

11th ACCOUNTANCY

THEORY GUIDE

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Prepared by

Dr.A.Vennila

Principal

**Mydeen Matric. Hr. Sec. School,
Melacauvery - Kumbakonam**

UNIT – 1
INTRODUCTION TO ACCOUNTING

2 Marks

1. Define accounting.

Definition of Accounting:

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

2. List any two functions of accounting.

The main functions of accounting:

- a) Measurement
- b) Forecasting

1. Measurement: The main function of accounting is to keep systematic record of transactions, post them in the ledger and ultimately prepare the final accounts.

2. 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?

Steps involved in the process of accounting

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

4. Who are the parties interested in accounting information?

Parties interested in accounting information

1. **Internal users:** Owners, Management and Employees.
2. **External users:** Creditors, Investors, Customers, Tax authorities, Government, Researchers and General Public.

5. Name any two basis of recording accounting information.

Basis of recording accounting information

1. Cash basis
2. Accrual or mercantile basis

3 Marks / 5 Marks

1. Explain the meaning of accounting.

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.

The main branches of accounting are:

1. Financial Accounting: It involves recording of financial transactions and events.

2. Cost Accounting: It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purpose of cost control and managerial decision making.

3. Management Accounting: It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day – to – day operations of an enterprise.

4. Social Responsibility Accounting: It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them.

5. 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.

The importance of accounting is:

1. Systematic records: All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts.

2. Preparation of financial statements: Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements.

3. 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.

4. Aid to decision making: Management of a firm has to make routine and strategic decisions while discharging its functions.

5. Legal evidence: Accounting records are generally accepted as evidence in courts of law and other legal authorities in the settlement of disputes.

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

Parties interested in accounting information

- a. Investors
- b. Government

1. Investors:

- a) 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.
- b) They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

2. Government:

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

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

Role of an accountant is:

1. Record keeper: The accountant maintains a systematic record of financial transactions.

2. Provider of information to the management : The accountant assists the management by providing financial information required for decision making and for exercising controls.

3. 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.

4. Tax managers: The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time

5. Public relation officer: The accountant provides accounting information to various interest users for analysis as per their requirements.

UNIT – 2
CONCEPTUAL FRAMEWORK OF ACCOUNTING

2 Marks

1. Define book – keeping.

Definition of Book-Keeping:

“Book – keeping is an art of recording business dealings in a set of books” - **J.R.Batlibai**

“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?

Meaning of Accounting Concept:

- ✍ 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 Realisation concept.

Realisation 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.

“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.

5. Write a brief note on ‘Consistency’ assumption.

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.

3 Marks / 5 Marks

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

Matching 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.

The following Reasons this concept should a business concern follow:

- On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues.
- Also due provisions are made for depreciation of the fixed assets, bad debts, etc., relating to the accounting period.
- Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

2. "Only monetary transactions are recorded in accounting". Explain the statement.

"Only monetary transactions are recorded in accounting". Explanation:

- ♣ 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.
- ♣ For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.

3. "Business units last indefinitely". Mention and explain the concept on which the statement is based.

"Business units last indefinitely" – Explanation:

- ✦ This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it.
- ✦ Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view.
- ✦ Hence, the business is liable to the owner for the capital contributed by him/her.
- ✦ According to this concept, only business transactions are recorded in the books of accounts. Personal transactions of the owners are not recorded.
- ✦ But, their transactions with the business such as capital contributed to the business or cash withdrawn from the business for the personal use will be recorded in the books of accounts.
- ✦ It implies that the business itself owns assets and owes liabilities.

4. Write a brief note on Accounting Standards.

Short note on Accounting Standards:

- 1) Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable.
- 2) It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.
- 3) Thus, Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.

UNIT – 3 BOOKS OF PRIME ENTRY

2 Marks

1. What are source documents?

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.
- **Source documents include** - cash receipt, invoice, debit note, credit note, pay – in – slip, salary bills, wage bills, cheque record slips, etc.

2. What is accounting equation?

Accounting Equation – Meaning:

- 1) Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
- 2) This is based on the dual aspect concept of accounting.
- 3) 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

- **Decreases the assets and decreases the liabilities**
- **Increases one asset and decreases another asset**

1. Decreases the assets and decreases the liabilities

Paid creditors

2. Increases one asset and decreases another asset

Cash sales

4. What is meant by journalising?

Journalising – Meaning:

- The word journal has been derived from the French word 'Jour' which means day.
- So, journal means daily. Journalising is the beginning of the accounting process for the financial transactions.

