

XI ACCOUNTANCY

CHAPTERS 1 TO 14 ONLY

THEORY QUESTIONS (WITH ANSWERS)

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MCC MATR. HR. SEC. SCHOOL, CHETPET, CHENNAI

ACCOUNTANCY NOTES – XI

Chapter 1 – INTRODUCTION TO ACCOUNTING

(I) CHOOSE THE CORRECT ANSWER

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) trail 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

(I) VERY SHORT ANSWER**1) Define Accounting ?****ANS :**

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

2) List any two functions of Accounting.**ANS :**

Measurement : Accounting work as a tool for measuring the performance of a business. It shows the financial position of a business enterprise.

Decision Making : Accounting helps the management to take various decisions concerning cost, price, sales, etc.

3) What are the steps involved in the Process of Accounting ?**Ans. :**

- Identifying the transactions and journalising
- Posting and Balancing
- Preparation of trial balance
- Preparation of trading and profit & loss accounts
- Preparation of Balance Sheet

4) Who are the parties interested in Accounting Information ?**Ans. :****(a) Internal Users –**

- Owners
- Management
- Employees

(b) External Users –

- Creditors
- Investors
- Customers
- Tax Authorities
- Government
- Researchers
- General Public

5) Name any two bases of recording Accounting Information.**Ans. :**

There are three bases of Accounting in common usage, namely

(1) Cash basis

(2) Accrual or Mercantile basis

(3) Mixed or Hybrid basis

(II) SHORT ANSWERS

1) Explain The Meaning Of Accounting

ANS :

- Accounting is the systematic process of identifying measuring, recording, classifying, summarizing, interpreting and communicating financial information.
- Accounting gives information on the resources available
- How the available resources have been employed and the results achieved by their use

2) Discuss Briefly The Branches Of Accounting

ANS :

➤ *Financial Accounting*

- It is concerned with identification, recording, classifying and summarizing of financial transactions and events.
- It provides financial information to the users for taking decision.

➤ *Cost Accounting*

- It is the preparation of data for determine the cost of products, cost of control and managerial decision making.

➤ *Management Accounting*

- The information collected from Financial Accounting, Cost Accounting, etc. are presented for decision making.

➤ *Social Responsibility Accounting*

- It is concerned with cost incurred on environmental pollution, social benefits such as infrastructure, development and employment opportunities.

➤ *Human Resources Accounting*

- It is concerned with investments made in human resources of an enterprise

3) Discuss in detail, the importance of Accounting

ANS :

➤ *Systematic Records*

- * All the transactions of an enterprise which are in financial nature are recorded in a systematic way, in the books of Accounts

➤ *Preparation of Financial Statements*

* Income Statements or Trading and Profit & Loss account and Balance Sheet are prepared

➤ **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

➤ **Aid to Decision Making**

* Accounting provides the relevant data to make appropriate decisions

* It helps to plan future policies and programs, by the Management

➤ **Information to Interested Groups**

* Accounting Supplies appropriate information to interested groups like owners, management, creditors, employees, tax authorities and the government.

4) Why are the following parties in accounting information?

(a) Investors (b) Government

ANS. :

(a) Investors -

Persons who are interested in investing their funds in an organisation are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

(b) Government –

Information about performance of Business units helps the government in policy formulation for development of trade and industry, etc. It also ensures that the guidelines for pricing are followed.

5) Discuss the role of an Accountant in the Modern Business World ?

ANS:

➤ **Record Keeper**

* The Accountant maintains a systematic record of financial transactions. He also prepares the financial statements and other financial reports

➤ **Provider of Information to the Management**

* He provides Financial Information to Management for decision making and for exercising control.

➤ **Protector of Business Assets**

* The Accountant maintains the records of Assets owned by the Business which enables the Management to protect and exercise control over these Assets.

➤ **Financial Advisor**

The Accountant advises the Business Manager, regarding Investment Opportunities, capital budgeting, expansion of enterprise, etc.

➤ **Tax Manager**

* The Accountant prepares Tax Returns and files correctly on time and ensures the tax is paid on time.

Chapter 2 – CONCEPTUAL FRAMEWORK TO ACCOUNTING

Choose the correct answer

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 ANSWERS

1. Define Book Keeping

ANS :

➤ "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 ?

ANS :

- Accounting Concepts are the basic assumptions or conditions upon which accounting has been laid.
- The word concept means a notion or abstraction which is generally accepted.

3. Briefly explain about the Realisation Concept

ANS :

According to Realisation Concept, any change in value of an asset is to recorded only when the business realises it.

The revenues should be recorded only when it is realised or earned.

4. What is Full Disclosure Principle of Accounting ?

ANS :

- This principle implies that Accounts must be prepared honestly and all material information should be disclosed in the accounting statement.
- So that the users of the financial statement may make correct assessment about the financial position and performance of the business unit.

5. Write a note on Consistency Convention ?

ANS :

- The convention of consistency implies that the accounting policies must be followed continuously 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.

III. SHORT ANSWERS

1. What is Matching Concept and why should a business concern follow this concept ?

ANS :

- According to Matching Concept, expenses relating to a particular period are to be matched with revenues relating to that period.
- This concept is based on accrual concept and periodicity concept.
- All expenses paid during the period are not considered but only the expenses related to the accounting period are considered.
- On the basis of this concept adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues.

➤ Thus it matches the revenues earned during an accounting period with expenses spent during that period.

2. “only monetary transactions are recorded in accounting” – Explain the Statement.

