



11th ACCOUNTANCY

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தெய்வத்தான் ஆகா தெவினும் முயற்சிதன்
மெய்வருத்தக் கூலிதரும்...

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UNIT 1 INTRODUCTION TO ACCOUNTING**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

Very Short Answer Questions**1) Define Accounting**

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

• **American Accounting Association**

2) List Any Two Functions of Accounting

1. Measurement
2. Forecasting
3. Comparison
4. Decision making
5. Control

Measurement:

⇒ Accounting works as a tool for measuring the performance of the business enterprises.

⇒ It also shows the financial position of the business enterprises.

Comparison:

⇒ Accounting helps to compare the actual performance with the planned performance.

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?

Internal Users	External Users
1. Owners	1. Creditors and Financial institutions
2. Management	2. Investors
3. Employees	3. Customers
	4. Tax Authorities
	5. Government
	6. General Public

5) Name any two bases of recording accounting information

1. Cash basis
2. Accrual or mercantile basis
3. Mixed or hybrid basis

Cash basis

- The actual amount of cash received and cash paid is recorded in this. Any kind of income received and expenditure paid will be entered in this.

Accrual or Mercantile Basis

- The income which is not received but has been earned or accrued and the expenses incurred, which is paid and not recorded, is known as Accrual or Mercantile Basis.

Short Answer Questions**1) Explain the meaning of accounting**

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

- ⇒ The resources available
- ⇒ How the available resources have been employed and
- ⇒ The results achieved by their use

2) Discuss briefly the branches of accounting

- 1) Financial Accounting
- 2) Cost Accounting
- 3) Management Accounting
- 4) Social Responsibility Accounting
- 5) Human Resources Accounting

1. Financial Accounting

- ⇒ It involves recording of financial transactions and events.
- ⇒ It is historical in nature and records are maintained for transactions and events which have already occurred.
- ⇒ It is concerned with identification, recording, classifying and summarising of financial transactions and events.

2. Cost Accounting

- ⇒ It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purposes of cost control and managerial decision making.

3. Management Accounting

- ⇒ It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day-to-day operations of an enterprise.
- ⇒ The information collected from financial accounting, cost accounting, etc.

4. Social Responsibility Accounting

- ⇒ It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them.

5. 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

1. Systematic records
2. Preparation of financial statements
3. Assessment of progress
4. Aid to decision making
5. Satisfies legal requirements
6. Information to interested groups
7. Legal evidence
8. Settlement during merger

1. Legal evidence

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

2. Computation of tax

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

3. Settlement during merger

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

4. Systematic records

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

5. Aid to decision making

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

6. Information to interested groups

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

4) Why are the following parties interested in accounting information?**(a) Investors (b) Government****(a) Investors**

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

(b) Government

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

5) Discuss the role of an accountant in the modern business world

1. Record keeper
2. Provider of information to the management
3. Protector of business assets
4. Financial advisor
5. Tax manager
6. Public relation officer

1. Record keeper

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

2. Provider of information to the management

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

3. Protector of business assets

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

4. 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.

5. Public relation officer

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

**“எந்த ஒரு செயலையும் ஆர்வம் குறையாமல்
நம்பிக்கையுடன் செய்தால் வெற்றி நம்மை தேடி வரும்”**

UNIT 2 CONCEPTUAL FRAMEWORK OF ACCOUNTING**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
- 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 realisable value' whichever is lower is based on the accounting principle of:.....**
 - (a) Materiality
 - (b) Money measurement
 - (c) Conservatism**
 - (d) Accrual
- 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**

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 or conditions upon which accounting has been laid.
- Accounting concepts are the results of broad consensus.
- The word concept means a notion or abstraction which is generally accepted.

3) Briefly explain about realisation concept

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

4) What is "Full Disclosure Principle" of accounting

- Accounts must disclose **full** and **fair** information.
- It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement.
- The disclosure should be full, fair and adequate so that the users of the financial statements can make correct assessment about the financial position and performance of the business unit.

5) Write a brief note on 'Consistency' assumption

- Accounting rules and practices should be continuously observed.
- The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another.
- The results of different years will be comparable only when same accounting policies are followed from year to year.

Short Answer Questions**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 accounting period are considered.
- On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues.
- Also due provisions are made for depreciation of the fixed assets, bad debt, etc., relating to the accounting period.

