XI – ACCOUNTANCY

Name :

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BLUE STARS HIGHER SECONDARY SCHOOL

XI ACCOUNTANCY

UNIT 1 INTRODUCTION TO ACCOUNTING

I. **Multiple Choice Questions.**

1. The root of financial accounting system is: (a) Social accounting **(b) Stewardship accounting** (c) Management accounting (d) Responsibility accounting
2. Which one of the following is not a main objective of accounting? (a) Systematic recording of transactions (b) Ascertainment of the profitability of the business (c) Ascertainment of the financial position of the business **(d) Solving tax disputes with tax authorities**
3. Which one of the following is not a branch of accounting? (a) Financial accounting (b) Management accounting (c) Human resources accounting **(d) None of the above**.
4. Financial position of a business is ascertained on the basis of: (a) Journal (b) Trial balance **(c) Balance Sheet** (d) Ledger
5. Who is considered to be the internal user of the financial information? (a) Creditor **(b) Employee** (c) Customer (d) Government

II. **Very Short answer.**

1. Define accounting.

According to the American Institute of Certified Public Accountants "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part, at least of a financial character and interpreting the results there of".

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". List any two functions of accounting.

2. List any two functions of accounting

(i) Measurement

The main function of accounting is to keep systematic record of transactions, post them to the ledger and ultimately prepare the final accounts. Accounting works as a tool for measuring the performance of the business enterprises. It also shows the financial position of the business enterprises.

(ii) 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?

(i) Identifying the transactions and journalizing
(ii) Posting and balancing Transferring the entries from the journal
(iii) Preparation of trial balance
(iv) Preparation of trading account
(v) Preparation of Profit and loss
(vi) Preparation of balance sheet

4. Who are the parties interested in accounting information?

Internal users: Owners ii. Management iii. Employees

External user: creditors and financial institution , Investors, Customers Tax authorities and regulatory bodies Government , Researchers, General public.

5. **Name any two bases of recording accounting information.**
   There are three bases of accounting, (1) Cash basis, (2)Accrual or mercantile basis (3),Mixed or hybrid basis.

III. Short answer

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.**
   (i) **Financial Accounting** It involves recording of financial transactions and events. It is historical in nature and records are maintained for transactions and events which have already occurred. It provides financial information to the users for taking decisions. It is concerned with identification, recording, classifying and summarising of financial transactions and events and ends up with the preparation of financial statements, namely, trading and profit and loss account or income statement and balance sheet and communication of the same to the interested users. Trading and profit and loss account shows the profit or loss made during an accounting period and the balance sheet shows the financial position of the business as on a particular date.
   (ii) **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.
   (iii) **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. The information collected from financial accounting, cost accounting, etc. are grouped, modified and presented as per the requirements of management for discharging their functions and for decision making.
   (iv) **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. It arises because of corporate social responsibility.
   (v) **Human Resources Accounting** It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.
3. **Discuss in detail the importance of accounting**
   Importance of accounting is enumerated as below:
   (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 statement**
   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. This helps in distribution of profits to the owners and to provide funds for future growth of the business.
   (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 requirements**

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? (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. Government also administers prices of certain commodities. In such cases, government agencies have to ensure that the guidelines for pricing are followed.

5. 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 CONCEPTUAL FRAMEWORK OF ACCOUNTING

I. Multiple Choice Questions:

1. The business is liable to the proprietor of the business in respect of capital introduced by the person according to (a) Money measurement concept (b) Cost concept **(c) Business entity concept** (d) Dual aspect concept
2. The concept which assumes that a business will last indefinitely is: (a) Business Entity **(b) Going concern** (c) Periodicity (d) Conservatism
3. GAAPs are: (a) Generally Accepted Accounting Policies **(b) Generally Accepted Accounting Principles** (c) Generally Accepted Accounting Provisions (d) None of these
4. The rule of stock valuation 'cost price or realisable value' whichever is lower is based on the accounting principle of: (a) Materiality (b) Money measurement **(c) Conservatism** (d) Accrual
5. In India, Accounting Standards are issued by: (a) Reserve Bank of India (b) The Cost and Management Accountants of India (c) Supreme Court of India **(d) The Institute of Chartered Accountants of India**

II. Very short answer questions

1. Define book-keeping.

"Book-keeping is an art of recording business dealings in a set of books". - J.R.Batliboi. "Book-keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth". -R.N.Carter.

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. The word concept means a notion or abstraction which is generally accepted. Accounting concepts provide unifying structure to the accounting process and accounting reports.

3. Briefly explain about revenue recognition concept.

According to realisation concept, any change in value of an asset is to be recorded only when the business realises it. When assets are recorded at historical value, any change in value is to be accounted only when it realises.

4. What is "Full Disclosure Principle" of accounting?

It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement. This is important because the management is different from the owners in most of the organisations. The disclosure should be full, fair and adequate so that the users of the financial statements can make correct assessment about the financial position and performance of the business unit.

5. Write a brief note on 'Consistency' assumption.

The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another. The results of different years will be comparable only when same accounting policies are followed from year to year. For example, if a firm follows the straight line method of charging depreciation since its purchase or construction, the method should be followed without any change. However, it does not mean that changes are not possible. Change in accounting policy can be incorporated in the following circumstances: a) To comply with the provision of law b) To comply with accounting standards issued and c) To reflect true and fair view of state of affairs of the business

III. Short answer questions.

1. What is matching concept Why should a business concern follow this concept?

According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period. This concept is based on accrual concept and periodicity concept. Periodicity concept fixes the time frame for measuring performance and determining financial status. All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

2. **“Only monetary transactions are recorded in accounting”. Explain the statement.**
This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the accounts. Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting. Transactions which do not involve money will not be recorded in the books of accounts.
3. **“ Business units last indefinitely”. Mention and explain the concept on which the statement is based.**
It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future. Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.
4. **Write a brief note on Accounting Standards.**
Accounting Standards in India In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI). The Council of the Institute of Chartered Accountants of India constituted Accounting Standards Board (ASB) on 21st April, 1977 recognising the need for Accounting Standards in India. ASB formulates Accounting Standards so that such standards may be established by the Council of the Institute in India. The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards while framing Accounting Standards (AS) in India. Due to globalisation, the accounts prepared in India must be compatible with accounts prepared in other countries. This has resulted in the existing AS being converged with the IFRS. This convergence has resulted in what is known as Ind AS. Ind AS are basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions. Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS. In future, it is expected that all business entities in India will migrate to Ind AS.

UNIT 3 BOOKS OF PRIME ENTRY

I. Multiple choice questions.

1. Accounting equation signifies: (a) Capital of a business is equal to assets (b) Liabilities of a business are equal to assets (c) Capital of a business is equal to liabilities **(d) Assets of a business are equal to the total of capital and liabilities**
2. 'Cash withdrawn by the proprietor from the business for his personal use' causes: **(a) Decrease in assets and decrease in owner's capital** (b) Increase in one asset and decrease in another asset (c) Increase in one asset and increase in liabilities (d) Increase in asset and decrease in capital
3. A firm has assets of ` 1,00,000 and the external liabilities of ` 60,000. Its capital would be: (a) ` 1,60,000 (b) ` 60,000 (c) ` 1,00,000 **(d) ` 40,000**
4. The incorrect accounting equation is: (a) Assets = Liabilities + Capital (b) Assets = Capital + Liabilities **(c) Liabilities = Assets + Capital** (d) Capital = Assets – Liabilities
5. Accounting equation is formed based on the accounting principle of: **(a) Dual aspect** (b) Consistency (c) Going concern (d) Accrual
6. Real account deals with: (a) Individual persons (b) Expenses and losses **(c) Assets** (d) Incomes and gains
7. Which one of the following is representative personal account? (a) Building A/c **(b) Outstanding salary A/c** (c) Mahesh A/c (d) Balan & Co
8. Prepaid rent is a: (a) Nominal A/c (b) Personal A/c (c) Real A/c **(d) Representative personal A/c**
9. Withdrawal of cash from business by the proprietor should be credited to: (a) Drawings A/c **(b) Cash A/c** (c) Capital A/c (d) Purchases A/c
10. In double entry system of book keeping, every business transaction affects: **(a) Minimum of two accounts** (b) Same account on two different dates (c) Two sides of the same account (d) Minimum three accounts

II. Very short answer questions.

1. What are source documents?

Source documents are the authentic evidences of financial transactions. These documents show the nature of transaction, the date, the amount and the parties involved.