ANS :

- This statement mention the money measurement concept of accounting
- According to this concept, only transactions that can be expressed in terms of money are recorded in the accounts
- Since money serves as a medium of exchange, transactions expressed in money are recorded
- It helps in understanding the states of affairs of the business
- For example, if a business has 5 computers, 2 tables and 3 chairs this information cannot be useful, unless they are expressed in monetary terms

Rs. 1,00,000 for computers Rs. 10,000/- for tables, Rs. 1,500/- for chairs.

3. “Business Units last indefinitely” – Mention and explain the concept on which the statement is based.

ANS :

- The statement mentions the going concern concept of accounting.
- According to this concept, Business will continue its operation for a foreseeable future.
- In other words, the going concern concept assumes the business will have a long life and not close in the immediate future.
- It influences accounting practices in relation to valuation of assets and liabilities, depreciation of fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues.
- Example, Assets are generally valued at historical costs. Any increase or decrease in the value of assets in the short period is ignored.

4. Write a brief note on Accounting Standards.

Ans. :

- Accounting Standards are written policy documents issued by the expert Accounting body or by government or other regulatory body.
- It promote better understanding of financial statement
- It helps Accountants to follow uniform procedures and practices

Chapter 3 – BOOKS OF PRIME ENTRY

CHOOSE THE CORRECT ANSWER

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 RS 100000 and the external liabilities of RS 60000 its capital would be.....

- a) RS 160000
- b) RS 60000
- c) RS 100000
- d) RS 40000**

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) income and gains

7. Which one of the following is representative personal account ?

.....

- a) Buildings 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

(I) VERY SHORT ANSWERS

1) What are Source Documents?

ANS :

- Source Documents are the authentic evidences of financial transactions.
- These Documents show the nature of transactions, date, the amount and the parties involved.
- Source Documents include cash receipt, invoice, debit note, credit note, pay-in slip, salary bills, cheque, etc.

2)What is Accounting Equation ?

Ans. :

- Accounting equation is a mathematical expression.
- Which shows that the total of Assets is equal to the total of Liabilities and Capital.

3)Write any one transaction which

(a)decreases the assets and decreases the liabilities

Ans. :

Paid Cash to Creditors

(b)increases one asset and decreases another asset

Ans. :

Purchased Goods for Cash

4) What is meant by Journalising?

ANS :

- 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 Journal Entry.

5) What is a Real Account ?

ANS :

➤ All Accounts relating to tangible and intangible properties and possessions are called Real Accounts

➤ Example : Plant, Machinery, Building, Goodwill, Furniture, Patents, etc.

6) How are Personal Accounts are classified ?

ANS :

➤ Account relating to Persons is called Personal Accounts.

➤ The Personal Account may be Natural, Artificial or Representative personal account

➤ Example : Vinod Account, Bank Account, Outstanding Salaries Account, Prepaid Insurance Account

7) State the Accounting Rule for Nominal Account.

ANS :

➤ The Accounts related to Expenses, Losses, Revenues and Gains are called Nominal Account

➤ Debit All Expenses and Losses, Credit All Incomes and Gains

8) Give the Golden Rules of Double Entry Accounting System

ANS :

The Golden Rules of Double Entry Accounting System

(A) Personal Account Debit The Receiver, Credit The Giver

(B) Real Account Debit What Comes In, Credit What Goes Out

(C) Nominal Account Debit All Expenses And Losses, Credit All Incomes And Gains

(II) SHORT ANSWERS

1. Write a brief note on Accounting Equation approach of recording transaction.

Ans. :

- It's a mathematical expression which shows that the total assets is equal to the total liability and capital
- This is based on the dual aspect concept of Accounting
- Under this approach, Accounts are classified into Five Categories (i) Assets Account (ii) Liability Account (iii) Capital Account (iv) Revenue Account (v) Expense Account

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

Ans. :

- Account is the systematic presentation of All Material Information, regarding a particular person or item at one place, under one head.
- Accounts are classified into Personal and Impersonal Accounts
- **Personal Account:** Account relating to person is called personal account
 - a) **Natural Persons' Account : Example – Sunil A/c, Malathi A/c**
 - b) **Artificial Persons' Account : Example – SBI A/c, MCC A/c**
 - c) **Representative Personal Account : Example - Outstanding Rent A/c**
- **Impersonal Account:** Account which do not affect a person is called Impersonal Account.
 - a) **Real Account :** All Accounts related to tangible and intangible properties and possessions are called real account. Example – Building, Furniture.
 - b) **Nominal Account :** The Accounts relating to expenses, losses, revenues and gains are called Nominal Account. Example – Salary, Wages, Rent.

3.What are the three different types of Personal Accounts ?

ANS :

➤ **Personal Account –**

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

➤ **Natural Person's Account –**

Natural Person means human being. E.g. Vinod Account, Pravin Account ➤ Artificial Personal Account – Artificial persons refers to the persons other than human beings recognized by Law as persons. Example - Bank Account, MCC Account

➤ **Representative Personal Account –**

These are Accounts which represent natural or artificial or group of persons. E.g. Outstanding Salary Account, Prepaid Rent Account

4.What is the Accounting treatment for Insurance Premium paid on the life of the proprietor.?

Date	Particulars	LF	Debit	Credit
	Drawings A/c To Cash / Bank A/c (Being Insurance Premium on the life of Proprietor Paid)	Dr	Xxx	xxx

5.State the principles of Double Entry System of Book Keeping.

Ans. :

- In every Business Transaction, there are two aspects
- The two aspects involved are Receiving Aspect and Giving Aspect

- These two aspects involve minimum two accounts at least one debit and at least one credit
- 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.