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

- This concept implies that **only** those transactions, which can be expressed in **terms of money**, are **recorded** in the accounts.
- Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.
- Transactions which do not involve money will not be recorded in the books of accounts.

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

- It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future.
- Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues.

4) Write a brief note on Accounting Standards

- **"Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally"** - "Kohler"
- Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.

UNIT 3 BOOKS OF PRIME ENTRY**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 1,00,000 and the external liabilities of 60,000. Its capital would be.....**
 - (a) 1,60,000 (b) 60,000 (c) 1,00,000 **(d) 40,000**
- 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

Very Short Answer Questions**1) What are source documents?**

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

2) What is accounting equation?

- ♣ The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.
- ♣ **Capital + Liabilities = Assets**

3) Write any one transaction which**a) Decreases the assets and decreases the liabilities****b) Increases one asset and decreases another asset**

- ♣ A) Withdraw cash from bank for personal use (Or) Loan paid into bank
- ♣ B) Purchased furniture for full cash

4) What is meant by journalising?

- ♣ Recording of business transaction in the journal is known as journal entry.
- ♣ The process of recording the transaction in journal is called as journalizing.
- ♣ The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalizing.

5) What is real account?

- ♣ All accounts relating to tangible and intangible properties and possessions are called real accounts.
 - **Tangible real accounts:** Plant, Machinery, Building, Furniture, Stock.
 - **Intangible real account:** Goodwill, Patents, Copy rights.

6) How are personal accounts classified?

- ♣ Account relating to persons is called personal account.
 - **Natural person's account:** Vinoth account, Malini account.
 - **Artificial person's account:** BHEL account, Bank account.
 - **Representative personal accounts:** Outstanding salaries account, Prepaid rent account.

7) State the accounting rule for nominal account.

- ♣ **“Debit all expenses and losses**
- ♣ **Credit all incomes and gains”**
- ♣ The accounts relating to expenses, losses, revenues and gains are called nominal accounts.
- ♣ Example: Salaries, wages, rental income, interest income, etc.

8) Give the golden rules of double entry accounting system**Golden Rules**

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

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 effects, 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.
- ♣ Capital can also be called as owner's equity and liabilities as outsider's equity.

- ♣ Therefore, under this approach, accounts are classified into five categories:

(i) Asset account, (ii) Liability account, (iii) Capital account,
(iv) Revenue account and (v) Expense account.

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

What is an Account

- ♣ It is the individual record of an asset, a liability, revenue, an expenses or capital, in summarized manner.
- ♣ An account is the basic unit of identification in accounting.
- ♣ Every transaction has two aspects and each aspect affects a minimum of one account.

Classification of accounts

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

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 recognised by law as persons. They include business concerns, charitable institutions, etc.

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.

2) **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.

i. **Tangible real accounts:** These include accounts of properties and possessions which can be seen and touched. These have physical existence.

Example: Plant, Machinery, Building, Furniture, Stock.

ii. **Intangible real accounts:** These include accounts of properties and possessions which cannot be seen and touched. These do not have physical existence.

Example: Goodwill, Patents, Copy rights.

b. **Nominal account:** The accounts relating to expenses, losses, revenues and gains are called nominal accounts.

Example: Salaries, wages, rental income, interest income, etc.

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

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

i. **Natural person's account:** Natural person means human beings.

Example: Vinoth account, Malini account.

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

Example: BHEL account, Bank account.

iii. 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	L.F	Debit	Credit
	Drawings A/C Dr. To Cash / Bank A/C (Being insurance premium paid on the life of the proprietor)		XXX	XXX

5) State the principles of double entry system of book keeping

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

6) Briefly explain about steps in journalising

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

7) What is double entry system? State its advantages

What is double entry system?

“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 twofold 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 of double entry system

- 1) Accuracy
- 2) Ascertainment of business results
- 3) Comparative study
- 4) Common acceptance

Accuracy

- ❖ In this system, the two aspects of each transaction are recorded in the books of accounts.
- ❖ This helps in checking the accuracy in accounting.

Ascertainment of business results

- ❖ Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available.
- ❖ This helps to ascertain the net profit earned or loss incurred during an accounting period and also to know the financial position as on a particular date.

