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ISBN : 978-93-5330-545-1

Code No : SG 277

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It gives me great pride and pleasure in bringing to you **Sura's Accountancy Guide** for +1 Standard. A deep understanding of the text and exercises is rudimentary to have an insight into Accountancy. The students and teachers have to carefully understand the topics and exercises.

Sura's Accountancy +1 Standard Guide encompasses all the requirements of the students to comprehend the text and the evaluation of the textbook.

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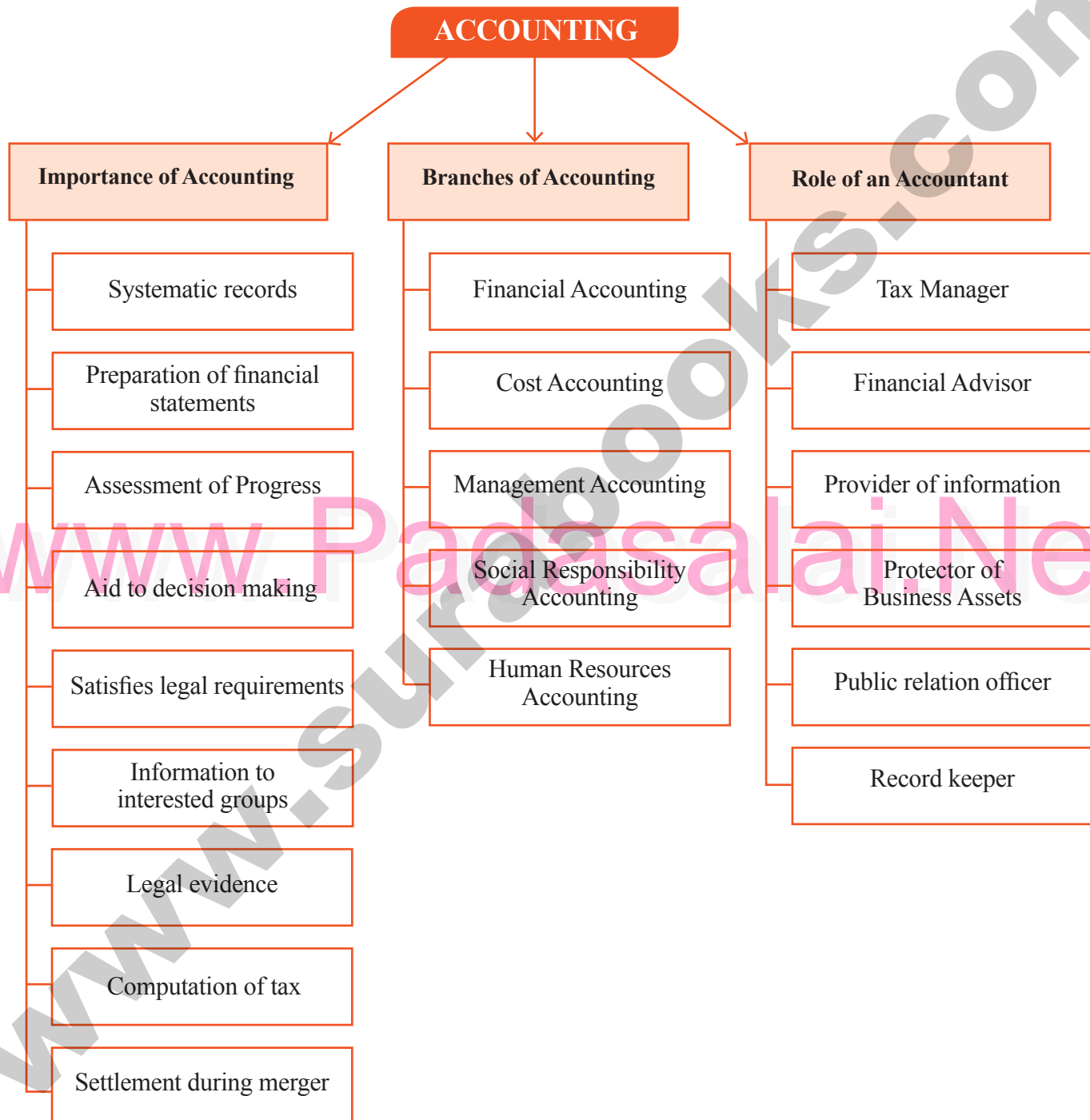
# UNIT 1

## INTRODUCTION TO ACCOUNTING

### CHAPTER SNAPSHOT

- 1.1 Introduction to Accounting
- 1.2 Evolution of Accounting
- 1.3 Meaning and Definition of Accounting
- 1.4 Accounting Cycle
- 1.5 Objectives of Accounting
- 1.6 Functions of Accounting
- 1.7 Importance of Accounting
- 1.8 Basic Accounting terminologies
- 1.9 Branches of Accounting
- 1.10 Bases of Accounting
- 1.11 Users of Accounting information
- 1.12 Role of an accountant

## CONCEPT MAP





## IMPORTANT POINTS

- Accounting has rightly been termed as the language of the business.
- An individual invests capital with the objective of making profit and thereby increasing his resources.
- Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.
- Accounting has to be a versatile system to serve a large number of goals in the modern business world.
- Accountancy plays a major role in any industry and as such accountants are required to be competent in a number of areas.
- Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two accounts.
- Transaction are of two types, namely, cash and credit transactions.

### SELF-EXAMINATION QUESTIONS

#### I. MULTIPLE CHOICE QUESTIONS.

##### CHOOSE THE CORRECT ANSWER.

**1. The root of financial accounting system is**

[BEQ; HY-'18, '19; Mar-'19; Sep-'21; Aug-'22]

- (a) Social accounting
- (b) Stewardship accounting
- (c) Management accounting
- (d) Responsibility accounting

[Ans. (b) Stewardship accounting]

**2. Which one of the following is not a main objective of accounting?**

[Sep-2020; May-'22]

- (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

[Ans. (d) Solving tax disputes with tax authorities]

**3. Which one of the following is not a branch of accounting?**

[BEQ; Govt. MQP-'18; CRT-'22]

- (a) Financial accounting
- (b) Management accounting
- (c) Human resources accounting
- (d) None of the above

[Ans. (d) None of the above]

**4. Financial position of a business is ascertained on the basis of**

[BEQ; First Mid & QY-'18; June-'19]

- (a) Journal
- (b) Trial balance
- (c) Balance Sheet
- (d) Ledger

[Ans. (c) Balance Sheet]

**5. Who is considered to be the internal user of the financial information?**

[BEQ; HY-'18; QY & June-'19; CRT-'22]

- (a) Creditor
- (b) Employee
- (c) Customer
- (d) Government

[Ans. (b) Employee]

#### II. VERY SHORT ANSWER QUESTIONS.

**1. Define accounting.**

[BEQ; First Mid-'18; Sep-2020; CRT & May-'22]

**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.**

[BEQ; Govt. MQP-'18; Mar-'19; Sep-'21; Aug-'22]

**Ans. (i) Measurement :**

1. The main function of accounting is to keep systematic record of business transactions, post them to the ledger and ultimately to prepare the final accounts.
2. It also shows the current financial position of the business enterprises.

**(ii) Comparison :**

1. Accounting helps to compare the actual performance with the planned performance.
2. It is also possible to compare with the accounting policies.

**3. What are the steps involved in the process of accounting? [HY-'19]**

**Ans.** The Steps involved in accounting are :

- (i) Identifying the transactions and Journalising.
- (ii) Posting and Balancing.
- (iii) Preparation of Trial Balance.
- (iv) Preparation of Trading Account.
- (v) Preparation of Profit and Loss Account.
- (vi) Preparation of Balance Sheet.

**4. Who are the parties interested in accounting information? [QY-'19]**

**Ans.** There are several persons who need the accounting information for various purposes. They can be classified into two.

**(i) Internal users :**

1. Owners
2. Management
3. Employees

**(ii) External users :**

1. Creditors and Financial institutions
2. Investors
3. Customers
4. General public
5. Tax authorities and regulatory bodies
6. Government
7. Researchers

**5. Name any two bases of recording accounting information. [BEQ; HY-'18; CRT-'22]**

**Ans.** There are three bases of accounting in common usage, namely

- (i) Cash Basis
- (ii) Accrual or mercantile basis
- (iii) Mixed or hybrid basis

**III. SHORT ANSWER QUESTIONS****1. Explain the meaning of accounting. [QY-'18]**

**Ans.** (i) Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.

**(ii) Accounting gives information on:**

1. the resources available
2. how the available resources have been employed and
3. the results achieved by their use.

**(iii)** The profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and capital can be ascertained from the information recorded in accounts.

**2. Discuss briefly the branches of accounting. [BEQ; First Mid-'18; Aug-'22]**

**Ans.** The various branches of accounting are

**(i) Financial Accounting :**

1. It involves recording of financial transactions and events.
2. It provides financial information to the users for taking decisions.
3. It ends up with the preparation of trading and profit and loss account and balance sheet.

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

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

**(iv) Social Responsibility Accounting:** It is concerned with presentation of accounting information from the view point of the society by showing the social costs and social benefits.

**(v) Human Resource Accounting:** It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.



## Government Exam Questions and Answers

### I. CHOOSE THE CORRECT ANSWER.

1 MARK

#### (i) CHOOSE THE CORRECT OPTION.

1. Luca Pacioli an Italian developed double entry book keeping system in the year.

*[First Mid-'18; QY-'18 & '19]*

- (a) 1449                      (b) 1494  
(c) 1944                      (d) 1459

**[Ans. (b) 1494]**

2. Who is considered to be the external uses of the financial information? *[First Mid-'18]*

- (a) Owner                      (b) Investors  
(c) Management              (d) Employees

**[Ans. (b) Investors]**

3. There are \_\_\_\_\_ bases of Accounting.

*[Sep-2020]*

- (a) One    (b) Two    (c) Three    (d) Four

**[Ans. (c) Three]**

(ii) **MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.**

1. *[BEQ; Govt. MQP-'18]*

List I	List II
(i) Internal user of accounting information	1. Human Resource Accounting
(ii) External user of accounting information	2. Tax manager
(iii) Role of an accountant	3. Researchers
(iv) Branches of accounting	4. Employees

**Codes:**

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	2	1
(d)	2	3	1	4

**[Ans. (c) (i) - 4 (ii) - 3 (iii) - 2 (iv) - 1]**

(iii) **PICK THE ODD ONE OUT.**

1. *[Govt. MQP-'18]*

- (a) Journalising              (b) Posting  
(c) Trial Balance              (d) Trade Discount

**[Ans. (d) Trade Discount]**

**Reason:** Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. Other three are process of accounting.

**II. SHORT ANSWER QUESTIONS. 3 MARKS**

1. **What are the objectives of Accounting?**

*[First Mid-'18; June-'19]*

**Ans.** Following are the objectives of accounting :

- (i) To keep a systematic record of financial transactions and events
- (ii) To ascertain the profit or loss of the business enterprise
- (iii) To ascertain the financial position or status of the enterprise
- (iv) To provide information to various stakeholders for their requirements
- (v) To protect the properties of an enterprise and
- (vi) To ascertain the solvency and liquidity position of an enterprise

2. **Read the passage given below and answer the questions that follow:**

Accounting is the language of business. The most important function of language is to facilitate communication. The information

about business entities regarding their operating performance and financial status can be obtained from the financial information recorded in the accounting records. The information is communicated to the interested users. [BEQ; Govt. MQP-'18]

**Questions:**

- (i) Who are the external users of accounting information?
- (ii) Who are the internal users of accounting information?

(iii) Why do the users need accounting information?

- Ans.**
- (i) External users are the persons who are outside the organisation but make use of accounting information for their purposes.
  - (ii) The internal users are owners, management and employees who are within the organisation.
  - (iii) The main need for accounting information is ascertain the profit or loss of the business enterprise.

## Additional Questions and Answers

### I. CHOOSE THE CORRECT ANSWER.

1 MARK

#### (i) CHOOSE THE CORRECT OPTION.

1. Accounting is not a modern concept and it is as old as

- |              |                  |
|--------------|------------------|
| (a) money    | (b) goods        |
| (c) services | (d) all of these |

[Ans. (a) money]

2. The industrial revolution took place in

- |                              |                              |
|------------------------------|------------------------------|
| (a) 18 <sup>th</sup> century | (b) 19 <sup>th</sup> century |
| (c) 20 <sup>th</sup> century | (d) Both (a) and (b)         |

[Ans. (d) Both (a) and (b)]

3. All the business transactions are recorded in the book of

- |                  |                   |
|------------------|-------------------|
| (a) accounts     | (b) book keeping  |
| (c) transactions | (d) none of these |

[Ans. (a) accounts]

4. Accounting cycle begins with recording of business transactions and ends with the preparation of

- |                        |                         |
|------------------------|-------------------------|
| (a) Final accounts     | (b) Cost accounts       |
| (c) Financial accounts | (d) Management accounts |

[Ans. (a) Final accounts]

5. The activities of a business, which involve transfer of money or money's worth are called

- |                      |             |
|----------------------|-------------|
| (a) Transactions     | (b) Events  |
| (c) Accounting cycle | (d) Costing |

[Ans. (a) Transactions]

6. What is decreased by the amount of losses incurred and the amounts withdrawn by the proprietor?

- |             |                 |
|-------------|-----------------|
| (a) Assets  | (b) Liabilities |
| (c) Capital | (d) Drawings    |

[Ans. (d) Drawings]

7. Goodwill is an examples of

- |                       |
|-----------------------|
| (a) Tangible assets   |
| (b) Liabilities       |
| (c) Intangible assets |
| (d) Capital           |

[Ans. (c) Intangible assets]

8. The document prepared by the seller when he sells goods to the buyer is

- |             |             |
|-------------|-------------|
| (a) Voucher | (b) Invoice |
| (c) Receipt | (d) Ticker  |

[Ans. (b) Invoice]

9. A person who owns a business is called

- |              |                |
|--------------|----------------|
| (a) Creditor | (b) Proprietor |
| (c) Debtor   | (d) Solvent    |

[Ans. (b) Proprietor]

10. Financial statements do not consider

- |   |
|---|
| (a) Assets expressed in monetary terms          |
| (b) Liabilities expressed in monetary terms     |
| (c) Assets expressed in non-monetary terms      |
| (d) Liabilities expressed in non-monetary terms |

[Ans. (c) Assets expressed in non-monetary terms]



**11. External reporting is done for**

- (a) Journal  
(b) Trial balance  
(c) Balance Sheet  
(d) Ledger

[Ans. (b) Trial balance]

**(ii) MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.**

1.

