

Unit - 12Final Accounts of Sole Proprietors - 51. Very short answer questions :-

1. Write a note on trading account.

Ans:- i) Trading refers to buying and selling of goods with the intention of making profit.

ii) The trading accounts a nominal account which shows the result of buying and selling of goods for an accounting period.

iii) Trading Account is prepared to find out the difference between the revenue from sales and cost of goods sold.

2. What are wasting assets?

Ans:- Wasting assets are the assets which get exhausted gradually in the process of excavation.

Eq:- Mines and quarries.

3. What are fixed assets?

Ans:- Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years.

Eq:- land and building, plant and machinery, Motor vehicles, Furniture etc.

4. What is meant by purchase returns?

Ans:- Goods purchased which are returned to suppliers are termed as purchase returns or outward.

5. Name any two direct expenses and indirect expenses

Ans:-

Direct Expenses	Expenses	Indirect Expenses
Carriage Inwards	Wages	office expenses
		Selling expenses

6. Mention any two differences between trial balance and balance sheet.

ANS	S.No	Trial Balance	Balance sheet
	1.	Trial Balance is a list of ledger balances on a particular date	Balance sheet is statement showing the position of assets and liabilities on a particular date.

2.	Balances shown in the trial balance need not be in order	Balances shown in the balance sheet must be in order.
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7. What are the objectives of preparing trading account?

- Ans:- i) Trading account provides information about gross profit and gross loss.  
 ii) It provides an opportunity to safeguard against possible losses.  
 iii) It provides information about direct expenses and direct incomes.

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

- Ans: i) Ascertainment of net profit or net loss  
 ii) Comparison of profit  
 iii) Control on expenses  
 iv) Helpful in the preparation of balance sheet.

### III. Short Answer Questions:-

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

Ans: i) The business entities want to know the profitability and the financial position of the business. These can be ascertained by preparing the final accounts or financial statements.

ii) 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.

iii) The purposes of preparing the financial statements are:-

1. To ascertain the financial performance of an enterprise and
2. To ascertain the financial position of an enterprise.

iv) Hence, at the close of the accounting period, all nominal accounts (i.e. expenses, losses, revenues and gains) and accounts relating to goods (purchases, purchases returns, sales, sales return and stock in hand at the beginning and at the end) are to be closed by transferring to the income statement or trading and

## Profit and loss account.

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

Ans: i) 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 accounts.

ii) It is done by passing necessary closing entries in the journal proper. purchases has debit balance and purchases returns has credit balance.

iii) Similarly, sales account has credit balance and sales return has debit balance.

iv) At the end of the accounting year, the balance in sales returns account is closed by transferring to sales account

(eg.) For closing purchases returns Accounts

S.No	particulars	D.	Debit ₹	Credit ₹
1.	Purchases Returns A/c To purchases A/c (closing of purchase returns account by transferring to purchases Accounts)	Dr.	xxx	xxx

3. What is meant by gross profit and Net profit?

Ans:

Gross Profit	Net Profit
<p>The word Gross Means "before any deductions". This implies that the profit before any deductions is called the gross profit. It is also called "Sales profit".</p>	<p>The word Net Means "after all deductions". This implies that profit after all deductions is called Net profit. It is also called "Net Income &amp; Net Earnings". It is difference between total revenue earned and total cost incurred.</p>

4. "Balance sheet is not an account" - Explain.

- Ans: i) The balance sheet is a statement prepared for showing the financial position of the business summarising its assets and liabilities at a given date.
- ii) It is prepared at the end of the accounting period after the trading and profit and loss account have been prepared.
- iii) It is called a balance sheet because it is a statement of balances of ledger accounts which have not been closed after the preparation of the trading and profit and loss account.

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

Ans: Advantages of Balance sheet :-

- i) It is helpful in ascertaining the financial position of the business by showing assets and liabilities of the concern on a specific date.
- ii) It discloses the solvency of business by showing how much assets are available for payment of liabilities.
- iii) It also discloses the proprietary interest of owner.
- iv) It helps in calculation of various ratios which help in better management of business.
- v) It helps in comparison of assets liabilities of business on two dates to ascertain the progress being made by business.
- vi) It helps to ascertain the amount of capital employed in business.

