



UNIT 1

1.INTRODUCTION TO ACCOUNTING

QUESTIONS & ANSWERS:

1) Define accounting:

“Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part, at least of a financial character and interpreting the results thereof”.

- American Institute of Certified Public Accountants

“ The process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information”.

- American Accounting Association.

2) List any two functions of accounting.

❖ Measurement:

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

❖ Decision making

- ➔ Accounting provides relevant information to the management for planning, evaluation of performance and control.
- ➔ This will help them to take various decisions concerning cost, price, sales, level of activity, etc.

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

- ❖ Identifying the transactions and journalising
- ❖ Posting and balancing
- ❖ Preparation of trial balance
- ❖ Preparation of trading account
- ❖ Preparation of profit and loss account
- ❖ Preparation of balance sheet.

4) Who are the parties interested in accounting information?

❖ Internal users

- ➔ Owners
- ➔ Management
- ➔ Employees

❖ External users:

- ➔ Creditors and financial institutions
- ➔ Investors
- ➔ Customers
- ➔ Government
- ➔ Tax authorities and other regulatory bodies
- ➔ Government

5) Name any two bases of recording accounting information.

There are three bases of accounting in common usage, namely

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



SHORT ANSWER

6) Explain the meaning of accounting.

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

7) Discuss briefly the branches of accounting.

The various branches of accounting are:

- ❖ **Financial Accounting:**
 - ➔ It involves recording of financial transactions and events.
 - ➔ It is historical in nature and records are maintained for transactions and events which have already occurred.
 - ➔ It provides financial information to the users for taking decisions.
 - ➔ Trading and profit and loss account shows the profit or loss made during an accounting period and the balance sheet shows the financial position of the business as on a particular date.
- ❖ **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.
- ❖ **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.
- ❖ **Social Responsibility Accounting:**
 - ➔ It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits.
 - ➔ It arises because of corporate social responsibility.
- ❖ **Human Resources Accounting:**
 - ➔ It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise

8) Discuss in detail the importance of accounting. (ANY 5)

Systematic records

- ❖ All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts.
- ❖ The records are classified under common heads and summaries are prepared.

Information to interested groups:

- ❖ Accounting supplies appropriate information to different interested groups like owners, management, creditors, employees, financial institutions, tax authorities and the government.

Legal evidence

- ❖ Accounting records are generally accepted as evidence in courts of law and other legal authorities in the settlement of disputes.



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Computation of tax:

- ❖ Accounting records are the basic source for computation and settlement of income tax and other taxes.

Settlement during merger

- ❖ When two or more business units decide to merger, accounting records provide information for deciding the terms of merger and any compensation payable as a consequence of merger

Preparation of financial statements

- ❖ Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements namely, income statement or trading and profit and loss account and balance sheet.
- ❖ This helps in distribution of profits to the owners and to provide funds for future growth of the business.

Assessment of progress

- ❖ Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses.
- ❖ Management is provided with a complete picture of the liquidity, profitability and solvency of the business.

Aid to decision making:

- ❖ Management of a firm has to make routine and strategic decisions while discharging its functions. Accounting provides the relevant data to make appropriate decisions.
- ❖ Future policies and programmes can be planned by the management based on the accounting data provided.

Satisfies legal requirements:

- ❖ Various legal requirements like maintenance of Provident Fund (PF) for employees, Employees State Insurance (ESI) contributions, Tax Deducted at Source (TDS), filing of tax returns are properly fulfilled with the help of accounting.
- ❖ Preparation of accounts and financial statements as per the legal requirements is also facilitated.

9) Why are the following parties interested in accounting information?

(a) Investors (b) Government.

A) Investors :

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

B) Government:

- ❖ The scarce resources of the country are used by business enterprises.
- ❖ Information about performance of business units in different industries helps the government in policy formulation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc.
- ❖ Government also administers prices of certain commodities.
- ❖ In such cases, government agencies have to ensure that the guidelines for pricing are followed.

10) Discuss the role of an accountant in the modern business world.

Record keeper

- ❖ The accountant maintains a systematic record of financial transactions.
- ❖ He also prepares the financial statements and other financial reports.

Provider of information to the management

- ❖ The accountant assists the management by providing financial information required for decision making and for exercising control.



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Protector of business assets

- ❖ The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.
- ❖ He advises the management about insurance of various assets and the maintenance of the same

Financial advisor:

- ❖ The accountant analyses financial information and advises the business managers regarding investment opportunities, strategies for cost savings, capital budgeting, provision for future growth and development, expansion of enterprise, etc.

Tax manager:

- ❖ The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time.
- ❖ The accountant can advise the managers regarding tax management, reducing tax burden, availing tax exemptions, etc.