2. What is accounting equation?

Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital. This is based on the dual aspect concept of accounting. This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise

3. Write any one transaction which

a) Decreases the assets and decreases the liabilities: Paid Creditors

b) Increases one asset and decreases another asset: Cash sales

4. What is meant by journalising?

Record of business transactions in the journal is known as Journal entry. The process of recording the transactions in journal is called as journalising. According

5. What is real account?

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

6. How are personal accounts classified?

Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.

7.State the accounting rule for nominal account.

Nominal account Debit all expenses and losses Credit all incomes and gains.

8. Give the golden rules of double entry accounting system.

Golden Rules of double entry system

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

III. Short answer questions.

1. Write a brief note on accounting equation approach of recording transactions.

The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation. Under the double entry system of book keeping, every transaction has two fold effect, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated. Capital + Liabilities = Assets Capital can also be called as owner's equity and liabilities as outsider's equity.

2. What is an Account? Classify the accounts with suitable examples.

Every transaction has two aspects and each aspect affects minimum one account. An account is the basic unit of identification in accounting. A ledger account is a summary of relevant

(i) Asset account

Any physical thing or right owned that has a monetary value is called asset. The assets are grouped and shown separately; for example, Land and Buildings account, Plant and Machinery account.

(ii) Liability account

Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities; for example, creditors account, expenses outstanding account.

(iii) Capital account

Financial obligations of a business enterprise towards its owners are grouped under this category; for example, capital contributed by owner.

(iv) Revenue account

Accounts relating to revenues of an enterprise are grouped under this category, for example; revenues from sale of goods, rent received.

(v) Expense account

Expenses incurred and losses suffered for earning revenue are grouped under this category; for example, purchase of goods, salaries paid.

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

Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.

(i) Personal account: Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.

(a) Natural person's account: Natural person means human beings. Example: Vinoth account, Malini account.

(b) 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.

(c) 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. When expenses are outstanding, it is payable to a person. Hence, it represents a person.

4. What is the accounting treatment for insurance premium paid on the life of the proprietor?

Date	Particulars	LF	Debit.	Credit.
	Drawing A/c Dr.		XXX	
	To Cash A/c			XXX
	(Insurance paid for owner life insurance)			

5. State the principles of double entry system of book keeping.

(i) In every business transaction, there are two aspects.

(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.

6. Briefly explain about steps in journalising.

The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising. An entry made in the journal is called a journal entry.

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.

7. What is double entry system? State its advantages.

(i) Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organization.
(ii) According to this system, every transaction has a two fold effect.
(iii) That is, there are two aspects and giving aspect.
(v) It is denoted by debit (Dr.) and credit (Cr.).

Following are the advantages of double entry system:

(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) (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 4 LEDGER

I. Multiple Choice Questions.

1. Main objective of preparing ledger account is to: (a) Ascertain the financial position (b) Ascertain the profit or loss (c) Ascertain the profit or loss and the financial position **(d) Know the balance of each ledger account**
2. The process of transferring the debit and credit items from journal to ledger accounts is called:
   (a) Casting **(b) Posting** (c) Journalising (d) Balancing
3. J.F means: (a) Ledger page number **(b) Journal page number** (c) Voucher number (d) Order number
4. The process of finding the net amount from the totals of debit and credit columns in a ledger is known as: (a) Casting (b) Posting (c) Journalising **(d) Balancing**
5. If the total of the debit side of an account exceeds the total of its credit side, it means: (a) Credit balance **(b) Debit balance** (c) Nil balance (d) Debit and credit balance
6. The amount brought into the business by the proprietor should be credited to: (a) Cash account (b) Drawings account **(c) Capital account** (d) Suspense account

II. Very short answer questions

1. What is a ledger?

Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts.

2. What is meant by posting?

The process of transferring the debit and credit items from the journal to the ledger accounts is called posting

3. What is debit balance?

When the total of the debit side is more than the total of credit side the difference is debit balance and is placed on the credit side as 'By Balance c/d'

4. What is credit balance?

If the credit side total is more than the total of debit side, the difference is credit balance and is placed on the debit side as 'To Balance c/d'.

5. What is balancing of an 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.

III. Short answer questions.

1. Distinguish between journal and ledger.

Basis	Journal	Ledger
1.Recording	As and when transactions take place entries are made in journal.	In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained.
2.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.
3. Order of recording	Entries are made in the chronological order, i.e., datawise in the order of occurrence.	Entries are made accountwise.
4.Process	The process of recording in journal is	The process of recording in the

	called journalizing.	ledger is called posting.
5.Facilitating preparation of trial balance	Amount from the journal does not serve as the basis for preparing trial balance.	Ledger balances serve as the basis for preparing trial balance.
6.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.
7.Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can ascertained from ledger account.

2. **What is ledger? Explain its utilities.**

Utilities of ledger Following are the 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. For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account. 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.

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 process of transferring the debit and credit items from the journal to the ledger accounts is called posting. The procedure of posting from journal to ledger is as follows: 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.**

Procedure for balancing an 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 TRIAL BALANCE

I. Multiple Choice Questions.

1. Trial balance is a: **(a) Statement** (b) Account (c) Ledger (d) Journal
2. After the preparation of ledger, the next step is the preparation of:
(a) Trading account **(b) Trial balance** (c) Journal (d) Profit and loss account
3. The trial balance contains the balances of:
(a) Only personal accounts (b) Only real accounts
(c) Only nominal accounts **(d) All accounts**
4. Which of the following is/are the objective(s) of preparing trial balance?
(a) Serving as the summary of all the ledger accounts
(b) Helping in the preparation of final accounts
(c) Examining arithmetical accuracy of accounts
(d) a, b and c
5. A list which contains balances of accounts to know whether the debit and credit balances are matched is:
(a) Journal (b) Day book **(c) Trial balance** (d) Balance sheet
6. Which of the following method(s) can be used for preparing trial balance? (a) Balance method (b) Total method (c) Total and Balance method **(d) a, b and c**
7. While preparing the trial balance, the accountant finds that the total of the credit column is short by ` 200. This difference will be: (a) Debited to suspense account **(b) Credited to suspense account**
(c) Adjusted to any of the debit balance (d) Adjusted to any of the credit balance
8. The account which has a debit balance and is shown in the debit column of the trial balance is: (a) Sundry creditors account (b) Bills payable account **(c) Drawings account** (d) Capital account
9. The difference of totals of both debit and credit side of trial balance is transferred to: (a) Trading account (b) Difference account **(c) Suspense account** (d) Miscellaneous account
10. Trial balance is prepared: (a) At the end of the year **(b) On a particular date** (c) For a year (d) None of the above

II. Very short answer questions

1. **What is trial balance?**
Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. It is arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of entries made in the books of accounts and to facilitate preparation of financial statements.
2. **Give the format of trial balance.**

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

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 - Debit balance (ii) Carriage inwards – Debit balance (iii) Sales – Credit balance (iv) Purchases - Debit balance (v) Bad debts - Debit balance (vi) Interest paid - Debit balance (vii) Interest received - Credit balance (viii) Discount received - Credit balance (ix) Capital – Credit balance (x) Drawings - Debit balance (xi) Sales returns - Debit balance (xii) Purchase returns - Credit balance.

III. Short answer questions.

1. **What are the objectives of preparing trial balance?**
Objectives of preparing trial balance Trial balance is prepared with the following objectives: 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. Accounts, balancing the ledger accounts, carrying ledger account balances to the trial balance, totalling the trial balance columns, etc. Hence, 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.

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 When the trial balance does not tally, it is an indication that certain errors have occurred. The errors may have occurred at one or more of the stages of accounting process, namely, journalising or recording in subsidiary books, totalling subsidiary books, posting in ledger

2. What are the limitations of trial balance?

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, I agree with the statement. 'A trial balance is only a prima facie evidence of the arithmetical accuracy of records.

