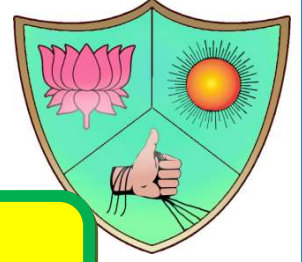


# VIVEKANANDA VIDYALAYA MATRIC HR SEC SCHOOL



PANNAIKADU PIRIVU

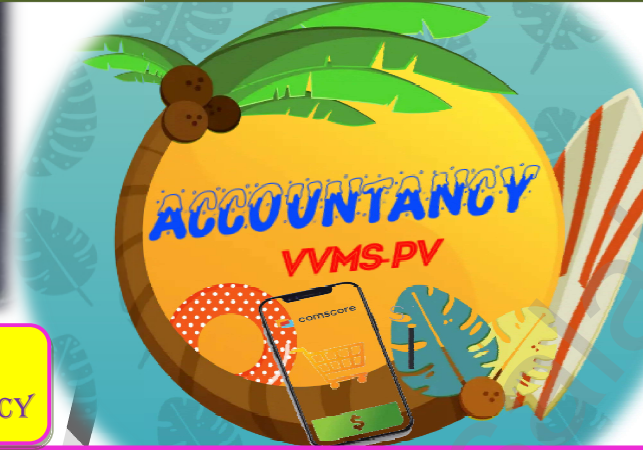


KODAIKANAL

## 11<sup>TH</sup> - STD



LUCA PACIOLI  
FATHER OF ACCOUNTANCY



IF YOU FAIL NEVER  
GIVE UP BECAUSE FAIL  
MEANS FIRST ATTEMPT  
IN LEARNING

## ACCOUNTANCY FULL MATERIAL

(NEW EDITION 2024-25)

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## முகவுரை

மாணவ நண்பர்களுக்கு,

கணக்குப்பதிவியல் பாடத்தில் நல்ல மதிப்பெண்களை பெற வேண்டும் என்ற நோக்கத்தில் எளிமையான முறையில் படிப்பதற்கு வசதியாக எனது 10 வருட பணி அனுபவத்தை கொண்டு இந்த **material** - யை தொகுத்துள்ளேன். எனது பாணியில் எனது மாணவர்களுக்கு ஏற்றவாறு தயார் செய்த இந்த தொகுப்பை அனைத்து மாணவர்களும் பயன்பெற வேண்டும் என்ற நோக்கத்திலேயே வெளியிட்டுள்ளேன். எனது இந்த தொகுப்பில் ஏதேனும் பிழைகள் குறைகள் இருந்தால் சரிசெய்து கொள்ளவும். பின் தங்கிய மாணவர்களும் நல்ல மதிப்பெண்களை பெற வேண்டும் என்ற நோக்கத்திலேயே இதை தொகுத்துள்ளேன்.

தற்பொழுது அரசு வெளியிட்டுள்ள புதிய பாடத் திட்ட தொகுப்பின் அடிப்படையில் இந்த வினா விடை தொகுப்பை மட்டும் என்னால் இயன்ற அளவிற்கு மிக எளிமையாக உருவாக்கியுள்ளேன். முழு மதிப்பெண்கள் பெற இதுவே போதுமானது. மேலும் பொதுத்தேர்வில் பின்தங்கிய மாணவர்களும் நல்ல மதிப்பெண்களை பெற வைக்க முடிந்தது. எனவே இதை உபயோகப்படுத்தி நல்ல மதிப்பெண்களை பெறவும்.

மாணவ நண்பர்களே!! நேரத்தை சரியாக பயன்படுத்தி கொள்ளுங்கள். சரியான நேரத்தில் சரியான முறையில் படித்து வெற்றி பெற்று அடுத்த கட்ட நிலைக்கு செல்ல வேண்டிய இறுதி நிலையில் உள்ளாய். நேரத்தை வீணாக்காதே! அடுத்து என்ன செய்ய போகிறாய் என்பதை முதலில் தீர்மானி. மதிப்பெண்களை பெறுவதிலேயே கவனத்தை வை. முயன்றால் முடியாதது எதுவுமில்லை. கடினமாக தான் இருக்கும். கஷ்டப்பட்டு படித்தால் நல்ல முன்னேற்றத்தை அடைவாய்.

பள்ளி பருவத்தில் நீ பெறும் வெற்றியே உன் வாழ்க்கை முழுவதையும் தீர்மானிக்க போகிறது என்பதை நன்றாக கவனம் கொள். தினமும் காலையில் படிப்பதற்கு முன் உன் இலக்கு என்ன என்பதை இரு நிமிடம் யோசித்து பார். நீ செல்வது சரியான பாதையா என்று சிந்தி!!!! நல்ல பாதையே நல்ல முடிவை தரும். நல்ல மதிப்பெண்களை பெறுவதே உன் நோக்கமாக இருக்கட்டும். அதுவே உன் வாழ்க்கை என்னும் பாதைக்கு நல்வழிகாட்டும். பள்ளி வாழ்க்கையின் கடைசி நிலையில் உள்ளாய்!!!! இங்கு நீ பெறும் மதிப்பெண்களே உன் அடுத்த கட்ட பாதையை உருவாக்க போகின்றன என்பதை நினைவில் எப்பொழுதும் வை.

உன் பெற்றோரின் உழைப்பையும் சிந்தித்துப் பார். பிறகு படிக்க ஆரம்பி. கவனம் சிதறாமல் படிப்பில் கவனத்தை செலுத்துவாய். பிறகு நீயாகவே முயற்சி செய்து நல்ல மதிப்பெண்களையும் பெறுவாய்.

உங்களுக்காக நாங்கள்!!!!

உன் வெற்றியே எங்கள் வெற்றி!!!!

உங்கள் வெற்றியில் பெருமைப்பாட நாங்களும் காத்திருக்கிறோம்!!!!!!

**WISH YOU ALL THE BEST FOR YOUR EXAMINATION**

  
ஆசிரியர்

**CHAPTER - 1****INTRODUCTION TO ACCOUNTING****I. CHOOSE THE CORRECT ANSWER:**

1. The root of financial accounting system is

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

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

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

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

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

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

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

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

**II VERY SHORT ANSWER QUESTIONS**

1. Define accounting.

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

- American Accounting Association

2. List any two functions of accounting.

(i) Measurement

- ✿ Accounting works as a tool for measuring the performance of the business enterprises.
- ✿ It also shows the financial position of the business enterprises.

(ii) Forecasting

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

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

- ✿ Identifying the transactions and Journalizing
- ✿ Posting and balancing
- ✿ Preparation of Trial balance
- ✿ Preparation of Trading and Profit or Loss A/c
- ✿ Preparation of Balance sheet

**4. Who are the parties interested in accounting information?**

- \* Owners
- \* Managements
- \* Employees
- \* Customers
- \* Government

**5. Name any two bases of recording accounting information.**

- Cash basis
- Accrual basis
- Mixed basis

**III. SHORT ANSWER QUESTIONS:****1. Explain the meaning of accounting.**

Accounting is the systematic process of identifying, measuring, recording, classifying, summarizing, interpreting and communicating financial information.

**2. Discuss briefly the branches of accounting.****i) Financial Accounting**

- ❖ It provides financial information to the users for taking decisions.
- ❖ It is concerned with identification, recording, classifying and summarising of financial transactions and events.

**ii) 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.

**iii) Human Resources Accounting**

- ◆ It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.

**3. Discuss in detail the importance of accounting.****(i) Systematic records**

- ⊕ All the transactions of an enterprise which are recorded in a systematic way in the books of accounts.

**(ii) Preparation of financial statements**

- ⊕ Results of business operations and the financial position of the concern can be ascertained from accounting periodically

**(iii) Information to interested groups**

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



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

##### (a) Investors

##### (i) 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.

##### (b) Government

##### (ii) Government

- The scarce resources of the country are used by business enterprises.
- Information about performance of business units in different industries helps the government in policy formulation for development.

#### 5. Discuss the role of an accountant in the modern business world.

##### (i) Record keeper

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

##### (ii) Provider of information to the management

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

##### (iii) Legal Evidence:

- ⊕ Accounting Records are generally accepted as evidence in courts of law and other legal authorities.

#### 5 MARKS:

#### 1. Who are the parties interested in accounting information?

##### (i) Owners:

- ⚙ The owners of a business provide capital to be used in the business.
- ⚙ They are interested to know whether the business has earned profit or not during a particular period and also its financial position on a particular date.

##### (ii) Management:

- ⚙ Accounting data are the basis for most of the decisions made by the management.
- ⚙ Financial statements and other reports prepared under financial accounting provide this information to the management.

##### (iii) Employees:

- ⚙ The employees are interested in the profit earning capacity of the business which will affect their remuneration, working conditions and retirement benefits and stability and growth of the enterprise.

##### (iv). Investors:

- ☛ Persons who are interested in investing their funds in an organization should know about the financial condition of a business unit while making their investment decisions.

**(v) Government:**

- ☛ The scarce resources of the country are used by business enterprises.
- ☛ Information about performance of business units in different industries helps the government in policy formulation for development.

**(vi). Researchers:**

- ☛ Researchers to carry out their research can use accounting information and make use of the published financial statements for analysis and evaluation.

**2. Discuss the role of an account in the modern business world?**

An accountant designs the accounting procedures for an enterprise. He plays several roles in an organization as follows:

**(i) Record keeper**

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

**(ii) Provider of information to the management**

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

**(iii) Protector of business assets**

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

**(iv) Financial advisor**

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

**(v) Tax manager**

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

**(vi) Public relation officer**

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

## CHAPTER - 2 CONCEPTUAL FRAMEWORK OF ACCOUNTING

### I. CHOOSE THE CORRECT ANSWER:

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
2. The concept which assumes that a business will last indefinitely is
 

(a) Business Entity	(b) Going concern	(c) Periodicity	(d) Conservatism
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3. GAAPs are:
 

(a) Generally Accepted Accounting Policies	(b) Generally Accepted Accounting Principles
(c) Generally Accepted Accounting Provisions	(d) None of these
4. The rule of stock valuation 'cost price or realizable value' whichever is lower is based on the accounting principle of:
 

(a) Materiality	(b) Money measurement	(c) Conservatism	d) Accrual
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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

### II. VERY SHORT ANSWER QUESTIONS

#### 1. Define book-keeping.

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

*- J.R.Batliboi.*

#### 2. What is meant by accounting concepts?

- ✿ Accounting concepts are the basic assumptions upon which accounting have been laid.
- ✿ Accounting concepts are the results of broad consensus.

#### 3. Briefly explain about realization concept.

- ✿ It is an any change in value of an asset is to be recorded only when the business realizes it.
- ✿ When assets are recorded at historical value, any change in value is to be accounted only when it realizes.

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

- It states that information that would make a difference to financial statement users in decision making should be disclosed in financial statement.

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

It states companies should use the same accounting treatment for similar events and transaction overtime.

### III. SHORT ANSWER QUESTIONS:

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

- ⚙ The matching principle states that expenses should be recognized and recorded.
- ⚙ When those expenses can be matched with the revenues those expenses helped to generate.
- ⚙ The matches the revenues and expenses in a period.
- ⚙ The matching principle recognizes expenses as the revenue recognition principle recognizes income

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

- The monetary unit assumptions that all business transaction and relationship can be expressed in terms of money monetary units.
- Money is the common denominator in all economic activity.
- That is why we assume that money is a good basis for comparing companies.