Ans. :

- Analyse the transactions and identify the Accounts which are involved in the transaction
- Classify the above Accounts under Personal , Real or Nominal Account
- Apply the rules of Debit and Credit for the two above Accounts.
- Find which account is to be debited and which account to be credited
Record the date of transaction in the date column
- Enter the Name of the Account to be debited in the Particulars column followed by the Abbreviation Dr. at the end in the same line.
- The Amount to be debited is entered in the Debit Column in the same line.
- 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.
- The Amount to be credited is entered in the credit amount column in the same line.
- Write the narration within brackets in the next line, in the particulars column.

7. What is Double-Entry System ? State its' advantages.

Ans. :

- Double entry system of book keeping is a scientific and complete system of recording the financial transaction of an organisation.
- Every transaction has a two fold effect.
- That is there are two aspects involved
- Namely receiving aspect and giving aspect

Advantages

(i) Accuracy

In this system, the two aspects of each transaction are recorded in the books of Accounts. This helps in checking the Accuracy in Accounting

(ii) Ascertainment of Business Result

- Details regarding expenses, losses, incomes, gains, assets, liabilities, etc. helps to ascertain the net profit earned or loss or incurred during an Accounting Period

(iii) Comparative Study

The business result of the current year, can be compared with those of the previous year and also with other business firms.

(iv) Common Acceptance

The business records maintained under this system are accepted by financial Institutions, government and other.

Chapter 4 – LEDGER

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

(I) VERY SHORT ANSWERS

1) What is a Ledger ?

Ans. :

- It is a summary statement of all the transactions relating to a person, asset, Liability, expense or income.
- Ledger is known as principal book of Accounts.

2) What is meant by Posting ?

Ans. :

- The process of transferring the debit and credit items from the journal to the ledger is called Posting

3)What is Debit Balance ?**Ans. :**

- If the total of the debit side of an Account is higher, the balancing figure is debit balance.
- Total of Debit > Total of Credit = Debit Balance

4) What is Credit Balance ?**Ans. :**

- If the total of the credit side of an Account is higher, the balancing figure is credit balance.
- Total of Credit > Total of Debit = Credit Balance

5) What is Balancing of an Account ?**Ans. :**

- Balancing means that the debit 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.

II. Short Answers**1)Distinguish between the Journal and the Ledger.****Ans. :**

Basis	Journal	Ledger
1) Stage of Recording	Recording in the journal is the first stage	Recording in the Ledger is the second stage
2) Order of Recording	Entries are made in the Chronological order. i.e. Date wise	Entries are made Account wise
3) Process	The process of recording in the Journal is called Journalising	The process of recording in the Journal is called Posting
4) Basis of Entries	Entries are made on the basis of Source Documents	Posting is done on the basis of Journal Entries
5) Net Position	Net Position of an Account cannot be	Net Position of an Account can be

	ascertained from Journal	ascertained from Ledger Account
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2)What is Ledger ? Explain it's utilities.

Ans. :

It 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.

Utilities of Ledger

i)Quick Information about a particular account

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

ii)Control over Business Transaction

It helps to have control over the business transaction

iii)Trial Balance can be prepared

With the balances of Ledger Accounts, Trial Balance can be prepared to check the arithmetical accuracy of the entries made in the journal and ledger.

iv)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 ?

Ans. :

- 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 middle .
- If already opened locate the account , and entries are made in the debit side of the account.
- Record the date of transactions in the date column of debit side of that account.
- Record the name of the account 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.
- 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 and entries 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.

Ans. :

- The Debit and Credit Columns are to be totalled separately.
- The difference between the two totals is to be ascertained.
- 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
- Now both the debit and credit columns are to be totalled and totals will be equal.
- The totals of both the 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.
- 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.
- If the total of the debit side is higher, the balancing figure is Debit Balance.
- If the Credit Side of an Account has an higher total, the balancing figure is Credit Balance.
- If the two sides are equal, that Account will show Nil Balance.

Chapter 5 – TRIAL BALANCE

1. Trail 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) only personal accounts **b) trial balance**
c) journal d) profit and loss account

3. The trail 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 trail balance the accountant finds that the total of the credit column is short by RS 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 trail balance is

- a) sundry creditors account b) bills payable account
c) drawings account d) capital account

9. The difference of totals of both debit credit side or trail balanced 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

(I) VERY SHORT ANSWERS**1)What is Trial Balance ?****Ans. :**

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

- J.R. Batliboi**2)Give the format of Trial Balance.****Ans. :**

S.No.	Particulars	LF	Debit Rs.	Credit Rs.

3)What are the methods of preparation of Trial Balance ?**Ans. :**

Following are the methods of Preparation of a Trail Balance :

- Balance Method
- Total Method
- Total and Balance Method

4)State whether the balance of the following accounts should be placed in the debit or the credit column of the trial balance :**(i)Carriage outwards (ii)Carriage inwards (iii) Sales****(iv) Purchases (v) Bad Debts (vi) Interest Paid****(vii) Interest Received (viii) Discount Received (ix) Capital****(x) Drawings (xi) Sales returns (xii) Purchase returns****Ans. :**

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

(II) SHORT ANSWERS

1) What are the objectives of preparing Trial Balance ?

Ans. :

(i) Test of arithmetical accuracy

Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked.

(ii) 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.

(iii) Location of errors

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

(iv) Summarized 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 ? (any 3)

Ans. :

- 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.

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

Ans. :

- Yes, it is not a complete proof of arithmetical accuracy of account.
- A Trial balance in which the credit and debit accounts match does not prove that all transaction have been recorded in the proper accounts.
- Similarly an agreed trial balance does not prove that all transaction have been recorded in the books of original entry.