List I	List II
(i) Internal users of accounting information	(1) Financial advisor
(ii) External users of accounting information.	(2) Management Accounting
(iii) Role of an accountant	(3) Customers
(iv) Branches of accounting	(4) Owners

**Codes:**

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	1	2
(d)	2	3	1	4

[Ans. (c) (i) - 4 (ii) - 3 (iii) - 1 (iv) - 2]

2.

List I	List II
(i) Capital	(1) Invoice
(ii) Drawings	(2) Divident
(iii) Voucher	(3) Value of goods, assets
(iv) Income	(4) Proprietor

**Codes:**

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	1	2
(d)	2	3	1	4

[Ans. (c) (i) - 4 (ii) - 3 (iii) - 1 (iv) - 2]

**(iii) CHOOSE THE CORRECT OPTION AND FILL IN THE BLANKS.**

1. \_\_\_\_\_ has rightly been termed as the language of the business.

- (a) Accounting (b) Book-keeping  
(c) Accountant (d) None of these

[Ans. (a) Accounting]

2. \_\_\_\_\_ must be properly maintained to increase their productivity.

- (a) Liabilities (b) Assets  
(c) Debtors (d) None of these

[Ans. (b) Assets]

3. \_\_\_\_\_ of a business have to be repaid in due time.

- (a) Assets (b) Sales  
(c) Liabilities (d) None of these

[Ans. (c) Liabilities]

4. \_\_\_\_\_ also require accounting records to submit in courts to prove their claims.

- (a) Salesmen (b) Owners  
(c) Producers (d) Businessmen

[Ans. (d) Businessmen]

5. Double - entry book keeping first emerged in Italy in the \_\_\_\_\_ century.

- (a) 13<sup>th</sup> (b) 14<sup>th</sup>  
(c) 18<sup>th</sup> (d) 19<sup>th</sup>

[Ans. (b) 14<sup>th</sup>]

6. \_\_\_\_\_ wrote his 'Summa de arithmetica'.

- (a) Kautilya (b) Valluvar  
(c) Luca pacioli (d) Chanakaya

[Ans. (c) Luca pacioli]

7. \_\_\_\_\_ provides the relevant data to make appropriate decisions.

- (a) Management (b) Accounting  
(c) Accountant (d) Leadership

[Ans. (b) Accounting]

8. Accounting works as a tool for measuring past performance of the \_\_\_\_\_ enterprises.

- (a) commerce (b) business  
(c) both 'a' and 'b' (d) none of these

[Ans. (b) business]

(2) All the indirect revenues and indirect expenses along with gross profit or gross loss are transferred to profit and loss account.

(3) The balance in the profit and loss account is the net profit or net loss.

**(vi) Preparation of balance sheet :**

(1) A statement showing the balances of assets and liabilities namely balance sheet is prepared as the final step in the accounting process.

(2) It is prepared on a particular date, normally, on the last day of the accounting period.

**3. Briefly explain the functions of accounting.**

**Ans.** The main functions of accounting are as follows :

**(i) Measurement :**

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

2. Accounting works as a tool for measuring past performance of the business enterprises.

**(ii) Forecasting :**

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

**(iii) Comparison :**

1. Accounting helps to assess the actual performance with the targets.

2. It also discloses the accounting policies.

**(iv) Decision making :**

1. Accounting assists the management in planning, evaluation of performance, control and decision making by providing required information to various users of accounts.

2. This will help them to take various decisions on cost, price, sales, volume, etc.

**(v) Control :**

1. As accounting works as a tool of control, the strengths and weaknesses are identified to provide feedback on various measures adopted.

2. It serves as a tool for evaluating compliance of business policies and programmes.

**(vi) Assistance to Government :**

1. Government needs full information on the financial aspects of the business for various purposes such as taxation, grant of subsidy, etc.

2. Accounting provides relevant information about the business to exercise government control on business enterprises.

**4. What are the bases of accounting? and briefly explain it.**

**Ans.** There are three bases of accounting in common usage, namely

- (i) Cash basis
- (ii) Accrual or mercantile basis
- (iii) Mixed or hybrid basis

**(i) Accounting on cash basis :**

1. Under cash basis of accounting, actual cash receipts and actual cash payments are recorded.

2. Credit transactions are not recorded till the cash is actually received or paid.

3. Under the basis,
- a) Any income received
  - b) Any expenditure paid
  - c) Any asset purchased for which cash is paid.
  - d) Any liability paid during the accounting period. Whether related to the past, present or future is taken into account.



- i) It helps to make inter-firm comparisons, i.e., to find out how a firm has performed as compared to the other firms.
- ii) It helps to make inter-period comparisons, i.e., to find out how it has performed as compared to the previous years.

**SHORT ANSWER QUESTIONS.****3 MARKS**

**1. Non-monetary transactions are not recorded in the books of accounts'. Give reason and explain.**

- Ans.**
- (i) Accounting records only those transactions and events which can be expressed in terms of money such as sale of purchase of goods, salary paid etc.
  - (ii) Non-monetary transactions i.e. those transactions which cannot be expressed in terms of money are not recorded in the books of accounts.
  - (iii) Example of such transactions are value of human resources, appointment of a new managing director, etc.
  - (iv) These transactions may be important for the business but these are not recorded in the books of accounts. Because these cannot be measured in monetary terms.

**2. Is accounting an art or a Science?**

**Ans.** Accounting is both an art as well as Science.

**i) Art :**

- 1. Art is the technique of achieving some pre-determined objectives.
- 2. And accounting is also an art of recording, classifying and summarising financial transactions.

**ii) Science :**

- 1. Science is an organised knowledge based on certain basic principles.
- 2. Therefore, Accounting is also a Science as it is an organised knowledge based on certain principles.

## HOTS Questions

**VERY SHORT ANSWER QUESTIONS.****2 MARKS**

**1. Accounting records of business transactions and events which are of financial nature. Is this a limitation of accounting?**

**Ans.** Yes, it is a limitation of accounting because there are events which impact business but are not recorded because they are not of financial nature.

**2. A firm follows a practice of giving the figures of previous year along with the figures of current year. Now the accountant of the firm wants to discontinue this practice. Do you justify this decision?**

**Ans.** No, comparability of current year figures with that of previous year is a qualitative characteristic of financial information. Discontinuation of this practice will result in discontinuation of a good practice being followed by the firm.

**3. Mr. Suresh, an electronic good dealer, gifted a microwave of value ₹40,000 to his friend Roshan and recorded it in books as drawings. Is he correct?**

**Ans.** Yes, he is correct, it will be treated as drawings and will be recorded in the books.



# UNIT

# 4

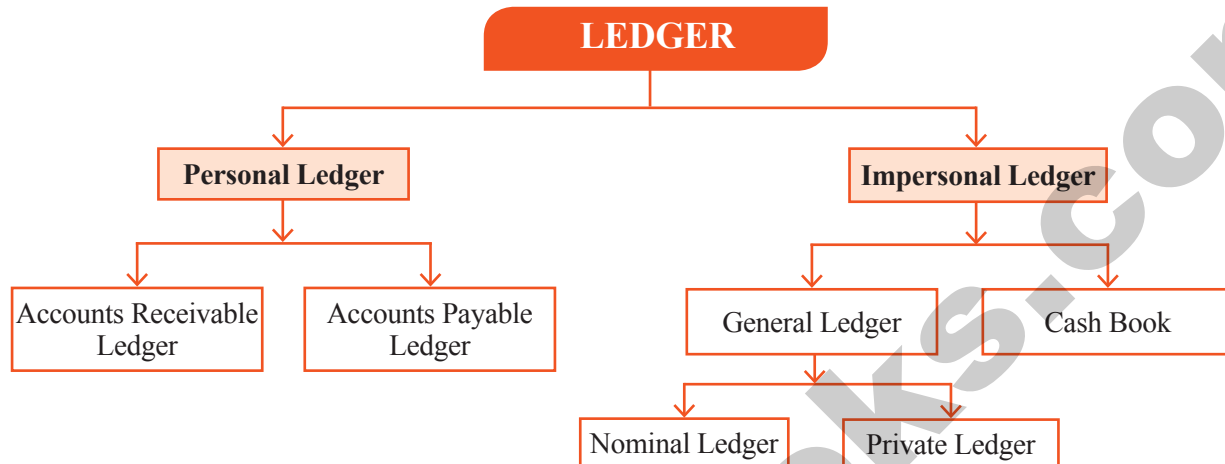
# LEDGER

## CHAPTER SNAPSHOT

- 4.1 Introduction
- 4.2 Utilities of ledger
- 4.3 Format of ledger account
- 4.4 Distinction between journal and ledger
- 4.5 Procedure for posting
  - 4.5.1 Posting of opening journal entry
  - 4.5.2 Posting of compound journal entry
- 4.6 Balancing of ledger accounts
  - 4.6.1 Procedure for balancing an account
  - 4.6.2 Direct ledger posting

## CONCEPT MAP

### SUB-DIVISION OF THE LEDGER



## IMPORTANT POINTS

- ❑ Ledger is known as Principal book of accounts because it is very useful for a business enterprise.
- ❑ The Personal accounts give the net amount due to creditors and the net amount due from debtors, real accounts show the values of assets and nominal accounts will show sources of incomes and expenses.
- ❑ The ledger account is prepared in 'T' Format. It is divided into two parts.
- ❑ The process of transferring the debit and credit items from the journal to the ledger accounts is called posting.
- ❑ In case of existing business enterprises, opening entry is made at the beginning of the accounting period to bring into account the balances of accounts which were not closed in the Preceding accounting period.
- ❑ When a journal entry has more than one debit or more than one credit or both, it is called a compound entry.
- ❑ Balancing means that the debit side and credit side amounts are totaled and the difference between the total of the two sides is placed in the amount column as Balance c/d on the column side having lesser total so that the total of both debit and credit columns are equal.
- ❑ The Closing balance of an accounting period is the opening balance of the next accounting period.
- ❑ Trial balance is a statement which shows debit and credit balances of all accounts in the ledger.
- ❑ The debit balance of a ledger account is shown in the debit column, while credit balance is shown in the credit column of the trial balance.



## SELF-EXAMINATION QUESTIONS

### I. MULTIPLE CHOICE QUESTIONS.

#### CHOOSE THE CORRECT ANSWER.

1. **Main objective of preparing ledger account is to** [BEQ; Govt. MQP-'18; QY-'19; CRT-'22]
- Ascertain the financial position
  - Ascertain the profit or loss
  - Ascertain the profit or loss and the financial position
  - Know the balance of each ledger account

**[Ans. (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** [BEQ; First Mid-'18; Aug-'22]
- Casting
  - Posting
  - Journalising
  - Balancing

**[Ans. (b) Posting]**

3. **J. F. means** [CRT-'22]
- Ledger page number
  - Journal page number
  - Voucher number
  - Order number

**[Ans. (b) Journal page number]**

4. **The process of finding the net amount from the totals of debit and credit columns in a ledger is known as** [June-'19; May-'22]
- Casting
  - Posting
  - Journalising
  - Balancing

**[Ans. (d) Balancing]**

5. **If the total of the debit side of an account exceeds the total of its credit side, it means** [BEQ; Govt. MQP-'18; QY-'18, '19; HY-'18; Sep-'21; Aug-'22]

- Credit Balance
- Debit Balance
- Nil Balance
- Debit and Credit Balance

**[Ans. (b) Debit Balance]**

6. **The amount brought into the business by the proprietor should be credited to** [Mar-'19; Sep-2020]
- Cash account
  - Drawings account
  - Capital account
  - Suspense account

**[Ans. (c) Capital account]**

### II. VERY SHORT ANSWER QUESTIONS.

1. **What is a ledger?**
- Ans.** (i) Ledger is known as Principal book of accounts.  
(ii) It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.  
(iii) Account-wise balance can be determined from the ledger.  
(iv) The ledger accounts are prepared based on journal entries passed.
2. **What is meant by posting?** [BEQ; CRT-'22]
- Ans.** The process of transferring the debit and credit items from the journal to the ledger accounts is called posting.
3. **What is debit balance?**
- Ans.** (i) The excess of debit total over the credit total is called the debit balance.  
(ii) When there is only debit entries in an account, the amount itself is the balance of that account, i.e., the debit balance.
4. **What is credit balance?** [Sep-'21; May & Aug-'22]
- Ans.** (i) The excess of credit total over the debit total is called the credit balance.  
(ii) When there is only credit entries in an account, the amount itself is the balance of that account, i.e., the credit balance.
5. **What is balancing of an account?**
- Ans.** (i) Balance is the difference between the total debits and the total credits of an account.  
(ii) Balancing means the writing of the difference between the amount columns of the two sides in the lighter (Smaller Total) side, so that the grand totals of the two sides become equal.

