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ACCOUNTANCY
XI STANDARD
THEORY MATERIAL
Introduction to Accounting Book back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. The root of financial accounting system is ....
(a) Social accounting
(b) Stewardship accounting
(c) Management accounting
(d) Responsibility accounting
Answer:(b) Stewardship accounting

Question 2. Which one of the following is not a main objective of accounting?
(a) Systematic recording of transactions
(b) Ascertainment of the profitability of the business
(c) Ascertainment of the financial position of the business
(d) Solving tax disputes with tax authorities
Answer:(d) Solving tax disputes with tax authorities

Question 3. Which one of the following is "hot a branch of accounting?
(a) Financial accounting
(b) Management accounting
(c) Human resources accounting
(d) None of the above
Answer:(d) None of the above

Question 4. Financial position of a business is ascertained on the basis of ....
(a) Journal
(b) Trial balance
(c) Balance Sheet
(d) Ledger
Answer:(c) Balance Sheet

Question 5. Who is considered to be the internal user of the financial information?
(a) Creditors
(b) Employee
(c) Customer
(d) Government
Answer: (b) Employee

II. Very Short Answer Questions

Question 1.Define accounting.

Answer: American Accounting Association has defined accounting as "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information."

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Question 2.List any two functions of accounting.
Answer: The main functions of accounting:

1. Measurement
2. Forecasting

1. Measurement: The main function of accounting is to keep systematic record of transactions, post them in the ledger and ultimately prepare the final accounts.
2. Forecasting: With the help of the various tools of accounting, future performance and financial position of the business enterprises can be forecasted.
Question 3.What are the steps involved in the process of accounting?
Answer: Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.
Question 4.Who are the parties interested in accounting information?
Answer: Internal users: Owners, Management and Employees.

1. External users: Creditors, Investors, Customers, Tax authorities, Government, Researchers and General Public.

Question 5. Name any two basis of recording accounting information.
Answer: There are three basis of accounting in common usage.

1. Cash basis
2. Accrual or mercantile basis

<u>III. Short Answer Questions</u>
Question 1.Explain the meaning of accounting.
Answer: Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

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

Question 2.Discuss briefly the branches of accounting.
Answer: The main branches of accounting are:
1. Financial Accounting: It involves recording of financial transactions and events.
2. Cost Accounting: It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purpose of cost control and managerial decision making.
3. Management Accounting: It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day – to – day operations of an enterprise.
4. Social Responsibility Accounting: It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them.

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5 Human Resource Accounting. It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.

Question 3.Discuss in detail the importance of accounting.

Answer: The importance of accounting is:

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

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

3. Assessment of progress: Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses.

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

5. Satisfies legal requirements: Various legal requirements like maintenance of provident fund (PF) for employees, Tax deducted at source (TOS), filing of tax returns and properly fulfilled with the help of accounting.

6. Information to interested groups: Accounting supplies appropriate information to different interested groups like owners, management, creditors, employees, financial institutions, tax authorities and the Government.

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

8. Computation of tax: Accounting records are the basic source for computation and settlement of income tax and other taxes.

9. Settlement during mergers: When two or more business units decide to merge, accounting records provide information for deciding the terms of merger and any compensation payable as a consequence of merges.

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

1. Investors
2. Government

Answer:1. 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.

2. 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 formation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc.

Question 5.Discuss the role of an accountant in the modem business world.

Answer: The important role of an accountant is:

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

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

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3. Protector of business assets: The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.
4. Financial advisor: The accountant analysis financial information and advises the business managers regarding investment opportunities, strategies for cost savings, capital budgeting, provision for future growth and development, expansions of enterprise, etc.
5. Tax managers: The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time
6. Public relation officer: The accountant provides accounting information to various interest users for analysis as per their requirements.

Chapter 2 Conceptual Framework of Accounting

Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. The business is liable to the proprietor of the business in respect of capital introduced by the person according to ………………
(a) Money measurement concept (b) Cost concept (c) Business entity concept
(d) Dual aspect concept **Answer: (c) Business entity concept**

Question 2. The concept which assumes that a business will last indefinitely is ………………
(a) Business Entity (b) Going concern (c) Periodicity (d) Conservatism
Answer: (b) Going concern

Question 3. GAAPs are:
(a) Generally Accepted Accounting Policies (b) Generally Accepted Accounting Principles
(c) Generally Accepted Accounting Provisions (d) None of these
Answer: (c) Generally Accepted Accounting Provisions

Question 4. The rule of stock valuation 'cost price or realisable value' whichever is lower is based on the accounting principle of ……………… (a) Materiality (b) Money measurement
(c) Conservatism (d) Accrual **Answer: (c) Conservatism**

Question 5. In India, Accounting Standards are issued by ………………
(a) Reserve Bank of India (b) The Cost and Management Accountants of India
(c) Supreme Court of India (d) The Institute of Chartered Accountants of India
Answer: (d) The Institute of Chartered Accountants of India

II. Very Short Answer Questions

Question 1. Define book – keeping.
Answer: "Book – keeping is an art of recording business dealings in a set of books". (J.R.Batlibai)
"Book – keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth". (R.N. Carter)

Question 2. What is meant by accounting concepts?
Answer: Accounting concepts are the basic assumptions or conditions upon which accounting has been laid. Accounting concepts are the results of broad consensus. The

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word concept means a notion or abstraction which is generally accepted. Accounting concepts provide unifying structure to the accounting process and accounting reports.

Question 3. Briefly explain about revenue recognition concept.

Answer: 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.

Question 4. What is "Full Disclosure Principle" of accounting.

Answer: 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.

Question 5. Write a brief note on 'Consistency' assumption.

Answer: 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.

III. Short Answer Questions

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

Answer: Matching concept: According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period. This concept is based on accrual concept and periodicity concept. Periodicity concept fixes the time frame for measuring performance and determining financial status. All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

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

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

Answer: 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.

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

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

Question 4. Write a brief note on Accounting Standards.

Answer:

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

Chapter 3 Books of Prime Entry

Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. Accounting equation signifies ....
(a) Capital of a business is equal to assets
(b) Liabilities of a business are equal to assets
(c) Capital of a business is equal to liabilities
(d) Assets of a business are equal to the total of capital and liabilities

Answer: (d) Assets of a business are equal to the total of capital and liabilities

Question 2. 'Cash withdrawn by the proprietor from the business for his personal use' causes ....
(a) Decrease in assets and decrease in owner's capital
(b) Increase in one asset and decrease in another asset
(c) Increase in one asset and increase in liabilities
(d) Increase in asset and decrease in capital

Answer: (a) Decrease in assets and decrease in owner's capital

Question 3. A firm has assets of ₹ 1,00,000 and the external liabilities of ₹ 60,000. Its capital would be .... (a) ₹ 1,60,000 (b) ₹ 60,000 (c) ₹ 1,00,000 (d) ₹ 40,000 **Answer:(d) ₹ 40,000**

Question 4. The incorrect accounting equation is ....
(a) Assets = Liabilities + Capital (b) Assets – Capital + Liabilities (c) Liabilities =

Assets + Capital
(d) Capital = Assets – Liabilities **Answer:(c) Liabilities = Assets + Capital**