Reasons: 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 porting from subsidiary books, balancing of ledger accounts, etc.

UNIT 6 SUBSIDIARY BOOKS – I

I. Multiple Choice Questions.

1. Purchases book is used to record

(a) all purchases of goods (b) all credit purchases of assets

(c) all credit purchases of goods (d) all purchases of assets

2. A periodic total of the purchases book is posted to the

(a) debit side of the purchases account (b) debit side of the sales account

(c) credit side of the purchases account (d) credit side of the sales account

3. Sales book is used to record

(a) all sales of goods (b) all credit sales of assets

(c) all credit sales of goods (d) all sales of assets and goods

4. The total of the sales book is posted periodically to the credit of

(a) Sales account (b) Cash account

(c) Purchases account (d) Journal proper

5. Purchase returns book is used to record

(a) returns of goods to the supplier for which cash is not received immediately

(b) returns of assets to the supplier for which cash is not received immediately

(c) returns of assets to the supplier for which cash is received immediately

(d) None of the above

6. Sales return book is used to record

(a) Returns of goods by the customer for which cash is paid immediately

(b) Returns of goods by the customer for which cash is not paid immediately

(c) Returns of assets by the customer for which cash is not paid immediately

(d) Returns of assets by the customer for which cash is paid immediately

7. Purchases of fixed assets on credit basis is recorded in

(a) Purchases book (b) Sales book

(c) Purchases returns book **(d) Journal proper**

8. The source document or voucher used for recording entries in sales book is

(a) Debit note (b) Credit note

(c) Invoice (d) Cash receipt

9. Which of the following statements is not true?

(a) Cash discount is recorded in the books of accounts

(b) Assets purchased on credit are recorded in journal proper

(c) Trade discount is recorded in the books of accounts

(d) 3 grace days are added while determining the due date of the bill

10. Closing entries are recorded in

(a) Cash book (b) Ledger

(c) Journal proper (d) Purchases book

II. Very short answer questions

1. Mention four types of subsidiary books.

i) Cash Book ii) Purchases book iii) Purchases returns book iv) Sales book v) Sales returns book vi) Bills receivable book vii) Bills payable book viii) Journal proper

2. What is purchases book?

Purchases book is a subsidiary book in which only credit purchases of goods are recorded. When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately 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. Just as goods may be returned to suppliers, goods may be returned by customers.

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.

7. What is credit note?

A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back from his customer the goods sold. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

8. 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. Thus, journal proper or general journal is a book in which the residual transactions which cannot be entered in any of the sub divisions of journal are entered.

9. 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".

10. 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?

Entries in the purchases day book are made from invoices which are popularly known as bills. 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.

Date	**Particulars (Name of the suppliers and details of goods purchased**	**Invoice No.**	**L.F.**	**Amount Rs.**	
				Details	Total
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchases 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 – Purchases Book (iv) When the proprietor takes goods for personal use - Journal Proper (v) Goods returned to suppliers for which cash is not received immediately – Purchase return book (vi) Asset purchased as credit – Journal proper.

3. What are the advantages of subsidiary books?

Advantages of subsidiary books:

The advantages of maintaining subsidiary books can be summarised as under:

(i) Proper and systematic record of business transactions All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc. 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. For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book. It facilitates posting to purchases account, sales account and concerned personal accounts.

(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. Thus, specialisation leads to efficiency in accounting work.

(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. For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

(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

When all transactions are entered in one journal, it is difficult to locate information about a particular item. When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books. 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 and (b) Discounting of a bill

(a) Endorsement

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

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 SUBSIDARY BOOKS – II CASH BOOK

I. Multiple Choice Questions.

1. Cash book is a: (a) Subsidiary book (b) Principal book (c) Journal proper **(d) Both subsidiary book and principal book**
2. The cash book records: (a) All cash receipts (b) All cash payments **(c) Both (a) and(b)** (d) All credit transactions
3. When a firm maintains a simple cash book, it need not maintain: (a) Sales account in the ledger (b) Purchases account in the ledger (c) Capital account in the ledger **(d) Cash account in the ledger**
4. A cash book with discount, cash and bank column is called: (a) Simple cash book (b) Double column cash book **(c) Three column cash book** (d) Petty cash book
5. In Triple column cash book, the balance of bank overdraft brought forward will appear

In: (a) Cash column debit side (b) Cash column credit side (c) Bank column debit side **(d) Bank column credit side**

6. Which of the following is recorded as contra entry? (a) Withdrew cash from bank for personal use **(b) Withdrew cash from bank for office use** (c) Direct payment by the customer in the bank account of the business (d) When bank charges interest
7. If the debit and credit aspects of a transaction are recorded in the cash book, it is:

(a) Contra entry (b) Compound entry (c) Single entry (d) Simple entry

8. The balance in the petty cash book is: (a) An expense (b) A profit **(c) An asset** (d) A liability
9. Petty cash may be used to pay: **(a) The expenses relating to postage and conveyance**

(b) Salary to the Manager (c) Purchase of furniture and fixtures (d) Purchase of raw materials

10. Small payments are recorded in a book called: (a) Cash book (b) Purchase book

(c) Bills payable book **(d) Petty cash book**

II. Very short answer questions

1. **What is cash book?**
   Cash book is the book in which only cash transactions are recorded in the chronological order. 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?**
   The main cash book may be of various types and following are the three most common types. (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).
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. Simple column cash book Cr.

Date	Receipts	R.N.	L.F	Amount (Rs.)	Date	Payments	V.N.	L.F.	Amount (Rs.)
(1)	(2)	(3)	(4	(5)	(6)	(7)	(8)	(9)	(10)

5. **What is double column cash book?**

Double column Cash book 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, the cash book is known as 'double column cash book'.

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

7. Dr. Simple column cash book Cr.

Date	Receipts	R.N.	L.F	Amount		Date	Payments	V.N.	L.F.	Amount	
				Discount (Rs.)	Cash (Rs.)					Discount (Rs.)	Cash (Rs.)

7. What is three column cash book?

A three column cash book includes three amount columns on both sides, i.e., cash, discount and bank. This cash book is prepared in the same way as simple and double column cash books are prepared.

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 and hence, the entry for discount is also passed with the entry of payment. The earlier the payment, the more may be the discount. Cash discount motivates the debtor to make the payment at an earlier date to avail discount facility.

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?

Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature. If all these small payments are recorded in the main cash book, it will be loaded with lot of entries. Hence, 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.

III. 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.

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

S.No.	Basis	Cash discount	Trade discount
1.	Time of allowance	Cash discount is allowed at the time of making payment.	Trade discount is allowed when goods are sold or purchased.
2.	Amount of Discount	Cash discount is related	Trade discount is

		to time. The earlier the payment, the more will be cash discount.	related to the amount of purchase or sale. The more the purchases, the more will be the rate and amount of discount.
3.	Recording in books of Accounts	Cash discount is recorded in the cash books.	Trade discount is not recorded in the books of account.
4.	Deduction from Invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the invoice value price of goods.
5.	Entry in Profit and Loss Account	It is shown in the profit and loss account	Trade discount is not shown in profit and loss account.

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.

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

In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book. For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

5. Brifly 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. Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet ‘C’ indicates that no further posting is required and the relevant account is posted on the opposite side.