### III. SHORT ANSWER QUESTIONS.

#### 1. Distinguish between journal and ledger.

[BEQ; Govt. MQP-'18; Sep-'21]

Ans :

S. No.	Basis of Distinction	Journal	Ledger
1.	Recording	As and when transactions take place entries are made in journal.	In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained.
2.	Stage of recording	Recording in the journal is the first stage.	Recording in the ledger is the second stage, which is done on the basis of entries made in the journal.
3.	Order of recording	Entries are made in the chronological order, i.e., datewise in the order of occurrence.	Entries are made accountwise.
4.	Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
5.	Facilitating preparation of trial balance	Amount from the journal does not serve as the basis for preparing trial balance.	Ledger balances serve as the basis for preparing trial balance.
6.	Basis of entries	Entries in the journal are made on the basis of source documents.	Posting is done in ledger on the basis of journal entries.
7.	Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account.

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

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

#### Utilities of ledger :

- 1) **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.
- 2) **Control over business transactions:** From the ledger balances extracted, a thorough analysis of account balances

can be made which help to have control over the business transactions.

- 3) **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.
- 4) **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.** The procedure of posting from journal to ledger is as follows :

- (i) 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.

# UNIT

# 5

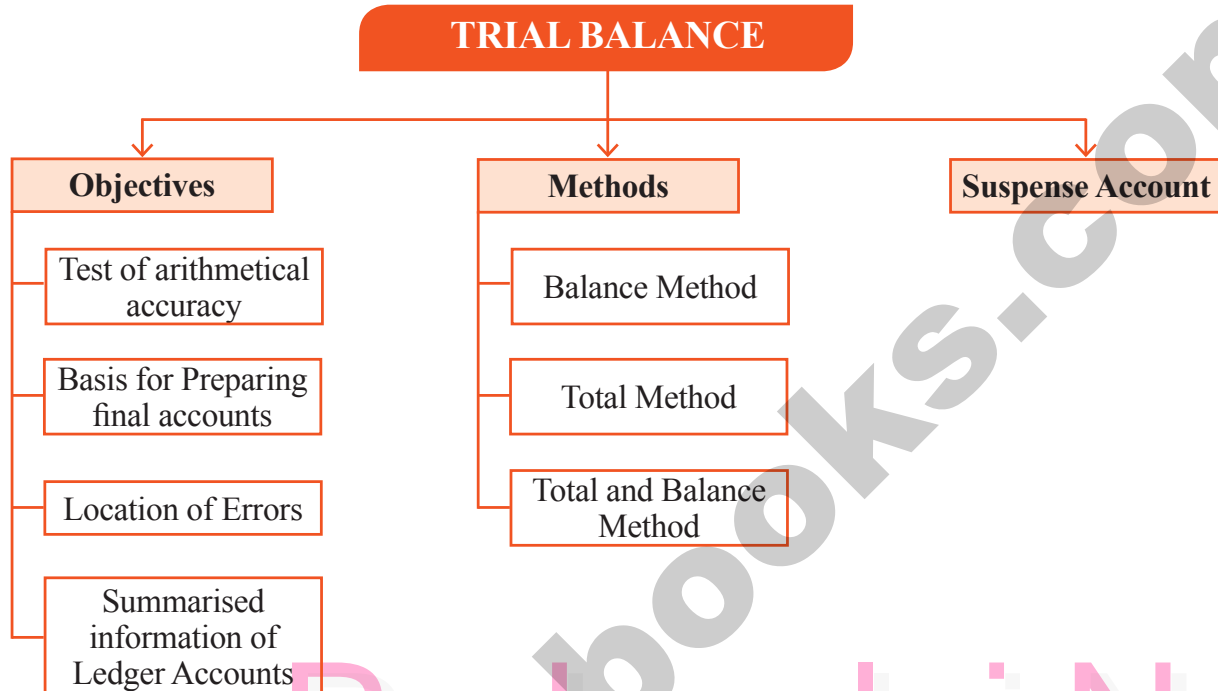
# TRIAL BALANCE

## CHAPTER SNAPSHOT

- 5.1 Introduction
- 5.2 Need for preparing trial balance
- 5.3 Definition of trial balance
- 5.4 Features of trial balance
- 5.5 Objectives of preparing trial balance
- 5.6 Limitations of trial balance
- 5.7 Methods of preparing trial balance
  - 5.7.1 Balance method
  - 5.7.2 Total method
  - 5.7.3 Total and Balance method
- 5.8 Suspense account



## CONCEPT MAP



## IMPORTANT POINTS

- Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date.
- The first step is recording the business transactions in subsidiary books or journal.
- The second step is preparing ledger accounts on the basis of subsidiary books or journal.
- Trial balance serves as a lubricant for the smooth movement and completion of the accounting cycle, because it is with the help of the Trial balance.
- Trial balance can be prepared in two methods, (i.e.) Total method and the Balance method.
- The fundamental principle of the double-entry system is that every debit has a corresponding credit of equal amount and vice-versa.

## SELF-EXAMINATION QUESTIONS

### I. MULTIPLE CHOICE QUESTIONS.

#### CHOOSE THE CORRECT ANSWER.

1. Trial balance is a [BEQ; HY-'19; CRT-'22]  
 (a) Statement (b) Account  
 (c) Ledger (d) Journal  
**[Ans. (a) Statement]**
2. After the preparation of ledger, the next step is the preparation of [QY-'19; Sep-'21; Aug-'22]  
 (a) Trading account  
 (b) Trial balance  
 (c) Journal  
 (d) Profit and loss account  
**[Ans. (b) Trial balance]**
3. The trial balance contains the balances of [Govt. MQP-'18; QY-'18; HY-'19]  
 (a) Only personal accounts  
 (b) Only real accounts  
 (c) Only nominal accounts  
 (d) All accounts **[Ans. (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 **[Ans. (d) a, b and c]**
5. A list which contains balances of accounts to know whether the debit and credit balances are matched is [Sep-'21; CRT-'22]  
 (a) Journal (b) Day book  
 (c) Trial balance (d) Balance sheet  
**[Ans. (c) Trial balance]**
6. Which of the following method(s) can be used for preparing trial balance? [Sep-2020]  
 (a) Balance method (b) Total method  
 (c) Total and Balance method  
 (d) a, b and c **[Ans. (d) a, b and c]**

7. While preparing the trial balance, the accountant finds that the total of the credit column is short by ₹200. This difference will be  
 (a) Debited to suspense account  
 (b) Credited to suspense account  
 (c) Adjusted to any of the debit balance  
 (d) Adjusted to any of the credit balance  
**[Ans. (b) Credited to suspense account]**
8. The account which has a debit balance and is shown in the debit column of the trial balance is [QY-'19; Sep-2020; May & Aug-'22]  
 (a) Sundry creditors account  
 (b) Bills payable account  
 (c) Drawings account  
 (d) Capital account  
**[Ans. (c) Drawings account]**
9. The difference of totals of both debit and credit side of trial balance is transferred to: [BEQ; QY-'18; HY-'18; Mar-'19]  
 (a) Trading account  
 (b) Difference account  
 (c) Suspense account  
 (d) Miscellaneous account  
**[Ans. (c) Suspense account]**
10. Trial balance is prepared : [May-'22]  
 (a) At the end of the year  
 (b) On a particular date  
 (c) For a year  
 (d) None of the above  
**[Ans. (b) On a particular date]**

### II. VERY SHORT ANSWER QUESTIONS.

1. What is trial balance?  
 [BEQ; Govt. MQP-'18; QY-'19; CRT & May-'22]  
**Ans. (i)** Trial balance is a statement containing the debit and credit balances of all Ledger Accounts on a particular date.  
**(ii)** It is arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of entries made in the books of accounts and to facilitate preparation of financial statements.

**2. Give the format of trial balance.** [Aug- '22]

**Ans.** 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?** [CRT- '22]

**Ans.** A trial balance can be prepared in the following methods.

- (i) Balance Method      (ii) Total Method  
(iii) Total and Balance Method

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

[BEQ; Govt. MQP-'18; Sep-2020]

- (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.**

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

### III. SHORT ANSWER QUESTIONS.

**1. What are the objectives of preparing trial balance?** [Sep-'21]

**Ans.** Trial balance is prepared with the following objectives:

(i) **Test of arithmetical accuracy :**

Trial Balance is a 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 obtained from the trial balance.

(iii) **Location of Errors :**

1) When the Trial balance does not tally, it is an indication that certain errors have occurred.

2) The errors may have occurred at one or more of the stages of accounting process, namely, journalising or recording in subsidiary books, totalling subsidiary books, posting in ledger accounts, balancing the ledger accounts, carrying ledger account balances to the trial balance, totalling the trial balance columns, etc.

(iv) **Summarised information of Ledger Accounts :**

1) The summary of ledger accounts is shown in the trial balance.

2) Ledger accounts have to be seen only when details are required in respect of an account.

**2. What are the limitations of trial balance?**

**Ans.** The following are the limitations of trial balance.

(i) It is possible to prepare trial balance of an organisation, only if the double entry system is followed.

(ii) Even if some transactions are omitted, the trial balance will tally.

(iii) Trial Balance may tally even though errors are committed in the books of account.

(iv) 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.

(v) Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records.



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

[BEQ; Govt. MQP-'18]

**Ans.** Yes, Agree this statement.

The fundamental principle of the double-entry system of book-keeping is that every debit has a corresponding and equal credit and viceversa. Therefore, the total of the debit balances must be equal to the total of the credit balances. When such agreement between the total of all debit balances and the total of all credit balances takes place, it offers an immediate and apparent proof of arithmetical accuracy of the book-keeping work on a particular day. At the same time, it should not be taken as the conclusive proof of arithmetical accuracy as certain errors, such as error of principle compensating errors and complete omission of a transaction are not disclosed by the trial balance.

#### IV. EXERCISES.

1. Prepare a trial balance with the following information:

[BEQ; QY-'18; June-'19]

Name of the account	₹	Name of the account	₹
Purchases	1,00,000	Sales	1,50,000
Bank Loan	75,000	Creditors	50,000
Debtors	1,50,000	Cash	90,000
Stock	35,000	Capital	1,00,000

**Solution :**

#### Trial Balance

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Purchases		1,00,000	
2.	Bank Loan			75,000
3.	Debtors		1,50,000	
4.	Stock		35,000	
5.	Sales			1,50,000
6.	Creditors			50,000
7.	Cash		90,000	
8.	Capital			1,00,000
	<b>Total</b>		<b>3,75,000</b>	<b>3,75,000</b>

2. Prepare the trial balance from the following information:

[BEQ; HY-'18]

Name of the account	₹	Name of the account	₹
Bank loan	2,00,000	Purchases	1,80,000
Bills payable	1,00,000	Sales	3,00,000
Stock	70,000	Debtors	4,00,000
Capital	2,50,000	Bank	2,00,000

**Solution :**

#### Trial Balance

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Bank Loan			2,00,000
2.	Bills payable			1,00,000
3.	Stock		70,000	
4.	Capital			2,50,000
5.	Purchases		1,80,000	
6.	Sales			3,00,000
7.	Debtors		4,00,000	
8.	Bank		2,00,000	
	<b>Total</b>		<b>8,50,000</b>	<b>8,50,000</b>

3. Prepare the trial balance from the following balances of Chandramohan as on 31<sup>st</sup> March, 2017.

	₹		₹
Capital	1,24,500	Bank overdraft	5,800
Drawings	2,000	Motor car	20,000
Loan borrowed	7,000	General expenses	2,500
Sales	53,400	Building	1,10,000
Purchases	40,000	Stock	16,200

## Additional Questions and Answers

### I. CHOOSE THE CORRECT ANSWER.

1 MARK

#### (i) CHOOSE THE CORRECT OPTION.

1. Which of the following is true about a trial balance?

- (a) It lists down the balance of accounts
- (b) It lists down the balances of a balance sheet
- (c) It is a kind of financial statement
- (d) It is not a part of accounting cycle

[Ans. (a) It lists down the balance of accounts]

2. Debit balance = credit balance in a trial balance indicates that

- (a) No error in recording transactions
- (b) No error in posting entries to ledger accounts
- (c) Account balances are correct
- (d) Capital + Liabilities = Assets

[Ans. (d) Capital + Liabilities = Assets]

3. Which of the following will affect the agreement of a trial balance?

- (a) Complete omission of a transaction
- (b) Partial omission of a transaction
- (c) Error of principle
- (d) Compensating errors

[Ans. (b) Partial omission of a transaction]

4. Which of the following account with normal balance is shown at the credit side of a trial balance?

- (a) Cash account
- (b) Bank account
- (c) Equipment account
- (d) Accrued expenses account

[Ans. (d) Accrued expenses account]

5. The first step is recording the business transactions in

- (a) Subsidiary Books/Journal
- (b) Ledger
- (c) Balance Sheet
- (d) Trial balance

[Ans. (a) Subsidiary Books/Journal]

6. The trial balance helps in discovering errors which may have been committed in the

- (a) accounting transactions
- (b) accounting standard
- (c) accountancy
- (d) accounting records

[Ans. (d) accounting records]

7. Suspense account in the trial balance is entered in the

- (a) Trading Account
- (b) Profit and Loss A/c
- (c) Balance Sheet
- (d) None of these

[Ans. (c) Balance Sheet]

8. Suspense account having credit balance will be shown on the

- (a) Credit side of the Profit and Loss A/c
- (b) Debit side of the Profit and Loss A/c
- (c) Liabilities side of the Balance Sheet
- (d) Assets side of the Balance Sheet

[Ans. (c) Liabilities side of the Balance Sheet]

#### (ii) CHOOSE THE CORRECT OPTION AND FILL IN THE BLANKS.

1. \_\_\_\_\_ is a statement containing the debit and credit balances of all ledger accounts on a particular date.