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

- Ans: i) The assets and liabilities shown in the balance sheet are grouped and presented in a particular order. The term 'grouping' means

- 3 Showing the items of similar nature under a common headings.
- ii) For example; the amount due from various customers will be shown under the head 'Sundry Debtors'.
- iii) Similarly, under the head 'Current Assets', the balance of cash bank, debtors, stock and other current assets will be shown.
- iv) 'Marshalling' is the arrangement of various assets and liabilities in a proper order.
- v) Marshalling can be made in one of the following two ways:
- In the order of liquidity
  - In the order of permanence.

### Unit - 13

### Final Accounts of Sole Proprietors - II

#### II. Very short answer questions :-

1. What are adjusting entries?

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

E.g. closing stock, outstanding salary.

2. What is outstanding expense?

Ans:- Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses.

#### Adjusting entry

Particulars	L.F	Debit ₹	Credit ₹
Concerned expense A/c Dr		xxx	
to Outstanding expense A/c (Expense outstanding adjusted)			xxx

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3. What is prepaid expense?

Ans:- 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.

Adjusting entry

Particulars	L.F	Debit ₹	Credit ₹
Prepaid expense A/c		xxx	
To concerned Expense A/c (Expense paid in advance adjusted)			xxx

4. What are accrued incomes?

Ans:- Accrued income is income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year.

Adjusting entry

Particulars	L.F	Debit ₹	Credit ₹
Accrued income A/c Dr.		xxx	
To concerned income A/c (Income accrued adjusted)			xxx

5. What is provision for discount on debtors?

Ans:- Provision for discount on debtors is made on the basis of past experience at an estimated rate on sundry debtors.

Adjusting entry

Particulars	L.F	Debit ₹	Credit ₹
Profit and loss A/c Dr.		xxx	
To provision for discount on debtors A/c			xxx

### III. Short Answer Questions :-

1. What is the need for preparing final accounts?

Ans:- The need for preparing final accounts are stated below.

- i) To ascertain the true profit or loss of the business
- ii) To determine the true financial position of the business.
- iii) To Make a record of the transactions earlier omitted in the books
- iv) To rectify the errors committed in the books.
- v) To complete the incomplete transactions.

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

Ans:- i) 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. At the end of the accounting period, there may be certain debts which are doubtful, i.e, the amount to be received from debtors may or may not be received.

ii) Since the amount of loss is impossible to ascertain until it is proved bad, doubtful debts are charged against profit and loss account in the form of provision.

iii) A provision for doubtful debts is created and is charged to profit and loss account. When bad debts occur, it is transferred to provision for doubtful debts account and not to profit and loss accounts.

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

Ans:- i) The unsold goods in stock at the accounting period is termed as closing stock. The stock is valued at cost price or not realisable value whichever is lower.

ii) The valuation principle is based on the convention of conservatism

#### Adjusting Entry

Date	Particulars	Dr	Cr	Debit ₹	Credit ₹
	Closing stock A/c	Dr		xxx	
	To Trading A/c (Closing stock brought into Account)				xxx

In final accounts,

Trading Account for the year ended 31<sup>st</sup> March . . . .

particulars	₹	₹	particulars	₹	₹
			By closing stock		xxx

Balance sheet as on . . . .

Liabilities	₹	₹	Assets	₹	₹
			Stock-in-trade		xxx

4. Give the adjusting entries for Interest on capital and Interest on Drawings

Ans: Adjusting Entry :-

Interest on capital

Date	particulars	J.F	Debit ₹	Credit ₹
	Interest on capital A/c Dr to Capital A/c (Interest on capital due)		xxx	xxx

Interest on Drawings

Date	particulars	J.F	Debit ₹	Credit ₹
	Capital A/c Dr. to Interest on drawings A/c		xxx	xxx

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

Ans:- Bad debts :-

i) Debts which cannot be recovered or become irrecoverable are called bad debts.

ii) It is a loss for the business and should be adjusted against profit

Adjusting entry

Date	particulars	J.F	Debit ₹	Credit ₹
	Bad debts A/c Dr to Sundry debtors (Bad debts written off)		xxx	xxx



### Provision for discount on debts :-

In addition to the actual bad debts, a business unit may estimate at the end of the accounting period that certain debts are doubtful, i.e., the amount to be received from debtors may or may not be received