5. What is real account?**Real Account:**

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

6. How are personal accounts classified?**Personal account:**

- 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.**Accounting Rule for Nominal Account:**

Debit all expenses and losses credit all incomes and gains.

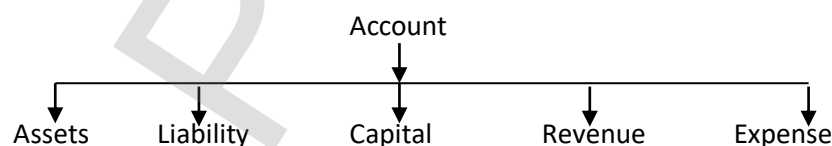
8. Give the golden rules of double entry accounting system.**The golden rules of double entry accounting system**

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

3 Marks / 5 Marks

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

- 1) The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.
- 2) 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.
- 3) Capital + Liabilities = Assets
- 4) 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.**1. Asset account:**

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

2. Liability account:

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

3. Capital account:

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

4. Revenue account:

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

5. Expense account:

1. Expenses incurred and losses suffered for earning revenue are grouped under this category;
2. 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.

1.Natural person's account:

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

2.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.

3.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 M.	Credit M.
	Drawing A/c Dr.		XXX	
	To Cash A/c			
	(Insurance paid for owner life insurance)			XXX

5) State the principles of double entry system of bookkeeping.**Following are the principles of double entry system:**

1. In every business transaction, there are two aspects.
2. The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
3. These two aspects involve minimum two accounts; at least one debit and at least one credit.

4. 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 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.
7. Write the name of the account to be credited in the second line starting with the word 'To' prefixed.
8. Write the narration within brackets in the next line in the particulars column.

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

Double Entry System:

"Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record is to be made of each such transaction it is necessary to debit one account and credit another account. It is this recording of two fold effect of every transaction that has given rise to the term Double Entry" - J.R. Batliboi.

Advantages of Double Entry System:

- ♣ Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation.
- ♣ According to this system, every transaction has a two folds effect.
- ♣ That is, there are two aspects involved, namely, receiving aspect and giving aspect. It is denoted by debit (Dr.) and credit (Cr.).
- ♣ The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit.
- ♣ Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital.
- ♣ Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.

**UNIT – 4
LEDGER**

2 Marks

1. What is a ledger?

Ledger – Meaning:

- * 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
- * It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.
- * Account wise balance can be determined from the ledger.
- * The ledger accounts are prepared based on journal entries passed.

2. What is meant by posting?**Posting – Meaning:**

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

3. What is debit balance?**Debit Balance – Meaning:**

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

4. What is credit balance?**Credit Balance – Meaning:**

If the credit side of an account has higher total, the balancing figure is credit balance.

5. What is balancing of an account?**Balancing of Account – Meaning:**

- 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.
- 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'. 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'.

3 Marks / 5 Marks

1. Distinguish between Journal and Ledger.**Distinguish between Journal and Ledger**

Basis	Journal	Ledger
1. Order of recording	Entries are made in the chronological order, i.e., date wise in the order of occurrence.	Entries are made account wise.
2. Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
3. 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.
4. 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.
5. Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account.

2. What is ledger? Explain its utilities.**Ledger – Meaning:**

- * 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
- * It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.
- * Account wise balance can be determined from the ledger.

Utilities of Ledger:**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.

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.

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.

Helps to prepare financial statements:

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:

- 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.
- Record the date of the transaction in the date column on the debit side of that account.
- Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- Record the amount of the debit in the 'amount column'.
- Locate the ledger account that is credited in the journal entry.

4. Explain the procedure for balancing a ledger account.**Procedure for balancing a ledger account**

1. The debit and credit columns of an account are to be totalled separately.
2. The difference between the two totals is to be ascertained.
3. 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.
4. 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.
5. 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.
6. 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 TRAIL BALANCE

2 Marks

1. What is trial balance?

Trial Balance – Meaning:

✎ “A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books”.

2. Give the format of trial balance.

Trial balance is prepared in the following format under the balance method:

Trial balance as on ...

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

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

Trial Balance is prepared in the following methods:

Balance method : In this method, the balance of every ledger account either debit or credit, as the case may be, is recorded in the trial balance against the respective accounts. The balance method is widely used, as it helps in the preparation of financial statements.