Question 5. Accounting equation is formed based on the accounting principle of ....
(a) Dual aspect (b) Consistency (c) Going concern (d) Accrual **Answer:(a) Dual aspect**

Question 6. Real account deals with .... (a) Individual persons (b) Expenses and losses
(c) Assets (d) Incomes and gains **Answer:(c) Assets**

Question 7. Which one of the following is representative personal account?
(a) Building A/c (b) Outstanding salary A/c (c) Mahesh A/c (d) Balan & Co. A/c
Answer: (b) Outstanding salary A/c

Question 8. Prepaid rent is a ....(a) Nominal A/c (b) Personal A/c (c) Real A/c
(d) Representative personal A/c **Answer:(d) Representative personal A/c**

Question 9. Withdrawal of cash from business by the proprietor should be credited to ....
(a) Drawings A/c (b) Cash A/c (c) Capital A/c (d) Purchases A/c **Answer:(b) Cash A/c**

Question 10. In double entry system of book keeping, every business transaction affects ....
(a) Minimum of two accounts (b) Same account on two different dates
(c) Two sides of the same account (d) Minimum three accounts **Answer:(a) Minimum of two accounts**

II. Very Short Answer Questions

Question 1. What are source documents?

Answer: "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.

Question 2.What is accounting equation?

Answer: Accounting equation is a mathematical expression which 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. This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise.

Question 3.Write any one transaction which

1. Decreases the assets and decreases the liabilities
2. Increases one asset and decreases another asset

Answer:

1. Paid creditors
2. Gash sales

Question 4. What is meant by journalising?

Answer: The word journal has been derived from the French word 'Jour' which means day.

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So, journal means daily. Journalising is the beginning of the accounting process for the financial transactions.

Question 5.What is real account?

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

Question 6. How are personal accounts classified?

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

Question 7. State the accounting rule for nominal account.

Answer: Debit all expenses and losses credit all incomes and gains.

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

Answer: The consistency convention implies that

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

<u>III. Short Answer Questions</u>

Question 1.Write a brief note on accounting equation approach of recording transactions.

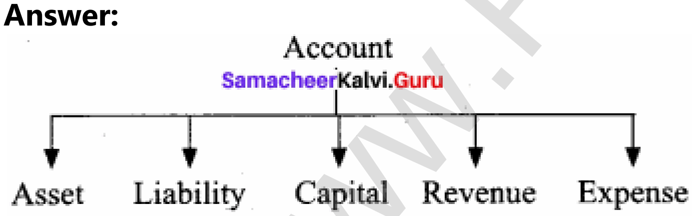
Answer: The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation. Under the double entry system of book keeping, every transaction has two fold effect, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated.

Capital + Liabilities = Assets

Capital can also be called as owner's equity and liabilities as outsider's equity.

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

Answer:



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

2. Liability account: Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities; for example, creditors account, expenses outstanding account.

3. Capital account: Financial obligations of a business enterprise towards its owners are grouped under this category; for example, capital contributed by owner.

4. Revenue account: Accounts relating to revenues of an enterprise are grouped under this category, for example; revenues from sale of goods, rent received.

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5. Expense account: Expenses incurred and losses suffered for earning revenue are grouped under this category; for example, purchase of goods, salaries paid.

Question 3. What are the three different types of personal accounts?

Answer: Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.

1. Natural person's account: Natural person means human beings. Example: Vinoth account, Malini account.

2. Artificial person's account: Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.

3. Representative personal accounts: These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.

Question 4. What is the accounting treatment for insurance premium paid on the life of the proprietor?

Answer:

Date	Particulars	LF	Debit M.	Credit M.
	Drawing A/c Dr. To Cash A/c (Insurance paid for owner life insurance)		XXX	XXX

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Question 5.State the principles of double entry system of bookkeeping.

Answer: Following are the principles of double entry system:

1. In every business transaction, there are two aspects.
2. The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
3. These two aspects involve minimum two accounts; at least one debit and at least one credit.
4. For every debit, there is a corresponding and equivalent credit. If one account is debited the other account must be credited.

Question 6.Briefly explain about steps in journalising.

Answer: The following steps are followed in journalising:

1. Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
2. Classify the above accounts under Personal account, Real account or Nominal account
3. Apply the rules of debit and credit for the above two accounts.

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4. Find which account is to be debited and which account is to be credited by the application of rules of double entry system.
5. Record the date of transaction in the date column.
6. Enter the name of the account to be debited in the particulars column 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.
7. 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.
8. Write the narration within brackets in the next line in the particulars column.

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

Answer: 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.). The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit. Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital. Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.

Chapter 4 Ledger

Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. Main objective of preparing ledger account is to ....

(a) Ascertain the financial position
(b) Ascertain the profit or loss
(c) Ascertain the profit or loss and the financial position
(d) Know the balance of each ledger account

Answer: (d) Know the balance of each ledger account

Question 2. The process of transferring the debit and credit items from journal to ledger accounts is called ....(a) Casting (b) Posting (c) Journalising (d) Balancing

Answer:(b) Posting

Question 3. J.F means .... (a) Ledger page number (b) Journal page number (c) Voucher number (d) Order number **Answer:(b) Journal page number**

Question 4. The process of finding the net amount from the totals of debit and credit columns in a ledger is known as ....(a) Casting (b) Posting (c) Journalising(d) Balancing

Answer:(d) Balancing

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Question 5. If the total of the debit side of an account exceeds the total of its credit side, it means

(a) Credit balance (b) Debit balance (c) Nil balance (d) Debit and credit balance

Answer:(b) Debit balance

Question 6. The amount brought into the business by the proprietor should be credited to ....

(a) Cash account (b) Drawings account (c) Capital account (d) Suspense account

Answer:(c) Capital account

II. Very Short Answer Questions

Question 1. What is a ledger?

Answer: 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. Ledger is known as principal book of accounts.

Question 2.What is meant by posting?

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

Question 3. What is debit balance?

Answer: When the total of the debit side is more than the total of credit side the difference is debit balance and is placed on the credit side as 'By Balance c/d'.

Question 4. What is credit balance?

Answer: If the credit side total is more than the total of debit side, the difference is credit balance and is placed on the debit side as 'To Balance c/d'.

Question 5. What is balancing of an account?

Answer: 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.

III. Short Answer Questions

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Question 1. Distinguish between journal ad ledger.

Answer: Following are the differences between journal and ledger:

Basis	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., date wise in the order of occurrence.	Entries are made account wise.
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.

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Question 2. What is ledger? Explain its utilities.

Answer: 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 helps 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.

Question 3.How is posting made from the journal to the ledger?

Answer: 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:

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1. 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.
2. Record the date of the transaction in the date column on the debit side of that account.
3. Record the name of the account credited in the journal with the prefix 'To' in particulars column.
4. Record the amount of the debit in the 'amount column'.
5. 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.