- (a) Trial Balance
- (b) Balance Sheet
- (c) Trading account
- (d) Profit and loss account

[Ans. (a) Trial Balance]

2. The preparation of \_\_\_\_\_ is the third step in the accounting process.

- (a) journal
- (b) ledger
- (c) trial balance
- (d) balance sheet

[Ans. (c) trial balance]

3. \_\_\_\_\_ helps to check the arithmetical accuracy of entries made in the accounting records.

- (a) Balance Sheet
- (b) Trial Balance
- (c) Book keeping
- (d) Double Entry

[Ans. (b) Trial Balance]

4. \_\_\_\_\_ is prepared on a specific date.

- (a) Trial Balance
- (b) Journal
- (c) Ledger
- (d) All of the above

[Ans. (a) Trial Balance]

5. \_\_\_\_\_ method is not commonly used as it cannot help in the preparation of financial statements.

- (a) Total Method
- (b) Balance Method
- (c) Total and Balance Method
- (d) None of these

[Ans. (a) Total Method]

6. The \_\_\_\_\_ method is widely used, as it helps in the preparation of financial statements.

- (a) Total (b) Balance  
(c) Both 'a' and 'b' (d) None of these

[Ans. (b) Balance]

(iii) WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

1. (a) Cash in hand - Debit balance  
(b) Opening stock - Debit balance  
(c) Goodwill - Credit balance  
(d) Sales - Credit balance

[Ans. (c) Goodwill - Credit balance]

(iv) WHICH ONE OF THE FOLLOWING IS CORRECTLY MATCHED?

1. (a) Vehicles - Credit balance  
(b) Purchases - Credit balance  
(c) Interest received - Debit balance  
(d) Bills payable - Credit balance

[Ans. (d) Bills payable - Credit balance]

(v) CONSIDER THE FOLLOWING STATEMENT.

1. Assertion (A) : Trial balance is a statement containing the debit and credit balance of all ledger accounts on a particular date.

Reason (R) : The trial balance helps in discovering errors which may have been committed in the accounting records.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)  
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A)  
(c) (A) is true, but (R) is false.  
(d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

2. Assertion (A) : Trial balance is prepared on a particular date.

Reason (R) : The date must be mentioned in the title of trial balance.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)  
(b) Both (A) and (R) are true and (R) is not the correct explanation of (A)  
(c) (A) is true, but (R) is false.  
(d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

(vi) CHOOSE THE CORRECT STATEMENT

1. (i) The first step is recording the business transactions in subsidiary books or journal.  
(ii) The second step is preparing ledger accounts on the basis of subsidiary books or journal.  
(iii) The preparation of trial balance is the third step in the accounting process.

- (a) (i) is correct  
(b) (ii) is correct  
(c) (iii) is correct  
(d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

2. (i) Ledger accounts have to be seen only when details are required in respect of an account.  
(ii) Trial balance may tally even though errors are committed in the books of account.  
(iii) The balance method is widely used, as it helps in the preparation of trial balance.

- (a) (i) is correct  
(b) (iii) is correct  
(c) (i) and (ii) are correct  
(d) (ii) and (iii) are correct

[Ans. (c) (i) and (ii) are correct]

## II. VERY SHORT ANSWER QUESTIONS.

**2 MARKS**

1. State whether the balance of each of the following accounts should be placed in the debit or the Credit column of the trial balance.

[BEQ]

- |                             |                        |
|-----------------------------|------------------------|
| 1) Bills receivable         | 2) Opening Stock       |
| 3) Land and Building        | 4) Goodwill            |
| 5) Carriage outwards        | 6) Electricity Charges |
| 7) Reserve Fund             |                        |
| 8) Provision for Bad Debts. |                        |

- Ans. Debit Balances** = 1) Bills receivable;  
2) Opening Stock;  
3) Land and Building;  
4) Goodwill;  
5) Carriage outwards;  
6) Electricity charges
- Credit Balances** = 7) Reserve Fund;  
8) Provision for Bad debts.

### PROBLEMS

1. Prepare a correct trial balance from the following trial balance in which there are certain mistakes.

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Sales		1,75,000	
2.	Closing Stock			1,50,000
3.	Debtors			30,000
4.	Creditors			15,000
5.	Fixed Assets		25,000	
6.	Expenses			30,000
7.	Capital		45,000	

**Solution :**

**In the books of Trial balance**

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Sales			1,75,000
2.	Closing Stock		1,50,000	
3.	Debtors		30,000	
4.	Creditors			15,000
5.	Fixed Assets		25,000	
6.	Expenses		30,000	
7.	Capital			45,000
	<b>Total</b>		<b>2,35,000</b>	<b>2,35,000</b>

2. Prepare a trial balance with the following information:

	₹		₹
Purchases	2,00,000	Sales	3,00,000
Bank loan	1,50,000	Creditors	1,00,000
Debtors	3,00,000	Cash	1,80,000
Stock	70,000	Capital	2,00,000

**Solution :**

**Trial Balance**

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Purchases		2,00,000	
2.	Bank loan			1,50,000
3.	Debtors		3,00,000	
4.	Stock		70,000	
5.	Sales			3,00,000
6.	Creditors			1,00,000
7.	Cash		1,80,000	
8.	Capital			2,00,000
	<b>Total</b>		<b>7,50,000</b>	<b>7,50,000</b>

## III. SHORT ANSWER QUESTIONS. 3 MARKS

1. What is the need for preparing trial balance?

- Ans.** (i) Trial balance helps to check the arithmetical accuracy of entries made in the accounting records.
- (ii) Trial balance serves as a lubricant for the smooth movement and completion of the accounting cycle.
- (iii) The trial balance helps in discovering errors which may have been committed in the accounting records.
- (iv) However, is computerised 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.

2. What are the features of trial balance?

**Ans.** Following are the features of trial balance:

- (i) Trial balance contains the balances of all ledger accounts.
- (ii) It is prepared on a specific date.
- (iii) Trial balance helps to check the arithmetic accuracy of entries made in the books of accounts.



- (iv) If there is a difference between the totals of debit column and credit column of the trial balance, it is an indication of errors being committed somewhere.
- (v) If both the debit column and the credit column of the trial balance have the same total, it does not mean that there is no mistake in accounting.

### PROBLEMS

1. Prepare the Trial balance from the following balances of Radha krishnan as on 31.03.2016.

	₹		₹
Cash	75,000	Purchases return	5,000
Furniture	30,000	Drawings	49,000
Salary	25,000	Sales	3,05,000
Loan	35,000	Sales return	1,000
Purchases	2,60,000	Capital	95,000

#### Solution :

**In the books of Radha krishnan  
Trial balance as on 31.03.2016**

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Cash		75,000	
2.	Furniture		30,000	
3.	Salary		25,000	
4.	Loan			35,000
5.	Purchases		2,60,000	
6.	Purchases return			5,000
7.	Drawings		49,000	
8.	Sales			3,05,000
9.	Sales return		1,000	
10.	Capital			95,000
	<b>Total</b>		<b>4,40,000</b>	<b>4,40,000</b>

2. Prepare the trial balance from the following balances of Ms. Chitra as on 31.03.2015.

	₹		₹
Capital	2,50,000	Bank	2,75,000
Bills payable	50,000	Debtors	1,00,000
		Discount received	5,000
Opening Stock	75,000	Sales	50,000
Loan	1,50,000	Purchases	45,000

**Solution :** In the books of Ms. Chitra  
Trial Balance as on 31.03.2015

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Capital			2,50,000
2.	Bills payable			50,000
3.	Opening Stock		75,000	
4.	Loan			1,50,000
5.	Salaries		10,000	
6.	Bank		2,75,000	
7.	Debtors		1,00,000	
8.	Discount received			5,000
9.	Sales			50,000
10.	Purchases		45,000	
	<b>Total</b>		<b>5,05,000</b>	<b>5,05,000</b>

3. From the following balances extracted from the books of Mr. Kannan at trader on automobiles, prepare trial balance as on 31<sup>st</sup> March, 2017.

	₹		₹
Cash in hand	5,500	Direct expenses	5,000
Discount received	300	Carriage outwards	3,500
Creditors	15,000	Capital	45,000
Buildings	50,000	Purchases	49,700
Opening stock	6,000	Sales	59,400

**Solution :** In the books of Mr. Kannan  
Trial Balance as on 31.03.2017

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Cash in hand		5,500	
2.	Discount received			300
3.	Creditors			15,000
4.	Buildings		50,000	
5.	Opening stock		6,000	
6.	Direct expenses		5,000	
7.	Carriage outwards		3,500	
8.	Capital			45,000
9.	Purchases		49,700	
10.	Sales			59,400
	<b>Total</b>		<b>1,19,700</b>	<b>1,19,700</b>

**IV. PROBLEMS****5 MARKS**

1. From the following balances extracted from the books of Mr. Gowri Sankar, a merchant of Chennai, prepare trial balance as on 31.12.2017.

	₹		₹
Buildings	15,000	Conveyance charges	5,600
Bills payable	5,000	Salary	3,500
Debtors	15,000	Capital	30,000
Cash at bank	16,800	Furniture	20,000
Insurance	1,600	Motor Vehicles	5,000
Rent received	5,000	Patents	2,000
Donation given	2,500	Goodwill	3,000
Loan borrowed	50,000		

**Solution :**

**In the books of Mr. Gowri Sankar  
Trial Balance as on 31.12.2017**

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Buildings		15,000	
2.	Bills payable			5,000
3.	Debtors		15,000	
4.	Cash at bank		16,800	
5.	Insurance		1,600	
6.	Rent received			5,000
7.	Donation given		2,500	
8.	Loan borrowed			50,000
9.	Conveyance charges		5,600	
10.	Salary		3,500	
11.	Capital			30,000
12.	Furniture		20,000	
13.	Motor Vehicles		5,000	
14.	Patents		2,000	
15.	Goodwill		3,000	
	<b>Total</b>		<b>90,000</b>	<b>90,000</b>

2. Prepare trial balance as on 31.12.2017 from the following balances of Mr. Balakrishnan.

	₹		₹
Capital	2,00,000	Repairs	2,400
Drawings	18,000	Office lighting	2,600
Furniture	64,500	Printing and Stationery	2,700
Stock at the beginning	62,050	Bank loan	17,500
Bills receivable	7,500	Computer	30,000
Bills payable	8,750	Debtors	46,500
Purchases	88,100	Cash in hand	27,250
Sales	1,35,450	Cash at bank	27,250
Discount allowed	7,100	General expenses	7,100
Discount received	3,500	Creditors	17,600

**Solution :**

**In the books of Mr. Balakrishnan  
Trial Balance as on 31.12.2017**

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Capital			2,00,000
2.	Drawings		18,000	
3.	Furniture		64,500	
4.	Stock at the beginning		62,050	
5.	Bills receivable		7,500	
6.	Bills payable			8,750
7.	Purchases		88,100	
8.	Sales			1,35,450
9.	Discount allowed		7,100	
10.	Discount received			3,500
11.	Repairs		2,400	
12.	Office lighting		2,600	
13.	Printing and Stationery		2,700	
14.	Bank loan			17,500
15.	Computer		30,000	
16.	Debtors		46,500	
17.	Cash in hand		27,250	
18.	Cash at bank		27,250	
19.	General expenses		7,100	
20.	Creditors			17,600
	<b>Total</b>		<b>3,82,800</b>	<b>3,82,800</b>

3. The following trial balance has certain errors. Redraft it.

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Building		60,000	
2.	Machinery		17,000	
3.	Returns outward		2,600	
4.	Bad debts		2,000	
5.	Cash		400	
6.	Discount received		3,000	
7.	Bank overdraft		10,000	
8.	Creditors		50,000	
9.	Purchases		1,00,000	
10.	Capital			72,800
11.	Fixtures			5,600
12.	Sales			1,04,000
13.	Debtors			60,000
14.	Interest received			2,600
	<b>Total</b>		<b>2,45,000</b>	<b>2,45,000</b>

**Solution :**

**Correct Trial Balance**

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1.	Building		60,000	
2.	Machinery		17,000	
3.	Returns outward			2,600
4.	Bad debts		2,000	
5.	Cash		400	
6.	Discount received			3,000
7.	Bank overdraft			10,000
8.	Creditors			50,000
9.	Purchases		1,00,000	
10.	Capital			72,800
11.	Fixtures		5,600	
12.	Sales			1,04,000
13.	Debtors		60,000	
14.	Interest received			2,600
	<b>Total</b>		<b>2,45,000</b>	<b>2,45,000</b>

## HOTS Questions

### VERY SHORT ANSWER QUESTIONS. 2 MARKS

1. Is Trial balance an account or a statement?

**Ans.** Trial balance is a Statement, showing the names and balances of all the accounts in the ledger and cash book.

2. Is it correct to say that trial balance facilitates the preparation of financial statements?

**Ans.** Yes, trial balance helps in preparing the financial statements by making available the balances of all the accounts at one place.

3. What will be the effect on trial balance if purchases return of ₹10,000 has been wrongly posted to the debit of sales return account but correctly entered in the customer's account?

**Ans.** The debit side of the trial balance will be more by ₹10,000.

4. Trial Balance is a link between the ledger and final accounts. Explain.

**Ans.** (i) Trial Balance is a connecting link between the accounting records and the preparation of financial statements.