Comparative study

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

Common acceptance

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

என்னிடம் சிறப்பான தனித்திறமை என்று எதுவுமே இல்லை
என்னிடம் இருப்பது ஆர்வம் மட்டுமே..

UNIT 4 LEDGER**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) Journalising
 - (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

Very Short Answer Questions

- 1) **What is a ledger?**
 - ◇ Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect.
 - ◇ Ledger is known as **principal book** of accounts.
- 2) **What is meant by posting?**
 - ◇ The process of transferring the debit and credit items from the journal to the ledger accounts is called posting.
- 3) **What is debit balance?**
 - ◇ When the total of the debit side is more than the total of credit side the difference is debit balance.
- 4) **What is credit balance?**
 - ◇ If the credit side total is more than the total of debit side, the difference 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 side and credit side amounts are totalled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total, so that the total of both debit and credit columns are equal.

Short Answer Questions**1) Distinguish between journal and ledger**

S.No	Basis	Journal	Ledger
1	Stage of recording	Recording in the journal is the first stage	Recording in the ledger is the second stage
2	Recording	As and when transactions take place entries are made in journal	In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained.
3	Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting
4	Net position	Net position of an account cannot be ascertained from journal	Net position of an account can be ascertained from ledger account
5	Basis of entries	Entries in the journal are made on the basis of source documents	Posting is done in ledger on the basis of journal entries

2) What is ledger? Explain its utilities**What is ledger?**

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

Explain its utilities**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.

Control over business transactions

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

Trial balance can be prepared

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

Helps to prepare financial statements

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

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, if already not opened. Write the name of

the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.

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

4) Explain the procedure for balancing a ledger account

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

“நம்மால் நேற்றை சரிசெய்ய முடியாது
ஆனால் நாளை உருவாக்க முடியும்”

UNIT 5 TRIAL BALANCE**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 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

Very Short Answer Questions**1) What is trial balance?**

- Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date.
- “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”.

2) Give the format of trial balance**Trial balance as on ...**

S.No	Particulars	L.F	Debit Rs.	Credit Rs.

3) What are the methods of preparation of trial balance?

1. Balance method
2. Total method
3. 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:

Carriage outwards	Carriage inwards	Sales
Purchases	Bad debts	Interest paid
Interest received	Discount received	Capital
Drawings	Sales returns	Purchase returns

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

Short Answer Questions**1) What are the objectives of preparing trial balance?**

1. Test of arithmetical accuracy
2. Basis for preparing final accounts
3. Location of errors
4. Summarised information of ledger accounts

Test of arithmetical accuracy

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

Basis for preparing final accounts

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

Location of errors

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

Summarised information of ledger accounts

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

2) What are the limitations of trial balance?

- 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.
- Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records.

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

- **Yes**, I agree with the statement, "A trial balance is only a prima facie evidence of the arithmetical accuracy of records.
- **Reasons:** Trial balance is the means by which the arithmetical accuracy of the book keeping. Work is checked. When the totals of the debit column and credit column in the trial balance are equal, it is assumed that porting from subsidiary books, balancing of ledger accounts, etc.

வெற்றிக்கான பாதை திறந்தே இருக்காது நம் தான் அதை
உடைத்து எளிந்து செல்ல வேண்டும்...

UNIT 6 SUBSIDIARY BOOKS – 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

Very Short Answer Questions**1) Mention four types of subsidiary books**

- ❖ Subsidiary book for entering cash transactions - Cash book
- ❖ Subsidiary books (special journal) for entering non-cash transactions:
 - Purchases book or purchases journal
 - Sales book or sales journal
 - Purchases returns or returns outward book
 - Sales returns or returns inward book

2) What is purchases book?

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

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.
- ❖ **'Returns outward book or returns outward journal'**.

4) What is sales book?

- ❖ Sales book is a subsidiary book maintained to record credit sale of goods.
- ❖ Goods mean the items in which the business is dealing.
- ❖ These are meant for regular sale.

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.
- ❖ **'Returns inwards'**

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?

- ❖ A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned.
- ❖ Credit note is a statement prepared by a trader who receives back from his customer the goods sold.

8) What is journal proper?

- ❖ Journal proper is a residuary book which contains record of transactions, which do not find a place in the subsidiary books.
- ❖ Such as cash book, purchases book, sales book, purchases returns book, sales returns book, bills receivable book and bills payable book.