#### Adjusting entry

Date	Particulars	J.F	Debit ₹	credit ₹
	Profit and loss A/c Dr. To provision for bad and doubtful debts A/c (Provision for bad and doubtful debts created)		xxx	xxx

### Provision for discount on debtors :-

- i) cash discount is allowed by the suppliers to customers for prompt settlement of cash
- ii) A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

#### Adjusting entry

Date	Particulars	J.F	Debit ₹	credit ₹
	Profit and loss A/c Dr. To provision for discount on debtors A/c (provision for discount on debtors created)		xxx	xxx

Unit - 14Computerised AccountingII. Very Short Answer Questions :-

1. What is a computer?

Ans:- i) Computer is an electronic device.

ii) It can perform a number of arithmetic and logical operations as per given set of instructions.

2. What is CAS?

Ans:- i) Computerised accounting system refers to the system of maintaining accounts using computers.

ii) It involves the processing of accounting transactions through the use of hardware and software in order to keep and produce accounting records and reports.

3. What is hardware?

Ans:- i) The physical components of a computer constitute its hardware.

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

4. What is meant by software?

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

5. What is accounting software?

Ans:- i) The main function of CAS is to perform the accounting activities in an organisation. and

ii) Generate reports as per the requirements of the users

6. Name any two accounting packages :-

Ans:- The accounting software or packages are as follows:-

⇒ Ready made software.

⇒ Customised software.

⇒ Tailormade software.

7. Give any two Examples of ready made software.

Ans: Examples of Ready made Software :-

- ⇒ Tally
- ⇒ Busy
- ⇒ Marg
- ⇒ profit books

8. What is coding?

Ans: i) Code is an identification mark.

ii) The coding scheme of account head should be such that it leads to grouping of accounts at various levels so as to generate various reports.

9. What is grouping of accounts?

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

ii) The major groups or heads could be Assets, liabilities, Revenues and Expenses.

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

10. What are mnemonic codes?

Ans: A mnemonic code consists of alphabets or abbreviation as symbols to codify a piece of information.

For example :-

code	information
SS	Sales Journals
HQ	Head Quarters

III. Short Answer Question :-

1. What are the various types of accounting software?

Ans: There are three types of software namely:

i) Ready - made software.

ii) Customised software and

iii) Tailor-made software

2. Mention any three limitations of Computerised accounting System.

Ans:- i) Heavy cost of Installation :-

⇒ Computer hardware needs replacement and software needs to be updated from time to time with the availability of newer versions.

ii) Cost of Training :-

⇒ To ensure effective and efficient use of computerised system of accounting, newer versions of hardware and software are to be introduced.

⇒ These require special training and hence, cost is incurred to train the staff personnel.

iii) Fear of unemployment :-

⇒ On account of the introduction of computerised accounting system, the employees feel insecure that they may lose employment and show less interest in computer related work.

3. State the various types of coding methods.

Ans! Following are the three methods of codification.

(a) Sequential codes

⇒ In sequential code, numbers and/or letters are assigned in consecutive order.

⇒ These codes are applied primarily to source documents such as cheques, invoices, etc.

⇒ A sequential code can facilitate document search.

For Example! -

Code	Accounts
CL001	ABC LTD
CL002	XYZ LTD
CL003	SCERT

(b) Block codes :-

⇒ In a block code, a range of numbers is partitioned into a desired number of sub-ranges and each sub-range is allotted to a specific group.

⇒ In most of the cases of block codes, numbers within a sub-range follow sequential coding scheme, i.e., the numbers increase consecutively.

For example:-

Code	Dealer types
100-199	Small pumps
200-299	Medium pumps
300-399	Pipes
400-499	Motors

(c) Mnemonic codes :-

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

For example :-

Code	Information
SJ	Sales Journals
HQ	Head Quarters

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

Ans:  $\Rightarrow$  Computerised accounting system takes accounting transactions as inputs that are processed through accounting software to generate the following reports:

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

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

Ans: i) Input Devices :-

- (a) Key board.
- (b) optical scanner.
- (c) Mouse.
- (d) Joystick.

ii) output Devices

- (a) monitor.
- (b) printer.

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