Chapter 6 – Subsidiary Books

I. Choose the correct answer

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.

Ans. :

- (a) Purchases Book (b) Purchases Returns Book
(c) Sales Book (d) Sales Returns Book

2. What is purchases book?

Ans. :

- It is a Subsidiary Book
- It records only Credit Purchases of Goods
- Purchase of Assets and Cash Purchases are not recorded

3. What is purchases returns book?

Ans. :

- It is a Subsidiary Book
- It records transactions related to Return of Previously purchased goods.
- It is also known as Returns Outward Book

4. What is sales book?

Ans. :

- It is a Subsidiary Book
- It records all credit sale of Goods
- Cash Sales and Sale of Assets are not recorded

5. What is sales returns book?

Ans. :

- It is a Subsidiary Book
- It records transactions related to Goods Returned by the Customers
- It is also known as Return Inwards Book

6. What is debit note?

Ans. :

- It is a document or bill or statement
- It is sent to the person to whom the goods are returned
- It informs that the suppliers' Account is debited to the value of goods returned.

7. What is credit note?

Ans. :

- It is a document or bill or statement
- It is prepared by the seller and sent to the buyer
- It informs that the buyers' Account is credited to the value of goods returned

8. What is Journal Proper ?

Ans. :

- It 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 receivables book and bills payables book

9. Define Bill of Exchange.

Ans. :

- 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 ?

Ans. :

- 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.

11. What is an invoice?

Ans. :

- Invoices are popularly known as Bills
- It is a document or bill or statement, prepared and sent by the seller to the buyer • It gives details of goods sold, such as Quantity, Quality, Price, etc.
- It is a source document for both the buyer and the seller

III. SHORT ANSWER QUESTIONS:

1. Give the format of purchases book.

Ans. :

Format of purchases book / purchases journal

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

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

- (i) Sale of goods for cash **Ans. :- Cash Book**
- (ii) Sale of goods on credit **Ans. :- 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 – **Purchases Return Book**
- (vi) Asset purchased as credit- **Journal Proper**

3)What are the advantages of Subsidiary Books ?

Ans. :

(i)Proper and Systematic Record of Business Transactions

As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books

(ii)Convenient Posting

All the Transactions of a particular nature are recorded at one place, it facilitates posting to purchases account, sales account and concerned personal accounts.

(iii)Division of Work

As Journal is subdivided, the work will be subdivided and different persons can work on different books at the same time and the work can be speedily completed.

(iv)Efficiency

The subdivision of work gives the advantage of specialization. It leads to efficiency in accounting works.

(v)Detailed Information Available

As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information.

4)Write Short Notes on

(a) Endorsement of a Bill (b) Discounting of a Bill

Ans. :

(a) Endorsement of a Bill

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

(b) Discounting of a Bill

- 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 as Discounting of a Bill

Chapter 7 – Subsidiary Book II – Cash Book

I. CHOOSE THE CORRECT ANSWER

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 credits 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 ?

Ans. :

- It records only cash transactions in the chronological order.
- It is the book of original entry or prime entry as cash transactions are recorded for the first time in it.
- Cash receipts are recorded on the debit side and cash payments are recorded on the credit side.

2)What are the different types of Cash Book ?

Ans. :

The different types of Cash Book are

- 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 Column (Three Column cash book)
- IV. Petty Cash Book

3)What is Simple cash book ?

Ans. :

- Single column cash book or simple cash book, is like a Ledger Account, has only one amount column, i.e. Cash Column on each side.
- Only Cash Transactions are recorded in this book

4)Give the format of Single Column Cash Book.

Ans. :

Dr					Single Column Cash Book					Cr
Date	Receipts	RN	LF	Amount	Date	Payments	VN	LF	Amount	

5)What is Double Column Cash Book ?

Ans. :

- It is a Cash Book with Cash and Discount Columns on both Debit and Credit Sides
- Discount Column represent discount allowed on the debit side and discount received on the credit side

6) Give the format of Double Column Cash Book

Ans. :

Dr **Cash Book with Cash and Discount Columns** Cr

Date	Receipts	RN	LF	Amount		Date	Payments	VN	LF	Amount	
				Discount	Cash					Discount	Cash

7) What is three column cash book ?

Ans. :

- It has three amount columns on both sides. i.e. Cash, Bank and Discount
- Cash will always have debit balance
- Bank balance may be debit or credit depending on the balance favourable or unfavourable.

8) What is Cash Discount?

Ans. :

- It is allowed to encourage the buyers of goods to make early payment
- It is given at the time of making payment
- It is recorded in the books of accounts

9) What is Trade Discount ?

Ans. :

- It is allowed to encourage the buyer to buy large quantity of goods
- It is given at the time of buying goods
- It is not recorded in the books of accounts

10) What is Petty Cash Book ?

Ans. :

- All petty payments like Taxi Fare, Bus Fare, Postage, Carriage, etc. 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 ANSWERS

1) Explain the meaning of “Imprest System” of Petty Cash Book.

Ans. :

- Under this system, a fixed amount to meet petty payments is paid to the petty cashier on the first day of the period.
- 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 payment 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.
- After scrutinising the petty payments, the head cashier gives amount equal to the amount spent by petty cashier.