UNIT 8 BANK RECONCILLATION STATEMENT

I. Multiple Choice Questions.

1. A bank reconciliation statement is prepared by
(a) Bank **(b) Business** (c) Debtor to the business (d) Creditor to the business

2. A bank reconciliation statement is prepared with the help of
(a) Bank statement (b) Cash book
(c) Bank statement and bank column of the cash book (d) Petty cash book

3. Debit balance in the bank column of the cash book means
(a) Credit balance as per bank statement (b) Debit balance as per bank statement
(c) Overdraft as per cash book (d) None of the above

4. A bank statement is a copy of
(a) Cash column of the cash book (b) Bank column of the cash book
(c) A customer's account in the bank's book (d) Cheques issued by the business

5. A bank reconciliation statement is prepared to know the causes for the difference between:
(a) The balance as per the cash column of the cash book and bank column of the cash book
(b) The balance as per the cash column of the cash book and bank statement
(c) The balance as per the bank column of the cash book and the bank statement
(d) The balance as per petty cash book and the cash book

6. When money is withdrawn from bank, the bank
(a) Credits customer's account **(b) Debits customer's account**
(c) Debits and credits customer's account (d) None of these

7. Which of the following is not the salient feature of bank reconciliation statement?
a) Any undue delay in the clearance of cheques will be shown up by the reconciliation
b) Reconciliation statement will discourage the accountant of the bank from embezzlement
c) It helps in finding the actual position of the bank balance
d) Reconciliation statement is prepared only at the end of the accounting period

8. Balance as per cash book is ` 2, 000. Bank charge of ` 50 debited by the bank is not yet shown in the cash book. What is the bank statement balance now?
**(a) ` 1,950 credit balance** (b) ` 1,950 debit balance
(c) ` 2,050 debit balance (d) ` 2,050 credit balance

9. Balance as per bank statement is ` 1, 000. Cheque deposited, but not yet credited by the bank is ` 2, 000. What is the balance as per bank column of the cash book?
(a) ` 3,000 overdraft **(b) ` 3,000 favourable**
(c) ` 1,000 overdraft (d) ` 1,000 favourable

10. Which one of the following is not a timing difference?
(a) Cheque deposited but not yet credited
(b) Cheque issued but not yet presented for payment
(c) Amount directly paid into the bank
(d) Wrong debit in the cash book

II. Very Short answers.

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

(i) Bank overdraft is an amount drawn over and above the actual balance kept in the bank account.
(ii) This facility is available only to the current account holders.
(iii) Interest will be charged for the amount overdrawn i.e., overdraft.

2. **What is bank reconciliation statement?**

The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

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

Causes of disagreement between the balances shown by the cash book and bank statement.

(i) Cheques issued but not yet presented for payment.

(ii) Cheques paid into bank for collection but not yet collected.

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

(i) Insurance Premium (ii) Telephone Bills.

5. Substitute the following statements with one word/phrase

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

(b) Debit balance as per bank statement

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

a) A copy of customer's account is regularly sent to the customer by the bank. This is called "Bank Pass Book".

b) Bank overdraft.

c) 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.

(b) Adjusting the cash book before preparing the bank reconciliation statement is compulsory.

(c) Credit balance as per bank statement is an overdraft.

(d) Bank charges debited by the bank increases the balance as per bank statement.

(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.

a) No b) Yes c) No d)No e) No

III. Short answer questions.

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

(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?

(i) The debit balance as per the cash book means the balance of deposits held at the bank. (ii) Such a balance will be a credit balance as per the pass book. (iii) Such a balance exists when the deposits made by the firm are more than its withdrawals. (iv) It indicates the favourbale balance as per cash book or favourable balance as per the pass book. (v) In other words, the excess amount withdrawn over the amount deposited in the bank. It is also known as unfavourable balance as per cash book or unfavourable balance as per pass book.

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

(i) When a customer is permitted to withdraw money more than the bank balance available at the bank account of the customer is known as "Overdraft".

(ii) Overdraft facility is permitted to a party, which enjoys credibility in the eyes of the banker.

(iii) For providing this facility, banker charges interest.

(iv) Bank periodically debit the customer's account with the interest amount on such overdrawn balance.

(v) The entry of such interest will posted on the credit side of the cash book only. When the firm gets intimation form bank, through the pass book or bank statement,

(vi) Till then the cash book shows more balance than bank statement.

5. State the timing differences in BRS with examples.

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.

For example, the balances as per cash book and bank statement are ` 20,000 for X & Co. X & Co. issued a cheque in favour of Y & Co for ` 10,000, on 27th March 2017. So, X & Co's cash book is credited with ` 10,000 on 27th March 2017. But, the cheque is presented to bank on 2nd April 2017. In case, bank sends a statement to X & Co, upto 31st March 2017, it will not contain this transaction. As a result, there will be a difference of ` 10,000, between balance shown as per cash book and balance as per bank statement.

UNIT 9 RECTIFICATION OF ERRORS

I. Multiple choice questions.

1. Error of principle arises when
(a) There is complete omission of a transaction
(b) There is partial omission of a transaction
(c) Distinction is not made between capital and revenue items
(d) There are wrong postings and wrong castings
2. Errors not affecting the agreement of trial balance are
(a) Errors of principle (b) Errors of overcasting
(c) Errors of undercasting (d) Errors of partial omission
3. The difference in trial balance is taken to
(a) The capital account (b) The trading account
(c) The suspense account (d) The profit and loss account
4. A transaction not recorded at all is known as an error of
(a) Principle **(b) Complete omission**
(c) Partial omission (d) Duplication
5. Wages paid for installation of machinery wrongly debited to wages account is an error of
(a) Partial omission **(b) Principle** (c) Complete omission (d) Duplication
6. Which of the following errors will not affect the trial balance?
(a) Wrong balancing of an account **(b) Posting an amount in the wrong account but on the correct side**
(c) Wrong totalling of an account (d) Carried forward wrong amount in a ledger account
7. Goods returned by Senguttuvan were taken into stock, but no entry was passed in the books. While rectifying this error, which of the following accounts should be debited?
(a) Senguttuvan account **(b) Sales returns account** (c) Returns outward account (d) Purchases returns account
8. A credit purchase of furniture from Athiyaman was debited to purchases account. Which of the following accounts should be debited while rectifying this error?
(a) Purchases account (b) Athiyaman account **(c) Furniture account** (d) None of these
9. The total of purchases book was overcast. Which of the following accounts should be debited in the rectifying journal entry? (a) Purchases account **(b) Suspense account** (c) Creditor account (d) None of the above
10. Which of the following errors will be rectified using suspense account? **(a) Purchases returns book was undercast by ` 100** (b) Goods returned by Narendran was not recorded in the books (c) Goods returned by Akila ` 900 was recorded in the sales returns book as ` 90 (d) A credit sale of goods to Ravivarman was not entered in the sales book.

II. Very short answer questions

1. **What is meant by rectification of errors?**
   (i) The correction of accounting errors in a systematic manner is called the rectification of errors.
   (ii) 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?**
   It means the mistake committed in the application of fundamental accounting principles in recording a transaction in the books of accounts.
3. **What is meant by error of partial omission?**
   When the accountant has failed to record a part of the transaction, it is known as error of partial omission. This error usually occurs in posting. This error affects only one account.
4. **What is meant by error of complete omission?**
   It means the failure to record a transaction in the journal or subsidiary book or failure to post both the aspects in ledger. This error affects two or more accounts.
5. **What are compensating errors?**

The errors that make up for each other or neutralise each other are known as compensating errors. These errors may occur in related or unrelated accounts. Thus, excess debit or credit in one account may be compensated by excess credit or debit in some other account. These are also known as offsetting errors.

III Short answer questions

1. Write a note on error of principle by giving an example.

Error of principle

It means the mistake committed in the application of fundamental accounting principles in recording a transaction in the books of accounts.

The following are the possibilities of error of principle:

(i) Entering the purchase of an asset in the purchases book

Example

Machinery purchased on credit for ` 10,000 by M/s. Anbarasi garments manufacturing company entered in the purchases book.

2. Write a note on suspense account.

When the trial balance does not tally, the amount of difference is placed to the debit (when the total of the credit column is higher than the debit column) or credit (when the total of the debit column is higher than the credit column) to a temporary account known as 'suspense account'.

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

Certain errors will not affect the agreement of trial balance. Though such errors occur in the books of accounts, the total of debit and credit balance will be the same. The trial balance will tally. Errors of complete omission, error of principle, compensating error, wrong entry in the subsidiary books are not disclosed by the trial balance. Examples of such errors are as follows:

(i) Treating revenue expenditure as capital expenditure
(ii) Omitting a transaction completely
(iii) Entering a transaction in a wrong subsidiary book
(iv) Entering a transaction twice in a subsidiary book or journal
(v) Entering the amount of a transaction wrongly in the journal
(vi) Entering the amount of a transaction wrongly in a subsidiary book
(vii) Compensating error

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

Errors disclosed by the trial balance Certain errors affect the agreement of trial balance. If such errors have occurred in the books of accounts, the total of debit and credit balances will not be the same. The trial balance will not tally. Error of partial omission and error of commission affect the agreement of trial balance.