9) Define bill of exchange

- ❖ "Bill of exchange 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 order of a certain person 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?

- ❖ Entries in the purchases day book are made from invoices which are popularly known as bills.

- ❖ Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc.
- ❖ Thus, the invoice is a source document of prime entry both for the buyer and the seller.

Short Answer Questions

1) Give the format of purchases book

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

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

3) What are the advantages of subsidiary books?

1. Proper and systematic record of business transactions
2. Convenient posting
3. Division of work
4. Efficiency
5. Prevents errors and frauds
6. Detailed information available
7. Saving in time
8. Labour of posting is reduced

Saving in time

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

Labour of posting is reduced

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

Detailed information available

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

Division of work

- ❖ As journal is sub-divided, the work will be sub-divided and different persons can work on different books at the same time and the work can be speedily completed.

Convenient posting

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

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

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

(b) Discounting of a bill

1. 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.
2. This process is referred to as the discounting of bill.
3. 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.

கலைக்கும் வாய்ப்புகளை பயன்படுத்தி வெற்றி களியை எட்டுவனே...
சிறந்த சாமிர்த்தியசாலி ஆகிறான்...!

UNIT 7 SUBSIDIARY BOOKS – II CASH BOOK**Choose the Correct Answer**

- 1) **Cash book is a.....**
 - (a) Subsidiary book
 - (b) Principal book
 - (c) Journal proper
 - (d) Both subsidiary book and principal book**
- 2) **The cash book records.....**
 - (a) All cash receipts
 - (b) All cash payments
 - (c) Both (a) and (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
 - (d) Cash account in the ledger**
- 4) **A cash book with discount, cash and bank column is called.....**
 - (a) Simple cash book
 - (b) Double column cash book
 - (c) Three column cash book**
 - (d) Petty cash book
- 5) **In Triple column cash book, the balance of bank overdraft brought forward will appear in.....**
 - (a) Cash column debit side
 - (b) Cash column credit side
 - (c) Bank column debit side
 - (d) Bank column credit side**
- 6) **Which of the following is recorded as contra entry?**
 - (a) Withdrew cash from bank for personal use
 - (b) Withdrew cash from bank for office use**
 - (c) Direct payment by the customer in the bank account of the business
 - (d) When bank charges interest
- 7) **If the debit and credit aspects of a transaction are recorded in the cash book, it is.....**
 - (a) Contra entry**
 - (b) Compound entry
 - (c) Single entry
 - (d) Simple entry
- 8) **The balance in the petty cash book is.....**
 - (a) An expense
 - (b) A profit
 - (c) An asset**
 - (d) A liability
- 9) **Petty cash may be used to pay.....**
 - (a) The expenses relating to postage and conveyance**
 - (b) Salary to the Manager
 - (c) Purchase of furniture and fixtures
 - (d) Purchase of raw materials
- 10) **Small payments are recorded in a book called.....**
 - (a) Cash book
 - (b) Purchase book
 - (c) Bills payable book
 - (d) Petty cash book**

Very Short Answer Questions**1) What is cash book?**

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

2) What are the different types of cash book?

- Simple or single column cash book (only cash column)
- Cash book with cash and discount column (double column cash book)
- Cash book with cash, discount and bank columns (three column cash book)

3) What is simple cash book?

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

4) Give the format of 'Single column cash book'.**Simple Cash Book**

Dr.					Cr.				
Date	Receipts	R.N	L.F	Amount	Date	Payments	V.N	L.F	Amount

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.										Cash book with cash and discount columns				Cr.	
Date	Receipts	R.N	L.F	Amount ₹		Date	Payments	R.N	L.F.	Amount ₹					
				Discount	Cash					Discount	Cash				

7) What is three column cash book?

- A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount.
- This cash book is prepared in the same way as simple and double column cash books are prepared.

8) What is cash discount?

- Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment.
- It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment.

9) What is trade discount?

- Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods.
- It is given as a trade practice or when goods are purchased in large quantities.

10) What is a petty cash book?

- Hence, all petty payments of the business may be recorded in a **separate book**, which is called as **petty cash book** and the person who maintains the petty cash book is called the petty cashier.