2) Bring out the differences between Cash Discount and Trade Discount

Ans. :

Basis	Cash Discount	Trade Discount
1. Purpose	It is allowed to encourage the buyers of goods to make payment at an early date	It is allowed to encourage buyers to buy goods in large quantities
2. Time of Allowance	It is allowed at the time of making payment	It is allowed at the time of buying goods
3. Amount of Discount	It is related to time, earlier the payment, more will be the discount	It is related to the quantity of goods purchased, more the purchases, more will be the amount of discount.
4. Recording in books of Accounts	It is recorded in the books of accounts	It is not recorded in the books of accounts
5. Deduction from Invoice Value	It is not deducted from the invoice value of goods	It is deducted from the list of price of the goods

3. Write the advantages of maintaining Petty Cash Book.

Ans. :

- There can be 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.

Ans. :

- In Cash Book, Discount allowed is recorded on the debit side and discount received on the credit side.
- Discount Columns are not balanced since Debit represents Discount Allowed, and Credit Discount Received.
- They are totalled separately.

5. Briefly explain about Contra Entries with examples.

Ans. :

- Contra means Opposite
- When both the credit and debit aspects of a transaction are recorded in the same book, such entries are called Contra Entries.
- Contra entries are denoted by the alphabet 'C' in the LF Column
- The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.
- E.g. Deposited Cash into Bank Rs. 3,000

Bank A/c Dr 3,000
To Cash A/c 3,000

When cash is deposited 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

E.g. Cash Withdrawn from Bank, for office use Rs. 5,000

Cash A/c Dr. 5,000
To Bank A/c 5,000

When cash is drawn from bank for office use, it is recorded in cash column on the debit side and in the bank column on the credit side of the cash book

Chapter 8 – Bank Reconciliation Statement

I. CHOOSE THE CORRECT ANSWER

1. A book 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 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 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 customers '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 findings 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 RS 2000 bank charges of RS 50 debited by the bank is not yet shown in the cash book . what is the bank statement balance now?

- a) RS 1,950 credit balance
- b) RS 1,950 debit balance
- c) RS 2,050 debit balance
- d) RS 2,050

9. Balance as per bank statement is RS 1,000 cheques deposited but not yet credited by the bank RS 2,000 what is the balance as per bank column of the cash book?

- a) RS 3,000 overdraft
- b) RS 3,000 favourable
- c) RS 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 ?

Ans. :

- When the business is not having sufficient money, it can borrow from Bank
- As a result of this, money is overdrawn from Bank
- This is called Bank Overdraft

2)What is Bank Reconciliation Statement ?

Ans. :

- It is a statement that reconciles the balance as per bank column of cash book, with the balance as per bank statement by giving reasons for such difference along with the amount.

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

Ans. :

- Cheques issued, but not 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.

Ans. :

- Insurance Premium, Loan Instalment, etc. are the two expenses that may be paid by the banker, as per standing instructions

5)Substitute the following statements with one word/phrase :

(a) A copy of Customer's account, issued by the Bank –

Ans. : Bank Statement

(b) Debit Balance as per the bank statement -

Ans. : Bank Overdraft

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

Ans. : Bank Reconciliation Statement

6) Do you agree on the following statements ?

Write YES if you agree, Write 'NO' if you disagree

Ans. :

(a) Bank Reconciliation Statement is prepared by the Bank - **NO**

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

(c) Credit Balance as per Bank statement is an overdraft - **NO**

(d) Bank Charges debited by the Bank increases the Balance as per Bank Statement – **NO**

(e) Bank Reconciliation Statement is prepared to identify the causes of difference between balance as per bank column of the cash book and balance as per cash column of the cash book – **NO**

III. Short Answers

1) Give any three reasons for preparing Bank Reconciliation Statement.

Ans. :

- To identify the delay in the clearance of the Cheque
- To ascertain the correct balance of Bank column of Cash book
- To discourage the accountants of business as well as banks from misusing funds.

2) What is meant by the term 'Cheque Not Yet Presented' ?

Ans. :

- 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 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 ?

Ans. :

- This is because Bank is a Debtor for the Business and Business Unit is a Creditor for the Bank
- When money is deposited by the Business into the bank, customers' account is credited in the Banks' book, as this is the amount owed by the Bank to its' customer.

4) What will be the effect of Interest charged by the Bank, if the balance is an overdraft ?

Ans. :

- If the business had any loan or overdrawn, interest has to be paid by the business
- These entries for bank charges and interest are made in the bank statement.
- But the entry is made in the cash book only when the bank statement is received by the business.
- Till then, the cash book shows more balance than the Bank Statement.

5) State the timing differences in BRS with examples.

Ans. :

- Cheques issued but not yet presented for payment
- Cheques deposited into Bank, but not yet credited
- Bank Charges and Interest on Loan and Overdraft
- Interest and Dividends collected by the Bank
- Dishonour of Cheques and Bills
- Amount paid by the parties directly into the Bank
- Payment made directly by the Bank to others
- Bills collected by the Bank on behalf of his customer.

Lesson 9 – Rectification of Errors

I. Choose the Correct Answer

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 under casting
- (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 Senguttavan 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) Senguttavan 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 Rs. 100

(b) Goods returned by Narendran was not recorded in the books

(c) Goods returned by Akila Rs. 900 was recorded in the sales returns book as Rs. 90

(d) A Credit Sale of goods to Ravivarman was not entered in the sales book

II. Very Short Answers :

1. What is meant by Rectification of Error ?

Ans. :

- It is the procedure of correcting mistakes made in recording transaction.
- These errors may occur while journalising, posting, balancing, etc.

2. What is meant by Error of Principle ?

Ans. :

- It means the mistake committed in the application of fundamental accounting principles in recording a transaction in the books of Accounts.
- Ex. Entering the purchase of an asset in the purchases book.

3. What is meant by Error of Partial Omission ?

Ans. :

- Failure to record a part of a transaction is known as error of partial omission.
- This error usually occurs in posting.