Total method : Under this method, the total amounts on the debit side of the ledger accounts and the total amounts on the credit side of the ledger accounts are ascertained and recorded in the trial balance. This method is not commonly used as it cannot help in the preparation of financial statements.

Total and Balance method : This method is a combination of both total method and balance method. Under this method, four columns are provided, namely,

- a) Totals of debit side of the ledger accounts,
- b) Totals of the credit side of the ledger accounts
- c) Debit balances of ledger accounts and
- d) Credit balances of the ledger accounts. This method is not in practice.

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

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

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

Debit balance`	Credit balance`
(i) Carriage outwards	(iii) Sales
(ii) Carriage inwards	(vii) Interest received
(iv) Purchases	(viii) Discount received

(v) Bad debts	(ix) Capital
(vi) Interest paid	(xii) Purchase returns
(x) Drawings	
(xi) Sales returns	

3 Marks / 5 Marks

1. What are the objectives of preparing trial balance?

1. 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.
- ✘ There may be some errors which are not disclosed by trial balance.

2. Basis for preparing final accounts :

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

3. Summarised information of ledger accounts :

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

2. What are the limitations of trial balance?

The following are the limitations of trial balance:

- It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
- Even if some transactions are omitted, the trial balance will tally.
- Trial balance may tally even though errors are committed in the books of account.
- 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.
- Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made

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

- ✓ **Yes.**
- ✓ Trial Balance helps to check the arithmetical accuracy of the entries made in the accounting records. In the computerized accounting system, once the transactions are recorded in the journals, all the other records are made simultaneously, i.e. ledger postings, trial balance and final accounts.
- ✓ Hence, arithmetic errors and errors in posting the entries from journal to ledger and further will not occur in computerised accounting.
- ✓ When double entry system is followed, the totals of the debit and the credit columns of the trial balance must be equal. Thus, trial balance helps to check the arithmetical accuracy of entries made in the books of accounts.

UNIT – 6
SUBSIDIARY BOOKS - I

2 Marks

1. Mention four types of subsidiary books.

The following are the four types of subsidiary books.

1. Cash book
2. Purchases book
3. Sales book
4. Bills receivable book

2. What is purchases book?

Purchases book – Meaning:

1. Purchases book is a subsidiary book in which only credit purchases of goods are recorded.
2. While recording transactions in the purchases book, it must be ascertained whether the credit purchase is related to the item in which the firm is dealing.
3. Purchases of assets and purchase of goods for cash are not entered in purchases book.

3. What is purchases returns book?

Purchases returns book – Meaning :

1. 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.
2. 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 – Meaning:

- ✓ 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 – Meaning:

1. Sales returns book is a subsidiary book, in which, details of return of goods are sold for which cash is not immediately paid are recorded.
2. This book is not concerned with the return of assets or return of goods for which cash is paid. <\$> This book is prepared just like the other day books.

6. What is debit note?**Debit Note – Meaning:**

1. 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.
2. 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?**Credit Note – Meaning:**

1. 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.
2. Credit note is a statement prepared by a trader who receives back from his customer the goods sold.
3. 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 – Meaning:**

- ✎ 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.**Bill of Exchange – Meaning:**

- ✎ 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?**Opening Entry – Meaning:**

- ✎ Journal entry made in the beginning of the current year with the balances of assets and liabilities of the previous year is opening journal entry.
- ✎ In this entry, asset accounts are debited, liabilities and capital accounts are credited.

11. What is an invoice?**Invoice - Meaning**

1. 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.
2. The invoice is a source document of prime entry both for the buyer and the seller.

3 Marks / 5 Marks

1. Give the format of purchases book.**Format of purchases book / purchases journal**

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

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

- (i) Sale of goods for cash
- (ii) Sale of goods on credit
- (iii) Purchases of goods on credit
- (iv) When the proprietor takes goods for personal use
- (v) Goods returned to suppliers for which cash is not received immediately
- (vi) Asset purchased as credit.

Transaction	Subsidiary Books
a. Sale of goods for cash	Cash Book
b. Sale of goods on credit	Sales Book
c. Purchases of goods on credit	Purchase Book
d. When the proprietor takes goods for personal use	Drawings, Cash Book
e. Goods returned to suppliers for which cash is not received immediately	Purchase Return Book
f. Asset purchased as credit.	Cash Book

3. What are the advantages of subsidiary books?**a) 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.

b) 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.

c) **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.

d) **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.

e) **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:**

1. **Endorsement of a bill and**
2. **Discounting of a bill**

1. **Endorsement of a Bill :**

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

2. **Discounting of a Bill:**

- ♣ 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
SUBSIDIARY BOOKS - II

2 Marks

1. **What is cash book?**

Cash Book – Meaning:

- ✎ 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?**Different types of cash book:**

The main cash book may be of various types and following are the three most common types.