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. (It may be a week or fortnight or month).
- The amount given to the petty cashier in advance is known as “**Imprest Money**”. The word **imprest** means payment in **advance**.
- The petty cashier makes payments from this amount and records them in petty cash book.

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

Basis	Cash Discount	Trade Discount
Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date .	Trade discount is allowed to encourage buyers to buy goods in large quantities .
Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
Amount of discount	Cash discount is related to time . The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale . The more the purchases, the more will be the rate and amount of discount.
Recording in books of accounts	Cash discount is recorded in the books of account.	Trade discount is not recorded in the books of account.
Deduction from invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

3) Write the advantages of maintaining petty cash book.

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

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.

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.
- When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book.

அடுத்தவனின் வளர்ச்சியைப் பார்ப்பதும் நீ, அவனது முயற்சியையும் பார்!

UNIT 8 BANK RECONCILIATION STATEMENT**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 cashbook
 - (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) **1,950 credit balance**
 - (b) 1,950 debit balance
 - (c) 2,050 debit balance
 - (d) 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) 3,000 overdraft (b) 3,000 favourable
(c) 1,000 overdraft (d) 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

Very Short Answer Questions

1) What is meant by bank overdraft?

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

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.
- ❖ The bank may be instructed to make payments such as, insurance premium, instalment of loan. etc.,

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

Answers:

- ❖ (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. - **No**
(b) Adjusting the cash book before preparing the bank reconciliation statement is Compulsory. - **No**
(c) Credit balance as per bank statement is an overdraft. - **No**

- (d) Bank charges debited by the bank increases the balance as per bank statement. - **No**
- (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. – **No**

Short Answer Questions

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

1. To identify the delay in the clearance of cheques.
2. To ascertain the correct balance of bank column of cash book.
3. To discourage the accountants of the business as well as bank from misusing funds.
4. To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.

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.

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?

- ❖ When money is deposited by the business into the bank, customer's account is credited in the bank's book. As this is the amount owned by the bank to its customer.
- ❖ 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 banker's 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.
- ❖ If the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shown more balance than bank statement.

5) State the timing differences in BRS with examples.

1. Cheques issued but not yet presented for payment.
2. Cheques deposited into bank but not yet credited.
3. Bank charges and interest on loan and overdraft.
4. Interest and dividends collected by the bank.
5. Dishonour of cheques and bills.
6. Amount paid by parties directly into the bank.
7. Payment made directly by the bank to others.
8. Bills collected by the bank on behalf of its customer.

UNIT 9 RECTIFICATION OF ERRORS**Choose the Correct Answer**

- 1) **Error of principle arises when.....**
 - (a) There is complete omission of a transaction
 - (b) There is partial omission of a transaction
 - (c) Distinction is not made between capital and revenue items**
 - (d) There are wrong postings and wrong castings
- 2) **Errors not affecting the agreement of trial balance are.....**
 - (a) Errors of principle**
 - (b) Errors of over casting
 - (c) Errors of under casting
 - (d) Errors of partial omission
- 3) **The difference in trial balance is taken to.....**
 - (a) The capital account
 - (b) The trading account
 - (c) The suspense account**
 - (d) The profit and loss account
- 4) **A transaction not recorded at all is known as an error of.....**
 - (a) Principle
 - (b) Complete omission**
 - (c) Partial omission
 - (d) Duplication
- 5) **Wages paid for installation of machinery wrongly debited to wages account is an error of.....**
 - (a) Partial omission
 - (b) Principle**
 - (c) Complete omission
 - (d) Duplication
- 6) **Which of the following errors will not affect the trial balance?**
 - (a) Wrong balancing of an account
 - (b) Posting an amount in the wrong account but on the correct side**
 - (c) Wrong totalling of an account
 - (d) Carried forward wrong amount in a ledger account
- 7) **Goods returned by Senguttuvan were taken into stock, but no entry was passed in the books. While rectifying this error, which of the following accounts should be debited?**
 - (a) Senguttuvan account
 - (b) Sales returns account**
 - (c) Returns outward account
 - (d) Purchases returns account
- 8) **A credit purchase of furniture from Athiyaman was debited to purchases account. Which of the following accounts should be debited while rectifying this error?**
 - (a) Purchases account
 - (b) Athiyaman account
 - (c) Furniture account**
 - (d) None of these
- 9) **The total of purchases book was overcast. Which of the following accounts should be debited in the rectifying journal entry?**
 - (a) Purchases account
 - (b) Suspense account**
 - (c) Creditor account
 - (d) None of the above
- 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 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.