4. What is meant by Error of Complete Omission ?

Ans. :

- It means the failure to record a transaction in the journal or subsidiary book Or failure to post both the aspects in Ledger.
- Ex. Purchase of a machine on credit is not recorded in the journal.

5. What are compensating errors ?

Ans. :

- The errors that neutralize each other are known as compensating errors.
- The excess debit or credit in one account may be compensated by excess credit or debit in some other account.
- They are also known as offsetting errors.

II. Short Answers

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

Ans. :

- 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.
 - Treating a capital expenditure as a revenue expenditure.

e.g. Machinery purchased for Cash Rs. 50,000/- was entered in the purchases book

An amount of Rs. 2,000/- spent on the construction of an additional room, is debited to repairs Account

2) Write a note on Suspense Account

Ans. :

- When the trial balance does not tally, the amount of difference is placed to the debit
- (when the total of 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 ?

Ans. :

Following are the errors that are not disclosed by a trial balance :

- Errors of Principle
- Errors of Omission
- Posting to Wrong Account
- Error of amounts in Original Book
- Compensating Errors

4) What are the errors disclosed by a Trial Balance ?

Ans. :

Following are the errors disclosed by a Trial Balance :

- Wrong totalling in a subsidiary books
- Wrong calculation of balances in Ledger Accounts
- Partial Omission of an entry
- Debit entries wrongly recorded as credit entries or vice-versa

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

(i) One- Sided Error:

- One side errors are those errors which affect the agreement of the trial balance.
- These errors affect only one account and only one side of the account.
- Example: Errors of partial omission

(ii) Two-Sided Error:

- When an error affects both the debit and credit by an equal amount is called two sided of errors.
- Wrong posting of both debit and credit
- Example: Errors of complete omission

Lesson 10 – Depreciation Account

I. Choose the Correct Answer

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) Plants and Machinery **(b) Mines and Quarries**
 (c) Buildings (d) Trade Marks

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 asset 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 :

1. What is meant by Depreciation ?

Ans. :

“Depreciation is the gradual and permanent decrease in the value of an asset from any cause”.

– R.N.Carter

2. List out the various methods of depreciation.

Ans. :

- Straight line method
- Written down value method
- Sum of years of digits method
- Machine hour rate method
- * Annuity method
- * Revaluation method
- * Sinking Fund method
- * Insurance Policy method

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

Ans :

Amount of Depreciation per year = $\frac{\text{Original Cost of the Asset} - \text{Scrap Value}}{\text{Estimated useful life of the asset in years}}$

Estimated useful life of the asset in years

$$\text{Rate of Depreciation} = \frac{\text{Amount of Depreciation per year}}{\text{Original Cost}} \times 100$$

4. What is annuity method?

Ans. :

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.

5. What is sinking fund method?

Ans. :

- 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.

III. Short Answer Questions

1. What are the objectives of providing depreciation ?

Ans. :

(i) To find out the true profit or loss

- The expenses incurred during a period must be matched with revenue earned during that period.
- This is to be done to find out the true 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 is reduced to that extent and the remaining value is shown in the balance sheet.
- The balance sheet must represent a true and fair view of financial status.

(iii) 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.

2. What are the causes of Depreciation?

Ans. :

(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 decreased.

(ii) Efflux of Time :

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

(iii) 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.

Ans. :

Advantages:

- Simplest method to compute depreciation
- Suitable for the assets having fixed working life
- Assets can be completely written off.
- Amount of Depreciation remains same for each year.

Limitation:

- Ignores the actual use of the asset.
- Total charge on the assets will be more when the asset becomes older.

- Difficulty in the determination of scrap value.

5. Distinguish between the Straight line Method and Written Down Value Method of providing Depreciation

Straight Line Method	Written Down Value Method
Depreciation is calculated on the cost of the asset for all the years	Depreciation is calculated on the written down value of the asset year after year
Amount of Depreciation is same for all the years	Amount of Depreciation goes on decreasing year after year
The Book Value of the Asset becomes Zero when there is no scrap value	The book value never becomes Zero
It is easy to calculate the rate of Depreciation	It is very Difficult to Calculate the Rate of Depreciation
Amount of Depreciation is calculated first followed by the rate of Depreciation	Rate of Depreciation is calculated first followed by the Amount of Depreciation
It is suitable for assets which the repair charges are less	It is suitable for assets which require more repairs

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

Ans. :

Merits:

- It is easy to understand and simple to implement.
- Depreciation is calculated every year on the opening balance of asset.
- This method is acceptable for income tax purpose.

Limitations:

- It charges heavy amount of depreciation in earlier years.
- The formula to obtain rate of depreciation can be applied only when there is residual value of the asset.
- Might not be appropriate for some depreciable asset due to rapidly developing technology.

Chapter 11 – CAPITAL AND REVENUE TRANSACTION

I. Choose the Correct Answer :

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 Rs.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 expenditure

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?

Ans. :

- 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.

2. What is capital expenditure?

Ans. :

- It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period.
- It is non- recurring in nature.

3. What is capital profit?

- It is a capital gain which is arise from the sale of capital asset.
- When the asset is sold at a price which exceeds the purchase price the profits is capital profit.

4. Write a short note on revenue receipt.

Ans. :

- 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?

Ans. :

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.