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

- Business units last indefinitely – **Going Concern Concept.**
- It assumes that business will have a long life and not close or be sold in the immediate future.
- Companies that are expected to continue are said to be a going concern.

#### 4. Write a brief note on Accounting Standards.

- ★ It's providing the framework and norms to be followed in accounting.
- ★ So that the financial statements of different enterprises become comparable.
- ★ It is necessary to standardize the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.
- ★ "Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally"

- Kohler

### 5 MARKS:

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

- ⦿ According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.
- ⦿ This concept is based on accrual concept and periodicity concept.
- ⦿ 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





**CHAPTER - 3****BOOKS OF PRIME ENTRY****I. CHOOSE THE CORRECT ANSWER:****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**

**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

**3. A firm has assets of Rs.1,00,000 and the external liabilities of Rs.60,000. Its capital would be**

- (a) Rs.1,60,000
- (b) Rs.60,000
- (c) Rs.1,00,000
- (d) Rs. 40,000**

**4. The incorrect accounting equation is**

- (a) Assets = Liabilities + Capital
- (b) Assets = Capital + Liabilities
- (c) Liabilities = Assets + Capital**
- (d) Capital = Assets - Liabilities

**5. Accounting equation is formed based on the accounting principle of**

- (a) Dual aspect**
- (b) Consistency
- (c) Going concern
- (d) Accrual

**6. Real account deals with**

- (a) Individual persons
- (b) Expenses and losses
- (c) Assets**
- (d) Incomes and gains

**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

**8. Prepaid rent is a**

- (a) Nominal A/c
- (b) Personal A/c
- (c) Real A/c
- (d) Representative personal A/c**

**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

**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

## II. VERY SHORT ANSWER QUESTIONS:

### 1. What are source documents?

- ✱ Cash receipt
- ✱ Invoice
- ✱ Debit note
- ✱ Credit note
- ✱ Pay – in – slip
- ✱ Cheque

### 2. What is accounting equation?

- ✱ It is the foundation for the double entry book keeping system.
- ✱ For each transaction the total debits equal the total credits.
- ✱ Assets = Capital + Liabilities

### 3. Write any one transaction which

a) Decreases the assets and decreases the liabilities

b) Increases one asset and decreases another asset

- a). Withdraw cash from bank for personal use
- b). Purchased furniture for full cash

### 4. What is meant by journalizing?

- ➔ Recording of business transaction in the journal is known as Journal Entry.
- ➔ The process of recording the transaction in journal is called as journalizing

### 5. What is real account?

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

### 6. How are personal accounts classified?

- ✱ Natural account
- ✱ Artificial account
- ✱ Representative account

### 7. State the accounting rule for nominal account.

- ✱ Debit all expenses and losses
- ✱ Credit all income and gains

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

Personal A/c	=	Debit the Receiver Credit the Giver
Real A/c	=	Debit what comes in Credit what goes out
Nominal A/c	=	Debit All expenses and Losses Credit All income and gains

### III. SHORT ANSWER QUESTIONS:

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

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

$$\text{Capital} + \text{Liabilities} = \text{Assets}$$

- ✱ Accounting equation is a mathematical expression.
- ✱ This is based on the dual aspect concept of accounting.
- ✱ Therefore, under this approach, accounts are classified into (i) Asset account, (ii) Liability account, (iii) Capital account, (iv) Revenue account (v) Expense account.

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

##### Account - meaning:

It is the individual record of an asset, a liability, a revenue, an expenses or capital , in summarized manner.

##### Classification of accounts:

(i) **Personal account:** Account relating to persons is called personal account.

- ✱ **Natural person's account**
- ✱ **Artificial person's account**
- ✱ **Representative personal accounts**

(ii) **Impersonal accounts:** All accounts which do not affect persons are called impersonal accounts.

(a) **Real account:** All accounts relating to tangible and intangible properties and possessions are called real accounts.

- **Tangible real accounts**
- **Intangible real accounts**

(b) **Nominal account:**

The accounts relating to expenses, losses, revenues and gains are called nominal accounts.

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

##### (a) Natural person's account:

- Natural person means human beings.
- Example: Vinoth account, Malini account.



**(b) Artificial person's account:**

- ◆ Artificial person refers to the persons other than human beings recognized by law as persons.
- ◆ Example: BHEL account, Bank account.

**(c) 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.

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

Date	Particulars	LF	Debit	Credit
	Drawings a/c      Dr		xxx	
	To Cash/bank a/c			xxx
	(Being insurance premium paid on the life of the proprietor)			

**5. State the principles of double entry system of book keeping.**

- ✿ In every business transaction, there are two aspects.
- ✿ The two aspects involved are receiving aspect and giving aspect.
- ✿ These two aspects involve two accounts; at least one debit and one credit.
- ✿ If one account is debited the other account must be credited.

**6. Briefly explain about steps in journalizing.**

- ★ Analyze the transactions and identify the accounts which are involved in the transaction.
- ★ Classify the above accounts under Personal account, Real account or Nominal account
- ★ Apply the rules of debit and credit for the above two accounts.
- ★ Find which account is to be debited and which account is to be credited.
- ★ Record the date of transaction in the date column.
- ★ Enter the name of the account to be debited in the particulars column followed by the abbreviation 'Dr.' at the end in the same line.
- ★ The amount to be debited is entered in the debit amount column in the same line.
- ★ Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column.
- ★ The amount to be credited is entered in the credit amount column in the same line.
- ★ Write the narration within brackets in the next line in the particulars column.

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

### Meaning:

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

– *Munro and Palmer*

### Advantages:

#### i) Ascertainment of business results

- ✿ This helps to ascertain the net profit or loss incurred and financial position during an accounting period.

#### ii) Comparative study

- ✿ It facilitates business planning for future.

#### iii) Common acceptance

- The business records maintained under this system are accepted by financial institutions, government.

## **5 MARKS:**

## 1. What is double entry system? State its advantages.

### Meaning:

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

– *Munro and Palmer*

### Advantages:

#### (i) Accuracy

- ⊙ The two aspects of each transaction are recorded in the books of accounts.
- ⊙ This helps in checking the accuracy in accounting.

#### (ii) Ascertainment of business results

- ✿ This helps to ascertain the net profit or loss incurred and financial position during an accounting period.

#### (iii) Comparative study

- ✿ It facilitates business planning for future.

#### (iv) Common acceptance

- The business records maintained under this system are accepted by financial institutions, government.

## JOURNAL ENTRIES

TRANSACTION	JOURNAL ENTRY
1. Commenced business (with cash)	Cash a/c                      Dr To Capital a/c
2. Opening a Bank account / Cash Deposited / Paid into bank	Bank a/c                      Dr To Cash a/c
3. Withdrew Cash from Bank	Cash a/c                      Dr To Bank a/c
4. Borrowed Loan from Bank	Bank a/c                      Dr To Bank Loan a/c
5. Cash purchases/ Goods purchased (Bought) for Cash	Purchases a/c              Dr To Cash a/c
6. Goods purchased and paid by cheque / Net Banking	Purchases account      Dr To Bank a/c
7. Credit Purchases	Purchases a/c              Dr To Creditors a/c
8. Cash Sales / Goods sold for Cash	Cash a/c                      Dr To Sales a/c
9. Credit Sales	Debtors' a/c                Dr To Sales a/c
10. Assets bought on Credit	Asset's a/c                    Dr To Creditors a/c
11. Assets bought for cash	Asset's a/c                    Dr To Cash a/c
12. Expenses paid	Expenses a/c                Dr To Cash a/c
13. Incomes received / Earned	Cash a/c                      Dr To Incomes Received a/c
14. Purchases/ Returns / Returns outwards	Creditor's a/c              Dr To Purchases Returns a/c
15. Sales Returns	Sales Returns a/c        Dr To Debtors a/c
16. Cash received from Debtors	Cash a/c                      Dr To Debtors a/c

17. Cash received from Debtors and Discount Allowed to them	Cash a/c Dr Discount Allowed a/c Dr To Debtors a/c
18. Cash Paid to Creditors	Creditor's a/c Dr To Cash a/c
19. Cash Paid to Creditors and Discount Received from them	Creditors a/c Dr To Cash a/c To Discount Received a/c
20. Drawings of the Proprietor ( For personal use) Cash / Bank / Goods	Drawings a/c Dr To Cash a/c To Bank a/c To Purchases a/c
21. Received Bills Receivable	Bills Receivable a/c Dr To Debtors a/c
22. Received Cash for Bills Receivable	Cash a/c Dr To Bills Receivable a/c
23. Discounting a Bills Receivable in Bank	Bank a/c Dr Discount Allowed a/c Dr To Bills Receivable a/c
24. Dishonor of a Bills Receivable Discounted	Debtors a/c Dr To Bank a/c
25. Accepting Bills Payable	Creditors a/c Dr To Bills Payable a/c
26. Cash Paid for Bills Payable	Bills Payable a/c Dr To Cash a/c
27. Bills Payable Dishonoured	Bills Payable a/c Dr To Creditors a/c
28. Goods issued for Charity	Charities a/c Dr To Purchases a/c
29. Goods issued as Samples	Sales promotion A/c Dr To Purchases a/c
30. Goods Taken for Office Use	Office Expenses a/c Dr To Purchases a/c

@\*a\*a\*a\*a\*a\*



**CHAPTER - 4****LEDGER****I. CHOOSE THE CORRECT ANSWER:**

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**

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

3. J.F means

- (a) Ledger page number
- (b) Journal page number**
- (c) Voucher number
- (d) Order number

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) Journalizing
- (d) Balancing**

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

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

**II. VERY SHORT ANSWER QUESTIONS:**

1. What is a ledger?

- ✿ It is a summary statement of all the transactions relating to a person, asset, liability, expense or income.
- ✿ Ledger is known as principal book of accounts.

2. What is meant by posting?

The process of recording in the ledger is called posting.

3. What is debit balance?

If the total of the debit side of an account is higher the balancing figure is debit balance.

4. What is credit balance?

If the total of the credit side of an account is higher the balancing figure is credit balance.

### 5. What is balancing of an account?

- ☛ The accounts are balanced at the end of the accounting period or after a certain period to ascertain the net balance in each account.
- ☛ Balancing means that the debit and credit side amounts are totaled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total.
- ☛ So that the total of both debit and credit columns are equal.

### III. SHORT ANSWER QUESTIONS:

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

s.no	Basis	Journal	Ledger
1	Stage	It is a first stage	It is a second stage
2	Recoding	Date wise recorded	Account wise recorded
3	Basis	It is based on source documents	It is based on journal

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

##### Ledger – Meaning:

- ☛ It is a summary statement of all the transactions relating to a person, asset, liability, expense or income.
- ☛ Ledger is known as principal book of accounts.

##### Utilities:

- Quick information about a particular account.
- Control over business transaction
- Trial balance can be prepared.
- Helps to prepare final accounts

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

- ★ *Locate the ledger account that is debited in the journal entry.*
- ★ Open the respective account in the ledger.
- ★ Record the date of the transaction in the date column on the debit side of that account.
- ★ Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- ★ Record the amount of the debit in the 'amount column'.
- ★ *Locate the ledger account that is credited in the journal entry.*
- ★ Open the respective account in the ledger.
- ★ Write the name of the account in the top middle.

- ✳ 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.

#### 4. Explain the procedure for balancing a ledger account.

- ✳ The debit and credit columns of an account are to be totaled separately.
- ✳ The difference between the two totals is to be ascertained.
- ✳ The difference is to be placed in the amount column of the side having lesser total. 'Balance c/d' is to be entered in the particulars column.
- ✳ Now both the debit and credit columns are to be totaled and the totals will be equal to be recorded in the same line horizontally.
- ✳ 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.
- ✳ If the total on the debit side of an account is higher, the balancing figure is debit balance.
- ✳ If the credit side of an account has higher total, the balancing figure is credit balance.