(ii) The availability of a tallied trial balance is the first step in the preparation of financial statements, as it contains the balances of all the accounts.

(iii) All revenue and expenses account, which appear in the trial balance are transferred to the trading and profit and loss account and all liabilities, capital and assets accounts are transferred to the balance sheet.

5. Mr. Ganesh an accountant of XYZ co. in order to match the trial balance passed a dummy entry without any proof of the transaction and did not even inform the senior about it. Identify the value being violated by the accountant.

**Ans.** Value of trust is being violated by the accountant by passing a dummy entry and not even informing the seniors about it.

# UNIT 7

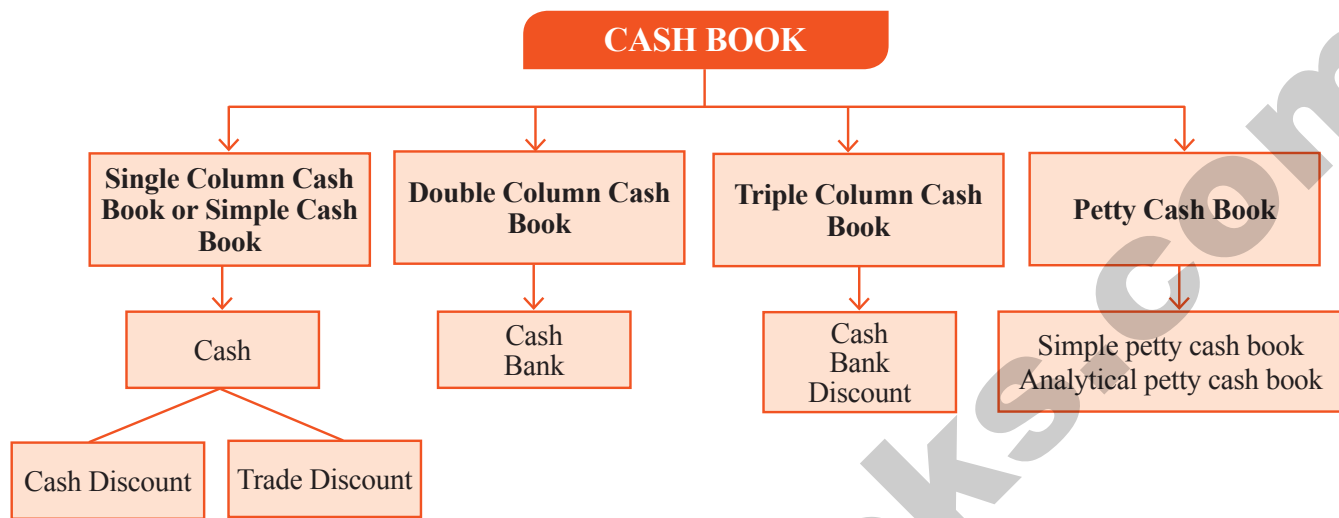
## SUBSIDIARY BOOKS - II CASH BOOK

### CHAPTER SNAPSHOT

- |   |   |
|---|---|
| <b>7.1</b> Introduction   | <b>7.8.2</b> Posting from double column cash book               |
| <b>7.2</b> Meaning of cash book   | <b>7.9</b> Three column cash book                               |
| <b>7.3</b> Cash book – A subsidiary book and principal book of accounts | <b>7.9.1</b> Format   |
| <b>7.4</b> Importance of cash book                                      | <b>7.9.2</b> Contra entry                                       |
| <b>7.5</b> Types of cash book   | <b>7.10</b> Petty cash book                                     |
| <b>7.6</b> Single column cash book                                      | <b>7.10.1</b> Imprest system of petty cash                      |
| <b>7.6.1</b> Balancing of single column cash book                       | <b>7.10.2</b> Advantages of maintaining petty cash book         |
| <b>7.6.2</b> Posting from single column cash book                       | <b>7.10.3</b> Types of petty cash book                          |
| <b>7.7</b> Cash discount and trade discount                             | <b>7.10.4</b> Balancing petty cash book                         |
| <b>7.7.1</b> Differences between cash discount and trade discount       | <b>7.10.5</b> Posting of entries from petty cash book to ledger |
| <b>7.8</b> Double column cash book                                      |   |
| <b>7.8.1</b> Balancing the double column cash book                      |   |



## CONCEPT MAP



## IMPORTANT POINTS

- In any business, many transactions take place involving cash every day such as cash sales, cash purchases, payment to creditors and for different expenses and receipts from debtors.
- Cash book is the most important subsidiary book, because it keeps the initial record of cash transactions of the business.
- All the cash transactions are recorded first in the cash book. It is therefore a subsidiary book.
- Single column cash book has only one amount column, i.e., cash column. Only cash transactions are recorded in this book.
- Cash discount is allowed to the parties making prompt or immediate payment.
- Trade discount is allowed on purchases. It is allowed by the seller to the buyer.
- Double column cash book is a cash book with cash and discount columns.
- The double column cash book is prepared on the lines of simple cash book.
- A three column cash book includes three amount columns on both sides, i.e., cash, discount and bank.
- Cheques are very frequently received from debtors or customers towards payment of money due from them.
- The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.
- Contra entry in cash book means a transaction involving both cash and bank.
- The amount given to the petty cashier as an advance.
- A simple petty cash book resembles the single column cash book.
- In analytical petty cash book, a separate column is provided for different heads of payments and a column for total payments.

## SELF-EXAMINATION QUESTIONS

### I. MULTIPLE CHOICE QUESTIONS.

#### CHOOSE THE CORRECT ANSWER.

1. Cash book is a [QY-'19; Sep-'21; Aug-'22]

- (a) Subsidiary book
- (b) Principal book
- (c) Journal proper
- (d) Both subsidiary book and principal book

[Ans. (d) Both subsidiary book and principal book]

2. The cash book records

[QY-'18; Mar-'19; Sep-2020; CRT-'22]

- (a) All cash receipts
- (b) All cash payments
- (c) Both (a) and (b)
- (d) All credit transactions

[Ans. (c) Both (a) and (b)]

3. When a firm maintains a simple cash book, it need not maintain [May-'22]

- (a) Sales account in the ledger
- (b) Purchases account in the ledger
- (c) Capital account in the ledger
- (d) Cash account in the ledger

[Ans. (d) Cash account in the ledger]

4. A cash book with discount, cash and bank column is called [QY-'19; CRT-'22]

- (a) Simple cash book
- (b) Double column cash book
- (c) Three column cash book
- (d) Petty cash book

[Ans. (c) Three column cash book]

5. In Triple column cash book, the balance of bank overdraft brought forward will appear in [BEQ; HY-'18; June-'19]

- (a) Cash column debit side
- (b) Cash column credit side
- (c) Bank column debit side
- (d) Bank column credit side

[Ans. (d) Bank column credit side]

6. Which of the following is recorded as contra entry? [BEQ; Govt. MQP-'18; Aug-'22]

- (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

[Ans. (b) Withdrew cash from bank for office use]

7. If the debit and credit aspects of a transaction are recorded in the cash book, it is [CRT & May-'22]

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

[Ans. (a) Contra entry]

8. The balance in the petty cash book is

[BEQ; Govt. MQP-'18; QY-'19]

- (a) An expense
- (b) A profit
- (c) An asset
- (d) A liability

[Ans. (c) An asset]

9. Petty cash may be used to pay [BEQ; QY-'18]

- (a) The expenses relating to postage and conveyance
- (b) Salary to the Manager
- (c) Purchase of furniture and fixtures
- (d) Purchase of raw materials

[Ans. (a) The expenses relating to postage and conveyance]

10. Small payments are recorded in a book called [HY-'19]

- (a) Cash book
- (b) Purchase book
- (c) Bills payable book
- (d) Petty cash book

[Ans. (d) Petty cash book]

### II. VERY SHORT ANSWER QUESTIONS.

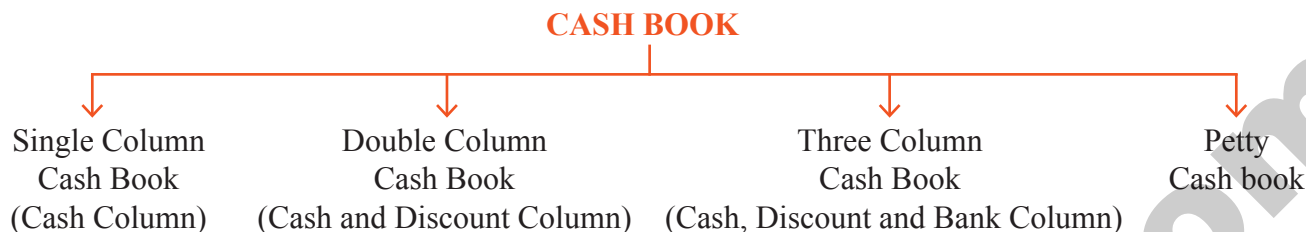
1. What is cash book?

- Ans. (i) Cash book is the book in which only cash transactions are recorded. Cash receipts are recorded in the debit side while cash payments are recorded in the credit side.
- (ii) The cash book is the book of original entry or prime entry.

**2. What are the different types of cash book?**

[BEQ; QY-'18; Sep-'21]

**Ans.** The various kinds of Cash book from the point of view of uses are as follows :

**3. What is simple cash book?**

[BEQ; Sep-2020]

**Ans. (i)** Single column cash book has only one amount column, i.e., cash column. Only cash transactions are recorded in this book.

**(ii)** All cash receipts and payments are recorded systematically in this book.

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

[CRT-'22]

**Ans.** Dr **Simple column cash book** Cr

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?**

**Ans. (i)** Double column Cash book is a cash book with cash and discount columns. As there are two columns, i.e., discount and cash columns, both on debit and credit sides, the cash book is known as '**double column cash book**'.

**(ii)** The double column cash book is prepared on the lines of simple cash book. It has only one additional column, i.e., discount column on each side.

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

**Ans.** Dr **Cash book with Cash and discount columns** Cr

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?** [QY-'19]

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

**(ii)** Opening balance, cash deposited in to bank, cheque deposited in the bank appear in the bank column on the debit side of the three column cash book.

**(iii)** All the transactions which decrease bank balance are recorded in the bank column on the credit side.

**8. What is cash discount?**

**Ans. (i)** Cash discount is allowed to the parties making prompt or immediate payment. It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment.

**(ii)** The discount is allowed when payment is received or made and hence the entry for discount is also passed with the entry of payment.

**9. What is trade discount?**

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

**10. What is a petty cash book?**

- Ans.** 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**".

**III. SHORT ANSWER QUESTIONS.****1. Explain the meaning of imprest system of petty cash book.**

- Ans.** (i) The amount given to the petty cashier in advance is known as "Imprest Money". The word imprest means payment in advance.

- (ii) The word imprest means payment in advance.
- (iii) The petty cashier makes payments from this amount and records them in petty cash book. At the end of a particular period the petty cashier submits the petty cash book to the head cashier.
- (iv) The head cashier scrutinises the petty payments and issues a fresh cheque equal to the amount spent by petty cashier so that the total amount with the petty cashier is how equal to the amount he had received in the beginning as advance.
- (v) Under the system the total cash with the petty cashier never exceeds the imprest and at any time during the period. This method thus provides an effective control over petty payments.

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

[BEQ; Govt. MQP-'18; QY-'18, '19; HY-'19;

Sep-'21; CRT-'22]

- Ans.** Following are the difference between cash discount and trade discount.

S. No.	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. The more the purchases, the more will be the rate and amount of discount.
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. Details are just shown in the purchases or sales book.
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.**

**Ans.** Following are the advantages of maintaining petty cash book:

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

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

- Ans.**
- (i) Discount column appears on both side of the cash book. In the discount allowed and cash discount received are recorded.
  - (ii) Discount column represents discount allowed on the debit side and discount received on the credit side.
  - (iii) 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.

(iv) For the person making the payment, discount received is a gain because less payment is made and because less payment is made and it is credited and shown on the credit side of the cash book.

(v) Discount columns are not balanced, since, debit represents discount allowed and credit represents discount received. They are totaled separately.