Public relation officer :

- ❖ The accountant provides accounting information to various interested users for analysis as per their requirements.

INSIDE QUESTIONS & ANSWERS

1) Write Short Notes on: Cash Basis Accounting.

(ii) Accrual or mercantile basis (iii) Mixed or hybrid basis

Cash basis

- ❖ Under cash basis of accounting, actual cash receipts and actual cash payments are recorded.
- ❖ In this basis, revenue is recognised when cash is received and expenses are recognised when cash is paid.
- ❖ Credit transactions are not recorded till cash is actually received or paid.

Under this basis,

- Any income received
- Any expenditure paid
- Any asset purchased for which cash is paid
- Any liability paid during the accounting period whether related to the past, present or future is taken into account.

2) What is mean by Accrual or mercantile basis accounting?

Accrual or mercantile basis:

- ❖ Under accrual basis of accounting, the revenue whether received or not, but has been earned or accrued during the accounting period and expenses incurred whether paid or not are recorded.
- ❖ In other words, revenue is recognised when it is earned or accrued and expenses are recognised when these are incurred.

Under this basis,

- ❖ (a) Any income earned whether received or not
- ❖ (b) Any expenditure incurred whether paid or not
- ❖ (c) Any asset purchased whether cash is paid or not
- ❖ (d) Any liability incurred whether paid or not during the accounting period is recorded.
- ❖ Under section 128(1) of the Indian Companies Act, 2013, all the companies are required to maintain the books of accounts according to the accrual basis of accounting.

3) What is mean by Hybrid or mixed basis accounting?

- ❖ This basis is a combination of cash basis and accrual basis of accounting.
- ❖ Under mixed basis of accounting, both cash basis and accrual basis are followed.



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- ❖ Revenues and assets are generally recorded on cash basis whereas expenses and liabilities are generally taken on accrual basis.

4) What are the Objectives of Accounting?

Following are the objectives of accounting:

- ❖ To keep a systematic record of financial transactions and events
- ❖ To ascertain the profit or loss of the business enterprise
- ❖ To ascertain the financial position or status of the enterprise
- ❖ To provide information to various stakeholders for their requirements
- ❖ To protect the properties of an enterprise and
- ❖ To ascertain the solvency and liquidity position of an enterprise.

5) Explain the Functions of Accounting.

The main functions of accounting are as follows:

Measurement

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

Forecasting

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

Comparison

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

Decision making

- ❖ Accounting provides relevant information to the management for planning, evaluation of performance and control.
- ❖ This will help them to take various decisions concerning cost, price, sales, level of activity, etc.

Control

- ❖ As accounting works as a tool of control, the strengths and weaknesses are identified to provide feedback on various measures adopted.
- ❖ It serves as a tool for evaluating compliance of business policies and programmes.

Assistance to government

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

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UNIT -2

2.CONCEPTUAL FRAMEWORK OF ACCOUNTING

QUESTIONS & ANSWERS:

1) Define book-keeping.

“Book-keeping is an art of recording business dealings in a set of books”.

- J.R.Batliloi.

“Book-keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth”.

-R.N.Carter

2) What is meant by accounting concepts?

- ❖ Accounting concepts are the basic assumptions or conditions upon which accounting has been laid.
- ❖ Accounting concepts are the results of broad consensus.
- ❖ The word concept means a notion or abstraction which is generally accepted.
- ❖ Accounting concepts provide unifying structure to the accounting process and accounting reports.

3) Briefly explain about realisation concept.

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

4) What is “Full Disclosure Principle” of accounting?

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

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

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



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SHORT ANSWERS

6) What is matching concept? Why should a business concern follow this concept?

- ❖ According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.
- ❖ This concept is based on accrual concept and periodicity concept.
- ❖ All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.
- ❖ It matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

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

- ❖ This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the accounts.
- ❖ Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.
- ❖ Transactions which do not involve money will not be recorded in the books of accounts.
- ❖ For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.
- ❖ It helps in understanding of the state of affairs of the business as money serves as a common measure by means of which heterogeneous facts about the business are recorded.

8) Write brief note on accounting Standards.