### **5 MARKS:**

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

S.no	Basis	Journal	Ledger
1	<b>Recoding</b>	Date wise recorded	Account wise recorded
2	<b>Stage</b>	It is a first stage	It is a second stage
3	<b>Order</b>	Chronological Order	Account wise order
4	<b>Process</b>	Recording journal is called journalizing	Recording in the ledger is posting
5	<b>Preparation of trial balance</b>	It is not use for helpful for preparation of trial balance	It is use for helpful for preparation of trial balance
6	<b>Basis</b>	It is based on source documents	It is based on journal
7	<b>Net position</b>	It cannot be ascertained	It can be ascertained

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

##### **Ledger - Meaning:**

- ✳ It is a summary statement of all the transactions relating to a person, asset, liability, expense or income.
- ✳ Ledger is known as principal book of accounts.

**Utilities:****(i) 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.

**(ii) 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.

**(iii) 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.

**(iv) 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.

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**CHAPTER - 5****TRIAL BALANCE****I. CHOOSE THE CORRECT ANSWER:**

1. Trial balance is a

- (a) Statement (b) Account (c) Ledger (d) Journal

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

3. The trial balance contains the balances of

- (a) Only personal accounts (b) Only real accounts  
(c) Only nominal accounts (d) All accounts

4. Which of the following is/are the objective(s) of preparing trial balance?

- (a) Serving as the summary of all the ledger accounts  
(b) Helping in the preparation of final accounts  
(c) Examining arithmetical accuracy of accounts  
(d) a, b and c

5. 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

6. 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

7. While preparing the trial balance, the accountant finds that the total of the credit column is short by Rs. 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

8. The account which has a debit balance and is shown in the debit column of the trial balance is

- (a) Sundry creditors account (b) Bills payable account  
(c) Drawings account (d) Capital account

9. 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

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

## II. VERY SHORT ANSWER QUESTIONS:

### 1. What is trial balance?

“A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books”.

– J.R. Batliboi

### 2. Give the format of trial balance.

S.No	Particulars	LF	Debit Rs.	Credit Rs.

### 3. What are the methods of preparation of trial balance?

- ★ Balance method
- ★ Total method
- ★ Total and Balance method

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

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

Debit Column	Credit Column
Carriage outwards	Sales
Carriage inwards	Interest received
Purchases	Discount received
Bad debts	Capital
Interest paid	Purchase return
Drawings	
Sales return	

## III. SHORT ANSWER QUESTIONS:

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

#### (i) Test of arithmetical accuracy

- ★ Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked.

**(ii) Basis for preparing final accounts**

- ★ Financial statements, namely, trading and profit and loss account and balance sheet are prepared on the basis of summary of ledger balances.

**(iii) Location of errors**

- ★ The errors should be located and rectified before preparing the financial statements.

**(iv) Summarized 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.

**2. What are the limitations of trial balance? (any 3)**

- ♣ It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
- ♣ Even if some transactions are omitted, the trial balance will tally.
- ♣ Trial balance may tally even though errors are committed in the books of account.
- ♣ 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.

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

- ⊛ Yes, it is not a complete proof of arithmetical accuracy of account.
- ⊛ A Trial balance in which the credit and debit accounts match does not prove that all transaction have been recorded in the proper accounts.
- ⊛ Similarly an agreed trial balance does not prove that all transaction have been recorded in the books of original entry.

**TRIAL BALANCE**

Trial balance of \_\_\_\_\_ as on \_\_\_\_\_

S.No.	Particulars	L.F.	Debit Rs.	Credit Rs.
1	Cash in hand		xxx	
2	Cash at bank		xxx	
3	Bills receivable		xxx	
4	Sundry debtors		xxx	
5	Opening stock		xxx	
6	Plant and Machinery		xxx	

7	Land and Building (Premises)		XXX	
8	Furniture and Fixtures		XXX	
9	Vehicles		XXX	
10	Goodwill		XXX	
11	Investment		XXX	
12	Drawings		XXX	
13	Purchases		XXX	
14	Sales returns		XXX	
15	Carriage inwards		XXX	
16	Carriage outwards		XXX	
17	Rent paid		XXX	
18	Commission paid		XXX	
19	Interest paid		XXX	
20	Bad debts		XXX	
21	Insurance premium		XXX	
22	General expenses		XXX	
23	Sundry expenses		XXX	
24	Electricity charges		XXX	
25	Selling expenses		XXX	
26	Travelling expenses		XXX	
27	Wages		XXX	
28	Sales			XXX
29	Purchases returns			XXX
30	Capital			XXX
31	Bank loan			XXX
32	Sundry creditors			XXX
33	Bills payable			XXX
34	Bank overdraft			XXX
35	Rent received			XXX
36	Interest received			XXX
37	Provision for bad debts			XXX
	<b>Total</b>		<b>XXX</b>	<b>XXX</b>

\*\*\*\*\*

**CHAPTER - 6****SUBSIDIARY BOOKS - I****I. CHOOSE THE CORRECT ANSWER:**

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

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

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

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

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

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

7. Purchases of fixed assets on credit basis is recorded in

- (a) Purchases book (b) Sales book (c) Purchases returns book (d) **Journal proper**

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

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

10. Closing entries are recorded in

- (a) Cash book (b) Ledger (c) **Journal proper** (d) Purchases book



## II. VERY SHORT ANSWER QUESTIONS:

### 1. Mention four types of subsidiary books.

- ♣ Purchases book
- ♣ Purchases returns book
- ♣ Sales book
- ♣ Sales returns books

### 2. What is purchases book?

Purchases book is a subsidiary book in which only credit purchases of goods are recorded.

### 3. What is purchases returns book?

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

### 4. What is sales book?

- ★ It 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.

### 5. What is sales returns book?

Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded.

### 6. What is debit note?

- ★ 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.

### 7. What is credit note?

- Credit note is a statement prepared by a trader who receives back from his customer the goods sold.
- It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

### 8. What is journal proper?

- ★ It 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.

**9. Define bill of exchange.**

“It is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the bearer of the instrument”.

- Negotiable Instruments Act, 1881

**10. What is an opening entry?**

- \* 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.

**11. What is an invoice?**

- ☉ Invoice is a business document or bill or statement.
- ☉ It is prepared and sent by the seller to the buyer giving the details of goods sold.
- ☉ It is a source document of prime entry.

**III SHORT ANSWER QUESTIONS****1. Give the format of purchases book.**

**Format of purchases book / purchases journal**

Date	Particulars (Name of the suppliers and details of goods purchased)	Invoice No.	L.F.	Amount ₹	
				Details	Total
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchase A/c Dr.				

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

- Sale of goods for cash
- Sale of goods on credit
- Purchases of goods on credit
- When the proprietor takes goods for personal use
- Goods returned to suppliers for which cash is not received immediately
- Asset purchased as credit.

**Answers:**

- |                     |                          |
|---------------------|--------------------------|
| i). Cash Book       | iv). Journal Proper      |
| ii). Sales Book     | v). Purchase Return Book |
| iii). Purchase Book | vi). Journal Proper      |

**3. What are the advantages of subsidiary books?****(i) Proper and systematic record of business transactions**

- All the business transactions are classified and grouped conveniently.
- Transactions are properly and systematically recorded in the subsidiary books.

**(ii) Convenient posting**

- ◆ All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books.

**(iii) Division of work**

- The work will be sub-divided and different persons can work on different books at the same time.
- The work can be speedily completed.

**4. Write short notes on:****(a) Endorsement of a bill and****(b) Discounting of a bill****a). Endorsement**

- ✘ It is signing on the 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.

**b) Discounting**

- ♣ 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.

@\*a\*@\*a\*@\*a\*@\*a

## CHAPTER - 7      **SUBSIDIARY BOOKS – II      CASH BOOK**

### I. CHOOSE THE CORRECT ANSWER:

1. Cash book is a

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

2. The cash book records

- |                             |                             |
|-----------------------------|-----------------------------|
| (a) All cash receipts       | (b) All cash payments       |
| <b>(c) Both (a) and (b)</b> | (d) All credit transactions |

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 | <b>(d) Cash account in the ledger</b> |

4. A cash book with discount, cash and bank column is called

- |                                   |                             |
|-----------------------------------|-----------------------------|
| (a) Simple cash book              | (b) Double column cash book |
| <b>(c) Three column cash book</b> | (d) Petty cash book         |

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 | <b>(d) Bank column credit side</b> |

6. Which of the following is recorded as contra entry?

- |  |
|--|
| (a) Withdrew cash from bank for personal use                           |
| <b>(b) Withdrew cash from bank for office use</b>                      |
| (c) Direct payment by the customer in the bank account of the business |
| (d) When bank charges interest   |

7. If the debit and credit aspects of a transaction are recorded in the cash book, it is

- |                         |                    |                  |                  |
|-------------------------|--------------------|------------------|------------------|
| <b>(a) Contra entry</b> | (b) Compound entry | (c) Single entry | (d) Simple entry |
|-------------------------|--------------------|------------------|------------------|

8. The balance in the petty cash book is

- |                |              |                     |                 |
|----------------|--------------|---------------------|-----------------|
| (a) An expense | (b) A profit | <b>(c) An asset</b> | (d) A liability |
|----------------|--------------|---------------------|-----------------|

9. Petty cash may be used to pay

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

10. Small payments are recorded in a book called

- |                        |                            |
|------------------------|----------------------------|
| (a) Cash book          | (b) Purchase book          |
| (c) Bills payable book | <b>(d) Petty cash book</b> |

## II. VERY SHORT ANSWER QUESTIONS:

### 1. What is cash book?

- ☛ It is only cash transactions are recorded in the chronological order.
- ☛ The cash book is the book of original entry or prime entry.
- ☛ Cash transactions here may include bank transactions also.

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

- ☛ Single Column Cash Book (Only Cash Column)
- ☛ Double Column Cash Book (Cash and Discount Columns)
- ☛ Three Column Cash Book (Cash, Discount and Bank Columns)
- ☛ Petty Cash Book

### 3. What is simple cash book?

- ♣ It is a ledger account has only one amount column of cash column on each side.
- ♣ Only cash transactions are recorded in this book.
- ♣ All cash receipts and payments are recorded systematically in this book.

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

Dr					Single Column Cash Book					Cr
DATE	RECEIPTS	RN	LF	Rs.	DATE	PAYMENTS	VN	LF	Rs.	

### 5. What is double column cash book?

- ☞ 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'.

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

Dr					Double Column Cash Book					Cr
Date	Receipts	LF	Cash Rs.	Discount Rs.	Date	Payments	LF	Cash Rs.	Discount Rs.	

### 7. What is three column cash book?

- ☉ A three column cash book includes three amount columns on both sides on cash, bank and discount.



- ☉ This cash book is prepared in the same way as simple and double column cash books are prepared.

### 8. What is cash discount?

- ☼ It is allowed to the parties making prompt payment within the stipulated period of time.
- ☼ It is discount allowed for the creditor and discount received for the debtor who makes payment.

### 9. What is trade discount?

- It is a deduction given by the supplier to the buyer on the list price of the goods.
- It is given as 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.

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

- ★ All petty payments of the business may be recorded in separate book which is called petty cash book.
- ★ The person who maintains the petty cash book is called the petty cash cashier.