Examples of such errors are follows:

(i) Entered in the journal but posted to one account and omitted to be posted to the other.
(ii) Posting an amount to the wrong side of a ledger account.
(iii) Posting twice in a ledger account
(iv) Over-casting or Under-casting in a subsidiary book
(v) Posting a wrong amount to the correct side of an account
(vi) Posting a wrong amount to the wrong side of an account
(vii) Errors arising in carrying forward the page total from one page to the next page of an account or subsidiary book.
(viii) Errors arising in the balancing of an account.
(ix) Omission to post an entry from a subsidiary book.

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

One-sided errors:

(i) Generally, one-sided errors are revealed by trial balance. They will cause disagreement of totals of debit balances and credit balances.

(ii) When one-sided error is detected before preparing the trial balance, no journal entry is required to be passed in the books.

(iii) In such cases, the error can be rectified by giving an explanatory note in the account affected as to whether the concerned account is to be debited or credited.

Two –side errors:

(i) Two-sided errors are not revelaed by trial balance.

(ii) When two – sided error is detected before preparing the trial balance, it must be rectified by passing a rectifying journal entry in the journal proper after analyzing the error.

UNIT 10 DEPRECIATION ACCOUNTING

I. Multiple Choice Questions:

1. Under straight line method, the amount of depreciation is: (a) Increasing every year (b) Decreasing every year **(c) Constant for all the years** (d) Fluctuating every year
2. If the total charge of depreciation and maintenance cost are considered, the method that provides a uniform charge is: (a) Straight line method **(b) Diminishing balance method** (c) Annuity method (d) Insurance policy method
3. Under the written down value method of depreciation, the amount of depreciation is: (a) Uniform in all the years **(b) Decreasing every year** (c) Increasing every year (d) None of the above
4. Depreciation is caused by: (a) Lapse of time (b) Usage (c) Obsolescence **(d) a, b and c**
5. For which of the following assets, the depletion method is adopted for writing off cost of the asset? (a) Plant and machinery **(b) Mines and quarries** (c) Buildings (d) Trademark
6. A depreciable asset may suffer obsolescence due to____ (a) Passage of time (b) Wear and tear **(c) Technological changes** (d) None of the above.
7. Which method shall be efficient, if repairs and maintenance cost of an asset increases as it grows older. (a) Straight line method **(b) Reducing balance method** (c) Sinking fund method (d) Annuity method
8. Residual value of an asset means the amount that it can fetch on sale at the ____of its useful life. (a) Beginning **(b) End** (c) Middle (d) None
9. Depreciation is to be calculated from the date when: **(a) Asset is put to use** (b) Purchase order is made (c) Asset is received at business premises (d) Invoice of assets is received
10. If the rate of depreciation is same, then the amount of depreciation under straight line method vis-à-vis written down value method will be: (a) Equal in all years **(b) Equal in the first year but higher in subsequent years** (c) Equal in the first year but lower in subsequent years (d) Lower in the first year but equal in subsequent years.

II. Very short answer questions

1. What is meant by depreciation?

The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation. It is an allocation of cost against the benefit derived from a fixed asset during an accounting period.

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.

(i) Amount of depreciation per year $= \frac{Original\ cost\ of\ the\ asset - Estimat\quad scrap\ value}{Estimated\ useful\ life\ of\ the\ asset\ in\ years}$

(ii) Rate of depreciation $= \frac{Amount\ of\ depreciation\ per\ year}{Original\ cost} \times 100$

4. What is annuity method?

Under this method, not only the original cost of the asset but also the amount of interest on the investment is taken into account while computing depreciation. The idea of considering interest is that if the investment is made in any other asset instead of the relevant fixed asset, it would have earned a certain rate of interest. To calculate the amount of depreciation, annuity factor is used. Annuity factor can be found out from the annuity table or by using formula.

5. What is sinking fund method?

This method is adopted especially when it is desired not merely to write off an asset but also to provide enough funds to replace an asset at the end of its working life. Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business. The investment is made in safe securities which offer a certain rate of interest. Interest is received annually and reinvested every year along with the amount of annual depreciation.

On the expiry of the life of the asset, the investments are sold and the sale proceeds are used for replacement of the asset. This method of depreciation is suitable for assets of higher value. This method is also known as depreciation fund method. Thus, this method not only takes into account depreciation but also makes provision for the replacement of the asset.

III. Short answer questions.

1. What are the objectives of providing depreciation?

(i) To find out the true profit or loss

According to matching principle, the expenses incurred during a period must be matched with revenue earned during that period. Hence, when an asset is used for generating income for a business, the cost of the asset attributable to the use, i.e., the reduction in the book value of the asset proportionate to the benefit derived from it, should be charged against the revenue. This is to be done to find out the true cost of production and profit or loss of the business for every accounting period.

(ii) To present the true and fair view of financial position

When the depreciation is charged on fixed assets, the book value of fixed assets are reduced to that extent and the remaining value is shown in the balance sheet. The balance represents the value of benefit that is yet to be derived from them. The written down value is the true value of fixed assets which represent cost not yet written off. The balance sheet must represent a true and fair view of financial status. Hence, fixed assets must be shown at their at written down value.

(iii) To facilitate replacement of fixed assets

When the depreciation is debited to profit and loss account, an equal amount is either retained in the business or invested outside the business. When the useful life of an asset comes to an end, a new asset can be purchased by using the resources available in the business.

(iv) To avail tax benefits

As per the Indian Income Tax Act, while computing tax on business income, depreciation is deductible from income. Hence, depreciation is computed and charged to profit and loss account to reduce tax liability.

(v) To comply with legal requirements

Depreciation is provided on fixed assets to comply with the provisions of law apart from Income Tax Act. For example, Section 123(1) of the Indian Companies Act, 2013, requires every company to provide depreciation on fixed assets before declaring dividend to its shareholders.

2. What are the causes for depreciation?

(i) Wear and tear

The normal use of a tangible asset results in physical deterioration which is called wear and tear. When there is wear and tear, the value of the asset decreases proportionately.

(ii) Efflux of time

Certain assets whether used or not become potentially less useful with the passage of time.

(iii) Obsolescence

It is a reduction in the value of assets as a result of the availability of updated alternative assets. This happens due to new inventions and innovations. Though the original asset is in a usable condition, it is not preferred by the users and it loses its value. For example, preference of latest computers by the users.

(iv) Inadequacy for the purpose

Sometimes, the use of assets may be stopped due to their inadequacy for the purpose. These may become inadequate due to expansion in the capacity of a firm.

(v) Lack of maintenance

A good maintenance will naturally increase the life of the asset. When there is no proper maintenance, there is a possibility of more depreciation.

(vi) Abnormal factors

Decline in the usefulness of fixed asset may be caused by abnormal factors like damage due to fire accidents, natural calamities, etc. These may even lead to the state of an asset being discarded.

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

Merits

Following are the merits of straight line method of depreciation:

(a) Simple and easy to understand

Computation of depreciation under this method is very simple and is easy to understand.

(b) Equality of depreciation burden

Under this method, equal amount of depreciation is debited to the profit and loss account each year. Hence, the burden of depreciation on the profit of each year is equal.

(c) Assets can be completely written off

Under this method, the book value of an asset can be reduced to zero if there is no scrap value or to the scrap value at the end of its useful life. Thus the asset account can be completely written off.

(d) Suitable for the assets having fixed working life

This method is appropriate for the fixed assets having certain fixed period of working life. In such cases, the estimation of useful life is easy and in turn it helps in easy determination of rate of depreciation.

Limitations

Following are the limitations of straight line method of depreciation:

(a) Ignores the actual use of the asset

Under this method, a fixed amount of depreciation is provided on each asset by applying the predetermined rate of depreciation on its original cost. But, the actual use of the asset is not considered in computation of depreciation.

(b) Ignores the interest factor

This method does not take into account the loss of interest on the amount invested in the asset. That is, the amount would have earned interest, had it been invested outside the business is not considered.

