries account, Prepaid rent account.

### Impersonal accounts

All accounts which do not affect persons are called impersonal accounts. These are further classified into a) Real accounts and b) Nominal accounts

### Real account:

All accounts relating to tangible and intangible properties and possessions are called real accounts

### Tangible real accounts:

- These include accounts of properties and possessions which can be seen and touched.
- These have physical existence.
- Example: Plant, Machinery, Building, Furniture, Stock.

### Intangible real accounts:

- These include accounts of properties and possessions which cannot be seen and touched. These do not have physical existence.
- Example: Goodwill, Patents, Copy rights.

### Nominal account:

- The accounts relating to expenses, losses, revenues and gains are called nominal accounts.
- Example: Salaries, wages, rental income, interest income, etc.
- These are temporary accounts and are transferred to Trading and Profit and Loss account depending on whether these are direct or indirect respectively.

9. What are the three different types of personal accounts ?

### ❖ Natural person's account:

- Natural person means human beings.
- Example: Vinoth account, Malini account

### ❖ Artificial person's account:

- Artificial person refers to the persons other than human beings recognised by law as persons.
- They include business concerns, charitable institutions, etc.  
Example: BHEL account, Bank account

### Representative personal accounts:

- These are the accounts which represent persons natural or artificial or a group of persons.
- Example: Outstanding salaries account, Prepaid rent account.

10. What is the accounting treatment for insurance premium paid on the life of the proprietor ?  
insurance premium paid on the life of the proprietor is treated as Drawings

Drawings a/c Dr                      XXXX  
Cash/Bank a/c                                      XXXX

( Being insurance premium paid on the life of the proprietor)

11. State the principles of double entry system of book keeping  
(i) In every business transaction, there are two aspects.

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(ii) The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.

(iii) These two aspects involve minimum two accounts; at least one debit and at least one credit.

(iv) For every debit, there is a corresponding and equivalent credit. If one account is debited the other account must be credited.

12. Briefly explain about steps in journalising.

**The following steps are followed in journalising:**

(1) Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.

(2) Classify the above accounts under Personal account, Real account or Nominal account

(3) Apply the rules of debit and credit for the above two accounts.

(4) Find which account is to be debited and which account is to be credited by the application of rules of double entry system

(5) Record the date of transaction in the date column.

(6) Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.

(7) Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.

(8) Write the narration within brackets in the next line in the particulars column.

13. What is double entry system ? State its advantage

“Every transaction involving money or money’s worth has two fold aspects, the receiving of a value on the one hand and the giving of the same value on the other. This two fold nature in all transactions must be recorded in the books and this gives rise to the term Double Entry Book keeping” – *Munro and Palmer*

### Advantage

#### (i) Accuracy

In this system, the two aspects of each transaction are recorded in the books of accounts. This helps in checking the accuracy in accounting.

#### (ii) Ascertainment of business results

Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available. This helps to ascertain the net profit earned or loss incurred during an accounting period and also to know the financial position as on a particular date.

#### (iii) Comparative study

The business results of the current year can be compared with those of the previous years and also with other business firms. It facilitates business planning for future.

#### (iv) Common acceptance

The business records maintained under this system are accepted by financial institutions, government and others, because it is a systematic and scientific system.

## UNIT 5 LEDGER

### Very short answer questions

1. What is a ledger ?

- A ledger is a written or computerized record of all the transactions a business has completed.

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- These transactions are recorded in the ledger in different accounts.
  - This list of accounts is most often called the chart of accounts.
2. What is meant by posting ?
    - The process of recording in the ledger is called posting
  3. What is debit balance ?
 

If the total on the debit side of an account is higher, the balancing figure is debit balance
  4. What is credit balance ?
 

if the credit side of an account has higher total, the balancing figure is credit balance
  5. What is balancing of an account ?
    - The accounts are balanced at the end of the accounting period or after a certain period to ascertain the net balance in each account. Balancing means that the debit side and credit side amounts are totalled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total, so that the total of both debit and credit columns are equal.

### Short answer questions

1. Distinguish between journal and ledger.

Basis	Journal	ledger.
Stage of recording	Recording in the journal is the first stage	Recording in the ledger is the second stage, which is done on the basis of entries made in the journal.
Order of recording	Entries are made in the chronological order, i.e., date wise in the order of occurrence	Entries are made accountwise.
Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting
Basis of entries	Entries in the journal are made on the basis of source documents	Posting is done in ledger on the basis of journal entries.
Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account

2. What is ledger ? Explain its utilities.

#### LEDGER

- A ledger is a written or computerized record of all the transactions a business has completed.
- These transactions are recorded in the ledger in different accounts.
- This list of accounts is most often called the chart of accounts.

#### Utilities of ledger

##### I. Quick information about a particular account

- Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance.

##### II. Control over business transactions

- From the ledger balances extracted, a thorough analysis of account balances can be made which helps to have control over the business transactions

##### III. Trial balance can be prepared

- With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

##### IV. Helps to prepare final accounts

- From the ledger balances extracted, financial statements can be prepared for ascertaining net profit or loss and the financial position.

3. How is posting made from the journal to the ledger ?

**The procedure of posting from journal to ledger is as follows:**

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- a) Locate the ledger account that is debited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.
- b) Record the date of the transaction in the date column on the debit side of that account.
- c) Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- d) Record the amount of the debit in the 'amount column'.
- e) Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the credit side of the account. Record the date of the transaction in the date column. Record the name of the account debited in the journal entry in the particulars column with the prefix 'By' and write the amount in the amount column.