Question 4. Explain the procedure for balancing a ledger account.
Answer: Following is the procedure for balancing an account:
1. The debit and credit columns of an account are to be totalled separately.
2. The difference between the two totals is to be ascertained.
3. The difference is to be placed in the amount column of the side having lesser total. 'Balance c/d' is to be entered in the particulars column against the difference and in the date column the last day of the accounting period is entered.
4. Now both the debit and credit columns are to be totalled and the totals will be equal. The totals of both sides are to be recorded in the same line horizontally. The total is to be distinguished from other figures by drawing lines above and below the amount.
5. The difference has to be brought down to the opposite side below the total. 'Balance b/d' is to be entered in the particulars column against the difference brought down and in the date column, the first day of the next accounting period is entered.
6. If the total on the debit side of an account is higher, the balancing figure is debit balance and if the credit side of an account has higher total, the balancing figure is credit balance. If the two sides are equal, that account will show nil balance.

Chapter 5 Trial Balance

Trial Balance Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. Trial balance is a .... (a) Statement (b) Account (c) Ledger (d) Journal
Answer:(a) Statement

Question 2. 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
Answer:(b) Trial balance

Question 3. The trial balance contains the balances of ....
(a) Only personal accounts (b) Only real accounts (c) Only nominal accounts
(d) All accounts **Answer:(d) All accounts**

Question 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)
Answer:(d) (a), (b) and (c)

Question 5. 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
Answer:(b) Credited to suspense account

Question 6.A list which contains balances of accounts to know whether the debit and credit balances are matched is .... (a) Journal (b) Day book (c) Trial balance (d) Balance sheet
Answer:(c) Trial balance

Question 7. Which of the following method(s) can be used for preparing trial balance?
(a) Balance method (b) Total method (c) Total and Balance method (d) (a), (b) and (c)
Answer:(d) (a), (b) and (c)

Question 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 **Answer:(c) Drawings account**

Question 9. The difference of totals of both debit and credit side of trial balance is transferred to ....(a) Trading account (b) Difference account (c) Suspense account
d) Miscellaneous account **Answer:(c) Suspense account**

Question 10. Trial balance is prepared ....(a) At the end of the year (b) On a particular date
(c) For a year (d) None of the above **Answer:(b) On a particular date**

<u>II. Very Short Answer Questions</u>

Question 1.What is trial balance?

Answer: Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. 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.

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Question 2.Give the format of trial balance.

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

S. No.	Name of the account/Particulars	L.F.	Debit balance ₹	Credit balance ₹
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Question 3.What are the methods of preparation of trial balance?

Answer: 1.Balanced method 2. Total method 3.Total and balance method

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

Carriage outwards Carriage inwards Sales Purchases

Bad debts Interest paid Interest received Discount received Capital

Drawings Sales returns Purchase returns

Answer:Trial balance as on 31st March, 2017

S. No.	Name of the account	Debit balance ₹	Credit balance ₹
1.	Carriage outward	XXX	
2.	Carriage inwards	XXX	
3.	Sales		XXX
4.	Purchases	XXX	
5.	Bad debts	XXX	
6.	Interest paid	XXX	
7.	Interest received		XXX
8.	Discount received		XXX
9.	Capital		XXX
10.	Drawings	XXX	
11.	Sales returns	XXX	
12.	Purchase returns		XXX

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III. Short Answer Questions

Question 1.What are the objectives of preparing trial balance?

Answer: Trial balance is prepared with the following objectives:

1. Test of arithmetical accuracy: Trial balance is the means by which the arithmetical accuracy of the book – keeping work is checked. When the totals of debit column and credit column in the trial balance are equal, it is assumed that posting from subsidiary books, balancing of ledger accounts, etc. are arithmetically correct. However, there may be some errors which are not disclosed by trial balance.

2. Basis for preparing final accounts: Financial statements, namely, trading and profit and loss account and balance sheet are prepared on the basis of summary of ledger balances obtained from the trial balance.

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3. Location of errors: When the trial balance does not tally, it is an indication that certain errors have occurred. 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 and totalling the trial balance columns, etc. Hence, the errors should be located and rectified before preparing the financial statements.

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

Question 2.What are the limitations of trial balance?

Answer: The following are the limitations of trial balance:

1. It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
2. Even if some transactions are omitted, the trial balance will tally.
3. Trial balance may tally even though errors are committed in the books of account,
4. 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.
5. Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records. This is because there are certain errors which are not : disclosed by trial balance such as complete omission of a transaction, compensating errors and error of principle.

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

Answer: Yes, I agree with the statement. 'A trial balance is only a prima facie evidence of the arithmetical accuracy of records.

Reasons:

Trial balance is the means by which the arithmetical accuracy of the book – keeping. work is checked. When the totals of debit column and credit column in the trial balance are equal, it is assumed that porting from subsidiary books, balancing of ledger accounts, etc.

Chapter 6: Subsidary Books - I

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. Purchases book is used to record .... (a) all purchases of goods
(b) all credit purchases of assets (c) all credit purchases of goods (d) all purchases of assets

Answer:(c) all credit purchases of goods

Question 2. A periodic total of the purchases book is posted to the ....
(a) debit side of the purchases account (b) debit side of the sales account
(c) credit side of the purchases account (d) credit side of the sales account

Answer:(a) debit side of the purchases account

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Question 3. Sales book is used to record ……………..(a) all sales of goods (b) all credit sales of assets
(c) all credit sales of goods (d) all sales of assets and goods **Answer:(c) all credit sales of goods**

Question 4. The total of the sales book is posted periodically to the credit of ……………..
(a) Sales account (b) Cash account (c) Purchases account (d) Journal proper
Answer:(a) Sales account

Question 5. Purchase returns book is used to record ……………..
(a) returns of goods to the supplier for which cash is not received immediately
(b) returns of assets to the supplier for which cash is not received immediately
(c) returns of assets to the supplier for which cash is received immediately
(d) None of the above
Answer:(a) returns of goods to the supplier for which cash is not received immediately

Question 6.
Sales return book is used to record ……………..
(a) Returns of goods by the customer for which cash is paid immediately
(b) Returns of goods by the customer for which cash is not paid immediately
(c) Returns of assets by the customer for which cash is not paid immediately
(d) Returns of assets by the customer for which cash is paid immediately
Answer:(b) Returns of goods by the customer for which cash is not paid immediately

Question 7. Purchases of fixed assets on credit basis is recorded in ……………..
(a) Purchases book (b) Sales book (c) Purchases returns book (d) Journal proper
Answer:(d) Journal proper

Question 8. The source document or voucher used for recording entries in sales book is ……………..
(a) Debit note (b) Credit note (c) Invoice (d) Cash receipt **Answer:(c) Invoice**

Question 9. Which of the following statements is not true?
(a) Cash discount is recorded in the books of accounts
(b) Assets purchased on credit are recorded in journal proper
(c) Trade discount is recorded in the books of accounts
(d) 3 grace days are added while determining the due date of the bill
Answer:(c) Trade discount is recorded in the books of accounts

Question 10. Closing entries are recorded in ……………..
(a) Cash book (b) Ledger (c) Journal proper (d) Purchases book **Answer:(c) Journal proper**

II. Very Short Answer Questions

Question 1.Mention four types of subsidiary books.

Answer:

1. Purchase Book
2. Sales Book
3. Purchase Return Book
4. Sales Return Book

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Question 2.What is purchases book?

Answer: Purchases book is a subsidiary book in which only credit purchases of goods are recorded. When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately recorded.

Question 3.What is purchases returns book?

Answer: Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as 'returns outward book or returns outward journal'.

Question 4.What is sales book?