(c) Total charge on the assets will be more when the asset becomes older

With the passage of time, the cost of maintenance of an asset goes up. Hence, the amount of depreciation and cost of maintenance put together is less in the initial period and goes up year after year. But, this method does not consider this.

(d) Difficulty in the determination of scrap value

It may be quite difficult to assess the true scrap value of the asset after a long period say 10 or 15 years after the date of its installation.

Suitability

Straight line method of depreciation is suitable in case of fixed assets in respect of which useful life can be determined and maintenance and repair cost is the same throughout the life of the asset.

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

Merits

Following are the merits of written down value method.

(a) Equal charge against income

In the initial years depreciation is high and repair charges are low. When the asset becomes older, the amount of depreciation charged is less but repair charges are high. Hence, the total burden on profit in respect of depreciation and repairs put together remains almost similar year after year.

(b) Logical method

In the earlier years, when the asset is more productive, high depreciation is charged. In the later years when the asset becomes less productive, the depreciation charge is less.

Limitations

Following are the limitations of written down value method.

(a) Assets cannot be completely written off

Under this method, the value of an asset even if it becomes obsolete and useless, cannot be reduced to zero and some balance would continue in the asset account.

(b) Ignores the interest factor

This method does not take into account the loss of interest on the amount invested in the asset. The amount would have earned interest, had it been invested outside the business is not considered.

(c) Difficulty in determining the rate of depreciation

Under this method, the rate of providing depreciation cannot be easily determined. The rate is generally kept higher because it takes very long time to write off an asset down to its scrap value.

(d) Ignores the actual use of the asset

Under this method, a fixed rate of depreciation is provided on the written down value of the asset by applying the predetermined rate of depreciation on its original cost. But, the actual use of the asset is not considered in the computation of depreciation.

Suitability

This method is suitable in case of assets having a comparatively long life and which require considerable repairs in the later years when they become older. Examples are building and plant and machinery.

UNIT 11 CAPITAL AND REVENUE TRANSACTIONS

I. Multiple Choice Questions:

1. Amount spent on increasing the seating capacity in a cinema hall is: **(a) Capital expenditure** (b) Revenue expenditure (c) Deferred revenue expenditure (d) None of the above.
2. Expenditure incurred ` 20,000 for trial run of a newly installed machinery will be: (a) Preliminary expense (b) Revenue expenditure **(c) Capital expenditure** (d) Deferred revenue expenditure
3. Interest on bank deposits is: (a) Capital receipt **(b) Revenue receipt** (c) Capital expenditures (d) Revenue expenditures
4. Amount received from IDBI as a medium term loan for augmenting working capital: (a) Capital expenditures (b) Revenue expenditures (c) Revenue receipts **(d) Capital receipt**
5. Revenue expenditure is intended to benefit: (a) Past period (b) Future period **(c) Current period** (d) Any period
6. Pre-operative expenses are: (a) Revenue expenditure (b) Prepaid revenue expenditure
(c) Deferred revenue expenditure **(d) Capital expenditure**

II. Very short answer questions

1. **What is meant by revenue expenditure?**
The expenditure incurred for day to day running of the business or for maintaining the earning capacity of the business is known as revenue expenditure. It is recurring in nature. It is incurred to generate revenue for a particular accounting period. The revenue expenditure may be incurred in relation with revenue or in relation with a particular accounting period. For example, cost of purchases is a revenue expenditure related to sales revenue. Rent and salaries are related to a particular accounting period.
2. **What is capital expenditure?**
It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period. It includes any expenditure resulting in the acquisition of any fixed asset or contributes to the revenue earning capacity of the business. It is non- recurring in nature.
3. **What is capital profit?**
Capital profit is the profit which arises not from the normal course of the business. Profit on sale of fixed asset is an example for capital profits.
4. **Write a short note on revenue receipt.**
Revenue receipts which are obtained in the normal course of business are called revenue receipts. It is recurring in nature. The amount received is generally small.
Examples

• Proceeds from sale of goods
• Interest on investments received
• Rent received
• Dividend from investment in shares.

5. **What is meant by deferred revenue expenditure?**
An expenditure, which is revenue expenditure in nature, the benefit of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure. The benefit usually accrues for a period of two or more years. It is for the time being, deferred from being charged against income. It is charged against income over a period of certain years.

III Short answer questions

1. **Distinguish between capital expenditure and revenue expenditure.**

Basis	Capital expenditure	Revenue expenditure
(i) Nature	It is non-recurring in nature.	It is recurring in nature.
(ii) Purpose	To contribute to the revenue earning	To carry on the day to day activities

	capacity of the business.	of the business.
(iii) Period of benefits	Its benefit is available for a longer period.	Its benefit is obtained within one accounting period.
(iv) Effect on profit earning capacity	It increases the profit earning capacity of the business.	It maintains the profit earning capacity of the business.
(v) Accounting treatment	It will appear on the assets side of the balance sheet.	It will be shown on the debit side of the trading and profit and loss account depending on whether direct or indirect in nature.

2. Distinguish between capital receipt and revenue receipt.

Basis	**Capital receipts**	**Revenue receipts**
1. Nature	Non-recurring in nature.	Recurring in nature.
2. Size	Amount is generally substantial	Amount is generally smaller
3.Distribution	These amounts are not available for distribution as profits.	The excess of revenue receipts over the revenue expenses can be used for distribution as profits.

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

An expenditure, which is revenue expenditure in nature, the benefit of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure. The benefit usually accrues for a period of two or more years. It is for the time being, deferred from being charged against income. It is charged against income over a period of certain years.

Examples

- Considerable amount spent on advertising.
- Major repairs to plant and machinery.

UNIT 12 FINAL ACCOUNTS OF SOLE PROPRIETORS – I

Multiple Choice Questions:

1. Closing stock is an item of. (a) Fixed asset **(b) Current asset** (c) Fictitious asset (d) Intangible asset
2. Balance sheet is: (a) An account **(b) A statement** (c) Neither a statement nor an account (d) None of the above
3. Net profit of the business increases the: (a) Drawings (b) Receivables (c) Debts **(d) Capital**
4. Carriage inwards will be shown: **(a) In the trading account** (b) In the profit and loss account (c) On the liabilities side (d) On the assets side
5. Bank overdraft should be shown: (a) In the trading account (b) Profit and loss account **(c) On the liabilities side** (d) On the assets side
6. Balance sheet shows the of the business. (a) Profitability **(b) Financial position** (c) Sales (d) Purchases
7. Drawings appearing in the trial balance is: (a) Added to the purchases (b) Subtracted from the purchases (c) Added to the capital **(d) Subtracted from the capital**
8. Salaries appearing in the trial balance is shown on the: (a) Debit side of trading account **(b) Debit side of profit and loss account** (c) Liabilities side of the balance sheet (d) Assets side of the balance sheet
9. Current assets does not include: (a) Cash (b) Stock **(c) Furniture** (d) Prepaid expenses
10. Goodwill is classified as: (a) A current asset (b) A liquid asset (c) A tangible asset **(d) An intangible asset**

II. Very short answer questions

1. **Write a note on trading account.**
   Trading refers to buying and selling of goods with the intention of making profit. The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period. According to J. R. Batliboi, "The trading account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included."
2. **What are wasting assets?**
   Amount paid to workers who are directly engaged in loading, unloading and handling of goods purchased is known as wages.
3. **What are fixed assets?**
   Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years such as land and building, plant and machinery, motor vehicles, furniture, etc.
4. **What is meant by purchases returns?**
   Purchases. Goods purchased which are returned to suppliers are termed as purchases returns or returns outward.
5. **Name any two direct expenses and indirect expenses.**

Direct expenses – Carriage inwards,Wages,
Indirect expenses.- Salaries, Rent, Audit fee

6. **Mention any two differences between trial balance and balance sheet.**

Basis	Trial balance	Balance sheet
1. Nature	Trial balance is a list of ledger balances on a particular date.	Balance sheet is a statement showing the position of assets and liabilities on a particular date.
2. Purpose	Trial balance is prepared to check the arithmetical accuracy of the accounting entries made.	Balance sheet is prepared to ascertain the financial position of a business.
3. Contents	It is a summary of balances of all accounts – personal, real and nominal accounts.	It is a statement showing the closing balances of only personal and real accounts.