- ✎ Simple or single column cash book (only cash column)
- ✎ Cash book with cash and discount column (double column cash book)
- ✎ Cash book with cash, discount and bank columns (three column cash book)

3. What is simple cash book?**Simple Cash Book – Meaning:**

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

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

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

5. What is double column cash book?**Double Column Cash Book:**

- ♣ It is a cash book with cash and discount columns.
- ♣ As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.

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

The format of double column cash book is given below:

Dr.					Cr.						
Cash book with cash and discount columns											
Date	Receipts	R.N.	L.F.	Amount		Date	Payments	V.N.	L.F.	Amount	
				Discount	Cash					Discount	Cash

7. What is three column cash book?**Three column cash book – Meaning:**

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

- Opening balance of cash and favourable bank balance appear as the first item on the debit side of the three column cash book in case of existing business.
- If the business is a new one, capital contributed in cash and/or bank deposit appear as the first item on the debit side.

8. What is cash discount?

Cash Discount – Meaning:

- 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- Meaning:

- 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?

Petty Cash Book – Meaning:

- ♣ 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.

3 Marks / 5 Marks

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

Meaning of imprest system of petty cash book

- a. 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.
- b. (It may be a week or fortnight or month). The amount given to the petty cashier in advance is known as "Imprest Money".
- c. The word imprest means payment in advance.
- d. The petty cashier makes payments from this amount and records them in petty cash book.
- e. At the end of a particular period, the petty cashier submits the petty cash book to the head cashier.

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

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale.
4. Recording in books of accounts	Cash discount is recorded in the books of account. Cash discount allowed is shown on the debit side of cash book. Cash discount received is shown on the credit side of the cash book.	Trade discount is not recorded in the books of account. No journal entry is made for the same.
5. Deduction from invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

3) Write the advantages of maintaining petty cash book.**Following are the advantages of maintaining petty cash book:**

- There can be better control over petty payments.
- There is saving of time of the main cashier.
- Cash book is not loaded with many petty payments.
- 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.**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) Briefly explain about contra entry with examples.**Contra Entry – Meaning:**

- ♣ 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.

Examples

- 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.
- 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.

UNIT – 8
BANK RECONCILIATION STATEMENT

2 Marks

1. What is meant by bank overdraft?**Bank Overdraft – Meaning:**

- ✘ It is not possible to have unfavourable cash balance in the cash book.
- ✘ But, it is possible to have unfavourable balance in the bank account.
- ✘ When the business is not having sufficient money in its bank account, it can borrow money from the bank. As a result of this, amount is overdrawn from bank.

2. What is bank reconciliation statement?**Bank reconciliation statement – Meaning:**

- ✘ If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible.
- ✘ When the balances do not agree with each other, the need for preparing a statement to explain the causes arises.
- ✘ This statement is called bank reconciliation statement (BRS).

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 balance as per bank column of cash book and bank statement.**

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

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

- Insurance premium,
- loan instalment etc., paid as per standing instructions.

5. Substitute the following statements with one word/phrase

- A copy of customer's account issued by the bank.
- Debit balance as per bank statement.
- Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement.

- Pass book
- Pass book favourable
- (1) Timing difference, (2) Errors in recording

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.

Answer:

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

3 Marks / 5 Marks

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

The main reasons for preparing bank reconciliation statement are:

- * To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- * To identify the delay in the clearance of cheques.
- * To ascertain the correct balance of bank column of cash book.

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

"Cheque not yet presented" – Meaning:

1. When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business.
2. But, this may not be entered in the bank statement on the same day.
3. 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?

- ✗ When the cheques are deposited into bank, the amount is debited in the cash book on the same day.
- ✗ But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

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

1. The bank has to cover the cost of running the customer's account.
2. So debit is given to the account of the business towards bank charges.
3. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business.
4. These entries for bank charges and interest are made in the bank statement.
5. But, the entry is made in the cash book only when the bank statement is received by the business.
6. Till then, the Cash book shows more balance than bank statement.