4. Explain the procedure for balancing a ledger account.

Following is the procedure for balancing an account:

- i) The debit and credit columns of an account are to be totalled separately.
- ii) The difference between the two totals is to be ascertained.
- iii) The difference is to be placed in the amount column of the side having lesser total. 'Balance c/d' is to be entered in the particulars column against the difference and in the date column the last day of the accounting period is entered.
- iv) Now both the debit and credit columns are to be totalled and the totals will be equal. The totals of both sides are to be recorded in the same line horizontally. The total is to be distinguished from other figures by drawing lines above and below the amount.
- v) The difference has to be brought down to the opposite side below the total. 'Balance b/d' is to be entered in the particulars column against the difference brought down and in the date column, the first day of the next accounting period is entered.
- vi) If the total on the debit side of an account is higher, the balancing figure is debit balance and if the credit side of an account has higher total, the balancing figure is credit balance. If the two sides are equal, that account will show nil balance.

### UNIT 5 TRAILBALANCE

#### Very short answer questions

1. What is trial balance ?

"A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books". - *J.R. Batliboi*

2. Give the format of trial balance.

#### Trial balance as on ...

S. No.	Name of account / Particulars	L.F.	Debit balance ₹	Credit balance ₹

3. What are the methods of preparation of trial balance ?

- i) Balance method
- ii) Total method
- iii) Total and Balance method

4. State whether the balance of the following accounts should be placed in the debit or the credit column of the trial balance:

- (i) Carriage outwards (ii) Carriage inwards (iii) Sales  
 (iv) Purchases (v) Bad debts (vi) Interest paid

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- (vii) Interest received (viii) Discount received (ix) Capital  
(x) Drawings (xi) Sales returns (xii) Purchase returns

Debit column	Credit column
Carriage outwards	Sales
Carriage inwards	Interest received
Purchases	Discount received
Bad debts	Capital
Interest paid	Purchase returns
Drawings	
Sales returns	

### III Short answer questions

1. What are the objectives of preparing trial balance ?

i) **Test of arithmetical accuracy**

Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked. When the totals of debit column and credit column in the trial balance are equal, it is assumed that posting from subsidiary books, balancing of ledger accounts, etc. are arithmetically correct. However, there may be some errors which are not disclosed by trial balance.

ii) **Basis of preparing final accounts**

Financial statements, namely, trading and profit and loss account and balance sheet are prepared on the basis of summary of ledger balances obtained from the trial balance

iii) **Location of errors**

The errors should be located and rectified before preparing the financial statements.

iv) **Summarised information of ledger accounts**

The summary of ledger accounts is shown in the trial balance. Ledger accounts have to be seen only when details are required in respect of an account

2. What are the limitations of trial balance ?

**The following are the limitations of trial balance:**

- a) It is possible to prepare trial balance of an organisation, only if the double entry system is followed.  
b) Even if some transactions are omitted, the trial balance will tally.  
c) Trial balance may tally even though errors are committed in the books of account.  
d) If trial balance is not prepared in a systematic way, the final accounts prepared on the basis of trial balance may not depict the actual state of affairs of the concern.  
e) Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records. This is because there are certain errors which are not disclosed by trial balance such as complete omission of a transaction, compensating errors and error of principle.

3. 'A trial balance is only a prima facie evidence of the arithmetical accuracy of records'. Do you agree with this statement ? Give reasons.

- Yes, Trial Balance is not a complete proof of arithmetical accuracy of account.
- A Trial Balance in which the credit and debit accounts match does not prove that, all transactions have been recorded in the proper accounts.
- For example, the wages paid for the installation of machinery had been erroneously recorded by debiting the wages account in the place of machinery account, the Trial Balance would still agree.
- Similarly, an agreed Trial Balance does not prove that all transactions have been recorded in the books of original entry.

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- For example, a credit sale invoice were to be completely omitted from being recorded in the sales day book, the error would not be disclosed in the Trial Balance.
- To conclude, we can say that a trial balance should not be recorded as a conclusive proof of the correctness of the books of account.

### UNIT 6 SUBSIDIARY BOOKS I

#### Very short answer questions

1. Mention four types of subsidiary books.
  - **Purchases book** or purchases journal - for recording only credit purchase of goods in which the trader deals.
  - **Sales book** or sales journal-for recording only credit sale of goods dealt in by the trader
  - **Purchases returns or returns outward book** - for recording return of goods purchased by the trader, for which no cash is immediately received.
  - **Sales returns or returns inward book** - for recording the goods returned (out of previous sale) by customers for which no cash is immediately paid
2. What is purchases book ?

Purchases book is a subsidiary book in which only credit purchases of goods are recorded.
3. What is purchases returns book ?

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as '*returns outward book or returns outward journal*'
4. What is sales book ?
  - Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing.
  - These are meant for regular sale.
  - Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book.
  - This book is also named as sales day book, sold day book, sales journal or sale register.
5. What is sales returns book ?
  - Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded.
6. What is debit note ?
  - A 'debit note' is a document, bill or statement sent to the person to whom goods are returned.
  - This statement informs that the supplier's account is debited to the extent of the value of goods returned.
  - It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.
6. What is credit note ?
  - Credit note is a statement prepared by a trader who receives back from his customer the goods sold.

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➤ It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

7. What is journal proper ?

Journal proper is a residuary book which contains record of transactions, which do not find a place in the subsidiary books such as cash book, purchases book, sales book, purchases returns book, sales returns book, bills receivable book and bills payable book

8. Define bill of exchange.

According to the Negotiable Instruments Act, 1881, "Bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

9. What is an opening entry ?

At the end of the accounting year, all nominal accounts are closed but the business has to be carried on with previous year's assets and liabilities. Hence, these accounts are to be brought into the accounts of the current year. Journal entry made in the beginning of the current year with the balances of assets and liabilities of the previous year is opening journal entry. In this entry, asset accounts are debited, liabilities and capital accounts are credited.

11. What is an invoice ?

Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc. Thus, the invoice is a source document of prime entry both for the buyer and the seller.

### III Short answer questions

1. Give the format of purchases book.

#### Format of purchases book / purchases journal

Date	Particulars (Name of the suppliers and details of goods purchased)	Invoice No.	L.F.	Amount ₹	
				Details	Total
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchase A/c                      Dr.				