Answer: Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing. These are meant for regular sale. Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book. This book is also named as sales day book, sold day book, sales journal or sale register.

Question 5.What is sales returns book?

Answer: Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded. Just as goods may be returned to suppliers, goods may be returned by customers.

Question 6.What is debit note?

Answer:A 'debit note' is a document, bill or statement sent to the person to whom goods are returned. This statement informs that the supplier's account is debited to the extent of the value of goods returned. It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.

Question 7.What is credit note?

Answer:A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back the goods sold from his customer. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

Question 8.What is journal proper?

Answer: Journal proper is a residuary book which contains record of transactions, which do not find a place in the subsidiary books such as cash book, purchases book, sales book, purchases returns book, sales returns book, bills receivable book and bills payable book. Thus, journal proper or general journal is a book in which the residual transactions which cannot be entered in any of the sub divisions of journal are entered.

Question 9.Define bill of exchange.

Answer: According to the Negotiable Instruments Act, 1881, "Bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a

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certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

Question 10.What is an opening entry?

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

Question 11.What is an invoice?

Answer: Entries in the purchases day book are made from invoices which are popularly known as bills. Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc. Thus, the invoice is a source document of prime entry both for the buyer and the seller.

III. Short Answer Questions

Question 1. Give the format of purchases book.

Answer: Format of Purchases book / Purchases Journal

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

1. Sale of goods for cash
2. Sale of goods on credit
3. Purchases of goods on credit
4. When the proprietor takes goods for personal use
5. Goods returned to suppliers for which cash is not received immediately
6. Asset purchased as credit.

Answer:

1. Cash book
2. Sales book
3. Purchase book
4. Journal proper
5. Purchase return book
6. Journal proper

Question 3.What are the advantages of subsidiary books?

Answer: The advantages of maintaining subsidiary books are:

1. Proper and systematic record of business transactions: All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc. As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.

2. Convenient posting: All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books. For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book. It facilitates posting to purchases account, sales account and concerned personal accounts.

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3. Division of work: As journal is sub-divided, the work will be sub – divided and different persons can work on different books at the same time and the work can be speedily completed.

4. Efficiency: The sub – division of work gives the advantage of specialisation. When the same work is done by a person repeatedly the person becomes efficient in handling it. Thus, specialisation leads to efficiency in accounting work.

5. Helpful in decision making: Subsidiary books provide complete details about every type of transactions separately. Hence, the management can use the information as the basis for deciding its future actions. For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

6. Prevents errors and frauds: Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised.

7. Availability of requisite information at a glance: When all transactions are entered in one journal, it is difficult to locate information about a particular item. When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books. The maintenance of subsidiary books helps in obtaining the necessary information at a glance.

8. Detailed information available: As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information. It is easy to arrive at monthly or quarterly totals.

9. Saving in time: As there are many subsidiary books, work of entering can be done simultaneously by many persons. Thus, it saves time and accounting work can be completed quickly.

10. Labour of posting is reduced: Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.

Question 4.Write short notes on:

Endorsement of a bill and Discounting of a bill

Answer:1. Endorsement means signing on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the "Endorser". The person to whom a bill is endorsed is called the "Endorsee". The endorsee is entitled to collect the money.

2. When the holder of a bill is in need of money before the due date of a bill, cash can be received by discounting the bill with the banker. This process is referred to as the discounting of bill. The banker deducts a small amount of the bill which is called discount and pays the balance in cash immediately to the holder of the bill.

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Chapter 7 Subsidiary Books – II

Subsidiary Books – II Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. Cash book is a .... (a) Subsidiary book (b) Principal book
(c) Journal proper (d) Both subsidiary book and principal book
Answer:(d) Both subsidiary book and principal book

Question 2. The cash book records ....(a) All cash receipts (b) All cash payments
(c) Both (a) and (b) (d) All credit transactions **Answer:(c) Both (a) and (b)**

Question 3. When a firm maintains a simple cash book, it need not maintain ....
(a) Sales account in the ledger (b) Purchases account in the ledger
(c) Capital account in the ledger (d) Cash account in the ledger
Answer:(d) Cash account in the ledger

Question 4.A cash book with discount, cash and bank column is called ....
(a) Simple cash book (b) Double column cash book (c) Three column cash book
(d) Petty cash book **Answer:(c) Three column cash book**

Question 5. In Triple column cash book, the balance of bank overdraft brought forward will appear in
(a) Cash column debit side (b) Cash column credit side (c) Bank column debit side
(d) Bank column credit side **Answer:(d) Bank column credit side**

Question 6. Which of the following is recorded as contra entry?
(a) Withdrew cash from bank for personal use (b) Withdrew cash from bank for office use
(c) Direct payment by the customer in the bank account of the business
(d) When bank charges interest **Answer:(b) Withdrew cash from bank for office use**

Question 7. If the debit and credit aspects of a transaction are recorded in the cash book, it is ......
(a) Contra entry (b) Compound entry (c) Single entry (d) Simple entry **Answer:(a) Contra entry**

Question 8. The balance in the petty cash book is ....
(a) An expense (b) A profit (c) An asset (d) A liability **Answer:(c) An asset**

Question 9. Petty cash may be used to pay ....
(a) The expenses relating to postage and conveyance (b) Salary to the Manager
(c) Purchase of furniture and fixtures (d) Purchase of raw materials
Answer:(a) The expenses relating to postage and conveyance

Question 10.Small payments are recorded in a book called ....
(a) Cash book (b) Purchase book (c) Bills payable book (d) Petty cash book
Answer:(d) Petty cash book

II. Very Short Answer Questions

Question 1.What is cash book?
Answer: Cash book is the book in which only cash transactions are recorded in the

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chronological order. The cash book is the book of original entry or prime entry as cash transactions are recorded for the first time in it. Cash transactions here may include bank transactions also. Cash receipts are recorded on the debit side while cash payments are recorded on the credit side.

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

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

1. Simple or single column cash book (only cash column)
2. Cash book with cash and discount column (double column cash book)
3. Cash book with cash, discount and bank columns (three column cash book)

Question 3.What is simple cash book?

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

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

Answer: Simple Cash Book

Dr. 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)
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Question 5.What is double column cash book?

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

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

Answer: Cash book with cash and discount columns

Date	Receipts	R.N.	L.F.	Amount ₹		Date	Payments	R.N.	L.F.	Amount ₹	
				Discount	Cash					Discount	Cash
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Question 7.What is three column cash book?

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

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

Question 8.What is cash discount?

Answer: Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment. It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment. The discount is allowed when payment is received or made and hence, the entry for discount is also passed with the entry of payment. The earlier the payment, the more may be the discount. Cash discount motivates the debtor to make the payment at an earlier date to avail discount facility.

Question 9.What is trade discount?

Answer: Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. It is given as a trade practice or when goods are purchased in large quantities. It is shown as a deduction in the invoice. Trade discount is not recorded in the books of accounts. Only the net amount is recorded.

Question 10.What is a petty cash book?

Answer: Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature. If all these small payments are recorded in the main cash book, it will be loaded with lot of entries. Hence, all petty payments of the business may be recorded in a separate book, which is called as petty cash book and the person who maintains the petty cash book is called the petty cashier.