4. Format	The trial balance contains columns for debit balances and credit balances.	The items are grouped as assets and liabilities.
5. Stage	It is prepared before the preparation of final accounts.	It is prepared after preparing trial balance and trading and profit and loss account.
6. Period	It can be prepared periodically, say at the end of the month, quarterly, half yearly, etc.	It is generally prepared at the end of the accounting period.
7. Order	Balances shown in the trial balance need not be in order.	Balances shown in the balance sheet must be in order.
8. Compulsion	Preparation of trial balance is not compulsory.	Preparation of the balance sheet is compulsory in certain cases.

7. What are the objectives of preparing trading account?

Need for preparation of trading account

Preparation of trading account serves the following purposes:

(i) Provides information about gross profit or gross loss

It shows the gross profit or gross loss of the business for an accounting year. This helps the business persons to find out gross profit ratio by expressing the gross profit as a percentage of sales. It helps to compare and analyse with the ratios of the previous years. Thus, it provides data for comparison, analysis and planning for a future period.

(ii) Provides an opportunity to safeguard against possible losses

If the ratio of gross profit has decreased in comparison to the preceding years, effective measures can be taken to safeguard against future losses. For example, the sale price of goods may be increased or steps may be taken to analyse and control the direct expenses.

(iii) Provides information about direct expenses and direct incomes

All the expenses incurred on the purchase of goods are direct expenses. They are recorded in the trading account. Trading account also shows sales revenue, which is a direct income. With the help of trading account, percentage of such expenses on sales revenue can be calculated and compared with similar ratios of the previous years. Thus, it enables the management to have control over the direct expenses.

8. What is the need for preparing profit and loss account?

(i) Ascertainment of net profit or net loss

The profit and loss account discloses the net profit available to the proprietor or net loss to be borne by him. Ascertainment of profitability helps in planning for the growth and efficiency of a business enterprise. Inter-firm comparison and intra-firm comparison of profit and loss account items help in assessing efficiency in comparison with other enterprises and other departments of the same enterprise respectively.

(ii) Comparison of profit

The net profit of the current year can be compared with the profit of the previous years. It helps to know whether the business is conducted efficiently or not.

(iii) Control on expenses

Profit and loss account helps in comparing various expenses with the expenses of the previous years. The percentage of individual expenses to net sales can be calculated and compared with the similar ratios of previous years. Such a comparison will be helpful in taking effective steps for controlling unnecessary expenses.

(iv) Helpful in the preparation of balance sheet

A balance sheet can be prepared only after ascertaining the net profit or loss through profit and loss account. Net profit or loss is shown in the balance sheet. Thus, it facilitates preparation of balance sheet.

III Short answer questions:

1. What are final accounts? What are its constituents?

The business entities are interested in knowing periodically the results of business operations carried on and the financial soundness of the business. In other words, they want to know the profitability and the financial position of the business. These can be ascertained by preparing the final accounts or financial statements. The final accounts are usually prepared at the end of the accounting period on the basis of balances of ledger accounts shown by the trial balance.

The final accounts or financial statements include the following:

a. Income Statement or Trading and Profit and Loss Account and

b. Position Statement or Balance Sheet.

2. What is meant by closing entries? Why are they passed?

Balances of all the nominal accounts are required to be closed on the last day of the accounting year to facilitate the preparation of trading and profit and loss account. It is done by passing necessary closing entries in the journal proper. Purchases has debit balance and purchases returns has credit balance. At the end of the accounting year, the balance in purchases returns account is closed by transferring to purchases account.

3. What is meant by gross profit and net profit?

(a) Gross Profit:

(i) Trading account is prepared to find out the difference between the revenue from sales and the cost of goods sold.

(ii) The difference between these two items are called gross earning. Such gross earning is called as gross profit.

(iii) If the amount of sales exceeds, the cost of goods sold, the difference is gross profit.

(b) Net profit:

(i) Profit and loss account contains all the items of indirect incomes and gains, in addition to gross profit or gross loss pertaining to the accounting period.

(ii) If such expenses are less than the gross profit, the result will be net profit.

4. "Balance sheet is not an account"- Explain.

(i) Balance sheet is a statement which gives the position of assets and liabilities on a particular date.

(ii) It is a statement showing the financial position of the business.

(iii) For this purpose, balance sheet is prepared which contains amount of all assets and liabilities of the business enterprises as on particular date.

(iv) The statement so prepared is called balance sheet.

(v) Balance sheet is not an account but it is a statement prepared from the ledger balances.

(vi) So we should not prefix, the accounts with the words 'To' and 'By'.

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

Advantages of Balance Sheet:

(i) It is helpful in ascertaining the financial position of the business by showing assets and liabilities of the concern on a specific date.

(ii) It discloses the solvency of business by showing how much assets are available for payment of liabilities.

(iii) It also disclose the proprietary interest of owner.

(iv) It helps in calculation of various ratios which help in better management of business.

(v) It helps in comparison of assets and liabilities of business on two dates to ascertain the progress being made by business.

(vi) It helps to ascertain the amount of capital employed in business.

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

The assets and liabilities shown in the balance sheet are grouped and presented in a particular order. The term 'grouping' means showing the items of similar nature under a common heading. For example, the amount due from various customers will be shown under the head 'Sundry debtors.'

Similarly, under the head 'Current assets', the balance of cash, bank, debtors, stock and other current assets will be shown.

'Marshalling' is the arrangement of various assets and liabilities in a proper order. Marshalling can be made in one of the following two ways:

(a) In the order of liquidity

(b) In the order of permanence

UNIT 13 FINAL ACCOUNTS OF SOLE PROPRIETORS – II

Multiple Choice Questions.

1. A prepayment of insurance premium will appear in: (a) The trading account on the debit side (b) The profit and loss account on the credit side **(c) The balance sheet on the assets side** (d) The balance sheet on the liabilities side
2. Net profit is: (a) Debited to capital account **(b) Credited to capital account** (c) Debited to drawings account (d) Credited to drawings account
3. Closing stock is valued at: (a) Cost price (b) Market price (c) Cost price or market price whichever is higher **(d) Cost price or net realisable value whichever is lower**
4. Accrued interest on investment will be shown: (a) On the credit side of profit and loss account (b) On the assets side of balance sheet **(c) Both (a) and (b)** (d) None of these
5. If there is no existing provision for doubtful debts, provision created for doubtful debts is: (a) Debited to bad debts account (b) Debited to sundry debtors account (c) Credited to bad debts account **(d) Debited to profit and loss account**

Very short answer questions

1.What are adjusting entries?

Adjustment entries are the journal entries made at the end of the accounting period to account for items which are omitted in trial balance and to make adjustments for outstanding and prepaid expenses and revenues accrued and received in advance.

2.What is outstanding expense?

Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses. In other words, if certain benefits or services are received during the year but payment is not made for the services received and utilised, these are termed as outstanding expenses.

3.What is prepaid expense?

Prepaid expenses refer to any expense or portion of expense paid in the current accounting year but the benefit or services of which will be received in the next accounting period. They are also called as unexpired expenses.

4.What are accrued incomes?

Accrued income is income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year. It generally happens in case of amount to be received on account of commission, interest, dividend, etc.

5.What is provision for discount on debtors?

Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date. A provision created on sundry debtors for allowing such discount is called provision for discount on debtors. This provision is a charge against profit and hence profit and loss account is debited.

Provision for discount on debtors is made on the basis of past experience at an estimated rate on sundry debtors. Discount should be calculated on sundry debtors after deducting bad debts and provision for bad debts.

III. Short answer questions:

1.What is the need for preparing final accounts?

The need for preparing final accounts are stated below:

(i) To ascertain the true profit or loss of the business.
(ii) To determine the true financial position of the business.
(iii) To make a record of the transactions earlier omitted in the books.
(iv) To rectify the errors committed in the books.
(v) To complete the incomplete transactions.

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.

(i) The unsold goods in stock at the end of the accounting period is termed as closing stock. The stock is valued at cost price or not realizable value whichever is lower.