**5. Briefly explain about contra entry with examples.** [CRT- '22]

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

**Example :**

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

#### IV. EXERCISES.

##### SINGLE COLUMN CASH BOOK.

**1. Enter the following transactions in a single column cash book of Seshadri for May, 2017.**

[May & Aug- '22]

		₹
May 1	Cash in hand	40,000
5	Cash received from Swathi	4,000
7	Paid wages in cash	2,000
10	Purchased goods from Sasikala for cash	6,000
15	Sold goods for cash	9,000
18	Purchased computer	15,000
22	Cash paid to Sabapathi	5,000
28	Paid Salary	2,500
30	Interest received	500

# UNIT 10

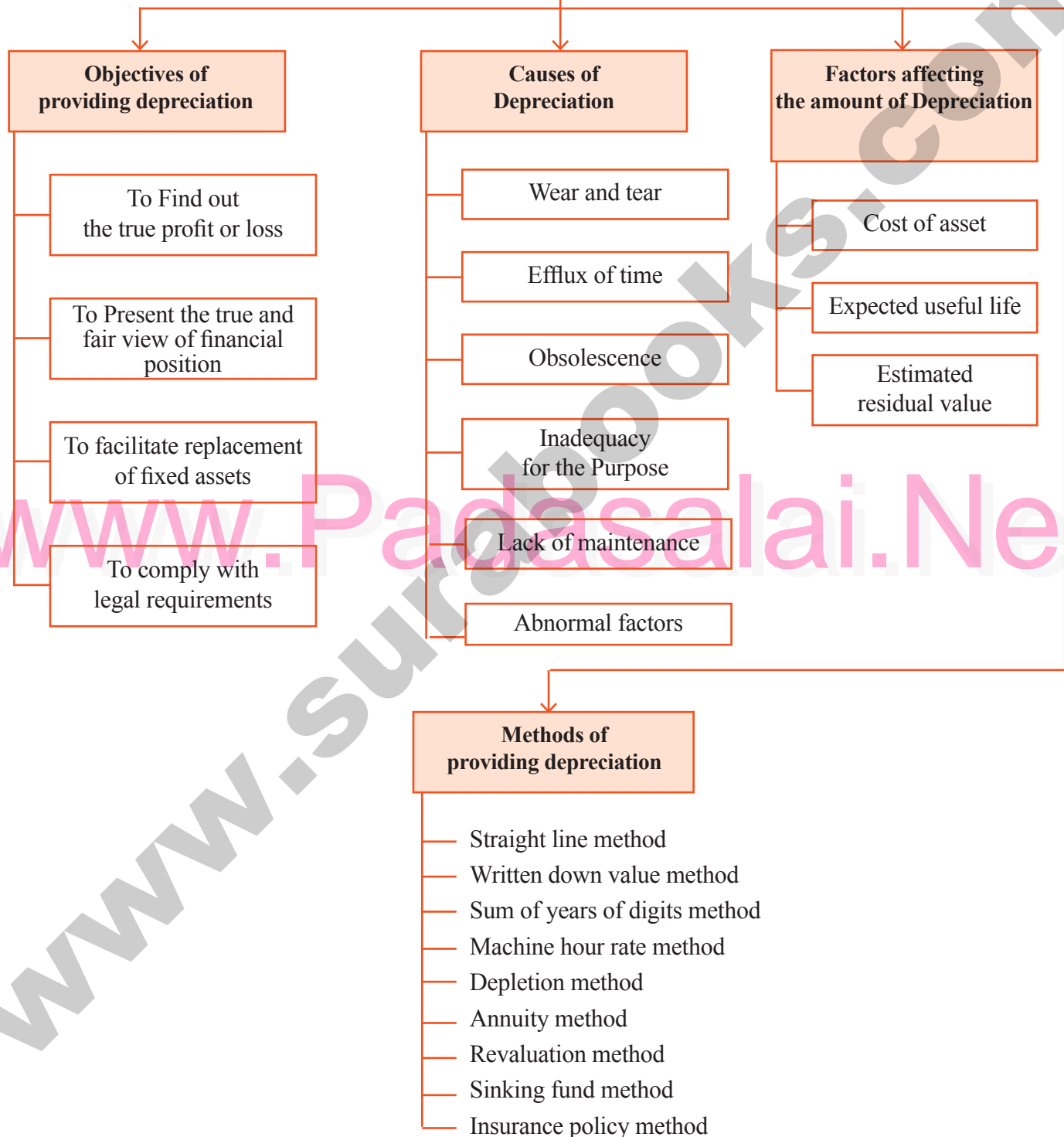
## DEPRECIATION ACCOUNTING

### CHAPTER SNAPSHOT

- |  |   |
|--|---|
| <b>10.1</b> Introduction   | <b>10.7.2</b> Written down value / Diminishing balance method |
| <b>10.2</b> Depreciation – Meaning and definition                                  | <b>10.7.3</b> Sum of years of digits method                   |
| <b>10.2.1</b> Useful life of the asset   | <b>10.7.4</b> Machine hour rate method                        |
| <b>10.2.2</b> Depreciable assets   | <b>10.7.5</b> Depletion method                                |
| <b>10.3</b> Objectives of providing depreciation                                   | <b>10.7.6</b> Annuity method                                  |
| <b>10.4</b> Causes of depreciation   | <b>10.7.7</b> Revaluation method                              |
| <b>10.5</b> Characteristics of depreciation  | <b>10.7.8</b> Sinking fund method                             |
| <b>10.6</b> Factors determining the amount of depreciation                         | <b>10.7.9</b> Insurance policy method                         |
| <b>10.7</b> Methods of providing depreciation                                      | <b>10.8</b> Methods of recording depreciation                 |
| <b>10.7.1</b> Straight line method/ Fixed instalment method / Original cost method | <b>10.8.1</b> Charging depreciation to asset account          |
|  | <b>10.9</b> Calculation of profit or loss on sale of asset    |

## CONCEPT MAP

### DEPRECIATION



## IMPORTANT POINTS

- The process of allocation of the cost of a fixed asset over its useful life is known as depreciation.
- Assets used in the business, cost of which can be written off over their useful life are known as depreciable fixed assets.
- The assets that are not depreciated are referred to as non-depreciable assets.
- The Management of a business enterprise selects the most appropriate method based on the consideration of various factors such as type of asset, nature of the asset, use of the asset and circumstances that prevail in the business.
- Straight line method is also known as original cost method or fixed instalments method.
- Diminishing balance method is also known as written down value method or reducing instalments method.
- Annual depreciation is uniform throughout the working life of the asset.
- Depreciation fund 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.
- Insurance policy method not only provides funds for replacement of assets but also provides security for the assets in the form of coverage of risk.
- Repairs provision method of depreciation is applicable to all assets where the repairs and renewal charges are high.
- Revaluation method is used for small items like loose tools and spare parts.
- Depletion means exhaustion of natural resources.
- The amount of depreciation goes on decreasing year after year in proportion to the remaining life of the Asset.



## SELF-EXAMINATION QUESTIONS

### I. MULTIPLE CHOICE QUESTIONS.

#### CHOOSE THE CORRECT ANSWER.

1. Under straight line method, the amount of depreciation is [May-'22]
  - (a) Increasing every year
  - (b) Decreasing every year
  - (c) Constant for all the years
  - (d) Fluctuating every year

**[Ans. (c) Constant for all the years]**
2. If the total charge of depreciation and maintenance cost are considered, the method that provides a uniform charge is [Aug-'22]
  - (a) Straight line method
  - (b) Diminishing balance method
  - (c) Annuity method
  - (d) Insurance policy method

**[Ans. (b) Diminishing balance method]**
3. Under the written down value method of depreciation, the amount of depreciation is [June-'19; HY-'19]
  - (a) Uniform in all the years
  - (b) Decreasing every year
  - (c) Increasing every year
  - (d) None of the above

**[Ans. (b) Decreasing every year]**
4. Depreciation is caused by [Sep-2020]
  - (a) Lapse of time
  - (b) Usage
  - (c) Obsolescence
  - (d) a, b and c

**[Ans. (d) a, b and c]**
5. For which of the following assets, the depletion method is adopted for writing off cost of the asset?
  - (a) Plant and machinery
  - (b) Mines and quarries
  - (c) Buildings
  - (d) Trademark

**[Ans. (b) Mines and quarries]**
6. A depreciable asset may suffer obsolescence due to \_\_\_\_\_. [BEQ; HY-'18; Aug-'22]
  - (a) Passage of time
  - (b) Wear and tear
  - (c) Technological changes
  - (d) None of the above

**[Ans. (c) Technological changes]**
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

**[Ans. (b) Reducing balance method]**
8. Residual value of an asset means the amount that it can fetch on sale at the \_\_\_\_\_ of its useful life. [Mar-'19; May-'22]
  - (a) Beginning
  - (b) End
  - (c) Middle
  - (d) None

**[Ans. (b) End]**
9. Depreciation is to be calculated from the date when.
  - (a) Asset is put to use
  - (b) Purchase order is made
  - (c) Asset is received at business premises
  - (d) Invoice of assets is received

**[Ans. (a) Asset is put to use]**
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

**[Ans. (b) Equal in the first year but higher in subsequent years]**

## II. VERY SHORT ANSWER QUESTIONS.

1. What is meant by depreciation? [BEQ]

**Ans.** The process of allocation of the cost of a fixed asset over its useful life is known as depreciation.

2. List out the various methods of depreciation.

[HY-'19]

**Ans.** The following are the different methods of providing depreciation :

- (i) Straight line method or Fixed instalment method or Original cost method
- (ii) Written down value method or Diminishing balance method
- (iii) Sum of years of digits method
- (iv) Machine hour rate method
- (v) Depletion method
- (vi) Annuity method
- (vii) Revaluation method
- (viii) Sinking fund method
- (ix) Insurance policy method

3. Give the formula to find out the amount and rate of depreciation under straight line method of depreciation. [BEQ; HY-'18]

**Ans.** (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? [June-'19]

**Ans.** (i) Under this method, the amount spent on the purchase of an asset is regarded as an investment. As such, the interest at a certain rate is calculated on the opening balance of the asset account each year and debited to the asset account.

(ii) The amount of depreciation written off is ascertained by referring to the annuity table. Annual depreciation is uniform throughout the working life of the asset.

5. What is sinking fund method?

**Ans.** (i) Sinking fund 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.

(ii) Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business.

(iii) This method is also known as depreciation fund method.

## III. SHORT ANSWER QUESTIONS.

1. What are the objectives of providing depreciation?

**Ans.** Following are the objectives of providing depreciation :

- (i) **To find out the true profit or loss :**
  - (a) When an asset is used for generating income for a business, the reduction in the value of the asset proportionate to the benefit derived from it, should be charged against the revenue.
  - (b) 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 :**
  - (a) When the depreciation is charged on fixed assets, the book value of fixed assets are reduced to that extent and the remaining value is shown in the balance sheet.
  - (b) The balance represents the value of benefit that is yet to be derived from them.

**(iii) To facilitate replacement of fixed assets:**

- (a) Depreciation is a non-cash item. That is why, when the depreciation is debited to profit and loss account, an equal amount is retained in the business.
- (b) When the life of an asset comes to an end, a new asset can be purchased by using the resources available in the business.

**(iv) To comply with legal requirements :**

Depreciation is provided on fixed assets to comply with the provisions of law.

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

*[BEQ; HY-'18, '19; Sep-'21; May & Aug-'22]*

- 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 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.
- (iv) Inadequacy for the purpose :** Sometimes, the use of assets may be stopped due to their inadequacy for the purpose. These may become inadequate due to expansion in the capacity of a firm.
- (v) Lack of maintenance :** A good maintenance will naturally increase the life of the asset. When there is no proper maintenance, there is a possibility of more depreciation.
- (vi) Abnormal factors :** Decline in the usefulness of fixed asset may be caused by abnormal factors like damage due to fire accidents, natural calamities, etc.

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

**Ans. Merits :**

Following are the merits of straight line method of depreciation:

- (a) Simple and easy to understand :** Computation of depreciation under this method is very simple and is easy to understand.
- (b) Equality of depreciation burden :** Under this method, equal amount of depreciation is debited to the profit and loss account each year.
- (c) Assets can be completely written off :** Under this method, the book value of an asset can be reduced to zero if there is no scrap value or to the scrap value at the end of its useful life.
- (d) Suitable for the assets having fixed working life :** This method is appropriate for the fixed assets having certain fixed period of working life.

**Limitations :**

Following are the limitations of straight line method of depreciation:

- (a) Ignores the actual use of the asset :** Under this method, a fixed amount of depreciation is provided on each asset by applying the predetermined rate of depreciation on its original cost.
- (b) Ignores the interest factor :** This method does not take into account the loss of interest on the amount invested in the asset.
- (c) Total charge on the assets will be more when the asset becomes older :** With the passage of time, the cost of maintenance of an asset goes up. Hence, the amount of depreciation and cost of maintenance put together is less in the initial period and goes up year after year.

(d) **Difficulty in the determination of scrap value :** It may be quite difficult to assess the true scrap value of the asset after a long period say 10 or 15 years after the date of its installation.

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

**Ans. Merits :**

Following are the merits of written down value method.

(a) **Equal charge against income :**

- (i) In the initial years depreciation is high and repair charges are low.
- (ii) Hence, the total burden on profit in respect of depreciation and repairs put together remains almost similar year after year.

(b) **Logical method :**

- (i) In the earlier years, when the asset is more productive, high depreciation is charged.
- (ii) In the later years when the asset becomes less productive, the depreciation charge is less.

**Limitations :**

Following are the limitations of written down value method.

(a) **Assets cannot be completely written off :**

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

(b) **Ignores the interest factor :**

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

(c) **Difficulty in determining the rate of depreciation :**

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

(d) **Ignores the actual use of the asset :**

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

**5. Distinguish between straight line method and written down value method of providing depreciation.** [BEQ]

**Ans.** Following are the 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.

#### IV. EXERCISES.

##### STRAIGHT LINE METHOD :

1. A firm purchased a plant for ₹40,000. Erection charges amounted to ₹2,000. Effective life of the plant is 5 years. Calculate the amount of depreciation per year under straight line method. [BEQ]

##### Solution :

$$\begin{aligned}
 \text{Total Asset} &= \text{Purchase Price} + \text{Erection Charges} \\
 &= ₹40,000 + ₹2,000 = ₹42,000 \\
 \text{Amount of Depreciation} &= \frac{\text{Total cost}}{\text{Estimated life}} \\
 &= \frac{42,000}{5} = ₹8,400
 \end{aligned}$$

2. A company purchased a building for ₹50,000. The useful life of the building is 10 years and the residual value is ₹5,000. Find out the amount and rate of depreciation under straight line method.

