

V.M.G.RAJASEKARAN RAMANI SRI SARADA SAKTHI MAT. HR. SEC. SCHOOL**STD: XI****ACCOUNTANCY****CREATIVE COMPULSORY QUESTIONS (VOL – I)****UNIT – 1 INTRODUCTION TO ACCOUNTING****1. Non- Monetary transactions are not recorded in the books of accounts' –Give reason and explain.**

- 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.

2. Is Accounting an art or a science?

Accounting is both an art as well as Science.

i) Art:

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

ii) Science:

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

3. “The role of accounting has changed over the period of time”. Do you agree?

Earlier the role of Accounting was limited to recording of transactions. Now, it has sifted to provided information to managers and interested

parties, to help them take appropriate decision. It is now regarded as an information system.

4. 'Accounting information should be comparable' – Do you agree with this statement? Give two reasons.

Yes, Accounting information should be comparable because,

- 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.

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

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

6. 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?

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.

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

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

UNIT – 2 CONCEPTUAL FRAMEWORK OF ACCOUNTING

6. Do you think that the principle of conservatism results in creating of secret reserve?

Yes, principle of conservatism has two effects.

- i. Profit and loss account discloses lower profit in comparison to the actual profits.
- ii. Balance sheet will disclose understatement of assets and overstatement of liabilities.

7. Which value is reflected in the Accounting standards issued by ICAI?

Value of consistency is reflected by the accounting standards issued by ICAI, as following consistent set of standards, enables comparability of financial statement.

8. How does matching principle apply to depreciation?

- i. Matching principle states that the expenses of an accounting period are matched with the related revenue for correct determination of profit.
- ii. According to the matching principle, the purchase price of fixed asset is not related to the accounting period because the benefit derived from its use will be spread over a number of years.
- iii. Therefore, only depreciation related to the accounting period is considered for determination of profit.

9. “Despite many advantages, double entry system also has some disadvantages” – In the light of this statement discuss the advantages of double entry system.

Despite of many advantages, double entry system has some disadvantages which are as follows:

- i. Double entry system is complex and hard to understand.
- ii. It involves time, labour and money, so it is not possible for small business to keep accounts under this system.

- iii. It required expert knowledge to keep accounts under this system.
- iv. As the system is complex, there is greater possibility of committing errors and mistakes.

10. A company purchased goods for Rs.10,00,000 and sold 80% of such goods during the year. The market value of remaining goods was Rs.1,80,000. The company valued the closing at Rs.2,00,000 i.e., cost. Is the statement correct?

No, the principle of conservatism is being violated. Here the closing stock should have been valued at Rs.1,80,000 i.e., lower of cost or Net Realizable Value (NRV) whichever is less.

11. Due to a labour strike, in a factory the production had to stop for a week. The accountant estimated the loss of production and likely loss of profit and recorded it in the books of accounts. Is the Accountant correct?

No, as per the money measurement concept only those transactions and events, which can be recorded in money terms on the basis of documentary evidences are recorded in books of accounts.

12. An accountant advised his client, who is a doctor to maintain his accounts on cash basis. Is the advice of accountant correct?

Yes, the advice given by the accountant is correct as cash basis of accounting is more appropriate for a doctor as he receives his fee in cash.

13. Why is it necessary for accountants to assume that business entity will remain a going concern?

The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely. Due to this concept distinction is made between capital and revenue expenditure and thus, assets and liabilities are recognized.

14. As per consistency concept a company cannot change an accounting policy. Does this holds true in all instances? Explain.

Yes, the method and the rate of depreciation can be changed but only in the following circumstances.

- i. The change is to comply with statutory regulations. Or
- ii. The change would help in better understanding of the true financial position of the business. Also, the change and its effect on profit should be disclosed in the financial statements of the enterprise.

15. Name the accounting concept or convention association with the following.

- i. Assets are recorded at cost, irrespective of the market price.
- ii. Life of a business should be divided into smaller periods.
- iii. Accounting transactions should be free from bias of accountants and others.

Answer: i) Historical cost concept

ii) Accounting period concept

iii) Verifiable objective concept.

UNIT - 3. BOOKS OF PRIME ENTRY

16. If a transaction has the effect of decreasing an asset, is the decrease recorded as a debit or as credit? If the transaction has the effect of decreasing a liability, is the decrease recorded as a debit or as a credit?

- i. If a transaction has the effect of decreasing an asset, the decrease will be recorded as credit because all the assets have debit balance. So if asset decreases, it is credited.
- ii. For example, when an asset is decreased because of depreciation, in that case asset account is credited.

17. Accounting equation remains intact under all circumstances. Justify the statement with the help of an Example.

- i. An accounting equation always remains intact with every change that occurs due to a transaction i.e., under all the circumstances.
- ii. It is because dual aspect concept of accounting says that, every transaction simultaneously, has been effects of equal amount.
- iii. A transaction may affect either both sides of the equation by the same amount or one side of the equation only, by both increasing or decreasing it by equal amounts.

18. What do you mean by 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 prepared in three copies, The first copy is given to the purchase, the second copy is sent along with the goods for checking and the third is retained by the seller and used as the source document for recording the business transactions.