## III. SHORT ANSWER QUESTIONS:

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

- ★ 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.
- ★ The amount given to the petty cashier in advance is known as "Imprest Money".
- ★ The word imprest means payment in advance.

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

Basis	Cash Discount	Trade Discount
<b>Purpose</b>	It is allowed to encourage the buyers of goods to make payment at an early date	It is allowed to encourage buyers to buy goods in large quantities
<b>Amount of Discount</b>	It is related to time.	It is related to quantity of purchase or
<b>Recording in book of accounts</b>	It is recorded in the books of accounts	It is not recorded in the books of accounts

### 3. Write the advantages of maintaining petty cash book.

- ☼ There can be better control over petty payments.
- ☼ There is saving of time of the main cashier.
- ☼ Cash book is not loaded with many petty payments.

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

- ⊙ Debit the concerned personal account mentioned on the credit side and the credit is to Discount received A/c with the amount mentioned in the discount received column.
- ⊙ Credit the concerned personal account mentioned on the debit side and the debit is for Discount allowed A/c with the amount entered in the discount allowed column.

#### 5. Briefly explain about contra entry with examples.

- ⊙ When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself.
- ⊙ As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.
- ⊙ To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides.

#### Example

- ⊙ When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.

### 5 MARKS:

#### 1. Bring out the differences between cash discount and trade discount?

Basis	Cash Discount	Trade Discount
<b>Purpose</b>	It is allowed to encourage the buyers of goods to make payment at an early date	It is allowed to encourage buyers to buy goods in large quantities.
<b>Time allowances</b>	It is allowed by the seller or creditor to the buyer or debit at the time of making payment	It is allowed by the seller to the buyer when goods are sold
<b>Amount of Discount</b>	It is related to time.	It is related to quantity of purchase or sale
<b>Recording in book of accounts</b>	It is recorded in the books of accounts	It is not recorded in the books of accounts
<b>Deduction from service</b>	It is not deducted from the invoice value of goods	It is deducted from the list price of the goods

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## CHAPTER - 8      **BANK RECONCILIATION STATEMENT**

### I. CHOOSE THE CORRECT ANSWER:

1. A bank reconciliation statement is prepared by  
 (a) Bank      (b) **Business**      (c) Debtor to the business      (d) Creditor to the business
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
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
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
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
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
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**
8. Balance as per cash book is Rs. 2, 000. Bank charge of Rs.50 debited by the bank is not yet shown in the cash book. What is the bank statement balance now?  
 (a) **Rs.1,950 credit balance**      (b) Rs.1,950 debit balance  
 (c) Rs.2,050 debit balance      (d) Rs.2,050 credit balance
9. Balance as per bank statement is Rs.1, 000. Cheque deposited, but not yet credited by the bank is Rs.2, 000. What is the balance as per bank column of the cash book?  
 (a) Rs.3,000 overdraft      (b) **Rs.3,000 favourable**  
 (c) Rs.1,000 overdraft      (d) Rs.1,000 favourable

**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**

## **II. VERY SHORT ANSWER QUESTIONS:**

**1. What is meant by bank overdraft?**

- ⊙ 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.

**2. What is bank reconciliation statement?**

- ⊛ 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).

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

- Cheques issued but not yet presented for payment
- Cheques deposited into bank but not yet credited

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

- ⊛ Rent paid by bank as per standing instruction
- ⊛ Insurance premium, loan installment, etc paid as standing instructions.

**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**
- a). Bank statement
  - b). Bank Overdraft
  - c). Bank Reconciliation Statement

**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.

- |        |        |
|--------|--------|
| a). No | b). No |
| c). No | d). No |
| e). No |        |

### III. SHORT ANSWER QUESTIONS:

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

- To identify the delay in the clearance of cheques
- To ascertain the correct balance of bank column of cash book
- To discourage the accountants of the business as well as bank from misusing funds.

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

- ★ 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.

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?

- ★ Cash book maintained by trader cash will go out from the trader point of view so money deposited into the bank appear on the debit side of the cash book.
- ★ Bank statement prepared by bank deposited money by trader it is liability from bankers view, so money deposited into the bank it will appear in the credit side of the bank statement.

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

Overdraft balance will be increased if the interest is charged by the bank.

5. State the timing differences in BRS with examples.

- ✕ Cheques issued but not yet presented for payment
- ✕ Cheques deposited into bank but not yet credited
- ✕ Bank charges and interest on loan and overdraft
- ✕ Interest and dividends collected by the bank
- ✕ Dishonor of cheques and bills
- ✕ Amount paid by parties directly into the bank.



**Bank Reconciliation Statement as on -----**

	<b>Particulars</b>	<b>Amount Rs.</b>	<b>Amount Rs.</b>
<b>Add:</b>	<b>Balance as per cash book (favourable balance)</b>		<b>xxx</b>
	• Cheques issued but not presented	xxx	
	• Credits in the pass book only	xxx	
	• Interest credited in bank statement	xxx	
	• Dividend and other income	xxx	
	• Direct deposit by a party	xxx	
	• Any error in cash book/ bank statement which has the effect of increasing the balance as per bank statement	xxx	xxx
			<b>xxx</b>
<b>Less:</b>	• Cheques deposited but not credited	xxx	
	• Cheques dishonoured but not entered in cash book	xxx	
	• Debits in bank statement only	xxx	
	• Interest debited	xxx	
	• Insurance premium, loan installment, etc., paid as per standing instructions	xxx	
	• Direct payment by banker	xxx	
	• Any error in cash book/ bank statement which has the effect of decreasing the balance as per bank statement		xxx
	<b>Balance as per bank statement</b>		<b>xxx</b>

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

- (a) Purchases returns book was undercast by Rs.100
- (b) Goods returned by Narendran was not recorded in the books
- (c) Goods returned by Akila Rs. 900 was recorded in the sales returns book as Rs. 90
- (d) A credit sale of goods to Ravivarman was not entered in the sales book.

## II. VERY SHORT ANSWER QUESTIONS:

1. What is meant by rectification of errors?

The correction of accounting errors in a systematic manner is called the rectification of errors.

2. What is meant by error of principle?

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

3. What is meant by error of partial omission?

- ✿ When the accountant has failed to record a part of the transaction, it is known as error of partial omission.

- ✿ This error affects only one account.

4. What is meant by error of complete omission?

- ✿ 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.

5. What are compensating errors?

- The errors that make up for each other or neutralise each other are known as compensating errors.

## III. SHORT ANSWER QUESTIONS:

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

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

- **Example:** Entering the sale of an asset in the sales book

Sale of old furniture on credit for Rs. 500 was entered in the sales book.

2. Write a note on suspense account.

- ★ When the trial balance does not tally, the amount of difference is placed to the debit or credit to a temporary account known as 'suspense account'.

- ★ It is an temporarily recorded.

3. What are the errors not disclosed by a trial balance?

- ★ Errors of Principle

- \* Errors of Omission
- \* Posting to Wrong account
- \* Error of amounts in Original Book
- \* Compensating Errors

#### 4. What are the errors disclosed by a trial balance?

- ☆ Wrong totaling in a subsidiary books
- ☆ Wrong calculation of Balances in ledger accounts.
- ☆ Partial omission of an entry
- ☆ Debit entries wrongly recorded as Credit entries of vice-versa

#### 5. Write a note on one-sided errors and two sided errors.

##### *i). One- Side Error:*

- ☞ One side errors are those errors which affect the agreement of the trial balance.
- ☞ These errors affect only one account and only one side of the account.
- ☞ Examples: Errors of partial omission

##### *ii). One- Side Error:*

- ✘ When an error affects both the debit and credit by an equal amount is called two sided of errors.
  - Wrong posting of both debit and credit
  - Errors of which omission

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**CHAPTER - 10****DEPRECIATION ACCOUNTING****I. CHOOSE THE CORRECT ANSWER:**

1. Under straight line method, the amount of depreciation is

- (a) Increasing every year (b) Decreasing every year  
(c) **Constant for all the years** (d) Fluctuating every year

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

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

4. Depreciation is caused by

- (a) Lapse of time (b) Usage  
(c) Obsolescence (d) **a, b and c**

5. For which of the following assets, the depletion method is adopted for writing off cost of the asset?

- (a) Plant and machinery (b) **Mines and quarries**  
(c) Buildings (d) Trademark

6. A depreciable asset may suffer obsolescence due to \_\_\_

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

7. Which method shall be efficient, if repairs and maintenance cost of an asset increases as it grows older.

- (a) Straight line method (b) **Reducing balance method**  
(c) Sinking fund method (d) Annuity method

8. 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

9. Depreciation is to be calculated from the date when

- (a) **Asset is put to use** (b) Purchase order is made  
(c) Asset is received at business premises (d) Invoice of assets is received



10. If the rate of depreciation is same, then the amount of depreciation under straight line method vis-à-vis written down value method will be

- (a) Equal in all years
- (b) Equal in the first year but higher in subsequent years**
- (c) Equal in the first year but lower in subsequent years
- (d) Lower in the first year but equal in subsequent years.

## II. VERY SHORT ANSWER QUESTIONS:

1. What is meant by depreciation?

“Depreciation is the gradual and permanent decrease in the value of an asset from any cause”.

- R.N. Carter

2. List out the various methods of depreciation.

- ★ Straight line method
- ★ Annuity method
- ★ Written down value method
- ★ Revaluation method
- ★ Sum of years of digits method
- ★ Sinking fund method
- ★ Machine hour rate method
- ★ Insurance policy method
- ★ Depletion method

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

$$\text{Amount of depreciation per year} = \frac{\text{Original cost of the asset} - \text{Scrap value}}{\text{Estimated useful life of the asset in years}}$$

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

4. What is annuity method?

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.

5. What is sinking fund method?

- ★ 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.

## III. SHORT ANSWER QUESTIONS:

1. What are the objectives of providing depreciation?

(i) To find out the true profit or loss

- ♣ The expenses incurred during a period must be matched with revenue earned during that period.

- ♣ This is to be done to find out the true profit or loss of the business for every accounting period.

**(ii) To present the true and fair view of financial position**

- ✘ When the depreciation is charged on fixed assets, the book value of fixed assets is reduced to that extent and the remaining value is shown in the balance sheet.
- ✘ The balance sheet must represent a true and fair view of financial status.

**(iii) To avail tax benefits**

- ❖ As per the Indian Income Tax Act, while computing tax on business income, depreciation is deductible from income.
- ❖ Hence, depreciation is computed and charged to profit and loss account to reduce tax liability.

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

**(i) Wear and tear:**

- ⊙ The normal use of a tangible asset results in physical deterioration which is called wear and tear.
- ⊙ When there is wear and tear, the value of the asset decreased.

**(ii) Efflux of time:**

- Certain assets whether used or not become potentially less useful with the passage of time.

**(iii) Lack of maintenance:**

- ★ A good maintenance will naturally increase the life of the asset.
- ★ When there is no proper maintenance, there is a possibility of more depreciation.

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

**Advantages:**

- ◆ Simplest depreciation method to compute
- ◆ Can be applied to all long term asset
- ◆ The same for each period of assets service life.

**Limitation:**

- ⚙ Reducing balance method charges heavy amount of depreciation in earlier years.
- ⚙ Total charge on the assets will be more when the asset becomes older.
- ⚙ The actual use of the asset is not considered in computation of depreciation

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

**Merits:**

- ✧ It is easy to understand and simple to implement.
- ✧ Depreciation is calculated every year on the opening balance of asset.

- ✧ This method is acceptable for income tax purpose.