5. **State the timing differences in BRS with examples.**

The timing differences in BRS are:

- (a) cheques issued but not yet presented for payment
- (b) cheques deposited into bank but not yet credited
- (c) bank charges and interest on loan and overdraft
- (d) interest and dividends collected by the bank
- (e) dishonour of cheques and bills
- (f) amount paid by parties directly into the bank
- (g) payment made directly by the bank to others
- (h) bills collected by the bank on behalf of its customer

UNIT – 9
RECTIFICATION OF ERRORS

2 Marks

1. **What is meant by rectification of errors?**

Rectification of Errors – Meaning:

- Correction of errors in the books of accounts is not done by erasing, rewriting or striking the figures which are incorrect.
- Correcting the errors that has occurred is called Rectification.

2. **What is meant by error of principle?**

Error of Principle – Meaning:

- 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?**

Error of Partial Omission – Meaning:

- 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?**

Error of Complete Omission – Meaning:

- 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?

Compensating Errors – Meaning:

- The errors that make up for each other or neutralize 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.

3 Marks / 5 Marks

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

Error of principle – Short Note:

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

- Example:

Entering the purchase of an asset in the purchases book. Machinery purchased on credit for Rs. 10,000 by M/s. Anbarasi garments manufacturing company entered in the purchases book.

2. Write a note on suspense account.

Suspense Account – Short Note:

- ✎ 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 is known as 'Suspense Account'.

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

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.

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

Errors not disclosed by a 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.

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

Errors not disclosed by a 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

6. **Write a note on one – sided errors and two – sided errors.**

One – sided errors:

When preparing the trial balance, if the total of debit balances and credit balances are not the same, there is disagreement of trial balance.

Two – sided errors:

Rectification of two – sided errors at the time of preparing the trial balance is just similar to that of their rectification before preparation of trial balance.

**UNIT – 10
DEPRECIATION ACCOUNTING**

2 Marks

1. **What is meant by depreciation?**

Depreciation – Meaning:

- ✎ 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 benefits derived from a fixed asset during an accounting period.

2. **List out the various methods of depreciation.**

Various methods of depreciation

- 1) Straight line method or fixed instalment method or Original cost method.
- 2) Written down value method or Diminishing balance method or Reducing balance method.
- 3) Sum of years digits method.
- 4) Machine hour rate method.
- 5) Depletion method.
- 6) Annuity method.
- 7) Revaluation method.
- 8) Sinking fund method.
- 9) 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** =
$$\frac{\text{Original cost of the asset} - \text{Estimated scrap value}}{\text{Estimated useful life of the asset in years}}$$

ii. **Rate of depreciation** =
$$\frac{\text{Amount of depreciation per year}}{\text{Original cost}} \times 100$$

4. What is annuity method?

Annuity Method – Meaning:

1. 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.
2. 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.
3. To calculate the amount of depreciation, annuity factor is used.
4. Annuity factor can be found out from the annuity table or by using formula.
5. **Amount of depreciation is computed as follows:**
Amount of depreciation = Annuity factor x original cost of the asset.

5. What is sinking fund method?

Sinking Fund Method – Meaning:

1. 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.
2. Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business.
3. The investment is made in safe securities which offer a certain rate of interest.
4. This method is also known as depreciation fund method.

3 Marks / 5 Marks

1. What are the objectives of providing depreciation?

Objectives of providing depreciation:

(i) 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.

(ii) 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.

(iii) 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?

Causes of 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.

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

Advantages:

- 1) Simple and easy to understand
- 2) Equality of depreciation burden
- 3) Assets can be completely written off
- 4) Suitable for the assets having fixed working life

Limitations:

- 1) Ignores the actual use of the asset
- 2) Ignores the interest factor
- 3) Total charge on the assets will be more when the asset becomes older
- 4) Difficulty in the determination of scrap value

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

Advantages:

- ♣ Equal charge against income
- ♣ Logical method

Limitations:

- ♣ Assets cannot be completely written off
- ♣ Ignores the interest factor
- ♣ Difficulty in determining the rate of depreciation
- ♣ Ignores the actual use of the asset

5. Distinguish between straight line method and written down value method of providing depreciation

Differences between straight line method and written down value method

Point of difference	Straight line method	Written down value method
1. Basis of calculation	Depreciation is calculated on the original cost of the asset for all the years.	Depreciation is calculated on the written down value of the asset year after year.
2. Amount of depreciation	The amount of depreciation is the same for all the years.	The amount of depreciation goes on decreasing year after year.
3. Book value of the asset at the end of its life	The book value of the asset becomes zero when there is no scrap value or is equal to its scrap value at the end of its life.	The book value of the asset never becomes zero.
4. Computation of rate of depreciation	It is easy to calculate the rate of depreciation.	It is very difficult to calculate the rate of depreciation.
5. Order of calculation of depreciation amount	Amount of depreciation is calculated first, followed by the rate of depreciation.	Rate of depreciation is calculated first, followed by the amount of depreciation.