19. Give transactions with imaginary figure involving the following:

- i. Increase in assets and capital
- ii. Increase and decrease in assets
- iii. Increase in an asset and a liability
- iv. Decrease of an asset and owner's capital

Answer:

- i. Mr. Ganesh started a business with Rs.50,000
- ii. Typewriter machine purchased for Rs.10,000
- iii. Purchased goods for Rs.15,000 from Mr.Kumar
- iv. Withdrew cash for personal use Rs.5,000

20. Give the meaning of Debit note.

- i. Credit note is a statement prepared by the seller who receives back from his customer the goods sold.
- ii. It contains details such as the description of the goods, quantity returned and also their value.
- iii. It is document sent by a seller by a seller to the buyer, stating that a certain amount is owed to the buyer.

UNIT – 4 – LEDGER**21. Does debit always mean increase and credit always mean decrease?**

No, it is not true. Debit does not always mean increase and credit does not always mean decrease. It depends upon the accounts involved.

22. What is the purpose of a ledger?

The purpose of a ledger account is to classify the transactions according to their nature and item.

23. 'Ledger is a principal Book of a Business' – Explain.

- i. Ledger is known as the principal book of accounts because it is very useful for a business enterprise.
- 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 financial statements can be prepared from the ledger balances.

24. Indicate the nature of normal balance in the following accounts.

- a) Cash
- b) Creditors
- c) Sales
- d) Furniture

- e) Commission received
- f) Debtors
- g) Purchases
- h) Capital
- i) Salaries
- j) Computer

Answer:

Debit balances:

Cash, furniture, debtors, purchases, salaries paid, computer

Credit balances:

Creditors, Sales, Commission received, capital

UNIT – 5 TRIAL BALANCE

25. Is trial balance an account or a statement?

The trial balance is a statement, showing the names and balances of all the accounts in the ledger and cash book.

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

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

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

The debit side of the trial balance will be more by Rs.10,000.

28. Trial balance is a link between the ledger and final accounts. Explain.

Trial balance is a connecting link between the accounting records and the preparation of financial statements. 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.

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.

29. 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.

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

UNIT – 6 – SUBSIDIARY BOOKS - I**30. It is correct to say that purchases book as a record prepared from the invoices received from suppliers?**

Yes, as the source documents for recording entries in the purchases book are invoices or bills received from the suppliers of goods.

31. Give one point of distinction between purchase book and purchases Account.

Purchases book is part of journal whereas purchases account is a part of ledger.

32. Is it correct to say that sales book is a record prepared from invoices issued to customers?

Yes, as the source documents for recording entries in the sales book are invoices or bills issued to customers.

33. Distinguish between purchase book and purchases account.

S.No.	Purchases Book	Purchases Account
1.	Purchases book is a part of a journal	Purchases Account is a part of a ledger.
2.	Purchases book does not have debit and credit columns like ledger account.	Purchases account has debit and credit columns.
3.	Total of purchases book is posted to the purchases account.	Balance in the account is transferred to the trading account.

34. Distinguish between sales book and sales account.

S.No.	Sales Book	Sales Account
1.	Sales book is a part of a journal book	Sales account is a part of a ledger.
2.	Sales book does not have debit and credit columns like ledger account.	Sales account has debit and credit columns.
3.	In a sales book, only credit sales of goods are recorded.	In a sales account, credit as well as cash sales of goods are recorded.
4.	Total amount of sales book is posted to the sales account periodically	Balance in the sales account is transferred to the trading account.

UNIT – 7 – SUBSIDIARY BOOKS –II**35. Cash column of the cash book will always have a debit balance. Why?**

Cash column of cash book will always have a debit balance because actual cash payments cannot be more than the actual cash in hand.

36. Bank column of the cash book can have credit balance. Why?

If bank allows the customer to draw more money from bank account than the actual amount lying in the bank account, then it will have negative balance. Such negative bank balance is called overdraft balance.

37. Can there be a credit balance in a simple cash book? State with reasons.

Cash column in a cash book cannot have a credit balance because actual payments (credit side) of cash cannot exceed actual cash available (debit side) with the business.

Balance of petty cash book is an asset for the firm.

38. Is the balance of petty cash book an asset or income?**39. Cash book of NTPC Ltd, shows a payment called 'Travel expense'. However, this travel was a personal travel of the managing director with no relation to business. Identify the value being violated.**

The value of honesty has been violated as only business expenses should not be shown.

UNIT – 8 – BANK RECONCILIATION STATEMENT**40. Which values are involved in the preparation of bank reconciliation statements?**

The values involved in the preparation of bank reconciliation are

- i. Prevention of fraud
- ii. Identifying errors
- iii. Fulfillment of commitment on time by finding out reasons of undue delay in clearance of cheque.

41. When bank column of a cash book shows a credit balance, what does it mean?

It means overdraft i.e., amount due to the bank or the excess amount withdrawn over the amount deposited in the bank.

42. When bank column of a cash book shows a debit balance, what does it mean?

It means balance lying with the bank or the deposits made by the firm are more than its withdrawals.

43. Bank reconciliation statement is prepared only i.e., at the end of the year? Comment.

No, bank reconciliation can be prepared at any time of the year e.g., every month or every quarter or half yearly or yearly.

44. Briefly explain the statement ‘ wrongly debited by the bank ‘ with the help of an example.

Amount wrongly debited by the bank implies a situation when the bank wrongly debits a passbook. For example, a firm issued a cheque of Rs.1,500 to its creditor and it is presented for payment and paid by the bank but in place of Rs.1,500 bank debited it wrongly by Rs.15,000.