2. Mention the subsidiary books in which the following transactions are recorded.

(i) Sale of goods for cash – **cash book**

(ii) Sale of goods on credit - **sales book**

(iii) Purchases of goods on credit - **purchase book**

(iv) When the proprietor takes goods for personal use - **proper journal, not in subsidiary books**

(v) Goods returned to suppliers for which cash is not received immediately - **purchase Return book**

(vi) Asset purchased as credit. - **proper journal, not in subsidiary books**

10. What are the advantages of subsidiary books ?

- (i) **Proper and systematic record of business transactions**  
As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.
- (ii) **Convenient posting**  
All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books
- (iii) **Division of work**  
As journal is sub-divided, the work will be sub-divided and different persons can work on different books at the same time and the work can be speedily completed.
- (iv) **Efficiency**  
The sub-division of work gives the advantage of specialisation. When the same work is done by a person repeatedly the person becomes efficient in handling it.
- (v) **Helpful in decision making**
  - Subsidiary books provide complete details about every type of transactions separately.
  - Hence, the management can use the information as the basis for deciding its future actions.
- (vi) **Prevents errors and frauds**  
Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised
- (vii) **Availability of requisite information at a glance**  
The maintenance of subsidiary books helps in obtaining the necessary information at a glance.
- (viii) **Detailed information available**  
As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information. It is easy to arrive at monthly or quarterly totals
- (ix) **Saving in time**  
As there are many subsidiary books, work of entering can be done simultaneously by many persons. Thus, it saves time and accounting work can be completed quickly
- (x) **Labour of posting is reduced**  
Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.

4. Write short notes on:

(a) Endorsement of a bill

Endorsement means signing on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the “Endorser”. The person to whom a bill is endorsed is called the “Endorsee”. The endorsee is entitled to collect the money.

(b) Discounting of a bill

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When the holder of a bill is in need of money before the due date of a bill, cash can be received by discounting the bill with the banker. This process is referred to as the discounting of bill. The banker deducts a small amount of the bill which is called discount and pays the balance in cash immediately to the holder of the bill.

### UNIT 7 SUBSIDAIARY BOOKS II cash book

#### Very short answer questions

1. What is cash book ?

- The cash book is the book of original entry or prime entry as cash transactions are recorded for the first time in it.
- Cash transactions here may include bank transactions also.
- Cash receipts are recorded on the debit side while cash payments are recorded on the credit side.

2. What are the different types of cash book ?

(i) Simple or single column cash book (only cash column)

(ii) Cash book with cash and discount column (double column cash book)

(iii) Cash book with cash, discount and bank columns (three column cash book).

Apart from the main cash book, petty cash book may also be prepared to enter the petty expenses, i.e., expenses involving small amount.

3. What is simple cash book ?

Single column cash book or simple cash book, like a ledger account has only one amount column, i.e., cash column on each side. Only cash transactions are recorded in this book. All cash receipts and payments are recorded systematically in this book

4. Give the format of 'Single column cash book'.

Dr.					Cr.				
<b>Simple Cash Book</b>									
Date	Receipts	R.N.	L.F.	Amount ₹	Date	Payments	V.N.	L.F.	Amount ₹
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

5. What is double column cash book ?

- It is a cash book with cash and discount columns. As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.
- The double column cash book is prepared on the lines of simple cash book. It has only one additional column, i.e., discount column on each side. Discount column represents discount allowed on the debit side and discount received on the credit side.

6. Give the format of 'Double column cash book'.

Dr.					Cr.						
<b>Cash book with cash and discount columns</b>											
Date	Receipts	R.N	L.F	Amount ₹		Date	Payments	R.N	L.F.	Amount ₹	
				Discount	Cash					Discount	Cash

6. What is three column cash book ?

- A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount.
- This cash book is prepared in the same way as simple and double column cash books are prepared.
- The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively

8. What is cash discount ?

Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment. It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment. The discount is allowed when payment is received or made

9. What is trade discount ?

- Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods.
- It is given as a trade practice or when goods are purchased in large quantities.
- It is shown as a deduction in the invoice.
- Trade discount is not recorded in the books of accounts. Only the net amount is recorded

10. What is a petty cash book ?

All petty payments of the business may be recorded in a separate book, which is called as petty cash book and the person who maintains the petty cash book is called the petty cashier.

### Short answer questions

1. Explain the meaning of imprest system of petty cash book.

- Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (It may be a week or fortnight or month).
- The amount given to the petty cashier in advance is known as “Imprest Money”.
- The word imprest means payment in advance.
- The petty cashier makes payments from this amount and records them in petty cash book.
- At the end of a particular period, the petty cashier submits the petty cash book to the head cashier.
- The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier so that the total amount with the petty cashier is now equal to the amount he had received in the beginning as advance.
- Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period.
- This method thus provides an effective control over petty payments.

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### 2. Bring out the differences between cash discount and trade discount.

Basis	cash discount	trade discount.
Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date	Trade discount is allowed to encourage buyers to buy goods in large quantities.
Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment	Trade discount is allowed by the seller to the buyer when goods are sold.
Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount	Trade discount is generally related to the quantity of purchase or sale. The more the purchases, the more will be the rate and amount of discount
Recording in books of accounts	Cash discount is recorded in the books of account.	Trade discount is not recorded in the books of account
Deduction from invoice value	Cash discount is not deducted from the invoice value of goods	Trade discount is deducted from the list price of the goods.

### 3. Write the advantages of maintaining petty cash book.

- (i) There can be better control over petty payments.
- (ii) There is saving of time of the main cashier.
- (iii) Cash book is not loaded with many petty payments.
- (iv) Posting of entries from main cash book and petty cash book is comparatively easy.

### 6. Write a brief note on accounting treatment of discount in cash book.

Debit the concerned personal account mentioned on the credit side and the credit is to Discount received A/c with the amount mentioned in the discount received column. Credit the concerned personal account mentioned on the debit side and the debit is for Discount allowed A/c with the amount entered in the discount allowed column.