UNIT – 11 CAPITAL AND REVENUE TRANSACTIONS

2 Marks

1. What is meant by revenue expenditure?

Revenue Expenditure – Meaning:

- 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.

2. What is capital expenditure?

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 – Meaning:

- 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 profit.

4. Write a short note on revenue receipt.**Short note on revenue receipt**

- ✎ 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.

5. What is meant by deferred revenue expenditure?**Deferred revenue expenditure:**

- ✎ An expenditure which is revenue expenditure in nature, the benefits of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure.

3 Marks / 5 Marks

1. Distinguish between capital expenditure and revenue expenditure.

S. No.	Capital Expenditure	Revenue Expenditure
1	Purchase cost of fixed assets.	Maintenance expenses of fixed assets.
2	Purchase cost of long term investments.	Insurance premium.
3	Expenses to increase the earning capacity of fixed assets.	Postage and stationery.

2. Distinguish between capital receipt and revenue receipt.

Characteristics	Capital Receipt	Revenue Receipt
Nature	Non-recurring in nature.	Recurring in nature.
Size	Amount is generally substantial.	Amount is generally smaller.
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 benefits 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 and major repairs to plant and machinery.

UNIT – 12
FINAL ACCOUNTS OF SOLE PROPRIETORS - I

2 Marks

1. Write a note on trading account.

Trading Account – Meaning:

- ✘ 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.
- ✘ Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold.

2. What are wasting assets?

Wasting Assets – Meaning:

- ✘ These are the assets which get exhausted gradually in the process of excavation. Examples: mines and quarry.

3. What are fixed assets?

Fixed Assets Meaning:

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 Returns – Meaning

- ✘ 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 or freight inwards

- ✘ Wages

Indirect expenses:

- ✘ Office and administrative expenses

- ✘ Selling and distribution expenses

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

S.No.	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.

7. What are the objectives of preparing trading account?**Objectives of preparing trading account**

- ✍ Provides information about gross profit or gross loss.
- ✍ Provides an opportunity to safeguard against possible losses.

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

- ✍ Ascertainment of net profit or net loss
- 1. Comparison of profit
- 2. Control on expenses
- 3. Helpful in the preparation of balance sheet.

3 Marks / 5 Marks

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

- ☆ Businessmen 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 or financial statements include the following:**
 - ✍ Income statement or trading and profit and loss account; and
 - ✍ 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 purchase account.

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

- ✍ If the amount of sales exceeds the cost of goods sold, the difference is gross profit.
- ✍ Sales – Cost of goods sold = Gross profit.
- ✍ If the total of the credit side of the profit and loss account exceeds the debit side, the difference is termed as net profit.

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

- ✍ A balance sheet is a part of the final accounts. However, the balance sheet is a statement and not an account.
- ✍ It has no debit or credit sides and as such the words ‘To’ and ‘By’ are not used before the names of the accounts shown therein.

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

- ✍ Balance sheet discloses the financial position of a business on a particular date, it gives the balances only for the date on which it is prepared.
- ✍ It shows the financial position of the business according to the going concern concept.

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

1. 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'.
2. 'Marshalling' is the arrangement of various assets and liabilities in a proper order. Marshalling can be made in one of the following two ways:
 1. In the order of liquidity
 2. In the order of permanence

UNIT – 13
FINAL ACCOUNTS OF SOLE PROPRIETORS - II

2 Marks

1. What are adjusting entries?**Adjusting Entries Meaning:**

- ♣ 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?**Outstanding Expenses Meaning:**

- ♣ Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses.

3. What is prepaid expense?**Prepaid Expenses Meaning:**

- ♣ 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 Incomes Meaning:**

- ♣ Accrued income is an income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year.

5. What is provision for discount on debtors?**Provision for discount on debtors – Meaning:**

- ♣ 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.