III. SHORT ANSWER QUESTIONS

1. Distinguish between capital expenditure and revenue expenditure

Ans. :



S.No	Basis	Capital Expenditure	Revenue Expenditure
1	Nature	It is non-recurring in nature	It is recurring in nature
2	Purpose	To contribute to the revenue earning capacity of the business	To carry on the <u>day to day</u> activities of the business
3	Period of Benefits	It benefits for a longer period	It benefits within one accounting period
4	Effect on Profit Earning Capacity	It increases the Profit earning capacity of the business	It maintains the Profit earning capacity of the business
5	Accounting Treatment	It appears on the Assets side of Balance Sheet	It will be shown on the debit side of trading & profit Loss A/c

2. Distinguish between capital receipt and revenue receipt

Ans. :

S.No.	Basis	Capital Receipt	Revenue Receipt
1	Nature	Non-Recurring in nature	Recurring in nature
2	Size	Amount is generally substantial(larger)	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.

Ans. :

- An Expenditure which is revenue in nature, the benefit of which is to be over a period of 2 or more years, is known as deferred revenue expenditure.
- Amount spent on advertising

- Major repairs to plant and machinery.

Chapter 12 – FINAL ACCOUNTS – I

I. Choose the Correct Answer :

1. Closing stock is an item of

- (a) Fixed Assets **(b) Current Asset**
(c) Fictitious Assets (d) Intangible Assets

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.**

Ans. :

- Trading Account is a nominal account
- It shows the result of buying and selling of goods for an accounting period

2. What are wasting assets ?

Ans. :

- These are the assets which get exhausted gradually in the process of excavation.
- E.g. Mines and Quarries

3. What are Fixed Assets ?

Ans. :

- Fixed assets are assets of relatively permanent nature used in the operation of business and not intended for sale.
- E.g. Land and Building, Plant and Machinery, Furniture, Motor Car, etc.

4. What is meant by Purchases returns ?

Ans. :

Goods purchased are returned to supplier are termed as purchase returns or returns outwards.

5.Name any two direct Expenses and Indirect Expenses

Ans. :

Direct Expenses	Indirect Expenses
Wages	Salary
Carriage Inward	Rent
Freight Inward	Repairs

6.Mention any two differences between Trial Balance and Balance Sheet

Ans. :

TRIAL BALANCE	BALANCE SHEET
It is the list of ledger balances on a particular date	It is a statement showing the position of assets and liabilities on a particular date
It is prepared to check the arithmetical accuracy of the accounting entries made	It is prepared to ascertain the financial position of a business
It is prepared before the preparation of final account	It is prepared after preparing trial balance and trading and profit and loss account
Preparation of Trial Balance is not compulsory	Preparation of Balance Sheet is compulsory in certain cases
The trial balance contains columns for debit balances and credit balances	The items are grouped as Assets and Liabilities

7.What are objectives of preparing Trading Account ?

Ans. :

- It is prepared to provide information about gross profit or gross loss
- It provides an opportunity to safeguard against possible losses
- It provides information about direct expenses and direct incomes.

8.What is the need for preparing Profit and Loss Account ?

Ans. :

- **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.
- **Comparison of Profit**
The net profit of the current year can be compared with the profit of the previous year
- **Control on expenses**
A Profit and Loss Account helps in comparing various expenses with the expenses of the previous year.
Such a comparison will be helpful in controlling unnecessary expenses.

III. Short Answer Questions

1.What are Final Accounts ? What are its constituents ?

Ans. :

The final accounts are usually prepared at the end of the accounting period on the basis of balances of ledger account shown by the trial balance.

The Final Accounts include the following :

- (i)The Income Statement or Trading and profit and loss Account and
- (ii)Balance Sheet

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

Ans. :

- Balances of all the nominal accounts are required to be closed on the last day of the accounting year to prepare trading and profit and loss account.
- It is done by passing necessary closing entries in the journal proper.

3.What is meant by Gross Profit and Net Profit ?

Ans. :

- The word Gross means “before any deductions”.
- It is called Sales Profit.
- $\text{Gross Profit} = \text{Net Sales} - \text{Cost of goods sold}$
- The word Net means “after all deductions”.
- $\text{Net Profit} = \text{Gross Profit} - \text{Operating Expenses}$

4.”Balance Sheet is not an account”- Explain

Ans. :

- Balance Sheet is the financial statement of a company which includes assets, liabilities
- It includes assets on one side and liabilities on the other.

5.What are the advantages of preparing a Balance Sheet ?

Ans. :

- It is helpful in ascertaining the financial position of the business by showing assets and liabilities of the concern.
- It helps in calculation of various ratios which help in better management of business.
- It helps to ascertain the amount of capital employed in business.

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

Ans. :

- The assets and liabilities should be shown in a certain order in the balance sheet
- Therefore they should be arranged in certain groups and in a particular order.

- Assets and Liabilities can be arranged in the balance sheet into two ways:

(i) By Liquidity (ii) By Permanence

Chapter 13 – FINAL ACCOUNTS – II

I. CHOOSE THE CORRECT ANSWER

1) A Pre-payment 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 realizable value whichever is lower**

4. Accrued Interest on Investment will be shown

- (a) on the credit side of Profit & Loss Account (b) on the asset 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**

II. Very Short Answers

1. What are adjusting entries?

Ans. :

- 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 ?

Ans. :

- Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called out standing expenses
- Out standing expense account is a representative personal account.

3.What is prepaid expense?

Ans. :

- It refers 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.
- It is also called as unexpired expense.

4. What are accrued incomes?

Ans. :

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

5.What is provision for discount on debtors. ?

Ans. :

- A provision created on sundry debtors for allowing cash discount to customers, for prompt payment or early payment of amount due is called provision for discount on debtors.
- It is made on the basis of past experience at an estimated rate on sundry debtors.