- ❖ In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI).
- ❖ The Council of the Institute of Chartered Accountants of India constituted Accounting Standards Board (ASB) on 21st April, 1977 recognising the need for Accounting Standards in India.
- ❖ ASB formulates Accounting Standards so that such standards may be established by the Council of the Institute in India.
- ❖ The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards while framing Accounting Standards (AS) in India.
- ❖ Due to globalisation, the accounts prepared in India must be compatible with accounts prepared in other countries.
- ❖ This has resulted in the existing AS being converged with the IFRS.
- ❖ This convergence has resulted in what is known as Ind AS. Ind AS is basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions.
- ❖ Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS.
- ❖ In future, it is expected that all business entities in India will migrate to Ind AS

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

- ❖ "Business units last indefinitely" – This statement is used in **Going Concern Concept**.
- ❖ Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues.
- ❖ For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

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INSIDE QUESTIONS & ANSWERS

10) Explain Dual aspect concept.

- ❖ According to this concept, every transaction or event has two aspects,
- ❖ This is the concept which recognises the fact that for every debit, there is a corresponding and equal credit.
- ❖ This is the basis of the entire system of double entry book-keeping.
- ❖ From this concept arises the basic accounting equation, that is, Capital + Liabilities = Assets.

11) What is mean by Accrual concept?

- ❖ According to accrual concept, the effects of the transactions are recognised on mercantile basis, i.e., when they occur and not when cash is paid or received.
- ❖ Revenue is recognised when it is earned and expenses are recognised when they are incurred.
- ❖ All expenses and revenues related to the accounting period are to be considered irrespective of the fact that whether revenues are received in cash or not and whether expenses are paid in cash or not.

12) Explain the term Convention of conservatism or prudence.

- ❖ It is a policy of caution or playing safe.
- ❖ While recording the business transactions one has to anticipate no income but provide for all possible losses.

13) What are the fundamental accounting assumptions?

- ❖ Going concern concept,
- ❖ Convention of consistency and
- ❖ Accrual concept.

14) Write short notes on Convention of materiality.

- ❖ According to this convention, financial statements should disclose all material items which might influence the decisions of the users of financial statements.
- ❖ Hence, any item which is not significant and is not relevant to the users need not be disclosed in the financial statements.

15) What is mean by Cost concept?

- ❖ An asset is recorded in the books on the basis of the historical cost, that is, the acquisition cost.
- ❖ Cost of acquisition will be the base for all further accounting.
- ❖ It does not mean that the asset will always be shown at cost.
- ❖ It is recorded at cost at the time of its purchase, but is systematically reduced in its book value by charging depreciation.

16) Write short notes on Business entity concept.

- ❖ This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it.
- ❖ Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view.
- ❖ Hence, the business is liable to the owner for the capital contributed by him/her.
- ❖ According to this concept, only business transactions are recorded in the books of accounts.
- ❖ Personal transactions of the owners are not recorded.



17) What are the Features of book-keeping?

Following are the features of book-keeping:

- ❖ It is the process of recording transactions in the books of accounts.
- ❖ Monetary transactions only are recorded in the accounts.
- ❖ Book-keeping is the primary stage in the accounting process.
- ❖ Book-keeping includes journalising and ledger posting.

18) What are the Objectives of book-keeping?

Following are the objectives of book-keeping:

- ❖ To have a complete and permanent record of all business transactions in chronological order and under appropriate headings.
- ❖ To facilitate ascertainment of the profit or loss of the business during a specific period
- ❖ To facilitate ascertainment of financial position.
- ❖ To know the progress of the business.
- ❖ To find out the tax liabilities.
- ❖ To fulfil the legal requirements.

19) Give the Advantages of Book-keeping?

Book-keeping has the following advantages:

- ❖ Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- ❖ Book-keeping is useful to get the financial information.
- ❖ It helps to have control over various business activities.
- ❖ Records provided by business serve as legal evidence in case of any dispute.
- ❖ Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- ❖ Book-keeping is useful to find out the tax liability.

20) What are the Limitations of book-keeping?

Book-keeping has the following limitations:

- ❖ Only monetary transactions are recorded in the books of accounts.
- ❖ Effects of price level changes are not considered.
- ❖ Financial data recorded are historical in nature, i.e., only past data are recorded.

21) State the difference between Book-keeping Vs Accounting.

Basis Of Distinction	Book-Keeping	Accounting
Scope	It is concerned with recording and classifying the business transactions.	It is concerned with recording, classifying, summarising, analysing and interpreting the financial data
Stage	Book-keeping is the primary stage in accounting. It is the base for accounting.	Apart from the primary stage, it includes secondary stage of analysis and interpretation
Nature of job	It is routine and clerical in nature.	It is analytical in nature.
Knowledge required	It requires basic knowledge of the principles of journalising and posting.	It requires thorough knowledge of accounting principles, procedures and practices.
Skill required	Analytical skill is not required for book-keeping.	It requires analytical skill



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22) State the relationship among Book-keeping, Accounting and Accountancy.