<u>III. Short Answer Questions</u>

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

Answer: Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (It may be a week or fortnight or month). The amount given to the petty cashier in advance is known as "Imprest Money".

The word imprest means payment in advance. The petty cashier makes payments from this 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.

The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier so that the total amount with the petty cashier is now equal to the amount he had received in the beginning as advance. Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period.

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Question 2. Bring out the differences between cash discount and trade discount.
Answer:Following are the difference between cash discount and trade discount:

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount. SamacheerKalvi.Guru	Trade discount is generally related to the quantity of purchase or sale. The more the purchases, the more will be deduction 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.

Question 3.Write the advantages of maintaining petty cash book.
Answer: Following are the advantages of maintaining petty cash book:

1. There can be better control over petty payments.
2. There is saving of time of the main cashier.
3. Cash book is not loaded with many petty payments.
4. Posting of entries from main cash book and petty cash book is comparatively easy.

Question 4. Write a brief note on accounting treatment of discount in cash book.
Answer: In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book. For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

Question 5. Briefly explain about contra entry with examples.
Answer: To denote that there are contra entries, the alphabet 'C' is written in L.F. column on

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both sides. Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

Chapter 8 Bank Reconciliation Statement

Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1.A bank reconciliation statement is prepared by ....
(a) Bank (b) Business (c) Debtor to the business (d) Creditor to the business
Answer:(b) Business

Question 2. A bank reconciliation statement is prepared with the help of ....
(a) Bank statement (b) Cash book (c) Bank statement and bank column of the cash book
(d) Petty cash book **Answer:(c) Bank statement and bank column of the cash book**

Question 3. Debit balance in the bank column of the cash book means ....
(a) Credit balance as per bank statement (b) Debit balance as per bank statement
(c) Overdraft as per cash book (d) None of the above
Answer:(a) Credit balance as per bank statement

Question 4.A bank statement is a copy of ....
(a) Cash column of the cash book (b) Bank column of the cash book
(c) A customer's account in the bank's book (d) Cheques issued by the business
Answer:(c) A customer's account in the bank's book

Question 5.A bank reconciliation statement is prepared to know the causes for the difference between:
(a) The balance as per the cash column of the cash book and bank column of the cash book
(b) The balance as per the cash column of the cash book and bank statement
(c) The balance as per the bank column of the cash book and the bank statement
(d) The balance as per petty cash book and the cash book
Answer:(c) The balance as per the bank column of the cash book and the bank statement

Question 6. When money is withdrawn from bank, the bank ....
(a) Credits customer's account (b) Debits customer's account (c) Debits and credits customer's account
(d) None of these **Answer:(b) Debits customer's account**

Question 7. Which of the following is not the salient feature of bank reconciliation statement?
(a) Any undue delay in the clearance of cheques will be shown up by the reconciliation
(b) Reconciliation statement will discourage the accountant of the bank from embezzlement
(c) It helps in finding the actual position of the bank balance
(d) Reconciliation statement is prepared only at the end of the accounting period

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Answer:(d) Reconciliation statement is prepared only at the end of the accounting period

Question 8. Balance as per cash book is ₹ 2,000. Bank charge of ₹ 50 debited by the bank is not yet shown in the cash book. What is the bank statement balance now?
(a) ₹ 1,950 credit balance (b) ₹ 1,950 debit balance(c) ₹ 2,050 debit balance(d) ₹ 2,050 credit balance

Answer:(a) ₹ 1,950 credit balance

Question 9. Balance as per bank statement is ₹ 1,000. Cheque deposited, but not yet credited by the bank is ₹ 2, 000. What is the balance as per bank column of the cash book?
(a) ₹ 3,000 overdraft (b) ₹ 3,000 favourable (c) ₹ 1,000 overdraft (d) ₹ 1,000 favourable

Answer:(b) ₹ 3,000 favourable

Question 10. Which one of the following is not a timing difference?
(a) Cheque deposited but not yet credited (b) Cheque issued but not yet presented for payment
(c) Amount directly paid into the bank (d) Wrong debit in the cash book

Answer:(d) Wrong debit in the cash book

<u>II. Very Short Answer Questions</u>

Question 1.What is meant by bank overdraft?

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

Question 2.What is bank reconciliation statement?

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

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

Answer:(a) Cheques issued but not yet presented for payment.
(b) Cheques deposited into bank but not yet credited.

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

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

Question 5. Substitute the following statements with one word/phrase
(a) A copy of customer's account issued by the bank.
(b) Debit balance as per bank statement.
(c) Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement.

Answer:
(a) Pass book

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

Question 6.Do you agree on the following statements? Write "yes" if you agree, and write "no" if you disagree.

(a) Bank reconciliation statement is prepared by the banker.
(b) Adjusting the cash book before preparing the bank reconciliation statement is compulsory.
(c) Credit balance as per bank statement is an overdraft.
(d) Bank charges debited by the bank increases the balance as per bank statement.
(e) Bank reconciliation statement is prepared to identify the causes of differences between balance as per bank column of the cash book and balance as per cash column of the cash book.

Answer:

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

III. Short Answer Questions

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

Answer: The main reasons for preparing bank reconciliation statement are:

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

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

Answer: When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

Question 3.Explain why does money deposited into bank appear on the debit side of the cash book, but on the credit side of the bank statement?

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

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

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

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

Answer: The timing differences in BRS are:

(a) cheques issued but not yet presented for payment(b) cheques deposited into bank but

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

Chapter 9 Rectification of Errors
Text Book Back Questions and Answers

I. Multiple Choice Questions
Choose the Correct Answer

Question 1. Error of principle arises when ....
(a) There is complete omission of a transaction
(b) There is partial omission of a transaction
(c) Distinction is not made between capital and revenue items
(d) There are wrong postings and wrong castings
Answer:(c) Distinction is not made between capital and revenue items
Question 2. Errors not affecting the agreement of trial balance are ....
(a) Errors of principle (b) Errors of overcastting (c) Errors of undercasting
(d) Errors of partial omission **Answer:(a) Errors of principle**
Question 3. The difference in trial balance is taken to ....
(a) The capital account (b) The trading account (c) The suspense account
(d) The profit and loss account **Answer:(c) The suspense account**
Question 4.A transaction not recorded at all is known as an error of ....
(a) Principle (b) Complete omission (c) Partial omission (d) Duplication
Answer:(b) Complete omission
Question 5. Wages paid for installation of machinery wrongly debited to wages account is an errs of …
(a) Partial omission (b) Principle (c) Complete omission (d) Duplication **Answer:(b) Principle**
Question 6. Which of the following errors will not affect the trial balance?
(a) Wrong balancing of an account (b) Posting an amount in the wrong account but on the correct side
(c) Wrong totalling of an account (d) Carried forward wrong amount in a ledger account
Answer:(b) Posting an amount in the wrong account but on the correct side
Question 7. Goods returned by Senguttuvan were taken into stock, but no entry was passed in the books. While rectifying this error, which of the following accounts should be debited?
(a) Senguttuvan account (b) Sales returns account (c) Returns outward account
(d) Purchases returns account **Answer:(b) Sales returns account**
Question 8.A credit purchase of furniture from Athiyaman was debited to purchases account. Which of the following accounts should be debited while rectifying this error?