### **Limitations:**

- ✧ It charges heavy amount of depreciation in earlier years.
- ✧ The formula to obtain rate of depreciation can be applied only when there is residual value of the asset.
- ✧ Might not be appropriate for some depreciable asset due to rapidly developing technology.

### **5. Distinguish between straight line method and written down value method of providing depreciation.**

S.no	Difference	Straight Line Method	Written Down Value Method
1	<b>Basic calculation</b>	On the original cost	On the written down value of the asset
2	<b>Amount of Depreciation</b>	It is same for all years	Its goes on decreasing year after year
3	<b>Book value of the asset</b>	The book value of the asset becomes zero	The book value of asset never become zero

### **5 MARKS:**

**1. Define Depreciation? Explain any three causes of depreciation?**

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

**i). Definition:**

- ♣ “Depreciation is the measure of exhaustion of the effective life of an asset from any cause during a given period”.

**- Spicer and Pegler**

- ♣ “Depreciation is the gradual and permanent decrease in the value of an asset from any cause”.

**- R.N. Carter,**

**ii). causes for depreciation**

**(i) Wear and tear**

- ★ The normal use of a tangible asset results in physical deterioration which is called wear and tear.
- ★ When there is wear and tear, the value of the asset decreases proportionately.

**(ii) Efflux of time**

- ★ Certain assets whether used or not become potentially less useful with the passage of time.

**(iii) Obsolescence**

- \* It is a reduction in the value of assets as a result of the availability of updated alternative assets.
- \* This happens due to new inventions and innovations.
- \* Though the original asset is in a usable condition, it is not preferred by the users and it loses its value.

**(iv) Inadequacy for the purpose**

- \* Sometimes, the use of assets may be stopped due to their inadequacy for the purpose.
- \* These may become inadequate due to expansion in the capacity of a firm.

**(v) Lack of maintenance**

- \* A good maintenance will naturally increase the life of the asset.
- \* When there is no proper maintenance, there is a possibility of more depreciation.

**(vi). Abnormal factors**

- \* Decline in the usefulness of fixed asset may be caused by abnormal factors like damage due to fire accidents, natural calamities, etc.
- \* These may even lead to the state of an asset being discarded.

**3. Distinguish between straight line method and written down value method of providing depreciation.**

S.no	Difference	Straight Line Method	Written Down Value Method
1	Basic calculation	On the original cost	On the written down value of the asset
2	Amount of Depreciation	It is same for all years	Its goes on decreasing year after year
3	Book value of the asset	The book value of the asset becomes zero	The book value of asset never become zero
4	Computation of Rate of depreciation	It is easy to calculate	It is very difficult to calculate
5	Order of calculation	It is calculated first followed by the rate of depreciation	It is calculated first followed by the amount of depreciation
	Total charge	The total cost keeps on increasing from year to year	Its remains almost the same from year to year
	Suitability	It is suitable for assets which the repair charges are less	It is suitable for assets which require more repairs

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## CHAPTER - 11 CAPITAL AND REVENUE TRANSACTION

### I. CHOOSE THE CORRECT ANSWER:

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.
2. Expenditure incurred Rs.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
3. Interest on bank deposits is
  - (a) Capital receipt
  - (b) Revenue receipt
  - (c) Capital expenditures
  - (d) Revenue expenditures
4. Amount received from IDBI as a medium term loan for augmenting working capital
  - (a) Capital expenditures
  - (b) Revenue expenditures
  - (c) Revenue receipts
  - (d) Capital receipt
5. Revenue expenditure is intended to benefit
  - (a) Past period
  - (b) Future period
  - (c) Current period
  - (d) Any period
6. Pre-operative expenses are
  - (a) Revenue expenditure
  - (b) Prepaid revenue expenditure
  - (c) Deferred revenue expenditure
  - (d) Capital expenditure

### II. VERY SHORT ANSWER QUESTIONS:

1. What is meant by revenue expenditure?
  - 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.
2. What is capital expenditure?
  - ⊙ It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period.
  - ⊙ It is non- recurring in nature.
3. What is capital profit?
  - ★ It is a capital gain which is arise from the sale of capital asset.
  - ★ When the asset is sold at a price which exceeds the purchase price the profits is capital profit.
4. Write a short note on revenue receipt.



- ◆ 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.

### 5. What is meant by deferred revenue expenditure?

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

## III. SHORT ANSWER QUESTIONS:

### 1. Distinguish between capital expenditure and revenue expenditure.

S. no	Difference	Capital Expenditure	Revenue Expenditure
1	<b>Nature</b>	Non Recurring in nature	Recurring in nature
2	<b>Period</b>	Longer period	One accounting period
3	<b>Effects</b>	It increase the profit earning capacity	It maintains the profit earning capacity

### 2. Distinguish between capital receipt and revenue receipt.

S. no	Difference	Capital Receipt	Revenue Receipt
1	<b>Nature</b>	Non Recurring in nature	Recurring in nature
2	<b>Shown in</b>	In Balance sheet	Income Statement
3	<b>Term</b>	Long Term	Short Term

### 3. What is deferred revenue expenditure? Give two examples.

- ♣ An expenditure, which is revenue expenditure in nature, the benefit 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 charged against income over a period of certain years.

#### Examples

- ✿ Considerable amount spent on advertising
- ✿ Major repairs to plant and machinery

## 5 MARKS:

### 1. Distinguish between capital expenditure and revenue expenditure.

S. no	Difference	Capital Expenditure	Revenue Expenditure
1	<b>Nature</b>	Non Recurring in nature	Recurring in nature

2	<b>Purpose</b>	To contribute to the revenue earning capacity of the business	To carry on the day to day activities of the business
3	<b>Period</b>	Longer period	One accounting period
4	<b>Effects</b>	It increase the profit earning capacity	It maintains the profit earning capacity
5	<b>Accounting treatment</b>	It will appear on the assets side of the balance sheet	It be shown on debit side of the trading and P & L account.

## 2. Distinguish between capital receipt and revenue receipt.

S. no	Difference	Capital Receipt	Revenue Receipt
1	<b>Nature</b>	Non Recurring in nature	Recurring in nature
2	<b>Size</b>	Amount generally substantial	Amount generally smaller
3	<b>Distribution</b>	These amounts are not available for distribution as profits	The excess of revenue receipts over the revenue expenses can be used.
4	<b>Shown in</b>	In Balance sheet	Income Statement
5	<b>Term</b>	Long Term	Short Term

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**CHAPTER - 12****FINAL ACCOUNTS - I****I. CHOOSE THE CORRECT ANSWER:**

1. Closing stock is an item of .

(a) Fixed asset

**(b) Current asset**

(c) Fictitious asset

(d) Intangible asset

2. Balance sheet is

(a) An account

**(b) A statement**

(c) Neither a statement nor an account

(d) None of the above

3. Net profit of the business increases the

(a) Drawings

(b) Receivables

(c) Debts

**(d) Capital**

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

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

6. Balance sheet shows the of the business.

(a) Profitability

**(b) Financial position**

(c) Sales

(d) Purchases

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**

8. Salaries appearing in 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

9. Current assets does not include

(a) Cash

(b) Stock

**(c) Furniture**

(d) Prepaid expenses

10. Goodwill is classified as

(a) A current asset

(b) A liquid asset

(c) A tangible asset

**(d) An intangible asset**

**II. VERY SHORT ANSWER QUESTIONS:**

1. Write a note on trading account.

✳ "The trading account shows the results of buying and selling of goods.

✳ Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold

**2. What are wasting assets?**

- ✿ This are the assets which get exhausted gradually in the process of excavation
- ✿ Ex: Mines and Quarries.

**3. What are fixed assets?**

“Fixed assets are assets of a relatively permanent nature used in the operations of business and not intended for sale.”

- Finney and Miller,

**4. What is meant by purchases returns?**

- ✿ Goods purchased which are returned to suppliers are termed as purchases returns or returns outward.

**5. Name any two direct expenses and indirect expenses.**

	Direct Expenses	Indirect Expenses
1	Wages	Salary
2	Carriage inward	Carriage outward

6. Mention any two

**differences between trial balance and balance sheet.**

	Trial Balance	Balance Sheet
1	It is prepared to verify the arithmetical accuracy of books	It is prepared to disclose the true financial Position.
2	It is not part of final account.	It is part of final account.

**7. What are the objectives of preparing trading account?**

- ♣ Its gross profit is found to be less than the projected profit its reasons are analyzed and proper control is exercised in future.
- ♣ Its Gross profit is more than projected profit efforts are made to maintain it in future.

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

- ★ To know the amount of net profit or Net loss
- ★ To make comparison
- ★ To measures efficiency

**III. SHORT ANSWER QUESTIONS:****1. What are final accounts? What are its constituents?**

- ✘ Final accounts are the trial balance that is formed at the end of the period of accounting from where we can derive the financial statements.
- ✘ It has two main constituents that is trading and profit and loss accounts which help to tell the profit and loss incurred at the end of the financial year.

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

- Balance of all the nominal accounts are required to be closed on the last day of the accounting year to facilitate to prepare Trading and Profit and Loss Account.
- It is done by passing necessary closing entries in the journal proper.
- Purchase return a/c is closed by transferring to purchase a/c.

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

- ★ The word gross means “before any deductions”.
- ★ It is called Sales Profit.
- ★  $\text{Gross Profit} = \text{Net sales} - \text{Cost of goods sold}$
- ★ The word Net means “after all deductions”.
- ★  $\text{Net Profit} = \text{Gross Profit} - \text{Operating Expenses}$

## 4. “Balance sheet is not an account”- Explain.

- ◎ Balance sheet is the financial statement of a company which includes assets, liabilities.
- ◎ It includes assets on one side and liabilities on the other.

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

- ✿ It is helpful in ascertaining the financial position of the business by showing assets and liabilities of the concern.
- ✿ It helps in calculation of various ratios which help in better management of business.
- ✿ It help to ascertain the amount of capital employed in business.

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

- The asset and liabilities should be shown in a certain order in the balance sheet.
- Therefore they should be arranged in certain groups and in a particular order.
- Assets and Liabilities can be arranged in the balance sheet into two ways:
  - By Liquidity
  - By Permanence

### **5 MARK:**

#### 1. Distinguish between trial balance and balance sheet?

Basis	Trial balance	Balance sheet
<b>Nature</b>	It is a list of ledger balances on a particular date.	It is a statement showing the position of assets and liabilities on a particular date.
<b>Purpose</b>	It is prepared to check the arithmetical accuracy of the accounting entries.	It is prepared to ascertain the financial position of a business.



<b>Contents</b>	It is a summary of balances of all accounts.	It is showing only personal and real accounts.
<b>Format</b>	It contains columns for debit balances and credit balances.	The items are grouped as assets and liabilities.
<b>Stage</b>	It is prepared before the preparation of final accounts.	It is prepared after preparing trial balance and trading and profit and loss account.
<b>Period</b>	It can be prepared end of the month, quarterly, half yearly, etc.	It is generally prepared at the end of the accounting period.
<b>Order</b>	Balances shown in the trial balance need not be in order.	Balances shown in the balance sheet must be in order.
<b>Compulsion</b>	Preparation of trial balance is not compulsory.	Preparation of the balance sheet is compulsory in certain cases.