##### Solution :

$$\begin{aligned}
 \text{Amount of Depreciation} &= \frac{\text{Total cost} - \text{scrap value}}{\text{Estimated life}} \\
 &= \frac{50,000 - 5,000}{10} = \frac{45,000}{10} \\
 &= ₹4,500 \\
 \text{Rate of Depreciation} &= \frac{\text{Amount of Depreciation}}{\text{Original Cost}} \times 100 \\
 &= \frac{4,500}{50,000} \times 100 = 9\%
 \end{aligned}$$

3. Furniture was purchased for ₹1,00,000 on 1-7-2016. It is expected to last for 5 years. Estimated scrap at the end of five years is ₹10,000. Find out the rate of depreciation under straight line method. [Aug-'22]

##### Solution :

$$\begin{aligned}
 \text{Amount of Depreciation} &= \frac{\text{Total cost} - \text{Scrap value}}{\text{Estimated life}} \\
 &= \frac{1,00,000 - 10,000}{5} = \frac{90,000}{5} \\
 &= ₹18,000 \\
 \text{Rate of Depreciation} &= \frac{\text{Amount of Depreciation}}{\text{Original Cost}} \times 100 \\
 &= \frac{18,000}{1,00,000} \times 100 = 18\%
 \end{aligned}$$

4. Calculate the rate of depreciation under straight line method from the following information: [Sep-2020]

Purchased a second hand machinery on 1.1.2018 for ₹38,000

On 1.1.2018 spent ₹12,000 on its repairs

Expected useful life of machine is 4 years

Estimated residual value ₹6,000

**Solution :**

Amount of depreciation =

$\frac{\text{Price of the Asset} + \text{Installation charges} - \text{Scrap value}}{\text{Estimated life of the Asset}}$

$$= \frac{(38,000 + 12,000) - 6,000}{4}$$

$$= \frac{44,000}{4}$$

$$= ₹11,000$$

Rate of Depreciation

$$= \frac{\text{Amount of depreciation}}{\text{Original cost}} \times 100$$

$$= \frac{11,000}{50,000} \times 100 = 22\%$$

5. Machinery was purchased on 1<sup>st</sup> January 2015 for ₹4,00,000. ₹15,000 was spent on its erection and ₹10,000 on its freight charges. Depreciation is charged at 10% per annum on straight line method. The books are closed on 31<sup>st</sup> March each year. Calculate the amount of depreciation on machinery for the first two years. [BEQ; HY-'18]

**Solution :**

**Calculate the amount of depreciation**

Particulars	Amount ₹	Amount ₹
Cost of the Machinery (1.1.2015)	4,00,000	
Add : Erection charges	15,000	
	4,15,000	
Add : Freight charges	10,000	
Original cost of the Machinery		4,25,000

I<sup>st</sup> Year depreciation (31.3.2015)

$$4,25,000 \times \frac{10}{100} \times \frac{3}{12} = 10,625$$

II<sup>nd</sup> Year depreciation (1.4.2015 to 31.3.2016)

$$4,25,000 \times \frac{10}{100} = 42,500$$

∴ I<sup>st</sup> year depreciation (31.3.2015) = ₹10,625

II<sup>nd</sup> year depreciation (31.3.2016) = ₹42,500

6. An asset is purchased on 1.1.2016 for ₹50,000. Depreciation is to be provided annually according to straight line method. The useful life of the asset is 10 years and its residual value is ₹10,000. Accounts are closed on 31<sup>st</sup> December every year. You are required to find out the rate of depreciation and give journal entries for first two years.

**Solution :**

Amount of depreciation

$$= \frac{\text{Total cost} - \text{Scrap value}}{\text{Estimated life}}$$

$$= \frac{50,000 - 10,000}{10} = \frac{40,000}{10}$$

$$= ₹4,000$$

Rate of depreciation

$$= \frac{\text{Amount of Depreciation}}{\text{Cost of the asset}} \times 100$$

$$= \frac{4,000}{50,000} \times 100 = 8\%$$

**Journal entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
<b>I<sup>st</sup> Year</b> 2016 January 1	Asset A/c To Bank A/c (Asset bought)	Dr.	50,000	50,000

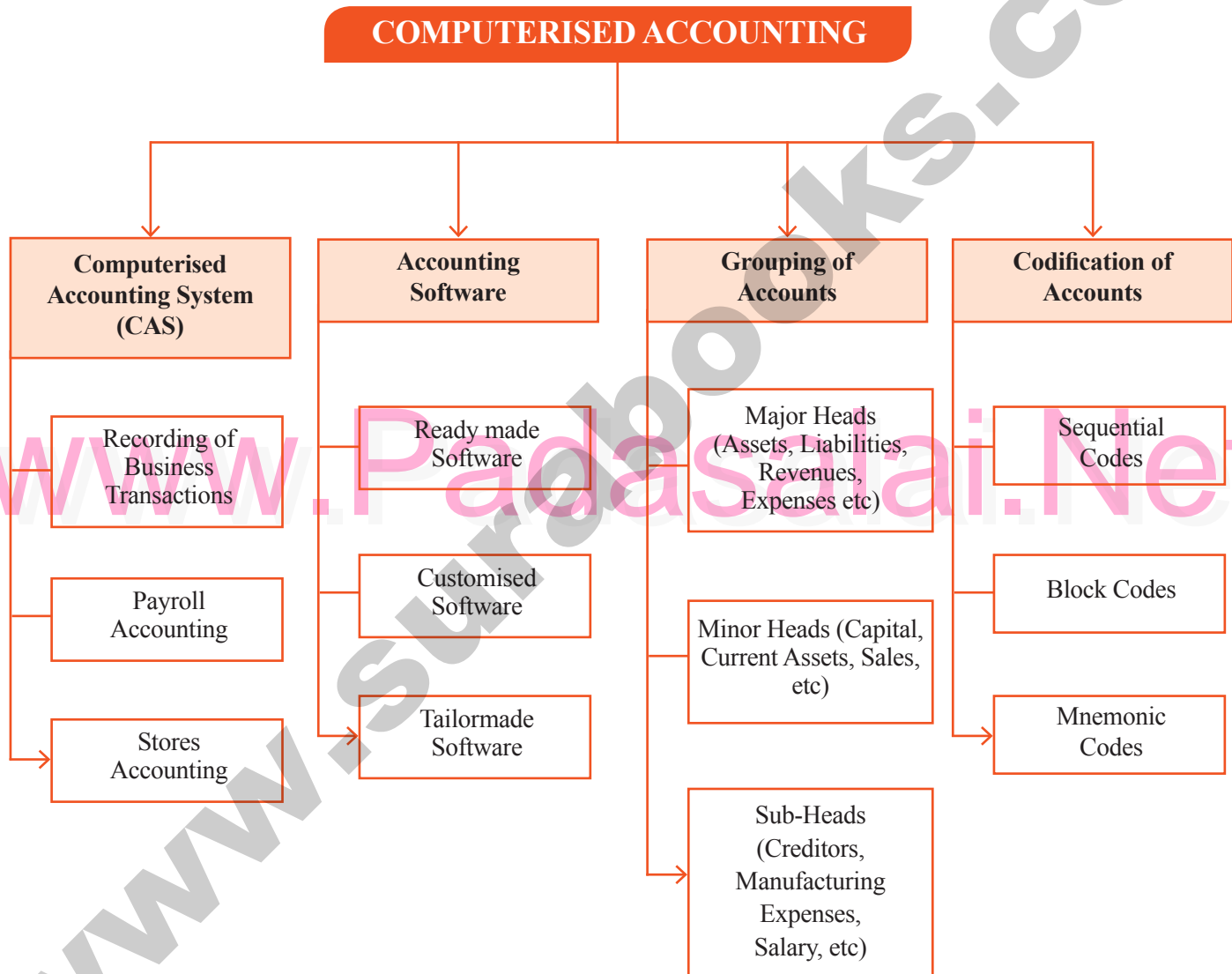
# UNIT 14

## COMPUTERISED ACCOUNTING

### CHAPTER SNAPSHOT

- 14.1 Introduction to computers
- 14.2 Computerised Accounting System (CAS)
  - 14.2.1 Features of computerised accounting system
  - 14.2.2 Components of Computerised Accounting System
- 14.3 Advantages of computerised accounting system
- 14.4 Limitations of computerised accounting system
- 14.5 Differences between manual and computerised accounting system
- 14.6 Accounting software
- 14.7 Grouping and codification of accounts
  - 14.7.1 Grouping of accounts
  - 14.7.2 Codifications of accounts
  - 14.7.3 Methods of codification
- 14.8 Microsoft office - MS Word and MS Excel practical
  - 14.8.1 MS-Word
  - 14.8.2 MS-Excel

## CONCEPT MAP





## IMPORTANT POINTS

- ❑ Computer is an electronic device which can perform a number of arithmetic and logical operations as per given set of instructions.
- ❑ A computer system mainly has three components namely, input unit, central processing unit and out put unit.
- ❑ Computers are now a days widely used in scientific research, education, business, accounting, transportation, communication, banking, defence, etc.
- ❑ Computerised accounting system refers to the system of maintaining accounts using computers.
- ❑ Computerised accounting system facilitates the management and other users to maintain accounts and prepare financial statements.
- ❑ Hardware consists of input devices and output devices that make a complete computer system.
- ❑ A set of programs that form an interface between the hardware and the user of a computer system are referred to as software.
- ❑ Procedure is a step by step series of instructions to perform a specific function and achieve desired output.
- ❑ A proper codification requires a systematic grouping of accounts.
- ❑ The grouping and codification depend upon the size and requirements of the organisation.
- ❑ Codification of accounts is needed where there are numerous accounts heads in an organisation.
- ❑ Code is identification mark. The coding scheme of account heads should be such that it leads to grouping of accounts at various levels so as to generate various reports.
- ❑ In sequential code, number and / or letters are assigned in consecutive order.
- ❑ 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.
- ❑ An mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information.

## SELF-EXAMINATION QUESTIONS

### I. MULTIPLE CHOICE QUESTIONS.

#### 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

**[Ans. (d) All the above]**

2. Customised accounting software is suitable for

*[BEQ; May-'22]*

- (a) Small, conventional business
- (b) Large, medium business
- (c) Large, typical business
- (d) None of the above

**[Ans. (b) Large, medium business]**

3. Which one is not a component of computer system?

*[BEQ] [Mar.-'19; HY-'19]*

- (a) Input unit
- (b) Output unit
- (c) Data
- (d) Central Processing Unit

**[Ans. (c) Data]**

4. An example of output device is

*[Mar.-'19]*

- (a) Mouse
- (b) Printer
- (c) Scanner
- (d) Keyboard

**[Ans. (b) Printer]**

5. One of the limitations of computerised accounting system is

*[June-'19; HY-'19; Sep-'21]*

- (a) System failure
- (b) Accuracy
- (c) Versatility
- (d) Storage

**[Ans. (a) System failure]**

6. Which one of the following is not a method of codification of accounts?

*[May-'22]*

- (a) Access codes
- (b) Sequential codes
- (c) Block codes
- (d) Mnemonic codes

**[Ans. (a) Access codes]**

7. TALLY is an example of

*[BEQ] [Mar.-'19; Sep.-2020]*

- (a) Tailor-made accounting software
- (b) Ready-made accounting software
- (c) In-built accounting software
- (d) Customised accounting software

**[Ans. (b) Ready-made accounting software]**

8. People who write codes and programmes are called as

- (a) System analysts
- (b) System designers
- (c) System operators
- (d) System programmers

**[Ans. (d) System programmers]**

9. Accounting software is an example of

- (a) System software
- (b) Application software
- (c) Utility software
- (d) Operating software

*[June-'19; Aug-'22]*

**[Ans. (b) Application software]**

### II. VERY SHORT ANSWER QUESTIONS.

1. What is a computer?

*[Sep-'21]*

**Ans.** Computer is an electronic device which can perform a number of arithmetic and logical operations as per given set of instructions.

2. What is CAS?

*[BEQ]*

**Ans. (i)** Computerised accounting system refers to the system of maintaining accounts using computers.

**(ii)** In other words 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?

*[Mar.-'19; HY-'19]*

**Ans. (i)** The physical components of a computer constitute its hardware.

**(ii)** Hardware consists of input devices and output devices that make a complete computer system.

**4. What is meant by software? [BEQ; Mar.-'19]**

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

Example : Operating system, Logo, etc.

**5. What is accounting software?**

**Ans. (i)** Accounting software is an integral part of the computerised accounting system.

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

**6. Name any two accounting packages. [May-'22]**

**Ans. (i)** Readymade Software

**(ii)** Customised Software

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

**Ans. Examples of Readymade software :**

**(i)** TALLY

**(ii)** MS-EXCEL

**8. What is coding? [Aug-'22]**

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

**9. What is grouping of accounts?**

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

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

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

**10. What are mnemonic codes? [BEQ]**

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

<b>CODE</b>	<b>Information</b>
SJ	Sales Journals
HQ	Head Quarters

**III. SHORT ANSWER QUESTIONS.****1. What are the various types of accounting software? [Sep.-2020; Aug-'22]**

**Ans.** There are three types of softwares namely :

**(i) Readymade software :**

**(a)** These packages are standardised or readymade packages which can be used by the business enterprises immediately on procurement.

**(b)** These packages are used by small and conventional business enterprises. Cost of installation and maintenance is very low.

**(c)** Few Examples of such type of Tally, Busy, Marg, Profitbooks.

**(ii) Customised software :**

**(a)** Customised packages can be modified according to the need of the enterprise.

**(b)** Few Examples : software can record attendance of the employees and on the requirement of the customer it can also count the absence of employees in a month, etc.

**(c)** These packages are used by medium or large business enterprises. Cost of installation, maintenance and training is relatively higher than that of ready-to-use packages.

**(iii) Tailormade Software :**

**(a)** Large enterprises have their own way of functioning and for effective management information system, varied and specific information is frequently required by many users which may not be applicable in case of small or medium scale enterprises.