3 Marks / 5 Marks

1. **What is the need for preparing final accounts?****Need for preparing final accounts:**

1. To record omissions in trial balance such as closing stock, interest on capital, interest on drawings, etc.
2. To bring into account outstanding and prepaid expenses.
3. To bring into account income accrued and received in advance.
4. To create reserves and provisions.

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

1. 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.
2. The amount of doubtful debts is calculated on the basis of some percentage on debtors at the end of the accounting period after deducting further bad debts (if any).
3. A provision for doubtful debts is created and is charged to profit and loss account.

3. **Explain how closing stock is treated in final accounts?****Closing stock is treated in final accounts:**

- The unsold goods in the business at the end of the accounting period are termed as closing stock.
- As per As-2 (Revised), the stock is valued at cost price or net realisable value, whichever is lower.

Presentation in final accounts:

1. In the trading account: Shown on the credit side.
2. In the balance sheet: Shown on the assets side under current assets.

4. **Give the adjusting entries for interest on capital and interest on drawings.****Adjusting Entry: Interest on Capital**

Particulars	L.F.	Debit `	Credit `
Interest on capital A/c Dr. To Capital A/c (Interest on capital provided)		xxx	xxx

Adjusting Entry: Interest on Drawings

Particulars	L.F.	Debit `	Credit `
Capital A/c Dr. To Interest on drawings A/c (Interest on drawings provided)		xxx	xxx

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

1. **Bad Debts:** When it is definitely known that amount due from a customer (debtor) to whom goods were sold on credit, cannot be realised at all, it is treated as bad debts.
2. **Provision for bad and doubtful debts:** It refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.
3. **Cash discount:** is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.

UNIT – 14
COMPUTERISED ACCOUNTING

2 Marks

♣ **What is a computer?**

Computer Meaning:

- ✦ A computer can be described as an electronic device designed to accept raw data as input, processes them and produces meaningful information as output.
- ✦ It has the ability to perform arithmetic and logical operations as per given set of instructions called program.
- ✦ Today, computers are used all over the world in several areas for different purposes.

♣ **What is CAS?**

CAS Meaning:

- ✦ Computerised accounting system (CAS) refers to the system of maintaining accounts using computers.
- ✦ It involves the processing of accounting transactions through the use of hardware and software in order to keep and produce accounting records and reports.

♣ **What is hardware?**

Hardware Meaning:

- ✦ The physical components of a computer constitute its hardware.
- ✦ Hardware consists of input devices and output devices that make a complete computer system.

♣ **What is meant by software?**

Software Meaning:

- ✦ A set of programs that form an interface between the hardware and the user of a computer system are referred to as software.

♣ **What is accounting software?**

Accounting Software Meaning:

- ✦ The main function of CAS is to perform the accounting activities in an organisation and generate reports as per the requirements of the users.
- ✦ To obtain the desired results optimally, need based software or packages are to be installed in the organisation.

♣ **Name any two accounting packages.**

Accounting Packages

- ✦ Readymade software
- ✦ Customised software

♣ **Give any two examples of readymade software.**

Two examples of readymade software

1. Tally
2. Busy

♣ **What is coding?**

Coding Meaning:

✍ Code is an identification mark, generally, computerised accounting involves codification of accounts.

♣ **What is grouping of accounts?**

Grouping of Accounts:

✍ In any organisation, the main unit of classification is the major head which is further divided, into minor heads.

✍ Each minor head may have number of sub – heads.

✍ After classification of accounts into various groups.

♣ **What are mnemonic codes?**

Mnemonic codes:

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

3 Marks / 5 Marks

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

Types of accounting software

- ♣ Readymade software
- ♣ Customised software and
- ♣ Tailormade software

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

Three limitations of computerised accounting system

- ✍ Heavy cost of installation,
- ✍ Cost of training and
- ✍ Fear of unemployment

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

Types of coding methods

1. Sequential codes,
2. Block codes and
3. Mnemonic codes.

List out the various reports generated by computerised accounting system.

1. Liabilities and capital
2. Assets
3. Revenues and
4. Expenses.
5. **Under Liabilities and Capital:**
Capital, Non – current liabilities and current liabilities.
6. **Under Assets:**
Non – current assets and Current assets.

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

✍ **Input devices:** Keyboard, Optical Scanner, Mouse, Joystick, Touch screen and Stylus.

✍ **Output devices:** Monitor and printer.

***** All the Best Children *****