**FORMAT:**

Dr.		Trading account for the year ended . . .				Cr.	
Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.	Rs.
	To Opening stock		xxx		By Sales	xxx	
	To Purchases	xxx			<b>Less:</b> Sales returns	xxx	xxx
<b>Less:</b>	Purchases returns	xxx	xxx		By Closing stock		xxx
	To Direct expenses:				<b>By Gross loss c/d*</b>		<b>xxx</b>
	Carriage/Freight inwards		xxx				
	Wages		xxx				
	Dock charges		xxx				
	Octroi		xxx				
	Royalty		xxx				
	Import duty						
	To Cost of goods manufactured		xxx				
	<b>To Gross profit c/d*</b>		<b>xxx</b>				
			<b>xxx</b>				<b>xxx</b>

Dr.		Profit and loss account for the year ended .....				Cr.	
Date	Particulars		Rs.	Date	Particulars		Rs.
	To Gross loss b/d		xxx		By Gross profit b/d		xxx
	<b>To Administrative expenses:</b>				<b>By Indirect incomes:</b>		
	Salaries		xxx		Rent earned		xxx
	Rent, rates and taxes		xxx		Discount received		xxx
	Printing and stationery		xxx		Commission earned		xxx
	Postage		xxx		Interest on drawings		xxx
	Legal charges		xxx		Interest on investments		xxx
	Audit fees		xxx		Dividend on shares		xxx
	Establishment expenses		xxx		Bad debts recovered		xxx
	Trade expenses		xxx		Profit on sale of fixed assets		
	General travelling expenses		xxx		Miscellaneous receipts		xxx
	Lighting		xxx				xxx
	Insurance premium		xxx		<b>By Net loss*</b>		
	<b>To Selling &amp; distribution expenses:</b>				(transferred to capital a/c)		
	Carriage outwards		xxx				
	Advertisement		xxx				
	Commission		xxx				
	Brokerage		xxx				
	Bad debts or provision for bad debts		xxx				
	Export duty		xxx				
	Packing charges		xxx				
	<b>To Other expenses * losses:</b>						
	Repairs		xxx				
	Depreciation		xxx				
	Interest charges		xxx				
	Discount allowed		xxx				
	Provision for discount on debtors		xxx				
	Bank charges		xxx				
	Interest on capital		xxx				
	Donation and charity		xxx				
	Loss on sale of fixed assets		xxx				
	Miscellaneous expenses		xxx				
	<b>To Net profit*</b>						
	(transferred to capital a/c)						
			<b>XX</b>				<b>XXX</b>

## Balance sheet of ... as on...

Liabilities		Rs.	Rs.	Assets		Rs.	Rs.
	<b>Capital</b>	xxx			Goodwill		xxx
<b>Add:</b>	Net profit/				Patent rights		xxx
<b>Less:</b>	Net loss	xxx			Copy rights		xxx
		xxx			Trade marks		xxx
<b>Less:</b>	Drawings	xxx	xxx		Computer software		xxx
		xxx			Land		xxx
	<b>Reserves</b>		xxx	<b>Less:</b>	Buildings	xxx	
	<b>Long term loans</b>		xxx		Depreciation	xxx	xxx
	<b>Current liabilities:</b>						
	Bank overdraft		xxx	<b>Less:</b>	Plant and machinery	xxx	
	Cash credit		xxx		Depreciation	xxx	xxx
	Outstanding expenses		xxx				
	Unearned income		xxx	<b>Less:</b>			
	Short term loans		xxx		Vehicles	xxx	xxx
	Sundry creditors		xxx		Depreciation	xxx	
	Bills payable		xxx	<b>Less:</b>			
					Furniture and Fittings	xxx	xxx
					Depreciation	xxx	
					<b>Investments</b>		xxx
					<b>Current assets:</b>		
					Stock		xxx
					Advances given		xxx
					Sundry debtors		xxx
					Bills receivable		xxx
					Prepaid expenses		xxx
					Accrued income		xxx
					Cash at bank		xxx
					Cash in hand		xxx
					<b>Fictitious assets:</b>		
					Preliminary expenses		xxx
			xxx				xxx

**CHAPTER - 13****FINAL ACCOUNTS - II****I. CHOOSE THE CORRECT ANSWER:**

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

2. Net profit is

- (a) Debited to capital account  
 (b) **Credited to capital account**  
 (c) Debited to drawings account  
 (d) Credited to drawings account

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 realizable value whichever is lower**

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

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**

**II. VERY SHORT ANSWER QUESTIONS:**

1. What are adjusting entries?

It is an adjustment recorded at the end of an accounting period to an asset or liability account and related expenses or income accounts to record business events that occurred in the period but were not recorded.

2. What is outstanding expense?

- ♣ Those expenses which have been incurred during the year current accounting period and are due to be paid however the payment is not made.
- ♣ Such an item is to be treated as a payable for the business.

3. What is prepaid expense?

It is an expenditure paid for in accounting period but for which the underlying asset will not be consumed until a future period.

4. What are accrued incomes?

It is income which has been earned but not yet received.

### 5. What is provision for discount on debtors?

- ✱ Discount is allowed when debtors settle their accounts promptly.
- ✱ If the debtors of the current period settle their accounts promptly in the succeeding period, discount will have to be allowed by us.

## III. SHORT ANSWER QUESTIONS:

### 1. What is the need for preparing final accounts?

- ◆ Trading profit and loss account and balance sheet all these three together are called as final accounts.
- ◆ Final results of trading are known through profit and loss account.
- ◆ Financial position is reflected by balance sheet.
- ◆ Trading and Profit and Loss account prepared to find out profit or loss.
- ◆ Balance Sheet is prepared to find out financial position of a concern.

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

- ⊙ It refers to amounts 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.
- ⊙ The amount to be received from debtors may or may not be received.

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

- ✱ The goods remaining unsold at the end of the accounting period are known as closing stock.
- ✱ They are valued at cost price or net realizable value whichever is lower as per accounting standard.
- ✱ It is shown on the credit side of trading account.
- ✱ It is also shown on the asset side of balance sheet.

### 4. Give the adjusting entries for interest on capital and interest on drawings.

Date	Particulars	LF	Debit	Credit
i)	Interest on Capital a/c      Dr To Capital a/c (Interest on capital provided)		xxx	xxx
ii)	Capital a/c                      Dr To Interest on Drawings a/c (Interest on Drawings provided)		xxx	xxx



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

Adjustment	Journal entry	Trading and P & L a/c	Balance sheet
<b>Bad Debts</b>	Bad debts a/c Dr To sundry debtors a/c	Debit side of P & L a/c	Asset side by deduction from sundry debtors
<b>Provision for bad and doubtful debts</b>	Profit and Loss a/c Dr To Provision for bad and doubtful debts a/c	Debit side of P & L a/c	Asset side by deduction from sundry debtors
<b>Provision for discount on debtors</b>	Profit and Loss a/c Dr To Provision for discount on debtors a/c	Debit side of P & L a/c	Asset side by deduction from sundry debtors

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S.NO	ADJUSTMENT	JOURNAL ENTRY
1	<b>Closing Stock</b>	Closing stock a/c Dr To Trading a/c
2	<b>Outstanding Expenses</b>	Concerned expenses a/c Dr To Outstanding expenses a/c
3	<b>Prepaid expenses</b>	Prepaid expenses A/c Dr To Concerned Expenses a/c
4	<b>Accrued income</b>	Accrued Income a/c Dr To Income a/c
5	<b>Income received in Advance</b>	Concerned Income a/c Dr To Income received in advance a/c
6	<b>Interest on capital</b>	Interest on Capital a/c Dr To Capital a/c
7	<b>Interest in drawings</b>	Capital a/c Dr To Interest on Drawings a/c
8	<b>Interest on loan outstanding</b>	Interest on loan a/c Dr To Outstanding Interest on loan a/c

9	<b>Interest on investment accrued</b>	Accrued Interest on Investment a/c Dr To Interest on Investment a/c
10	<b>Depreciation</b>	Depreciation a/c Dr To Concerned fixed asset a/c
11	<b>Bad debts</b>	Bad debts a/c Dr To Sundry Debtors a/c
12	<b>Provision for bad and doubtful debts</b>	Profit and Loss a/c Dr To Provision for bad and doubtful debts a/c
13	<b>Provision for discount on debtors</b>	Profit and Loss a/c Dr To Provision for discount on debtors a/c
14	<b>Income tax paid</b>	Drawings a/c Dr To Bank a/c
15	<b>Managers commission</b>	Managers Commission a/c Dr To outstanding managers commission a/c

## CHAPTER – 14    **COMPUTERIZED ACCOUNTING SYSTEM**

### **I. CHOOSE THE CORRECT ANSWER:**

**1. In accounting, computer is commonly used in the following areas:**

- |  |                          |
|--|--------------------------|
| (a) Recording of business transactions | (b) Payroll accounting   |
| (c) Stores accounting                  | <b>(d) All the above</b> |

**2. Customized accounting software is suitable for**

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

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

- |                 |                             |
|-----------------|-----------------------------|
| (a) Input unit  | (b) Output unit             |
| <b>(c) Data</b> | (d) Central Processing Unit |

**4. An example of output device is**

- |             |                    |
|-------------|--------------------|
| (a) Mouse   | <b>(b) Printer</b> |
| (c) Scanner | (d) Keyboard       |

**5. One of the limitations of computerized accounting system is**

- |                           |              |
|---------------------------|--------------|
| <b>(a) System failure</b> | (b) Accuracy |
| (c) Versatility           | (d) Storage  |

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

- |                         |                      |
|-------------------------|----------------------|
| <b>(a) Access codes</b> | (b) Sequential codes |
| (c) Block codes         | (d) Mnemonic codes   |

**7. TALLY is an example of**

- |                                     |   |
|-------------------------------------|---|
| (a) Tailor-made accounting software | <b>(b) Ready-made accounting software</b> |
| (c) In-built accounting software    | (d) Customized accounting software        |

**8. People who write codes and programmes are called as**

- |                      |                               |
|----------------------|-------------------------------|
| (a) System analysts  | (b) System designers          |
| (c) System operators | <b>(d) System programmers</b> |

**9. Accounting software is an example of**

- |                      |                                 |
|----------------------|---------------------------------|
| (a) System software  | <b>(b) Application software</b> |
| (c) Utility software | (d) Operating software          |

### **II. VERY SHORT ANSWERS:**

**1. What is a computer?**

- \* A computer is an electronic machine or device.
- \* It is performs processes calculations and operations based on instructions provided by a software or hardware program.

**2. What is CAS?**

- ★ Computerized accounting system 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.

**3. What is hardware?**

- ♣ The physical components of a computer constitute its hardware.
- ♣ Hardware consists of input devices and output devices that make a complete computer system.

**4. What is meant by software?**

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?**

Accounting software is a type of computer used by accounting professionals to manage accounts and perform accounting operations.

**6. Name any two accounting packages.**

- ♣ Readymade software
- ♣ Customized software
- ♣ Tailor made software

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

- |                             |   |
|-----------------------------|---|
| <input type="radio"/> Tally | <input type="radio"/> Busy                    |
| <input type="radio"/> EX    | <input type="radio"/> Professional Accountant |

**8. What is coding?**

- ✘ Code is an identification mark.
- ✘ It involves codification of accounts.
- ✘ It is needed where there are numerous accounts heads in an organisation.

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

- ★ After classification of accounts into various groups namely, major, minor and sub-heads and allotting codes to each account these are programmed into the computer system.
- ★ A proper codification requires a systematic grouping of accounts.
- ★ The major groups or heads could be Assets, Liabilities, Revenues and Expenses.

**10. What are mnemonic codes?**

It consists of alphabets or abbreviations as symbols to codify a piece of information.

### III. SHORT ANSWER QUESTIONS:

#### 1. What are the various types of accounting software?

##### (i) Ready made software

- ♣ It can be used by the business enterprises immediately on procurement.
- ♣ These packages are used by small and conventional business enterprises.
- ♣ Cost of installation and maintenance is very low.
- ♣ Examples: Tally, Busy, Marg, Profit books.