III. Short Answers

1)What is the need for preparing Final Accounts ?

Ans. :

- Trading account provides information about gross profit or gross loss of the business for an accounting year.
- Profit and Loss account discloses the net profit or net loss of the business.
- Balance sheet is prepared to the financial position of the business on a particular period of time.

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

Ans. :

- It refers to amount set aside to meet any loss arising due to bad debt in future.
- Based on past experience, the amount of doubtful debts is calculated on the basis of some percentage of debtors.
- It is created and is charged to profit and loss account.

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

Ans. :

- The unsold goods in 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
- The principle of valuation of stock is based on the convention of conservatism.

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

Ans. :

Adjusting Entry

Date	Particulars	LF	Debit	Credit
	Interest on capital A/c Dr To Capital A/c (Interest on Capital provided)		xxx	Xxx

Adjusting Entry

Date	Particulars	LF	Debit	Credit
	Capital A/c Dr To Interest on Drawing (Interest on Drawings provided)		xxx	Xxx

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

Ans. :

1) Bad Debts : Adjusting Entry

Date	Particulars	LF	Debit	Credit
	Bad Debts A/c Dr To Sundry Debtors A/c (Bad debts written off)		xxx	Xxx

Transfer Entry

Date	Particulars	LF	Debit	Credit
	Profit & Loss A/c Dr To Bad Debts A/c (Bad debts transferred)		xxx	Xxx

Presentation in Final Accounts

In profit and Loss Account :Amount of Bad debt is shown on debit side

In Balance Sheet :Amount of Bad debts is deducted from sundry debtors on the asset side.

(2) Provision for Doubtful Debts

Date	Particulars	LF	Debit	Credit
	Profit & Loss A/c Dr To provision for doubtful debts A/c (provision for doubtful debts created)		xxx	Xxx

Presentation in Final Accounts

In profit and Loss Account :Amount of provision for Bad and doubtful debt is shown on debit side

In Balance Sheet: Amount of Provision for Bad and Doubtful debts is deducted from sundry debtors on the asset side.

(3) Provision for Discount on Debtors

Date	Particulars	LF	Debit	Credit
	Profit & Loss A/c Dr To provision for discount on debtors A/c (provision for discount on debtors created)		xxx	Xxx

Presentation in Final Accounts

In profit and Loss Account :Amount of provision for Discount on debtors is shown on debit side

In Balance Sheet: Amount of Provision for Discount on debtors is deducted from sundry debtors on the asset side.

Chapter 14 – COMPUTERIZED ACCOUNTING SYSTEM

I. CHOOSE THE CORRECT ANSWER

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. Customized 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 computerized 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) Customized accounting software

8. People who write codes and programmes 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 Answers

1. What is a Computer ?

Ans. :

- A Computer is an electronic machine or device.
- It performs processes, calculations and operations based on instructions provided by a software or hardware program.

2. What is CAS ?

Ans. :

- 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.

3. What is hardware ?

Ans. :

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

4. What is meant by Software ?

Ans. :

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

5. What is Accounting Software ?

Ans. :

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

6. Name any two Accounting Packages.

Ans. :

- Readymade Software
- Customized Software
- Tailor Made Software

7. Give any two examples of readymade Software.

Ans. :

- a) Tally b) Busy c) EX d) Professional Accountant

8.What is Coding ?

Ans. :

- Code is an identification mark.
- It involves codification of Accounts.
- It is needed where there are numerous accounts heads in an organisation.

9.What is grouping of Accounts ?

Ans. :

- After classification of accounts into various groups, namely major, minor and sub-heads and allotting codes to each account these are programmed into the computer system.
- A proper codification requires a systematic grouping of accounts.
- The major groups or heads could be Assets, Liabilities, Revenues and Expenses.

10.What are Mnemonic Codes ?

Ans. :

- **It consists of alphabets or abbreviations as symbols to codify a piece of information.**
- **For e.g. SJ - Sales Journals**
- **HQ - Head Quarters**

III. SHORT ANSWER QUESTIONS

1.What are the various types of accounting software ?

Ans. :

(i)Readymade Software

- It 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.
- Examples : Tally, Busy, Marg, Profit books.

(ii)Customized Software

- Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise.
- In such circumstances, customized packages may help the business enterprise for fulfilling their requirements.
- It can be modified according to the need of the enterprise.

(iii)Tailormade Software

- Large enterprises have their own way of functioning.
- In such enterprises, depending upon their functioning, need based software's known as tailored packages are installed.
- The cost of these packages is very high.

2.Mention any three limitations of Computerised accounting system.

Ans. :

- Data may be lost or corrupted due to power interruptions.
- Data are prone to hacking
- Un-programmed and un-specified reports cannot be generated.

3.State the various types of coding methods.

Ans. :

a. Sequential codes:

- In sequential code, numbers 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.

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.

c. Mnemonic codes:

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

4.List out the various reports generated by computerized accounting system.

Ans. :

The various reports generated are :

- **Sales Report**
- **Purchase report**
- **Sales Return**
- **Stock Report**
- **Trading and Profit or Loss Account**
- **Balance Sheet**

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

Ans. :

Input Devices :

- | | |
|------------|------------------|
| ➔ Keyboard | ➔ Microphone |
| ➔ Gamepad | ➔ OMR |
| ➔ Scanner | ➔ Digital Camera |

Output Devices :

- | | |
|------------|-----------------|
| ➔ Monitor | ➔ Headphone |
| ➔ Printers | ➔ Projector |
| ➔ Speakers | ➔ Film Recorder |

Prema Samuel,

MCC Matric Hr. Sec. School, Chennai