- ❖ Book-keeping is part of Accounting.
- ❖ It is the primary stage in accounting.
- ❖ It is the process of recording transactions in the books of accounts.
- ❖ Accounting is part of Accountancy.
- ❖ Accounting is the process of recording, classifying, analysing and interpreting of financial data.
- ❖ Accountancy is the systematic knowledge of accounting process and contains the standards, principles, policies and procedures to be followed in accounting

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UNIT -3

3. BOOKS OF PRIME ENTRY

QUESTIONS & ANSWERS:

1) What are source documents?

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

2) What is accounting equation?

- ❖ Accounting equation is a mathematical expression.
- ❖ This shows that the total of assets is equal to the total of liabilities and capital.
- ❖ This is based on the dual aspect concept of accounting.
- ❖ Capital + Liabilities = Assets.

3) Write any one transaction which

- a) Decreases the assets and decreases the liabilities
- b) Increases one asset and decreases another asset.

ANSWER:

- a) Cash Paid creditors Rs.50,000
- b) Bought furniture Rs 1, 00,000 by paying cash.

4) What is meant by journalising?

- ❖ The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising.

5) What is real account?

- ❖ All accounts relating to tangible and intangible properties and possessions are called real accounts.
- ❖ i) Tangible real accounts (ii) Intangible real accounts

6) How are personal accounts classified?

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

7) State the accounting rule for nominal account.

Nominal account:

- ❖ Debit all expenses and losses
- ❖ Credit all incomes and gain.

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

Golden rules of double entry system:

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



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SHORT ANSWER :

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

- ❖ The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.
- ❖ Under the double entry system of book keeping, every transaction has two fold effect,
- ❖ Which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated.
- ❖ Capital + Liabilities = Assets

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

- ❖ Every transaction has two aspects and each aspect affects minimum one account.
- ❖ An account is the basic unit of identification in accounting.
- ❖ Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head.

Accounts are classified into five categories:

- ❖ Asset account,
- ❖ Liability account,
- ❖ Capital account,
- ❖ Revenue account and
- ❖ Expense account.

Asset account

- ❖ Any physical thing or right owned that has a monetary value is called asset.

- ❖ **Examples:** Land and Buildings account, Plant and Machinery account.

Liability account

- ❖ Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities;

- ❖ **Examples:** creditors account, expenses outstanding account.

Capital account

- ❖ Financial obligations of a business enterprise towards its owners are grouped under this category;

- ❖ **Examples:** capital contributed by owner.

Revenue account

- ❖ Accounts relating to revenues of an enterprise are grouped under this category,

- ❖ **Examples:** Sale of goods, Rent received.

Expense account

- ❖ Expenses incurred and losses suffered for earning revenue are grouped under this category;

- ❖ **Examples:** Purchase of goods, Salaries paid.

11) What are the three different types of personal accounts?

Personal account:

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

Natural person's account:

- ❖ Natural person means human beings.

- ❖ **Example:** Lakshmi a/c, Murugan a/c.

Artificial person's account:

- ❖ Artificial person refers to the persons other than human beings recognised by law as persons.

- ❖ **Example:** BHEL account, Bank account.

Representative personal accounts:

- ❖ These are the accounts which represent persons natural or artificial or a group of persons.



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- ❖ **Example:** Outstanding salaries account, prepaid rent account.
- ❖ When expenses are outstanding, it is payable to a person. Hence, it represents a person.

12) What is the accounting treatment for insurance premium paid on the life of the proprietor?

- ❖ Insurance premium paid on the life of the proprietor is a personal account.
- ❖ It is spend for the personal use of the proprietor not for business purpose.
- ❖ Drawing account should be debited.
- ❖ The Entry

Date	Particulars	L.F	Debit (Rs)	Credit(Rs)
	Drawings a/c -Dr		xxx	
	To Cash a/c			xxx

13) State the principles of double entry system of book keeping.

- 📖 Following are the principles of double entry system:
 - ❖ In every business transaction, there are two aspects.
 - ❖ The two aspects involved are the benefit or value **receiving aspect** and benefit or value **giving aspect**.
 - ❖ These two aspects involve **minimum two accounts**; at least one **debit** and at least one **credit**.
 - ❖ For **every debit**, there is a **corresponding and equivalent credit**.
 - ❖ If **one account is debited** the other account must be credited.

14) Briefly explain about steps in journalising.

The following steps are followed in journalising:

- ❖ Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
- ❖ Classify the above accounts under Personal account, Real account or Nominal account
- ❖ Apply the rules of debit and credit for the above two accounts.
- ❖ Find which account is to be debited and which account is to be credited by the application of rules of double entry system
- ❖ Record the date of transaction in the date column.
- ❖ Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.
- ❖ Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.
- ❖ Write the narration within brackets in the next line in the particulars column.