### 5. Briefly explain about contra entry with examples.

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

#### Example

- (i) When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.
- (ii) When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book

To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides.

## UNIT 8 BANK RECONCILIATION STATEMENT VERY SHORT ANSWER

### 1. What is meant by bank overdraft ?

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- An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero. In this situation the account is said to be "overdrawn".
- If there is a prior agreement with the account provider for an overdraft, and the amount overdrawn is within the authorized overdraft limit, then interest is normally charged at the agreed rate. If the negative balance exceeds the agreed terms, then additional fees may be charged and higher interest rates may apply.

### 2. What is bank reconciliation statement ?

- A bank reconciliation statement is a summary of banking and business activity that reconciles an entity's bank account with its financial records.
- The statement outlines the deposits, withdrawals and other activity affecting a bank account for a specific period.
- A bank reconciliation statement is a useful financial internal control tool used to thwart fraud.

### 3. State any two causes of disagreement between the balance as per bank column of cash book and bank statement.

#### (i) Timing differences - The different times at which the same items are entered

- cheques issued but not yet presented for payment
- cheques deposited into bank but not yet credited

#### (ii) Errors in recording – Difference arising due to errors in recording the entries

- errors committed in recording the transactions by the business in the cash book
- errors committed in recording the transactions by the bank

### 3. Give any two expenses which may be paid by the banker as per standing instruction.

- Rent paid by bank as per standing instruction
- Insurance premium, loan instalment, etc., paid as per standing instructions

### 5. Substitute the following statements with one word/phrase

(a) A copy of customer's account issued by the bank – BANK STATEMENT

(b) Debit balance as per bank statement - BANK OVERDRAFT

(c) Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement - BANK RECONCILIATION STATEMENT

### 6. Do you agree on the following statements ? Write "yes" if you agree, and write "no" if you disagree.

(a) Bank reconciliation statement is prepared by the banker. – NO

(b) Adjusting the cash book before preparing the bank reconciliation statement is compulsory. – NO

(c) Credit balance as per bank statement is an overdraft. – NO

(d) Bank charges debited by the bank increases the balance as per bank statement. – NO

(e) Bank reconciliation statement is prepared to identify the causes of differences between balance as per bank column of the cash book and balance as per cash column of the cash book. – NO

## SHORT ANSWER QUESTIONS

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1. Give any three reasons for preparing bank reconciliation statement.

The need for bank reconciliation statement is as follows:

- (i) To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- (ii) To identify the delay in the clearance of cheques.
- (iii) To ascertain the correct balance of bank column of cash book.
- (iv) To discourage the accountants of the business as well as bank from misusing funds.

2. What is meant by the term “cheque not yet presented ?”

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

3. Explain why does money deposited into bank appear on the debit side of the cash book, but on the credit side of the bank statement ?

- Cash Book maintained by trader, cash will goes out from the trader point of view, so money deposited into the bank appear on the debit side of the cash book
- Bank statement prepared by bank, deposited money by trader, it is liability from bankers view, so money deposited into the bank, it will appear in the credit side of the bank statement

3. What will be the effect of interest charged by the bank, if the balance is an overdraft ?

Overdraft balance will be increased, if the interest is charged by the bank

5. State the timing differences in BRS with examples.

Reasons for the time gap in recording the transactions in the two books (Cash Book and Pass Book) are as given below -

- Cheques issued but not yet presented for payment in the bank.
- Cheques deposited or paid into the bank for collection but not yet credited by the bank.
- Cheques deposited but dishonoured by the bank.
- Interest allowed by the bank.
- Interest on overdraft, bank charges, commission etc. charged by the bank.
- Direct Deposit by the customers into the bank.
- Interest, Dividend etc. collected by the bank.
- Direct payments made by the bank on behalf of customer as per standing instruction

### UNIT 9 RECTIFICATION OF ERRORS

#### Very short answer questions

1. What is meant by rectification of errors?
  - The correction of accounting errors in a systematic manner is called the rectification of errors.
  - In other words, the process of systematically correcting the accounting errors is known as rectification of errors
2. What is meant by error of principle?

An error of principle is an accounting mistake in which an entry is recorded in the incorrect account, violating the fundamental principles of accounting. An error of principle is a procedural error, meaning that the value recorded was the correct value but placed incorrectly.
3. What is meant by error of partial omission?

Partial omission occurs if a financial transaction is recorded only partially. For example, partial error of omission occurs if goods sold to John for ₹ 4000 is recorded in sales book but failed to be posted in John's account.
4. What is meant by error of complete omission?

Complete omission takes place if a transaction is not recorded in the journal at all. for example, goods sold to John for \$ 10,000 were not recorded in the sales book at all. A complete omission of transaction may occur due to many reasons such as sales invoice misplaced or lost.
5. What are compensating errors?

Compensating errors refer to two or more errors which mutually compensate the effects of one another. If one error balances the effect of another error, then the two error are called compensating errors.

#### Short answer questions

1. Write a note on error of principle by giving an example.
  - An error of principle is an accounting mistake in which an entry is recorded in the incorrect account, violating the fundamental principles of accounting.
  - An error of principle is a procedural error, meaning that the value recorded was the correct value but placed incorrectly.
  - For example, a company may record personal expenses as business expenses.
  - An error of principle is different than failing to record the item in question ("error of omission"), or recording the wrong value in the correct account ("error of commission").
  - These errors are referred to as input errors.
2. Write a note on suspense account.
  - A suspense account is an account in the [general ledger](#) in which amounts are temporarily recorded.
  - The suspense account is used because the proper account could not be determined at the time that the transaction was recorded.
  - When the proper account is determined, the amount will be moved from the suspense account to the proper account.