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(a) Purchases account (b) Athiyaman account (c) Furniture account (d) None of these

Answer:(c) Furniture account

Question 9. The total of purchases book was overcast. Which of the following accounts should be debited in the rectifying journal entry?

(a) Purchases account (b) Suspense account (c) Creditor account (d) None of the above

Answer:(b) Suspense account

Question 10. Which of the following errors will be rectified using suspense account?

(a) Purchases returns book was undercast by ₹ 100

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

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

(d) A credit sale of goods to Ravivarman was not entered in the sales book

Answer:(a) Purchases returns book was undercast by ₹ 100

II. Very Short Answer Questions

Question 1.What is meant by rectification of errors?

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

Question 2.What is meant by error of principle?

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

Question 3.What is meant by error of partial omission?

Answer: When the accountant has failed to record a part of the transaction, it is known as error of partial omission. This error usually occurs in posting. This error affects only one account.

Question 4.What is meant by error of complete omission?

Answer: It means the failure to record a transaction in the journal or subsidiary book or failure to post both the aspects in ledger. This error affects two or more accounts.

Question 5. What are compensating errors?

Answer: The errors that make up for each other or neutralize each other are known as compensating errors. These errors may occur in related or unrelated accounts. Thus, excess debit or credit in one account may be compensated by excess credit or debit in some other account. These are also known as offsetting errors.

III. Short Answer Questions

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

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

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

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Question 2.Write a note on suspense account.
Answer: When the trial balance does not tally, the amount of difference is placed to the debit (when the total of the credit column is higher than the debit column) or credit (when the total of the debit column is higher than the credit column) to a temporary account is known as 'suspense account'.
Question 3.What are the errors not disclosed by a trial balance?
Answer: Certain errors will not affect the agreement of trial balance. Though such errors occur in the books of accounts, the total of debit and credit balance will be the same. The trial balance will tally. Errors of complete omission, error of principle, compensating error, wrong entry in the subsidiary books are not disclosed by the trial balance.
Question 4.What are the errors disclosed by a trial balance?
Answer: Certain errors affect the agreement of trial balance. If such errors have occurred in the books of accounts, the total of debit and credit balances will not be the same. The trial balance will not tally. Error of partial omission and error of commission affect the agreement of trial balance.
Question 5.Write a note on one – sided errors and two – sided errors.
Answer:

1. One – sided errors: When preparing the trial'balance, if the total of debit balances and credit balances are not the same, there is disagreement of trial balance.
2. Two – sided errors: Rectification of two – sided errors at the time of preparing the trial balance is just similar to that of their rectification before preparation of trial balance.

Chapter 10 Depreciation Accounting
Text Book Back Questions and Answers

I. Multiple Choice Questions
Choose the Correct Answer
Question 1. Under straight line method, the amount of depreciation is ……………..
(a) Incfeasing every year (b) Decreasing every year (c) Constant for all the years
(d) Fluctuating every year **Answer:(c) Constant for ail the years**
Question 2. If the total charge of depreciation and maintenance cost are considered, the method that provides a uniform charge is ……………..(a) Straight line method (b) Diminishing balance method
(c) Annuity method (d) Insurance policy method **Answer:(b) Diminishing balance method**
Question 3. Under the written down value method of depreciation, the amount of depreciation is ……
(a) Uniform in all the years (b) Decreasing every year (c) Increasing every year(d) None of the above
Answer:(b) Decreasing every year
Question 4. Depreciation provided on machinery is debited to ……………..
(a) Depreciation account (b) Machinery account

(c) Trading account (d) Provision for depreciation account **Answer:(a) Depreciation account**

Question 5. Cash received from sale of fixed asset is credited to ....

(a) Profit and loss account (b) Fixed asset account (c) Depreciation account (d) Bank account

Answer:(b) Fixed asset account

Question 6. Depreciation is provided on ....(a) Fixed assets (b) Current assets (c) Outstanding charges (d) All assets **Answer:(a) Fixed assets**

Question 7. Depreciation is caused by ....(a) Lapse of time (b) Usage (c) Obsolescence

(d) a, b and c **Answer:(d) a, b and c**

Question 8. Depreciation is the process of ....

(a) Allocation of cost of the asset to the period of its useful life

(b) Valuation of assets

(c) Maintenance of an asset in a state of efficiency

(d) Adding value to the asset

Answer:(a) Allocation of cost of the asset to the period of its useful life

Question 9. 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

Answer:(b) Mines and quarries

Question 10.A depreciable asset may suffer obsolescence due to ....

(a) Passage of time (b) Wear and tear (c) Technological changes (d) None of the above

Answer:(c) Technological changes

Question 11. 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 **Answer:(b) Reducing balance method**

Question 12. 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 **Answer:(a) Asset is put to use**

Question 13. If the rate of depreciation is same, then the amount of depreciation under straight line method vis – a – 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

Answer:(b) Equal in the first year but higher in subsequent years

Question 14. Residual value of an asset means the amount that it can fetch on sale at the of its useful life. (a) Beginning (b) End (c) Middle (d) None **Answer:(b) End**

II. Very Short Answer Questions

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Question 1.What is meant by depreciation?
Answer: The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation. It is an allocation of cost against the benefits derived from a fixed asset during an accounting period.
Question 2.List out the various methods of depreciation.
Answer:

1. Straight line method or fixed instalment method or Original cost method.
2. Written down value method or Diminishing balance method or Reducing balance method.
3. Sum of years digits method.
4. Machine hour rate method.
5. Depletion method.
6. Annuity method.
7. Revaluation method.
8. Sinking fund method.
9. Insurance Policy method.

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

1. Amount of depreciation per year = $\dfrac{\text{Original cost of the asset - Estimated scrap value}}{\text{Estimated useful life of the asset in years}}$

2. Rate of depreciation = $\dfrac{\text{Amount of depreciation per year}}{\text{Original cost}} \times 100$

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Question 4.What is annuity method?
Answer: Under this method, not only the original cost of the asset but also the amount of interest on the investment is taken into account while computing depreciation. The idea of considering interest is that if the investment is made in any other asset instead of the relevant fixed asset, it . would have earned a certain rate of interest. To calculate the amount of depreciation, annuity factor is used. Annuity factor can be found out from the annuity table or by using formula. Amount of depreciation is **computed as follows:**
Amount of depreciation = Annuity factor x original cost of the asset.
Question 5.What is sinking fund method?
Answer: This method is adopted especially when it is desired not merely to write off an asset but also to provide enough funds to replace an asset at the end of its working life. Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business. The investment is made in safe securities which offer a certain rate of interest. Interest is received annually and reinvested every year along with the amount of annual depreciation. On the expiry of the life of the asset, the investments are sold and the sale proceeds are used for replacement of the asset. This method of

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depreciation is suitable for assets of higher value. This method is also known as depreciation fund method.

III. Short Answer Questions

Question 1.What are the objectives of providing depreciation?

Answer: To find out the true profit or loss

1. To present the true and fair view of financial position
2. To facilitate replacement of fixed assets
3. To avail tax benefits
4. To comply with legal requirements

Question 2.What are the causes for depreciation?

Answer:

* Wear and tear *Efflux of time *Obsolescence *Inadequacy for the purpose

*Lack of maintenance *Abnormal factors

Question 3.