15) What is double entry system? State its advantages

- ❖ Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation.
- ❖ According to this system, every transaction has a twofold effect.
- ❖ That is, there are two aspects involved, namely, receiving aspect and giving aspect. It is denoted by debit (Dr.) and credit (Cr.).

Advantages of double entry system:

- 📖 **Accuracy:**
 - ❖ In this system, the two aspects of each transaction are recorded in the books of accounts.
 - ❖ This helps in checking the accuracy in accounting
- 📖 **Ascertainment of business results:**
 - ❖ Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available.



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- ❖ This helps to ascertain the net profit earned or loss incurred during an accounting period and also to know the financial position as on a particular date.

Comparative study:

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

Common acceptance :

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

INSIDE, CREATIVE QUESTIONS & ANSWERS

16) Write short notes on Invoice.

- ❖ Invoice is used for credit purchases and credit sales.
- ❖ The date, amount and details of credit purchases and credit sales are given in the invoices.
- ❖ Invoice is generally prepared by the seller in three copies.

17) What is mean by Debit note?

- ❖ A buyer may return the goods to the seller in various situations such as when goods are defective or damaged, goods do not meet the specifications, etc.
- ❖ When goods are returned by a buyer, the buyer prepares a debit note and sends it to the seller.
- ❖ It is a document issued by a buyer stating the amount owed by the seller.
- ❖ A debit note is also called as debit memo.

18) Explain the term Credit note.

- ❖ It is a statement prepared by the seller who receives back from his customer the goods sold.
- ❖ It contains details such as the description of the goods, quantity returned and also their value.
- ❖ It is also called as credit memo.

19) Define Journal :

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

– Munro and Palmer (OR)

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

20) What is mean by Transaction:

- ❖ Transaction involves transfer of money or money's worth (goods or services or ideas) from one person to another.
- ❖ Transaction can be classified into cash transaction, bank transaction and credit transaction.

21) Explain the term Automated Teller Machine (ATM):

- ATM is a computerised machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial and non-financial transactions without the need to actually visit their bank branch.



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22) Explain the term Cash Deposit Machine (CDM):

- It is an ATM like machine that allows depositing cash directly into a customer's account without any manual intervention of the bank employee.
- There is no need to fill deposit slips.

23) Explain the term Debit card:

- The debit cards are used to withdraw cash from an ATM, to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase).
- A customer can use debit card for the money he has in the bank account with some restrictions.

24) Explain the term Credit card:

- The credit cards are used to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase).
- A customer can use credit card within the limit specified by the bank even if there is inadequate balance in the account
- The bank may charge interest and other charges for credit card usage.

25) Explain the term NEFT:

- National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer.
- Under this scheme, any person can electronically transfer funds from any bank branch to any person having an account with any other bank branch in the country.

26) Explain the term RTGS:

- The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis.

27) What is mean by Traditional approach?

- Under this approach, the two fold aspects (debit and credit) in each transaction are recorded in the journal by following double entry system.
- For the purpose of recording the transactions, accounts are classified into personal and impersonal accounts.

28) What is Journal?

- Journal is the book of original entry in which business transactions are recorded in chronological order, that is, in the order of occurrence.
- Transactions are recorded for the first time in the journal.

29) State the Different types of journal entries?

- Single entry
- Compound entry
- Opening entry
- Closing entry
- Rectifying entry
- Adjusting entry
- Transferring entry

30) What is mean by Compound entry?

- Compound entry is an entry in which more than two accounts are involved.
- Either more than one account is debited or more than one account is credited or both.



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UNIT - 4 4. LEDGER

QUESTIONS & ANSWERS:

1) What is a ledger?

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

2) What is meant by posting?

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

3) What is debit balance?

- If the total on the debit side exceeds the total on the credit side, it results in debit balance.
- Total of debit > Total of credit = Debit balance (By balance c/d and To balance b/d)

4) What is credit balance?

- If the total on the credit side exceeds the total on the debit side, it results in credit balance.
- Total of credit > Total of debit = Credit balance (To balance c/d and By balance b/d).

5) What is balancing of an account?

- Balancing means that the debit side and credit side amounts are totalled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total, so that the total of both debit and credit columns are equal.



6) Distinguish between journal and ledger.

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

7) What is ledger? Explain its utilities.

- 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.

Utilities of ledger:

Quick information about a particular account:

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

Control over business transactions:

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

Trial balance can be prepared:

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

Helps to prepare financial statements:

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



8) How is posting made from the journal to the ledger?

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

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

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

9) Explain the procedure for balancing a ledger account.

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

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