3. What are the errors not disclosed by a trial balance?

1. Errors of Principle
2. Errors of Omission
3. Posting to Wrong Account
4. Error of Amounts in Original Book
5. Compensating Errors

4. What are the errors disclosed by a trial balance?

- (i) Wrong Totaling in a Subsidiary Book
- (ii) Wrong Calculation of Balances in a Ledger Account
- (iii) Partial Omission of an Entry
- (iv) Posting an Aspect of a Transaction More than Once
- (v) Debit Entries Wrongly Recorded as Credit Entries of Vice-versa
- (vi) Errors in Totaling the Debit Column or the Credit Column of the Trial Balance
- (vii) Balance of Ledger Accounts are Wrongly Transferred to the Trial Balance
- (viii) Omitting to Include an Account's Balance in the Trial Balance

5. Write a note on one-sided errors and two sided errors.

**One-sided errors**

- One-sided errors are those errors which affect the agreement of the trial balance.
- These errors affect only one account and only one side i.e. debit or the credit side of the account.
- Errors of partial omission, recording transactions with wrong casting and wrong posting are examples of one-sided errors

**Two-sided or double-sided errors.**

When an error affects both the debit and credit by an equal amount it is called two-sided or double-sided errors. They are as follows:

- Wrong posting of both debit and credit.
- Errors of wholly omission.
- Wrong entry in the primary works of account.

UNIT 10 DEPRECIATION ACCOUNTING

**Very short answer questions**

1. What is meant by depreciation?

According to **R.N. Carter**, "Depreciation is the gradual and permanent decrease in the value of an asset from any cause".

2. List out the various methods of depreciation.

- i) Straight line method or Fixed instalment method or Original cost method
- ii) Written down value method or Diminishing balance method
- iii) Sum of years of digits method

- iv) Machine hour rate method
- v) Depletion method
- vi) Annuity method
- vii) Revaluation method
- viii) Sinking fund method
- ix) Insurance policy method

3. Give the formula to find out the amount and rate of depreciation under straight line method of depreciation.

$$\text{Amount of depreciation per year} = \frac{\text{Original cost of the asset} - \text{Estimated scrap value}}{\text{Estimated useful life of the asset in years}}$$
$$\text{Rate of depreciation} = \frac{\text{Amount of depreciation per year}}{\text{Original cost}} \times 100$$

3. What is annuity method?

- The annuity method of depreciation is a depreciation technique that focuses on achieving a constant rate of return on an asset.
- The annuity method is not endorsed by generally accepted accounting principles.
- This approach is also called the compound interest method of depreciation.

4. What is sinking fund method?

- The sinking fund method is a depreciation method that provides funds for the replacement of an asset at the end of its useful life.
- A depreciation account is created whereby the asset's annual depreciation amount is credited.
- An amount equal to the depreciation amount is then invested to earn interest, which is subsequently deposited into the fund and then reinvested

### Short answer questions

1. What are the objectives of providing depreciation?

**(a) To ascertain true profits:**

Depreciation is a charge for capital assets used in earning profits and therefore, it should be viewed as business expenditure. Unless proper charge for this expense is made in accounts, the correct profit cannot be ascertained.

**(b) To show the assets at their proper values:**

Depreciation must be accounted for in order to show the assets at their proper values and thereby present a true and fair view of the financial position of the business. Unless depreciation is provided, the value of the assets will be overstated in the Balance Sheet and it will not reflect the true and fair view of the business.

### **(c) To create funds for replacement of assets:**

Depreciation is non-cash expenditure. Hence, the amount of depreciation charged to Profit and Loss account remains in the business and the amount thus accumulated during the working life of the asset provides funds for its replacement at the end of the working life of the asset.

### **(d) To keep the capital in tact:**

If depreciation is not charged, the amount of profit will be inflated. If such profits are distributed among the owners, then it will amount to the distribution of fixed capital from the business. In the long run it will affect the financial health of the business.

### **(e) Statutory Need: Provision of depreciation is a statutory need:**

Section 205 of the Indian companies Act has made compulsory for a joint stock company to provide for depreciation before distributing the profits as dividends.

## **2. What are the causes for depreciation?**

### **(i) Use of the Assets or Wear and Tear:**

The main cause of depreciation is the wear and tear of assets when they are put to use in the enterprise. It reduces the future technical capacity as well as earning power of the asset with the result that it brings reduction in the value of asset.

### **(ii) Accident:**

Another important contributing factor to depreciation is accident such as plant break down, loss by fire, etc.

### **(iii) Expiration of Certain Legal Rights:**

In case of patents, leases and licenses depreciation is a time function as by the expiration of time for which legal right to use is created lapses.

### **(iv) Obsolescence:**

Because of technological developments, the asset in use may become outdated and lose a large part of its value. This fall may also be the result of changes in tastes and habits of customers, changes in the supply and location of material resources, etc.

### **(v) Inadequacy:**

Sometimes there may be a necessity of putting the assets out of use despite the fact that the asset is in good physical condition. It is because of inadequacy. Inadequacy refers to the

termination of the use of an asset because of growth and changes in the size of the firm. For the needs of the firm the asset may not be adequate and another firm of small size may buy it.

(vi) Depletion:

Where the asset is of wasting character, due to the extraction of some materials, such as mines, forests, quarries and oil wells, the asset will be depleted.

3. State the advantages and limitations of straight line method of depreciation.

### **Advantages of straight line depreciation method**

- Simplest depreciation method to compute
- Can be applied to all long-term assets
- The same for each period of assets' service life
- Widely acceptable and usable accounting method

### **Disadvantages of straight line depreciation method**

- Does not reflect accurately the difference in usage of an asset from one period to the other
- Does not necessary match costs with revenues in different types of long-term assets
- Might not be appropriate for some depreciable assets due to rapidly developing technology, such as computers

4. State the advantages and limitations of written down value method of depreciation.

### **Advantages Of Reducing Balance Method Of Depreciation**

\* Reducing balance method is easy to understand and simple to implement. Depreciation is calculated every year on the opening balance of asset.