##### (ii) Customized software

- ✿ Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise.
- ✿ In such circumstances, customized packages may help the business enterprise for fulfilling their requirements.
- ✿ It can be modified according to the need of the enterprise.

##### (iii) Tailor made software

- ♣ Large enterprises have their own way of functioning.
- ♣ In such enterprises, depending upon their functioning, need based software's known as tailored packages are installed.
- ♣ The cost of these packages is very high.

#### 2. Mention any three limitations of computerized accounting system.

- ✱ Data may be lost or corrupted due to power interruptions.
- ✱ Data are prone to hacking
- ✱ Un-programmed and un-specified reports cannot be generated.

#### 3. State the various types of coding methods.

##### a. Sequential codes:

- ✱ In sequential code, numbers or letters are assigned in consecutive order.
- ✱ These codes are applied primarily to source documents such as cheques, invoices, etc.

##### 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.

##### c. Mnemonic codes:

- ✱ It consists of alphabets or abbreviations as symbols to codify a piece of information



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

- ☛ Sales Report
- ☛ Purchase report
- ☛ Sales Return
- ☛ Stock report
- ☛ Trading and Profit or Loss account
- ☛ Balance sheet

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

**Input Devices:**

- |            |                  |
|------------|------------------|
| ☛ Keyboard | ☛ Microphone     |
| ☛ Gamepad  | ☛ OMR            |
| ☛ Scanner  | ☛ Digital Camera |
| ☛ Scanner  |                  |

**Output Device:**

- |            |                 |
|------------|-----------------|
| ❖ Monitor  | ❖ Headphone     |
| ❖ Printers | ❖ Projector     |
| ❖ Speakers | ❖ Film Recorder |

**5 MARK:**

**1. Write the advantages of computerized accounting system?**

**(i) Faster processing:**

- ☛ Computers require far less time than human beings in performing a particular task.
- ☛ Therefore, accounting data are processed faster using a computerized accounting system.

**(ii) Accurate information:**

- ☛ There is less space for error because only one account entry is needed for each transaction unlike repeated posting of the same accounting data in manual system.

**(iii) Reliability:**

- ☛ Computer systems are immune to boredom, tiredness or fatigue.
- ☛ Therefore, these can perform repetitive functions effectively and are highly reliable.

**(iv) Easy availability of information:**

- ☛ The data are easily available and can be communicated to different users at the same time.

**(v) Up-to-date information:**

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

**(vi) Efficiency:**

- ✳ The computer based accounting system ensures better use of time and resources.

**(vii) Works as a motivator to employees:**

- ✳ Employees using computer systems feel more valued as they are trained and specialized for the job.

**2. State the various types of coding methods with examples?.****a. Sequential codes:**

- ✳ In sequential code, numbers 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.
- For example:

**Code Dealer type**

100 – 199 Small pumps

200 – 299 Medium pumps

300 – 399 Pipes

400 – 499 Motors

**c. Mnemonic codes:**

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

**Code Information**

SJ Sales Journals

HQ Head Quarters

@\*a\*a\*a\*a\*a\*a\*a\*a

## INTERIOR CUMPULSORY QUESTIONS

**1. Before the evolution of money, commodities were exchanged for commodities. In such situations, how would people have maintained their accounts?**

- Without Formalized System like currency, maintaining accounts relied heavily on trust, social norms and informal record keeping methods.

**2. Do you think financial accounting, cost accounting and management accounting can be maintained by the same person?**

- While it's theoretically possible for one person to have knowledge and skills in Financial Accounting, Cost Accounting and Management Accounting, it is not common for a single person to handle all three roles simultaneously in a large organization.
- In small business with limited resources a single person may handle multiple accounting function to some extent.

**3. Accounting is useful only to the owner of the business' – Do you agree?**

- I disagree the statement accounting is not only valuable to business owners but also to wide range of Stake holders including investors, creditors, government agencies, regulators, employees and competitors.
- It provides essential financial information that helps in decision making, assesses performance and ensures accountability and transparency in business operations.

**4. Self-Help Group (SHG) is an informal, self-managed voluntary group of 5-20 individuals, who come together to address their common problems and are generally engaged in credit and savings activities operating on principles of mutuality and solidarity. Most SHG members are minimally educated. Regardless, every SHG should be aware of the status of its outstanding loans to members, the status of its loans from external institutions and the member payments due. Book- keeping is a difficult task for SHGs. Now, discuss on the following points:**

**i). How do SHGs maintain their accounting?**

**ii). Do you think that financial accounting system is suitable for all businesses?**

- Accurate book keeping is essential.
- This program was first started in Gujarat.
- In India books are used to maintain records.
- It is true that book keeping is a difficult task.
- That is the reason why most of the people in villages are adopting mechanical ways to maintain their accounting.
- Computers are being used now a days to keep track of all accounts

**6. Can each business unit follow its own way for maintaining accounting records? Will it serve the requirements of different users of accounting information?**

- While each business unit may have its own way of maintaining accounting records, it's essential that they adhere to GAAP or other relevant accounting standards.
- However, within the framework of GAAP, there can be some flexibility in how accounting records are maintained to accommodate the specific needs and characteristics of each business unit.

**7. In your school, there are some basic rules to be followed by every student. What are they? What will happen if there is no such rule?**

- First is discipline, then behavior an attitude, respect others ,etc

**8. Magesh started a new trading business. He buys and sells packing materials. He wants to be honest in doing his business. He has plans to establish his business in the future. He has little accounting knowledge but has excellent business skills. At the end of his first year of trading, he wanted to value his closing stock. He finds some of the goods are damaged. If he wants to sell them, then he has to spend some amount for making them in a saleable condition. He also takes some money from his business bank account for his personal use. But, he forgot to record that.**

**Now, discuss on the following points**

- Does every businessman need accounting knowledge?**
- Identify some of the accounting concepts in this case study.**
- How should his closing stock be valued?**
- Is it possible for him to compare his business results with that of his competitors?**

i). It is reality that for run successfully and profit business we should have know understanding of finances and their recording. Mangesh should do accounting for his business because as we know he forget loan taken from his business, Accounting have record for our daily operations.

There are three reasons for entrepreneurs to do accounting:

- Making predictions about the future
- Remaining Responsibility
- Measuring and reassessing progress.

ii). Identify some of the accounting concepts in this case study.

- |                            |                     |
|----------------------------|---------------------|
| • Raw materials            | • Drawings          |
| • Inventory                | • Loans             |
| • Account Receivables      | • Equity            |
| • Cash and Cash Equivalent | • Rent Expense      |
| • Liabilities              | • Supplier payables |

iii). Closing Stock Formula = Opening Stock + Purchases – Cost of Goods Sold

iv). Yes if he will Accounting for his trading business then it is possible for him to compare with competitors.

**9. Is it possible to compare the accounting records of an Indian company with that of an International company? Do all the countries follow the same accounting practices?**

- Comparing the accounting records of an Indian company with those of an international company can be challenging due to differences in accounting standards, regulations and practices across country.
- While there are efforts to harmonize accounting standards globally significant variations still exist.
- No, all countries do not follow the same accounting practices.
- Different countries have their own sets of accounting standards, principles, and regulations that govern how financial transactions are recorded, reported, and analyzed.
- For instance, the United States follows GAAP, while many other countries, especially those in Europe, follow IFRS.
- Additionally, some countries may have their own unique accounting standards developed by their respective accounting bodies.

**10. A customer has returned the goods to his supplier along with a debit note. But, the supplier does not agree with the customer's claim that the goods are damaged. Can the customer consider his debit note as a valid source document and enter the purchases returns?**

- To avoid such situations in the future, the trader should implement proper accounting practices and procedures.
- The trader should maintain detailed records of all transactions, including sales on credit, returns, and payments received.
- This ensures that the trader has a clear understanding of the current status of accounts receivable.

**11. Crossed cheque is preferred to a bearer cheque. Why?**

- Crossed cheques are considered safer than bearer cheques because they can only be deposited into bank account and cannot be cashed over the counter.
- This adds an extra layer of security, reducing the risk of fraudulent activities or theft compared to bearer cheques.

**12. Pearlita is a trader. She buys and sells electronic goods. She maintains double entry book-keeping. She purchases and sells goods both on cash and credit bases. If the purchased goods are not in good condition, she sends them back to her supplier. At the same time, she also accepts if her customers return the goods sold to them, when the goods are not in good condition. She maintains a bank account for her business. She receives and pays money through bank transactions.**

**Now, discuss on the following:**



- **Why does she maintain double entry book keeping?**
- **Do all the business units engage in credit transaction?**
- **Can you think of some business units that have only cash transactions?**
- **Is it necessary for Pearlita to maintain a separate bank account for business?**
- **What will happen if she uses her personal bank account for her business transactions?**
- **Identify the business documents involved in this case study.**
- **Can you think of some assets and liabilities for Pearlita's business?**
- In this system the two aspects of each transaction are recorded in the books of account. This helps in checking the accuracy in accounting.
- No, she purchases and sells goods both on cash and credit basis.
- Yes, she has to spend money for expenses and capital also. Nominal accounts also maintained.
- Yes, she should maintain a bank account for her business.

**13. For small business entities generally full set of accounts may not be maintained. Is it possible to Calculate profit or loss for such entities? How?**

- Yes, it is possible to calculate profit or loss for small business entities.
- Maintaining records of sales invoices, receipts, and expense invoices can help small businesses track their revenue and expenses.
- By comparing total sales with total expenses, businesses can calculate their profit or loss.

**14. A trader has been selling goods both on cash and credit bases. Most of the goods are sold on credit. The owner has lost track of 'who has to pay how much?' Is there any quick way to get this information?**

- Yes, maintaining personal accounts can help the owner to keep track of who owes the money and how much they owe. It provides clarity and transparency in financial transactions, making it easier to manage debts and credits effectively.

**15. What will happen if an account debited or credited is left out while posting from journal to ledger?**

- Omitting an amount while posting from the journal to the Ledger can result in errors, inaccuracies in financial statements and difficulties in identifying and correcting mistakes.
- It is essential to ensure all transactions are accurately recorded in the Ledger to maintain the integrity of the accounting system.

**16. What will happen to the ledger account postings? Do you think that it will continue for an indefinite period of time? Where will the accounting process stop?**

- The Ledger Accounts are balanced at the end of the accounting period or after a certain period to ascertain the net balance in each account.

- Yes, ledger account will continue as long as business operates. It serves as a repository for recording all financial transactions.
- Accounting process starts with the identification and recording of financial transactions of an organisation and ends with the preparation of final accounts for the accounting year. The process continues for the next accounting year with the opening balances of assets and liabilities which are the closing balances of the preceding year.

**17. Accounts of debtors will always have debit balance'. - Do you agree?**

- No, accounts of debtors will not always have a debit balance. The balance in a debtor's account can be either a debit balance or a credit balance, depending on the transactions recorded in the account.

**Debit Balance:**

- A debit balance in a debtor's account indicates that the debtor owes money to the company.
- This is the most common scenario, where the debtor has purchased goods or services on credit and has not yet paid for them.
- In this case, the transactions recording the sales to the debtor increase the debtor's account balance, which is represented as a debit balance.

**Credit Balance:**

- In some cases, a debtor may overpay their account or return goods for a refund.
- These situations can result in a credit balance in the debtor's account.
- For example, if a debtor returns goods for a refund or makes an advance payment, the amount returned or paid in advance will reduce the balance of the debtor's account, resulting in a credit balance.