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

Answer: Advantages:

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

Limitations:

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

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

Answer: Advantages:

- Equal charge against income
- Logical method

Limitations:

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

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

S.No.	Points 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. SamacheerKalvi.Guru
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.

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Chapter 11 Capital and Revenue Transactions

Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1. Amount spent on increasing the seating capacity in a cinema hall is ....
(a) Capital expenditure (b) Revenue expenditure (c) Deferred revenue expenditure
(d) None of the above **Answer:(a) Capital expenditure**

Question 2. Expenditure incurred ₹ 20,000 for trial run of a newly installed machinery will be ....
(a) Preliminary expense (b) Revenue expenditure (c) Capital expenditure
(d) Deferred revenue expenditure **Answer:(c) Capital expenditure**

Question 5. Revenue expenditure is intended to benefit ....
(a) Past period (b) Future period (c) Current period (d) Any period **Answer:(c) Current period**

Question 6. Pre – operative expenses are ....
(a) Revenue expenditure (b) Prepaid revenue expenditure
(c) Deferred revenue expenditure (d) Capital expenditure **Answer:(d) Capital expenditure**

II. Very Short Answer Questions

Question 1.What is meant by revenue expenditure?

Answer: The expenditure incurred for day to day running of the business or for maintaining the earning capacity of the business is known as revenue expenditure. It is recurring in nature. It is incurred to generate revenue for a particular accounting period. The revenue

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expenditure may be incurred in relation with revenue or in relation with a particular accounting period.

Question 2.What is capital expenditure?

Answer: It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period. It includes any expenditure resulting in the acquisition of any fixed asset or contributes to the revenue earning capacity of the business. It is non-recurring in nature.

Question 3.What is capital profit?

Answer: Capital profit is the profit which arises not from the normal course of the business. Profit on sale of fixed asset is an example for capital profit.

Question 4.Write a short note on revenue receipt.

Answer: Receipts which are obtained in the normal course of business are called revenue receipts. It is recurring in nature. The amount received is generally small.

Question 5.What is meant by deferred revenue expenditure?

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

<u>III. Short Answer Questions</u>

Question 1. Distinguish between capital expenditure and revenue expenditure.

Answer:

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

Question 2. Distinguish between capital receipt and revenue receipt.

Answer:

S. No.	Characteristics	Capital Receipt	Revenue Receipt
1	Nature	Non-recurring in nature.	Recurring in nature.
2	Size	Amount is generally substantial.	Amount is generally smaller.
3	Distribution	These amounts are not available for distribution as profits.	The excess'of revenue receipts over the revenue expenses can be used for distribution as profits.

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Question 3.What is deferred revenue expenditure? Give two examples.
Answer: An expenditure, which is revenue expenditure in nature, the benefits of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure. The benefit usually accrues for a period of two or more years. It is for the time being, deferred from being charged against income. It is charged against income over a period of certain years. Examples: Considerable amount spent on advertising and major repairs to plant and machinery.

Chapter 12 Final Accounts of Sole Proprietors – I
Text Book Back Questions and Answers

I. Multiple Choice Questions
Choose the Correct Answer

Question 1. Closing stock is an item of ....
(a) Fixed asset (b) Current asset (c) Fictitious asset (d) Intangible asset
Answer:(b) Current asset

Question 2. Balance sheet is .... (a) An account (b) A statement
(c) Neither a statement nor an account (d) None of the above **Answer:(b) A statement**

Question 3. Net profit of the business increases the ....
(a) Drawings (b) Receivables (c) Debts (d) Capital **Answer:(d) Capital**

Question 4. Carriage inwards will be shown ....
(a) In the trading account (b) In the profit and loss account
(c) On the liabilities side (d) On the assets side **Answer:(a) In the trading account**

Question 5. Bank overdraft should be shown ....
(a) In the trading account (b) Profit and loss account (c) On the liabilities side
(d) On the assets side **Answer:(c) On the liabilities side**

Question 6. Balance sheet shows the .... of the business.
(a) Profitability (b) Financial position (c) Sales (d) Purchases
Answer:(b) Financial position

Question 7. Drawings appearing in the trial balance is ....
(a) Added to the purchases (b) Subtracted from the purchases
(c) Added to the capital (d) Subtracted from the capital
Answer:(d) Subtracted from the capital

Question 8. Salaries appearing ill the trial balance is shown on the ....
(a) Debit side of trading account (b) Debit side of profit and loss account
(c) Liabilities side of the balance sheet (d) Assets side of the balance sheet
Answer:(b) Debit side of profit and loss account

Question 9. Current assets does not include ....
(a) Cash (b) Stock (c) Furniture (d) Prepaid expenses **Answer:(c) Furniture**

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Question 10. Goodwill is classified as ....
(a) A current asset (b) A liquid asset (c) A tangible asset (d) An intangible asset
Answer:(d) An intangible asset

II. Very Short Answer Questions

Question 1.Write a note on trading account.
Answer: Trading refers to buying and selling of goods with the intention of making profit. The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period. Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold.

Question 2.What are wasting assets?
Answer: These are the assets which get exhausted gradually in the process of excavation. Examples: mines and quarry.

Question 3.What are fixed assets?
Answer: Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years such as land and building, plant and machinery, motor vehicles, furniture, etc.

Question 4.What is meant by purchases returns?
Answer: Goods purchased which are returned to suppliers are termed as purchases returns or returns outward.

Question 5.Name any two direct expenses and indirect expenses.
Answer:
Direct expenses: Carriage inwards or freight inwards, Wages Indirect expenses:
Indirect expenses: Office and administrative expenses Selling and distribution expenses

Question 6.Mention any two differences between trial balance and balance sheet.
Answer:

S.No.	Basis	Trial Balance	Balance Sheet
1.	Nature	Trial balance is a list of ledger balances on a particular date.	Balance sheet is a statement showing the position of assets and liabilities on a particular date.
2.	Purpose	Trial balance is prepared to check the arithmetical accuracy of the accounting entries made.	Balance sheet is prepared to ascertain the financial position of a business.

Question 7.What are the objectives of preparing trading account?
Answer:
1. Provides information about gross profit or gross loss.
2. Provides an opportunity to safeguard against possible losses.

Question 8.What is the need for preparing profit and loss account?
Answer:

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

III. Short Answer Questions

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

Answer: Businessmen want to know the profitability and the financial position of the business. These can be ascertained by preparing the final accounts or financial statements. The final accounts or financial statements include the following:

1. Income statement or trading and profit and loss account; and
2. Position statement or Balance sheet.

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

Answer: Balances of all the nominal accounts are required to be closed on the last day of the accounting year to facilitate the preparation of trading and profit and loss account. It is done by passing necessary closing entries in the journal proper. Purchases has debit balance and purchases returns has credit balance. At the end of the accounting year, the balance in purchases returns account is closed by transferring to purchase account.

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

Answer: If the amount of sales exceeds the cost of goods sold, the difference is gross profit. Sales – Cost of goods sold = Gross profit.

1. If the total of the credit side of the profit and loss account exceeds the debit side, the difference is termed as net profit.

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

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

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

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

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

Answer:1. The term ‘grouping’ means showing the items of similar nature under a common heading. **For example**, the amount due from various customers will be shown under the head‘sundry debtors’.