\* Reducing balance method equalizes the yearly burden on profit and loss account in respect of both depreciation and repairs. The amount of depreciation goes on decreasing while the expenses on repairs goes on increasing, so that the total charge against revenue over different years remains more or less the same.

\* Reducing balance method is acceptable for income tax purposes

\* Reducing balance method matches the cost and revenue of the business. The greater amount of depreciation provided in initial years is matched against the higher amount of revenue generated by increased production by the use of new asset.

### **Disadvantages Of Reducing Balance Method Of Depreciation**

\* Reducing balance method charges heavy amount of depreciation in earlier years.

\* The formula to obtain rate of depreciation can be applied only when there is residual value of the asset.

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5. Distinguish between straight line method and written down value method of providing depreciation. ( any five )

BASIS FOR COMPARISON	straight line method	written down value method
Meaning	A method of depreciation in which the cost of the asset is spread uniformly over the life years by writing off a fixed amount every year.	A method of depreciation in which a fixed rate of depreciation is charged on the book value of the asset, over its useful life.
Calculation of depreciation	On the original cost	On the written down value of the asset.
Annual depreciation charge	Remains fixed during the useful life.	Reduces every year
Value of asset	Completely written off	Not completely written off
Amount of depreciation	Initially lower	Initially higher
Impact of repairs and depreciation on P&L A/c	Increasing trend	Remains constant
Appropriate for	Assets with negligible repairs and maintenance like leases, copyright.	Assets whose repairs increase, as they get older like machinery, vehicles etc

### UNIT 11 CAPITAL AND REVENUE TRANSACTIONS

#### Very short answer questions

1. What is meant by revenue expenditure?

A revenue expenditure is a cost that is expensed in the accounting year in which it is incurred. In other words, the cost will be matched with the revenues of the accounting year in which the expenditure took place.

2. What is capital expenditure?

3. This is in contrast to a capital expenditure in which the cost is deferred to the balance sheet and is then expensed over several accounting years.

4. What is capital profit?

- Capital profit is a capital gain which is arise from the sale of capital asset such as stock, bond, real estate etc.
- when the asset is sold at a price which exceeds the purchase price the profit is capital profit.
- It is profit that is not earned in the regular course of the business.

5. Write a short note on revenue receipt.

Revenue Receipts are the major source of income of the enterprise, without which a business may not survive for a long time.

6. What is meant by deferred revenue expenditure?

- Deferred **Revenue Expenditure** is an expenditure which is revenue in nature and incurred during an accounting period, but **its benefits are to be derived in multiple future accounting periods.**

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- These expenses are unusually large in amount and, essentially, the benefits are not consumed within the same accounting period.
- 7. Write a short note on capital receipt  
Capital Receipts are the income generated from the non-operating sources, which are having a long term effect

### Short answer questions

1. Distinguish between capital expenditure and revenue expenditure. .( any five)

BASIS FOR COMPARISON	Capital Expenditure	Revenue Expenditure
Meaning	The expenditure incurred in acquiring a capital asset or improving the capacity of an existing one, resulting in the extension in its life years.	Expenses incurred in regulating day to day activities of the business.
Term	Long Term	Short Term
Capitalization	Yes	No
Shown in	Income Statement & Balance Sheet	Income Statement
Outlay	Non-recurring	Recurring
Benefit	More than one year	Only in current accounting year
Earning capacity	Seeks to improve earning capacity	Maintain earning capacity
Matching concept	Not matched with capital receipts	Matched with revenue receipts

2. Distinguish between capital receipt and revenue receipt.( any five)

BASIS FOR COMPARISON	Capital Receipts	Revenue Receipt.
Meaning	Capital Receipts are the income generated from the non-operating sources, which are having a long term effect	Revenue Receipts are the major source of income of the enterprise, without which a business may not survive for a long time.
Nature	Non-Recurring	Recurring
Term	Long Term	Short Term
Shown in	Balance Sheet	Income Statement
Received in exchange of	Source of income	Income
Value of asset or liability	Decreases the value of asset or increases the value of liability.	Increases or decreases the value of asset or liability.

3. What is deferred revenue expenditure? Give two examples.

- Deferred **Revenue Expenditure** is an expenditure which is revenue in nature and incurred during an accounting period, but **its benefits are to be derived in multiple future accounting periods.**
- These expenses are unusually large in amount and, essentially, the benefits are not consumed within the same accounting period

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Examples : advertisement or exhibition, sales promotion or Repair of Machineries etc.

### UNIT 12 FINAL ACCOUNTS OF SOLE PROPRIETORS – I

#### Very short answer questions

1. Write a note on trading account.  
The account which is prepared to determine the gross profit or gross loss of a business concern is called trading account.
2. What are wasting assets?  
These are the assets which get exhausted gradually in the process of excavation.  
Examples: mines and quarries.
3. What are fixed assets?  
“Fixed assets are assets of a relatively permanent nature used in the operations of business and not intended for sale.” - Finney and Miller
4. What is meant by purchases returns?  
A purchase return transaction is when the buyer of merchandise, inventory, fixed assets, or other items sends these goods back to the seller. Excessive purchase returns can interfere with the profitability of a business, so they should be closely monitored.
5. Name any two direct expenses and indirect expenses.  
direct expenses
  - wages
  - freight inward
 indirect expenses.
  - Freight outward
  - Salary
6. Mention any two differences between trial balance and balance sheet.

<b>Trial Balance</b>		<b>Balance Sheet</b>	
1	It is prepared to verify the arithmetical accuracy of books of accounts	1	It is prepared to disclose the true financial position of the business
2	It is prepared with balances of all the ledger accounts	2	It is prepared with the balances of assets and liabilities accounts.
3	It is not a part of final accounts	3	It is an important part of final accounts.

7. What are the objectives of preparing trading account?( any three)
  - It gross profit is found to be less than the projected profit its reasons are analyzed and proper control is exercised in future.
  - It Gross profit is more than projected profit, efforts are made to maintain it in future.