**18. Do you think that the ledger account postings are error free? If not, how do you make sure that the entries are correct?**

- No, ledger account postings are not always error-free. Mistakes can occur during the posting process due to human error, misinterpretation of transaction details, or technical issues.
- If the business follow double entry system, the fundamental principle of the double entry system of book keeping is that every debit has a corresponding and equal credit and vice versa.
- Therefore, the total of debit balances must be equal to the total of the credit balances. When such an agreement between the total of all debit balances and the total of the all credit balances takes place, it offers an immediate and apparent proof of arithmetical accuracy of the book keeping work on a particular day.

**19. Analyze the above format. Can you identify accounts that have only debit balances/ credit balances always?**

- There are certain accounts which have only debit balances.
- Assets – examples Cash, Accounts Receivable, Inventory, Equipment and Land
- Expenses – examples Salaries, Rent, Advertising Expenses, etc.
- There are accounts with Credit balances
- Liabilities – Accounts Payable, Loan Payable, Outstanding Liabilities.
- Capital
- Revenue – Sales, Interest Received, Rent received

**20. Do you think the trial balance tallies all the time? What should be done when it does not tally?**

- While the trial balance is designed to tally, discrepancies can occur for various reasons, including errors in recording transactions, posting mistakes, or inaccuracies in the ledger accounts.
- Therefore, it is possible for the trial balance not to tally.
- When the trial balance does not tally, steps must be taken to locate and rectify errors.
- If the errors cannot be rectified then trial balance is tallied by transferring the difference between the total of debit balances and the total of credit balances to a temporary account called Suspense Account for timely preparation of the financial statements.

**21. Is it possible to find out the profit earned by the business by preparing trial balance?**

**What can be done to know the profit?**

- No it is not possible to find out the profit earned by the business by preparing trial balance.
- But by preparing final accounts.
- Using the information from the trial balance, we can determine the profit earned by the business during the specified period.

**22. Is trade discount the same as cash discount?**

- No. Trade discounts are typically provided for various reasons such as bulk purchases, long-term relationships, or special promotions.
- While cash discount is a reduction in the price of goods or services offered by the seller to the buyer as an incentive for early payment.
- Cash discounts are directly related to the timing of payment.

**23. Why the purchase of typewriter is not recorded? How do you record this transaction?**

- Purchase of typewriter will not be recorded in the purchase register because they are assets for the firm for office use.
- This transaction will be recorded in journal proper.

**24. Do you think the supplier will accept the debit note sent by the customer, as it is? If not, why will he not accept?**

- In general, the supplier will accept the debit note sent by the customer if the information provided are accurate and supported by valid reasons.
- If the debit note is missing essential information such as proper documentation, valid reasons for the debit, or supporting evidence, the supplier may refuse to accept it until the necessary details are provided.

**25. Prepare a flow chart/mind map to show how entries are posted from subsidiary books to ledger?**

- Identify the Transactions** to determine its nature of subsidiary book. E.g. cash transactions, Credit sales, Cash purchases, etc.
- Record in subsidiary books** – record the transaction based on the nature of the transaction in the related subsidiary books such cash book, sales book, purchases book, etc.
- Post into relevant Ledger Account** – post the transactions to the appropriate ledger account to which the entries should be posted, such as sales account, purchases account, etc.
- Balancing** – periodically each Ledger Account is balanced.

**26. Mr. Joseph started a trading business of selling readymade clothes. In the earlier period, he dealt only with cash, because he felt that would be risk-free. But, later on, he had to give credit period for his regular customers in order to retain them. For some customers, when they made bulk purchase, he offered them some discount. That brought him even more customers. But, some of his customers are not prompt in making the payment.**

He expanded his business and employed few staff. As the credit transactions were numerous, he found it difficult to maintain properly. One of his friends, who is a Chartered Accountant advised him to maintain subsidiary books.

Discuss on the following points.

- What could be the reason for Joseph's feeling that dealing in cash is risk free?
- What type of discount is offered by Joseph?
- Suggest some ways to Joseph for making his customers to pay on time.
- Do you think that maintaining the subsidiary books will be useful to Joseph?
- What business documents are needed to maintain the subsidiary books?

(i) When we sell the goods, immediately we can get cash at once. So no debts had occurred in the business.

(ii) He offered trade discount.

(iii) The cash discount may be offered by Joseph to his customers to pay on time

**27. How do you make sure that the subsidiary books are maintained without any error?**

- Maintaining subsidiary books without errors requires clear guidelines and procedures for transactions in subsidiary books.

- Implementing double-entry system where each transaction recorded in subsidiary books is verified against another related transaction or source document. This helps catch errors and ensures accuracy.

**28. Credit transactions are not recorded in the cash book. Where will they be recorded?**

- Since credit transfers do not involve the physical movement of cash, they do not fall within the scope of the cash book.
- Separate record: Credit transfers are typically recorded in a separate ledger or journal known as the bank book or bank ledger.

**29. In cash book, receipts are entered on the debit side and payments are entered on the credit side. Why?**

- In summary, the practice of recording receipts on the debit side and payments on the credit side in a cash book is rooted in the principles of double-entry bookkeeping.
- It ensures accurate and consistent recording of financial transactions, simplifies analysis, and helps maintain the integrity of financial records.

**30. Cash account cannot have a credit balance. Why?**

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

**31. Is it safe and convenient to carry on the business transactions only in cash?**

- Cash transactions offer security as they do not involve any illegitimate form of currency that may be vulnerable to fraud or hacking.
- However, there is a potential risk associated with handling physical money.
- Credit transactions provide convenience as they eliminate the need for carrying cash.

**32. A cashier finds it difficult to maintain record of large volume of cash payments, ranging from Rs. 5 to Rs. 10,00,000. Can you suggest a way to reduce his work burden?**

- A simple way for the cashier to record all these transaction
- Chronological order (on the basis of time)
- Frequency distribution (1-100,100-1000)

**33. Vetri is a sole trader selling food products. He maintains a simple cash book. He sells and purchases goods both on cash and credit. He maintains the cash book by himself. He allows discount and receives discount. He has his personal bank account. He also has so many petty expenses. Now, he wants to establish his business. But he wants to maintain the cash book all by himself.**

Now, discuss on the following points:

- What could be the reason that Vetri maintains the cash book by himself?



- Is it convenient for him to record all the cash transactions in the simple cash book?
- Will his personal bank account serve the purpose of his business transactions?
- Suggest him some better ways of maintaining the cash transactions.
- When his business becomes large, what other books will he be maintaining?
  - Suggestions: He may maintain triple column cash book, because he can know all cash transactions in a same account. Instead of personal bank account he can open business bank account.
  - He will be maintaining the following other books:
    1. Triple column cash book.
    2. Petty cash book .
    3. Purchases book for credit purchases
    4. Sales book for credit sales.
    5. Purchases returns book.
    6. Sales returns book.
    7. Business book account

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## CHAPTER WISE IMPORTANT PROBLEMS

### LESSON - 3

Illustration : 1, 2, 3, 4, 5, 6, 7, 11

Exercise: 1, 2, 3, 4, 7, 8, 10, 12 and Student activity

### LESSON - 4

Illustration : 1, 3, 5, 6

Exercise: 1, 2, 4, 6, 7, 8, 10, 11

### LESSON - 5

Illustration : 1, 2, 3, 4

Exercise: 1, 2, 3, 4, 5, 6

### LESSON - 6

Illustration : 1, 2, 3, 4, 5 Page 115 (Example)

Exercise: 1, 2, 3, 5, 7

### LESSON - 7

Illustration : 1, 2, 3, 4, 6

Exercise: 1, 2, 3, 4, 5, 8

### LESSON - 8

Illustration : 1, 3, 4, 5, 6, 7

Exercise: 1, 2, 3, 5, 6, 8, 9

**LESSON - 9**

Illustration : 1, 2, 3, 4, 5, 6, 7, 8, 12

Exercise: 1, 2, 3, 4, 5, 6, 8, 9, 10

**LESSON - 10**

Illustration : 1, 2, 3, 4, 5, 6, 8, 10

Exercise: 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14

**LESSON - 11**

Illustration : 1, 2, 3, 4, 5, 6

Exercise: 1, 2, 3, 4, 5, 6, 7

**LESSON - 12**

Illustration : 1, 2, 3, 4, 5, 6, 7, 8, 9

Exercise: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11

**LESSON - 13**

Illustration : 1, 2, 3, 4, 6, 8, 9, 12, 13

Exercise: 1, 2, 3, 5, 6, 9, 10, 11

**MOST IMPORTANT THEORY QUESTIONS****2 MARKS**

1. Define accounting.
2. What are the steps involved in the process of accounting?
3. Who are the parties interested in accounting information?
4. Name any two bases of recording accounting information.
5. Define book-keeping.
6. What are source documents?
7. What is accounting equation?
8. Give the golden rules of double entry accounting system.
9. What is meant by posting?
10. What are the methods of preparation of trial balance?
11. Mention four types of subsidiary books.
12. What is debit note?
13. What is credit note?
14. What is journal proper?
15. What are the different types of cash book?
16. What is cash discount?
17. What is trade discount?
18. What is bank reconciliation statement?

19. What is meant by rectification of errors?
20. What are compensating errors?
21. What is meant by depreciation?
22. List out the various methods of depreciation.
23. What is sinking fund method?
24. What are wasting assets?
25. What are fixed assets?
26. What are adjusting entries?
27. What is a computer?
28. Name any two accounting packages.
29. Give any two examples of readymade software.
30. What is coding?
31. What are mnemonic codes?

**3 MARKS**

1. Explain the meaning of accounting.
2. Why are the following parties interested in accounting information?  
(a) Investors (b) Government
3. What is matching concept? Why should a business concern follow this concept?
4. "Only monetary transactions are recorded in accounting". Explain the statement.
5. State the principles of double entry system of book keeping.
6. What are the errors not disclosed by a trial balance?
7. What are the errors disclosed by a trial balance?
8. "Balance sheet is not an account" - Explain.
9. Study the format (cash book format, subsidiary books format, trial balance format)

**5 MARKS**

1. What is double entry system? State its advantages. **(5 MARK)**
2. What is ledger? Explain its utilities. **(5 MARK)**
3. What are the causes for depreciation? **(5 MARK)**
4. Distinguish between straight line method and written down value method of providing depreciation. **(5 MARK)**
5. Distinguish between capital expenditure and revenue expenditure. **(5 MARK)**
6. Distinguish between capital receipt and revenue receipt. **(5 MARK)**
7. What are the various types of accounting software? **(5 MARK)**
8. List out the various reports generated by computerized accounting system. **(5 MARK)**
9. Distinguish between journal and ledger. **(5 MARK)**

**IMPORTANT SUMS**

CHAPTER	2 MARK	3 MARK	5 MARK
3	Ill : 5,	Ex: 1	Ill : 1,2,3, Ex: 3,4,7,8,12
4	Ill : 2,3, Ex: 3,5	1,4,6	8,11
5	All sums	All sums	All sums
6	2	1,2	5,7
7		1,2	Ill: 6 Ex:4,6,8
8	1,8		2,5,6,9
9	Ill: 1,2,3,4 Ex: 1,2,3	6, 9	11, 13
10	Ill: 1 Ex: 1, 11	Ill: 2, 3 Ex: 2,3,4,5,6,12	8,9,15
11	All sums	All sums	All sums
12	Ill: 1, 2, 3 Ex: 1,2,3,10	7,8,9	11
13	1,2	5, 9	10, 14, 17

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