2. ‘Marshalling’ is the arrangement of various assets and liabilities in a proper order. Marshalling can be made in one of the following two ways:

- In the order of liquidity

In the order of permanence

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Chapter 13 Final Accounts of Sole Proprietors – II

Text Book Back Questions and Answers

I. Multiple Choice Questions

Choose the Correct Answer

Question 1.A prepayment of insurance premium will appear in ………………
(a) The trading account on the debit side
(b) The profit and loss account on the credit side
(c) The balance sheet on the assets side
(d) The balance sheet on the liabilities side
Answer:(c) The balance sheet on the assets side

Question 2. Net profit is ………………
(a) Debited to capital account (b) Credited to capital account
(c) Debited to drawings account (d) Credited to drawings account
Answer:(b) Credited to capital account

Question 3. Closing stock is valued at ………………
(a) Cost price (b) Market price (c) Cost price or market price whichever is higher
(d) Cost price or net realisable value whichever is lower
Answer:(d) Cost price or net realisable value whichever is lower

Question 4. Accrued interest on investment will be shown ………………
(a) On the credit side of profit and loss account (b) On the assets side of balance sheet
(c) Both (a) and (b) (d) None of these **Answer:(c) Both (a) and (b)**

Question 5. If there is no existing provision for doubtful debts, provision created for doubtful debts is
(a) Debited to bad debts account (b) Debited to sundry debtors account
(c) Credited to bad debts account (d) Debited to profit and loss account
Answer:(d) Debited to profit and loss account

II. Very Short Answer Questions

Question 1.What are adjusting entries?
Answer: Adjustment entries are the journal entries made at the end of the accounting period to account for items which are omitted in trial balance and to make adjustments for outstanding and prepaid expenses and revenues accrued and received in advance.

Question 2.What is outstanding expense?
Answer: Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses.

Question 3.What is prepaid expense?
Answer: Prepaid expenses refer to any expense or portion of expense paid in the current accounting year but the benefit or services of which will be received in the next accounting period. They are also called as unexpired expenses.

Question 4.What are accrued incomes?
Answer: Accrued income is an income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year.

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Question 5.What is provision for discount on debtors?
Answer: Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date. A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

III. Short Answer Questions

Question 1.What is the need for preparing final accounts?
Answer:

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

Question 2.What is meant by provision for doubtful debts? Why is it created?
Answer: Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future. The amount of doubtful debts is calculated on the basis of some percentage on debtors at the end of the accounting period after deducting further bad debts (if any). A provision for doubtful debts is created and is charged to profit and loss account.

Question 3.Explain how closing stock is treated in final accounts?
Answer: The unsold goods in the business at the end of the accounting period are termed as closing stock. As per As-2 (Revised), the stock is valued at cost price or net realisable value, whichever is lower.
Presentation in final accounts:

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

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

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

Adjusting Entry: Interest on Drawings

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

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Question 5.Explain the accounting treatment of bad debts, provision for doubtful debts and provision for discount on debtors.
Answer:
1. Bad Debts: When it is definitely known that amount due from a customer (debtor) to whom goods were sold on credit, cannot be realised at all, it is treated as bad debts.
2. Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.

Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.

Chapter 14 Computerised Accounting
Text Book Back Questions and Answers

I. Multiple Choice Questions
Choose the Correct Answer

Question 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 **Answer:(d) All the above**

Question 2.Customised accounting software is suitable for ....
(a) Small, conventional business (b) Large, medium business
(c) Large, typical business (d) None of the above **Answer:(b) Large, medium business**

Question 3. Which one is not a component of computer system?
(a) Input unit (b) Output unit (c) Data (d) Central Processing Unit **Answer:(c) Data**

Question 4. An example of output device is ....(a) Mouse (b) Printer (c) Scanner (d) Keyboard
Answer:(b) Printer

Question 5. One of the limitations of computerised accounting system is ....
(a) System failure (b) Accuracy (c) Versatility (d) Storage **Answer:(a) System failure**

Question 6. Expand CAS .... (a) Common Application Software
(b) Computerised Accounting System (c) Centralised Accounting System
(d) Certified Accounting System **Answer:(b) Computerised Accounting System**

Question 7. Which one of the following is not a method of codification of accounts?
(a) Access codes (b) Sequential codes (c) Block codes (d) Mnemonic codes
Answer:(a) Access codes

Question 8.TALLY is an example of .... (a) Tailor – made accounting software
(b) Ready – made accounting software (c) In – built accounting software
(d) Customised accounting software **Answer:(b) Ready – made accounting software**

Question 9. People who write codes and programs are called as ....
(a) System analysts (b) System designers (c) System operators (d) System programmers
Answer:(d) System programmers

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Question 10. Accounting software is an example of ....
(a) System software (b) Application software (c) Utility software (d) Operating software
Answer:(b) Application software

II. Very Short Answer Questions

Question 1.What is a computer?
Answer:A computer can be described as an electronic device designed to accept raw data as input, processes them and produces meaningful information as output. It has the ability to perform arithmetic and logical operations as per given set of instructions called program. Today, computers are used all over the world in several areas for different purposes.

Question 2.What is CAS?
Answer: Computerised accounting system (CAS) refers to the system of maintaining accounts using computers. It involves the processing of accounting transactions through the use of hardware and software in order to keep and produce accounting records and reports.

Question 3.What is hardware?
Answer: The physical components of a computer constitute its hardware. Hardware consists of input devices and output devices that make a complete computer system.

Question 4.What is meant by software?
Answer:A set of programs that form an interface between the hardware and the user of a computer system are referred to as software.

Question 5. What is accounting software?
Answer: The main function of CAS is to perform the accounting activities in an organisation and generate reports as per the requirements of the users. To obtain the desired results optimally, need based software or packages are to be installed in the organisation.

Question 6.Name any two accounting packages.
Answer: Readymade software
1. Customised software

Question 7.Give any two examples of readymade software.
Answer: Tally, Busy,

Question 8.What is coding?
Answer: Code is an identification mark, generally, computerised accounting involves codification of accounts.

Question 9.What is grouping of accounts?
Answer: In any organisation, the main unit of classification is the major head which is further divided, into minor heads. Each minor head may have number of sub – heads. After classification of accounts into various groups.

Question 10.What are mnemonic codes?
Answer:A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information.

III. Short Answer Questions

Question 1.What are the various types of accounting software?
Answer:

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1. Readymade software
2. Customised software and
3. Tailormade software

Question 2.Mention any three limitations of computerised accounting system.
Answer:
Heavy cost of installation, Cost of training and fear of unemployment

Question 3.State the various types of coding methods.
Answer: Sequential codes, block codes and mnemonic codes.

Question 4.List out the various reports generated by computerised accounting system.
Answer:

1. Liabilities and capital
2. Assets
3. Revenues and
4. Expenses.

Under Liabilities and Capital:
Capital, Non – current liabilities and current liabilities.

Under Assets:
Non – current assets and Current assets.

Question 5.State the input and output devices of a computer system.
Answer: Input devices: keyboard, optical scanner, mouse, joystick, touch screen and stylus.
Output devices: Monitor and printer.

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Arise! Awake! And Stop not until the goal is reached
-Swami Vivekanandar

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