**(b)** The cost of these packages is very high and specific training for using these packages is also required.

**2. Mention any three limitations of computerised accounting system.** [Sep-'21]

- Ans.**
- (i) **Heavy cost of installation :** Computer hardware needs replacement and software needs to be updated from time to time with the availability of newer versions.
- (ii) **Cost of training :** To ensure effective and efficient use of computerised system of accounting, newer versions of hardware and software are to be introduced.
- (iii) **Fear of unemployment :** On account of the introduction of computerised accounting system, the employees feel insecure that they may lose employment and show less interest in computer related work.

**3. State the various types of coding methods.** [Mar-'19]

**Ans.** Following are the three methods of codification.

(a) **Sequential Codes :**

- (i) In sequential code, numbers and/or letters are assigned in consecutive order.
- (ii) These codes are applied primarily to source documents such as cheques, invoices, etc.
- (iii) A sequential code can facilitate document search. For example:

CODE	ACCOUNTS :
CL001	ABC LTD
CL002	XYZ LTD
CL003	SCERT

(b) **Block Codes :**

- (i) 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.
- (ii) In most of the cases of block codes, numbers within a sub-range follow sequential coding scheme, i.e. the numbers increase consecutively. For example:

**CODE DEALER-TYPE :**

100 – 199	Small pumps
200 – 299	Medium pumps
300 – 399	Pipes
400 – 499	Motors

(c) **Mnemonic Codes :**

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

**CODE :**

SJ	Sales Journals
HQ	Head Quarters

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

**Ans.** Computerised accounting system takes accounting transactions as inputs that are processed through accounting software to generate the following reports :

- (i) Day books / Journals  
 (ii) Ledger  
 (iii) Trial balance  
 (iv) Trading account  
 (v) Profit and loss account  
 (vi) Balance sheet

**5. State the input and output devices of a computer system.** [BEQ; May-'22]

**Ans. (i) Input Devices :**

The device that feeds information into the computer is called input device. There are many input devices used. They are

- (a) Keyboard  
 (b) Optical scanner  
 (c) Mouse  
 (d) Joystick

(ii) **Output Devices :**

By processing the data fed into the computer, the device which produce the result is called output device. Examples.

- (a) Monitor  
 (b) Printer



## Government Exam Questions and Answers

### I. VERY SHORT ANSWER QUESTIONS.

**2 MARKS**

1. Write the components of computerised Accounting System (CAS). [June-'19]

**Ans.** Components of computerised Accounting System can be classified into six categories, namely,

- |              |                   |
|--------------|-------------------|
| (i) Hardware | (ii) Software     |
| (iii) People | (iv) Procedure    |
| (v) Data     | (vi) Connectivity |

### II. LONG ANSWER QUESTIONS. **5 MARKS**

1. Discuss the advantages of computerised accounting system in a business organisation.

[BEQ; June-'19]

**Ans.** The main advantages of computerised accounting system are as follows :

1. **Faster processing :** Computers require far less time than human beings in performing a particular task. Therefore, accounting data are processed faster using a computerised accounting system.

2. **Accurate information :** There is less space for error because only one account entry is needed for each transaction unlike repeated posting of the same accounting data in manual system.

3. **Reliability :** Computer systems are immune to boredom, tiredness or fatigue. Therefore, these can perform repetitive functions effectively and are highly reliable.

4. **Easy availability of information :** The data can be communicated to different users at the same time.

5. **Up-to-date Information :** Account balances will always be up to date since the records are automatically updated as and when accounting data are entered or stored.

6. **Efficiency :** The computer based accounting system ensure better use of time and resources.

7. **Storage and retrieval :** Computer based systems require a fractional amount of physical space as compared to the books of accounts in the form of journals, ledgers and accounting registers.

## Additional Questions and Answers

### I. CHOOSE THE CORRECT ANSWER.

**1 MARK**

(i) **CHOOSE THE CORRECT OPTION.**

1. Today, the most commonly used word in this world is [BEQ]

- |              |                   |
|--------------|-------------------|
| (a) T.V.     | (b) Radio         |
| (c) Computer | (d) None of these |

**[Ans. (d) None of these]**

2. A computer system accepts input in the form of raw data, processes it and gives desired results called

- |           |                   |
|-----------|-------------------|
| (a) Input | (b) Output        |
| (c) both  | (d) None of these |

**[Ans. (b) Output]**

3. Impact of computer is seriously felt in accounting more than any other department of the

- |              |                   |
|--------------|-------------------|
| (a) business | (b) organisation  |
| (c) both     | (d) none of these |

**[Ans. (a) business]**

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

- |               |               |
|---------------|---------------|
| (a) Printers  | (b) Scanners  |
| (c) Computers | (d) Softwares |

**[Ans. (c) Computers]**

5. Computerised accounting system facilitates the management and other users to maintain accounts and prepare

- |                    |                             |
|--------------------|-----------------------------|
| (a) final accounts | (b) profit and loss account |
| (c) balance sheet  | (d) financial statements    |

**[Ans. (d) financial statements]**

6. Computerised accounting has become cheaper as compared to [BEQ]

- |             |                  |
|-------------|------------------|
| (a) Capital | (b) Labour       |
| (c) Wages   | (d) Human labour |

**[Ans. (d) Human labour]**

## HOTS Questions

### VERY SHORT ANSWER QUESTIONS.

2 MARKS

1. Name the framework of storage and processing of data, in a computerised accounting system.

Ans. Operating environment.

2. Language syntax is checked by which software?

Ans. Language processor.

3. There are people, who write programs to implement the data processing system design. Name them.

Ans. System analyst.

### SHORT ANSWER QUESTIONS.

3 MARKS

1. State the relationship between information and decision.

Ans. (i) As a system, every organisation accepts inputs and transforms them into outputs.

(ii) All organisational systems pursue certain objectives through a process of resource allocation, which is accomplished through the process of managerial decision-making.

(iii) Information facilitates decisions regarding allocation of resources and thereby assists an organisation in pursuit of its objectives.

2. Give two examples each of the organisation where ready-to-use, 'customised' and 'tailored' accounting packages respectively are suitable to perform the accounting activity.

Ans. (i) Ready-to-use accounting packages are best suitable for small and conventional business.

(ii) Customised accounting packages are best suitable for large and medium business.

(iii) Tailored accounting packages are best suitable for large and typical business.



11<sup>th</sup>  
STD

## INSTANT SUPPLEMENTARY EXAM. AUGUST - 2022

### PART - III ACCOUNTANCY

TIME ALLOWED : 3.00 HOURS]

(with Answers)

[MAXIMUM MARKS : 90

#### INSTRUCTIONS

1. Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.
2. Use **Blue** or **Black** ink to write and underline and pencil to draw diagrams.

#### PART - I

**Note :** (i) Answer **all** the questions. [20 × 1 = 20]  
(ii) Choose the most appropriate answer from the given **four** alternatives and write the option code and the corresponding answer.

1. The root of financial accounting system is:
  - (a) Social accounting
  - (b) Stewardship accounting
  - (c) Management accounting
  - (d) Responsibility accounting
2. 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) Conservation
  - (d) Accrual
3. 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
4. Transactions are recorded on the books of account with the help of:
  - (a) Journal
  - (b) Source documents
  - (c) Trial balance
  - (d) Ledger
5. The process of transferring the debit and credit items from journal to ledger account is called:
  - (a) Casting
  - (b) Posting
  - (c) Journalising
  - (d) Balancing
6. 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
7. After the preparation of ledger, the next step is the preparation of:
  - (a) Trading account
  - (b) Trial balance
  - (c) Journal
  - (d) Profit and loss account
8. The account which has a debit balance and is shown in the debit column of the trial balance is:
  - (a) Sundry creditors account
  - (b) Bills payable account
  - (c) Drawings account
  - (d) Capital account
9. 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
10. The source document or voucher used for recording entries in sales book is:
 

(a) Debit note	(b) Credit note
(c) Invoice	(d) Cash receipt
11. Cash book is a :
  - (a) Subsidiary book
  - (b) Principal book
  - (c) Journal proper
  - (d) Both subsidiary book and principal book
12. 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

13. 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
14. Errors not affecting the agreement of trial balance are:
- (a) Errors of principle (b) Errors of overcasting  
(c) Errors of undercasting  
(d) Errors of partial omission
15. 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
16. A depreciable asset may suffer obsolescence due to :
- (a) Passage of time (b) Wear and tear  
(c) Technological changes  
(d) None of the above
17. Revenue expenditure is intended to benefit:
- (a) Past period (b) Future period  
(c) Current period (d) Any period
18. Goodwill is classified as :
- (a) A current asset (b) A liquid asset  
(c) A tangible asset (d) An intangible asset
19. Prepaid expenses and accrued income are :
- (a) Liquid assets (b) Current assets  
(c) Current liabilities (d) Fixed assets
20. Accounting software is an example of:
- (a) System software (b) Application software  
(c) Utility software (d) Operating software

### PART - II

**Note :** Answer any seven questions. Question No. 30 is compulsory. 7 × 2 = 14

21. List any two functions of accounting.
22. What is credit balance?
23. Give the format of trial balance.
24. What is meant by error of principle?
25. What is coding?
26. Furniture was purchased for ₹ 1,00,000 on 1.7.2019. It is expected to last for 5 years. Estimated scrap at the end of five years is ₹ 10,000. Find out the amount of depreciation under straight line method.

27. State whether the following expenditure is capital or revenue.
- (i) Construction of building ₹ 5,00,000  
(ii) Repairs to furniture ₹ 25,000
28. Prepare trading account in the book of Raju for the year ended 31<sup>st</sup> Dec 2019.

Particulars	₹	Particulars	₹
Opening stock	570	Purchases	15,800
Sales	26,200	Purchases return	90
Sales return	60	Closing stock	860

29. The trial balance on 31<sup>st</sup> March 2019 shows Commission received as ₹ 15,000. Adjustment: One third of the commission received is in respect of work to be done in the next accounting year. Write the adjusting entry.
30. Fill in the missing information in the following:

Date	Particulars	L.F.	Debit ₹	Credit ₹
2020 April 1	Dr To Ravi's capital A/c (Ravi started business with cash)		1,50,000	1,50,000
April 10	Dr To Cash A/c (Cash deposited into bank)		50,000	50,000

### PART - III

**Note :** Answer any seven questions. Question No. 40 is compulsory. 7 × 3 = 21

31. List the branches of accounting.
32. Record the following transactions in the sales day book of M/s Raj & Co. a stationery merchant.
- 2020
- April 1 Sold to Anbu & Co. on credit ₹ 3000
- 5 Sold to Jagadish & Co. on credit ₹ 2,160
- 10 Sold old newspapers for cash ₹ 600
33. Journalise the following transactions and prepare cash account.
- 2019
- Jan 1 Started business with cash ₹ 20,000
- 5 Paid into bank ₹ 10,000
- 7 Purchased goods for cash ₹ 2,000



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

35. What are the various types of accounting software?

36. Enter the following transactions in a single column cash book of Raghul for May 2019.

May		₹
1	Cash in hand	40,000
7	Paid wages in cash	2,000
15	Sold goods for cash	9,000
22	Cash paid to Sabapathi	5,000
28	Paid Salary	2,500

37. What are the causes for depreciation?

38. State whether the following are capital, revenue or deferred revenue expenditure.

(a) Carriage of ₹ 1,000 spent on machinery purchased and installed.

(b) Office rent paid ₹ 2,000.

(c) Wages of ₹ 5,000 paid to machine operators

39. Write short notes on:

(a) Fixed assets

(b) Wasting assets

40. Prepare trading account of Aruna for the year ending 31<sup>st</sup> Dec 2019 from the following information.

Particulars	₹
Opening stock	40,000
Purchases	4,30,000
Wages	12,000
Purchase returns	5,000
Sales returns	1,58,000
Sales	7,20,000

**Adjustments:**

(i) Closing stock ₹ 50,000

(ii) Wages outstanding ₹ 6,000

### PART - IV

**Note:** Answer all the questions. 7 × 5 = 35

41. (a) Enter the following transactions in the journal of Mohan who is dealing in textiles.

2020

Dec

- 1 Mohan started business with cash ₹1,20,000
- 2 Purchased furniture for cash ₹20,000
- 3 Bought goods for cash ₹50,000

6 Bought goods from Kala on credit ₹30,000

8 Sold goods for cash ₹56,000

10 Sold goods to Ramu on credit ₹20,000

14 Paid Kala ₹24,000.

18 Paid rent ₹1,000

25 Received from Ramu ₹16,000

28 Withdrew cash for personal use ₹8,000

(OR)

(b) Prepare trading and profit and loss account in the books of Ramu for the year ended 31<sup>st</sup> Dec 2020 and balance sheet as on that date from the following information.

Particulars	₹	Particulars	₹
Opening stock	2,500	Sales	7,000
Wages	2,700	Purchases	3,300
Closing stock	4,000	Salary	2,600
Discount received	2,500	Capital	52,000
Machinery	52,000	Cash at bank	6,400
Creditors	8,000		

42. (a) Give Journal entries and post them to cash account.

2019

June 1 Commenced business with cash ₹1,10,000

10 Introduced additional capital ₹50,000

28 Withdrawn for personal use ₹20,000

(OR)

(b) Distinguish between trial balance and balance sheet.

43. (a) Prepare the trial balance from the following balances of Sanjay as on 31<sup>st</sup> March 2019.

Particulars	₹
Bills receivable	13,000
Bank charges	750
Conveyance charges	350
Discount received	1,300
Cash in hand	1,000
Drawings	7,000
Sundry debtors	17,100
Bills payable	12,000
Capital	25,900

(OR)