(ii) If closing stock is already adjusted, purchases account and closing stock will appear in trial balance. Adjusted purchases account will be shown on the debit side of the trading account and closing stock will be shown on the assets side of the balance sheet.

Adjusting Entry:

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Closing Stock A/c Dr. To Trading A/c (Closing Stock brought into Account)		XXXX	 XXXX

Value of Closing Stock will appear:

(a) On the credit side of trading account and (b) On the assets side of balance sheet.

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

(i) Adjusting entry for interest on capital

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Interest on capital A/c Dr. To Capital A/c (Interest on capital due)		XXXX	 XXXX

(iii) Adjusting entry for interest on drawings

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Capital A/c Dr. To interest on drawings A/c (Interest on drawings provided)		XXXX	 XXXX

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

(i) Bad debts:

(i) Debts which cannot be recovered or become irrecoverable are called bad debts.

(ii) It is a loss for the business and should be adjusted against profit.

Adjusting Entry:

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bad debts A/c Dr. To sundry debtors A/c (Bad debts written off)		XXXX	 XXXX

(ii) Provision for doubtful debts:

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Profit and loss A/c Dr. To Provision for bad and doubtful debts A/c (Provision for bad and doubtful debts created)		XXXX	 XXXX

(iii) Provision for discount on debtors:

(i) Cash discount is allowed by the suppliers to customers for prompt settlement of cash.

(ii) A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

Adjusting Entry:

Date	**Particulars**	**L.F.**	**Debit Rs.**	**Credit Rs.**
	Profit and loss A/c Dr. To Provision for discount on debtors A/c (Provision for discount on debtors created)		XXXX	XXXX

UNIT 14 COMPUTERISED ACCOUNTING

I. Multiple Choice Questions.

1. In accounting, computer is commonly used in the following areas: (a) Recording of business transactions (b) Payroll accounting (c) Stores accounting **(d) All the above**
2. Customised accounting software is suitable for: (a) Small, conventional business **(b) Large, medium business** (c) Large, typical business (d) None of the above
3. Which one is not a component of computer system? (a) Input unit (b) Output unit **(c) Data** (d) Central Processing Unit
4. An example of output device is: (a) Mouse **(b) Printer** (c) Scanner (d) Keyboard
5. One of the limitations of computerised accounting system is: **(a) System failure** (b) Accuracy (c) Versatility (d) Storage
6. Which one of the following is not a method of codification of accounts? **(a) Access codes** (b) Sequential codes (c) Block codes (d) Mnemonic codes
7. TALLY is an example of: (a) Tailor-made accounting software **(b) Ready-made accounting software** (c) In-built accounting software (d) Customised accounting software
8. People who write codes and programes are called as: (a) System analysts (b) System designers (c) System operators **(d) System programmers**
9. Accounting software is an example of: (a) System software **(b) Application software** (c) Utility software (d) Operating software

II. Very short answer questions

1. What is a computer?

A computer can be described as an electronic device designed to accept raw data as input, processes them and produces meaningful information as output.

2. What is CAS?

Computerised accounting system refers to the system of maintaining accounts using computers.

3. What is hardware?

The physical components of a computer constitute its hardware. Hardware consists of input devices and output devices that make a complete computer system. Examples of input devices are keyboard, optical scanner, mouse, joystick, touch screen and slylus which are used to feed data into the computer. Output devices such as monitor and printer are media to get the output from the computer.

4. What is meant by software?

A set of programs that form an interface between the hardware and the user of a computer system.

5. What is accounting software?

(i) Accounting software is an integral part of the computerized accounting system.

(ii) The main function of computerized accounting system is to perform the accounting activities in an organization, generate reports as per the requirements of the users.

6. Name any two accounting packages.

(i) Readymade Software.

(ii) Customised Software.

7. Give any two examples of readymade software.

(i) TALLY (ii) MS-EXCEL.

8. What is coding?

Code is an identification mark. The coding scheme of account heads should be such that it leads to grouping of accounts at various levels so as to generate various reports.

9. What is grouping of accounts?

(i) A proper codification requires a systematic grouping of accounts.

(ii) The major groups or heads could be Assets, Liabilities, Revenues and Expenses.

(iii) The sub-groups or minor heads could be capital, non-current liabilities, current assets, sales and so on.

(iv) The grouping and codification depend upon the size and requirements of the organization.

10. What are mnemonic codes?

A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information. For example:

Code Information

SJ Sales Journals

HQ Head Quarters

III. Short answer questions

1. **What are the various types of accounting software?**

(i) Readymade software

These packages are standardised or readymade packages which can be used by the business enterprises immediately on procurement. These packages are used by small and conventional business enterprises. Cost of installation and maintenance is very low. Training cost is negligible and sometimes the vendor provides free of cost training. These softwares are used by those enterprises where financial transactions are simple, uniform and routine in nature. Few examples of such type of software are Tally, Busy, Marg, Profitbooks.

(ii) Customised software

Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise. In such circumstances, customised packages may help the business enterprise for fulfilling their requirements. Customised packages can be modified according to the need of the enterprise. For example, software can record attendance of the employees and on the requirement of the customer it can also count the absence of employees in a month, etc. These packages are used by medium or large business enterprises. Cost of installation, maintenance and training is relatively higher than that of ready-to-use packages. These softwares are used by those enterprises where financial transactions are somewhat peculiar in nature.

(iii) Tailormade software

Large enterprises have their own way of functioning. For effective management information system, varied and specific information is frequently required by many users which may not be needed in case of small or medium scale enterprises. In such enterprises, depending upon their functioning, need based softwares known as tailored packages are installed. The cost of these packages is very high and specific training for using these packages is also required. The following are the differences among the three types of software:

2. **Mention any three limitations of computerised accounting system.**

(i) Heavy cost of installation: Computer hardware needs replacement and software needs to be updated from time to time with the availability of newer versions.

(ii) Cost of training: To ensure effective and efficient use of computerised system of accounting, newer versions of hardware and software are to be introduced. These require special training and hence, cost is incurred to train the staff personnel.

(iii) Fear of unemployment: On account of the introduction of computerised accounting system, the employees feel insecure that they may lose employment and show less interest in computer related work.

(iv) Disruption of work: When computerised system is introduced, the existing process of accounting and other works are interrupted. This results in certain changes in the working environment.

(v) System failure: The danger of a system crashing due to some failure in hardware can lead to subsequent interruption of work. This is more when no back-up is made.

(vi) Time consuming: When there is system failure, an alternative arrangement needs to be made to avoid loss of work. This consumes some time to bring the regular processes

back.
(vii) Unanticipated errors not known: Unlike human beings, computers do not have the capability to judge or detect unanticipated errors in the system.
(viii) Breaches of security: The danger of viruses and hacking into the system from outside creates a strong need for security of the system. Similarly, the person who has created the specific programme can easily defraud by tampering with the original records.
(ix) Health dangers: Extensive use of computers may lead to many health problems such as eye strain, muscular complaints, back ache, etc. resulting in reducing work efficiency as well as increased medical expenditure.

3. **State the various types of coding methods.**

Methods of codification
Following are the three methods of codification.
a. 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 search. For example:
Code Accounts
CL001 ABC LTD
CL002 XYZ LTD
CL003 SCERT
b. 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 cases of block codes, numbers within a sub-range follow sequential coding scheme, i.e., the numbers increase consecutively.
For example:
Code Dealer type
100 – 199 Small pumps
200 – 299 Medium pumps
300 – 399 Pipes
400 – 499 Motors
c. Mnemonic codes
A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information. For example:
Code Information
SJ Sales Journals
HQ Head Quarters
14.8 Microsoft Office - MS Word

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

In accounting, computer is commonly used in the following areas:
a) Recording of business transactions b) Payroll accounting
c) Stores accounting and d) Generation of accounting reports

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

The physical components of a computer constitute its hardware. Hardware
consists of input devices and output devices that make a complete computer system.
Examples of input devices are keyboard, optical scanner, mouse, joystick, touch screen and slylus which are used to feed data into the computer. Output devices such as monitor and printer are media to get the output from the computer.