- It Trading Account discloses loss then it will be prudent to close down the business may be temporarily till the conditions improve, otherwise, it is possible that losses may exceed.
  - Trading account also helps to ascertain the percentage of direct expenses over sales.
  - Trading account also provides the percentage of gross profit to sales.
8. What is the need for preparing profit and loss account?
- To know the amount of net profit or net loss
  - To provide information about office and administrative expenses:
  - To provide information about selling and distributing expenses:
  - To provide information about other expenses and losses:
  - To provide information about financial expenses:
  - To provide information about incomes and profits:
  - To make comparison:
  - To measure efficiency

### Short answer questions

1. What are final accounts? What are its constituents?
  - Final accounts is the trial balance that is formed at the end of the period of accounting from where we can derive the financial statements.
  - It has two main constituents that is trading and profit and loss account which helps to tell the profit and loss incurred at the end of the financial year.
  - The second constituent is the balance sheet to know the position of the business of that financial year.
2. What is meant by closing entries? Why are they passed?
  - Adjustment entries are the entries which are passed at the end of each accounting period to adjust the nominal and other accounts so that correct net profit or net loss is indicated in profit and loss account and balance sheet may also represent the true and fair view of the financial condition of the business.
  - It is essential to pass these adjustment entries before preparing final statements. Otherwise in the absence of these entries the profit and loss statement will be misleading and balance sheet will not show the true financial condition of the business.
3. What is meant by gross profit and net profit?

## Gross Profit

The word *Gross* means “before any deductions”. This implies that the profit before any deductions is called the Gross profit. It is also called “Sales Profit”.

It is the **difference between total revenue earned from selling products/services and the total cost of goods/services sold.** (*Depending if the company is selling goods or services*)

**Gross Profit = Net Sales – Cost Of Goods Sold**

**GP = Net Sales – COGS**

## Net Profit

The word *Net* means “after all deductions”. This implies that profit after all deductions is called Net Profit. It is also called “Net Income” & “Net Earnings”. **It is the difference between total revenue earned and total cost incurred.**

Deductions include adjustments related to the cost of doing business such as taxes, depreciation or other miscellaneous expenses.

**Net Profit = Total Revenue – Total Cost**

**Net Profit = Gross Profit – (Total Expenses for Operations, Interests & Taxes)**

4. “Balance sheet is not an account”- Explain.

Balance Sheet is the financial statement of a company which includes assets, liabilities, equity capital, total debt, etc. at a point in time. Balance sheet includes assets on one side, and liabilities on the other. For the balance sheet to reflect the true picture, both heads (liabilities & assets) should tally (Assets = Liabilities + Equity).

5. What are the advantages of preparing a balance sheet?

- It is helpful in ascertaining the financial position of the business by showing assets and liabilities of the concern on a specific date.
- It discloses the solvency of business by showing how much assets are available for payment of liabilities.
- It also discloses the proprietary interest of owner.
- It helps in calculation of various ratios which help in better management of business.
- It helps in comparison of assets and liabilities of business on two dates to ascertain the progress being made by business.
- It helps to ascertain the amount of capital employed in business.

6. What is meant by grouping and marshalling of assets and liabilities?

**Grouping and Marshalling or Arrangement of Assets and Liabilities.** The assets and liabilities should be shown in a certain order in the Balance Sheet. Therefore, they should be arranged in certain groups and in a particular order. This is called ‘Grouping’ and ‘Marshalling’ of the Balance Sheet. Thus, ‘Grouping’ means putting together items of similar nature under a common heading.

**Marshalling of Balance Sheet** means the order in which the assets and liabilities are arranged and shown in the Balance Sheet: Assets and liabilities can be arranged in the Balance Sheet into two ways

### **By Liquidity**

Assets are arranged in order of liquidity i.e. they can be converted to cash easily. Most liquid assets, such as cash, will come first and least liquid assets, such as building, will come last. Liabilities are arranged in the order they are to be discharged.

### **By Permanence**

Assets are arranged in order of permanency i.e. with the most permanent on the top and the most liquid on the bottom. Liabilities which have to be discharged last are shown first and those which have to be discharged first are shown last

### UNIT 13 FINAL ACCOUNTS OF SOLE PROPRIETORS – II

#### Very short answer questions

1. What are adjusting entries?

An adjusting journal entry is an adjustment recorded at the end of an accounting period to an asset or liability account and related expense or income accounts to record business events that occurred in the period but were not recorded.

2. What is outstanding expense?

Outstanding expenses are those expenses which have been incurred during the current accounting period and are due to be paid, however, the payment is not made. Such an item is to be treated as a payable for the business

3. What is prepaid expense?

A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period.

4. What are accrued incomes?

Accrued income is income which has been earned but not yet received

5. What is provision for discount on debtors?

- Discount is allowed when our Debtors settle their accounts promptly. If the Debtors of the current period settle their accounts promptly in the succeeding period, discount will have to be allowed by us.
- The amount of discount is an expected loss and a provision has to be made for it in the Final Accounts of the current year.

#### Short answer questions

1. What is the need for preparing final accounts?

Trading, profit & loss account and balance sheet, all these three together, are called as final accounts. Final result of trading is known through Profit and Loss Account. Financial position is reflected by Balance Sheet. These are, usually, prepared at the close of the year hence known as final accounts.

They serve the ultimate purpose of keeping accounts. Their purpose is to investigate the consequence of various incomes and expenses during the year and the resulting profit or loss.

1. Trading and Profit and Loss A/c is prepared to find out Profit or Loss.

2. Balance Sheet is prepared to find out financial position of a concern

2. What is meant by provision for doubtful debts? Why is it created?

- Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.
- At the end of the accounting period, there may be certain debts which are doubtful, i.e., the amount to be received from debtors may or may not be received.
- The reason may be incapacity to pay the amount or deceit.

3. Explain how closing stock is treated in final accounts.

- The goods remaining unsold at the end of the accounting period are known as closing stock.
- They are valued at cost price or net realisable value (market price) whichever is lower as per Accounting Standard 2
- Closing Stock is shown on the Credit Side of Trading Account.

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➤ Closing Stock is shown on the Asset Side of Balance Sheet.

4. Give the adjusting entries for interest on capital and interest on drawings.

	Particulars	Debit	Credit
interest on capital	interest on capital a/c Dr	XXXX	
	Capital a/c		XXXX
	(interest on capital provided)		
interest on drawings	Capital a/c Dr	XXXX	
	Interest on Drawings		XXXX
	( interest on drawings provided)		

5. Explain the accounting treatment of bad debts, provision for doubtful debts and provision for discount on debtors.

		Accounting treatment in	Accounting treatment In
Adjustment	Journal entry	Trading A/c or P & L A/c	Balance Sheet
bad debts	Bad debts A/c Dr To Sundry debtors A/c	Shown on the debit side of profit and loss A/c when there is no provision for bad and doubtful debts.	Shown on the assets side by way of deduction from the amount of sundry debtors.
Provision for bad and doubtful debts	Profit & Loss A/c Dr To Provision for bad and doubtful debts A/c	Shown on the debit side of profit and loss A/c	Shown on the assets side as a deduction from sundry debtors
Provision for discount on debtors	Profit & Loss A/c Dr To Provision for discount on debtors A/c	Shown on the debit side of profit and loss A/c.	Shown on the assets side as a deduction from sundry debtors.

### UNIT 14 COMPUTERISED ACCOUNTING

#### Very short answer questions

1. What is a computer?

A computer is a machine or device that performs processes, calculations and operations based on instructions provided by a software or hardware program. It is designed to execute applications and provides a variety of solutions by combining integrated hardware and software components.

2. What is CAS?

- Computerised Accounting System (CAS) facilitates the management and other users to maintain accounts and prepare financial statements using computers.
- The reports generated through CAS are used to analyse financial status of a business and take necessary decisions to strengthen the financial soundness of the business

3. What is hardware?

**Hardware:** Physical structure that houses a computer's processor, memory, storage, communication ports and peripheral devices

4. What is meant by software?

**Software:** Includes operating system (OS) and software applications

5. What is accounting software?

Accounting software is a type of computer software used by accounting professionals to manage accounts and perform accounting operations.

6. Name any two accounting packages.

(i) Readymade software,

(ii) Customised software and

(iii) Tailor made software

7. Give any two examples of readymade software.

1. Tally

2. EX

3. Busy

4. Professional Accountant

8. What is coding?

Coding refers to creating computer programming code. In a more general sense, the word coding is used to refer to assigning a code or classification to something.

9. What is grouping of accounts?

The increase in the number of transaction changes the volume and size of the business. Therefore it becomes necessary to have proper classification of data. The basic classifications of different accounts embodied in a transaction are resorted through accounting equation.

10. What are mnemonic codes?

A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information

### Short answer questions

1. What are the various types of accounting software?

#### **Ready-to-Use**

Ready-to-Use accounting software is suited to organisations running small/ conventional business where the frequency or volume of accounting transactions is very low. This is because the cost of installation is generally low and number of users is limited. Ready-to-use software is relatively easier to learn and people (accountant) adaptability is very high.

#### **Customised**

Accounting software may be customised to meet the special requirement of the user. Standardised accounting software available in the market may not suit or fulfil the user requirements.

#### **Tailored**

The accounting software is generally tailored in large business organisations with multi users and geographically scattered locations. These software requires specialised training to the users. The tailored software is designed to meet the specific requirements of the users and form an important part of the organisational MIS. The secrecy and authenticity checks are robust in such softwares and they offer high flexibility in terms of number of users.

2. Mention any three limitations of computerised accounting system.

1. Faster obsolescence of technology necessitates investment in shorter period of time.
2. Data may be lost or corrupted due to power interruptions.
3. Data are prone to hacking.
4. Un-programmed and un-specified reports cannot be generated.

3. State the various types of coding methods.

### **Sequential Codes**

In Sequential Code, numbers and/or letters are assigned in consecutive order. These codes are applied primarily to source documents such as cheques, invoices, etc. A sequential code can facilitate document searches. This process enables in either identification of missing codes (numbers) relating to a particular document or a relevant document can be traced on the basis of code.

### **Block Codes**

In a block code, a range of numbers is partitioned into a desired number of sub-ranges and each sub-range is allotted to a specific group. In most of the uses of block codes, numbers within a sub-range follow sequential coding scheme, i.e. the numbers increase consecutively.

### **Mnemonic Codes**

A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information. SJ for "Sales Journals", HQ for "Head Quarters" are examples of mnemonic codes

**3. List out the various reports generated by computerised accounting system.**

- A sales report
- B purchase report
- C sales return
- D stock report
- E trading and profit and lost account and balance sheet report
- F sales tax related report
- G sundry debtors report
- H sundry creditors reports
- I bank statement

5. State the input and output devices of a computer system.

Input Devices:

- a) Graphics Tablets
- b) Cameras
- c) Video Capture Hardware
- d) Trackballs
- e) Barcode reader
- f) Digital camera

- g) Gamepad
- h) Joystick
- i) Keyboard
- j) Microphone
- k) MIDI keyboard
- l) Mouse (pointing device)
- m) Scanner
- n) Webcam
- o) Touchpads
- p) Pen Input
- q) Microphone
- r) Electronic Whiteboard
- s) OMR
- t) OCR
- u) Punch card reader
- v) MICR (Magnetic Ink character reader)
- w) Magnetic Tape Drive

### OUTPUT DEVICES:

- 1) Monitor (LED, LCD, CRT etc)
- 2) Printers (all types)
- 3) Plotters
- 4) Projector
- 5) LCD Projection Panels
- 6) Computer Output Microfilm (COM)
- 7) Speaker(s)
- 8) Head Phone
- 9) Visual Display Unit
- 10) Film Recorder
- 11) Microfiche