Very Short Answer Questions**1) What is meant by rectification of errors?**

- ◆ Depending on the stage at which errors are located, they are subsequently rectified at the respective stage itself.
- ◆ 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 usually occurs in posting.
- ◆ This error affects only **one** account.

Examples

- ◆ Cash received from Ponnarasan recorded in the cash book but not posted to Ponnarasan's account in the ledger.
- ◆ Goods sold to Cheran on credit recorded in the sales book but not posted to Cheran's account in the ledger.

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.

Examples

- ◆ Purchase of a machine from Aadhavan & Co. on credit is not recorded in the journal.
- ◆ Sale of goods to Arivuchelvan on credit not recorded in the sales book.

5) What are compensating errors?

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

Examples

- ◆ Purchases book and sales book are overcast by Rs. 1,000 each.

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

1. Entering the sale of an asset in the sales book

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

2. Entering the purchase of an asset in the purchases book

Examples: Machinery purchased on credit for Rs. 10,000 by M/s. Anbarasi garments manufacturing company entered in the purchases book.

3. Treating a capital expenditure as a revenue expenditure

Examples: An amount of Rs. 3,000 spent on the construction of an additional room is debited to repairs account.

4. Treating a revenue expenditure as a capital expenditure

Examples: An amount of Rs. 2,000 paid for repairs to a machine is debited to machinery account.

2) Write a note on suspense account.

- ◆ When the trial balance does not tally, the amount of difference is placed to the debit (when the total of the credit column is higher than the debit column) or credit (when the total of the debit column is higher than the credit column) to a **temporary** account known as 'suspense account'.

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

- ◆ Certain errors will not affect the agreement of trial balance. Though such errors occur in the books of accounts, the total of debit and credit balance will be the same. The trial balance **will tally**.
- ◆ Errors of complete omission, error of principle, compensating error, wrong entry in the subsidiary books are not disclosed by the trial balance.

Examples of such errors are as follows:

1. Compensating error
2. Omitting a transaction completely
3. Omitting a transaction completely

4) What are the errors disclosed by a trial balance?

- ◆ Certain errors affect the agreement of trial balance. If such errors have occurred in the books of accounts, the total of debit and credit balances will not be the same. The trial balance **will not tally**.

Examples of such errors are as follows:

1. Posting twice in a ledger account.
2. Errors arising in the balancing of an account.
3. Omission to post an entry from a subsidiary book.

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

One-sided errors

- ◆ When one sided error is detected before preparing the trial balance, no journal entry is required to be passed in the books.

Two sided errors

- ◆ When a two-sided error is detected before preparing the trial balance, it must be rectified by passing a rectifying journal entry in the journal proper after analysing the error.

வெற்றிகளைக் காவுளி ம்கொடுத்த விடு.
தோல்வியை விதிமி ம் விட்டு விடு.
முயற்சியை மட்டும் உன்னுள் வைத்துக்கொள்.

UNIT 10 DEPRECIATION ACCOUNTING**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

Very Short Answer Questions

1) What is meant by depreciation?

- ◆ The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation.
- ◆ It is an allocation of cost against the benefit derived from a fixed asset during an accounting period.
- ◆ “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.

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

◆ The idea of considering interest is that if the investment is made in any other asset instead of the relevant fixed asset, it would have earned a certain rate of interest.

◆ Amount of depreciation = Annuity factor × Original cost of the asset

◆ **Formula:**

$$\text{Annuity factor} = \frac{i(1+i)^n}{(1+i)^n - 1}$$

Where, i = interest rate; n = estimated life of the asset in number of years

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.

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

Short Answer Questions**1) What are the objectives of providing depreciation?**

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

To find out the true profit or loss

- According to matching principle, 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 cost of production and profit or loss of the business for every accounting period.

To present the true and fair view of financial position

- When the depreciation is charged on fixed assets, the book value of fixed assets are 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.

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.

To comply with legal requirements

- Depreciation is provided on fixed assets to comply with the provisions of law apart from Income Tax Act.

To facilitate replacement of fixed assets

- When the depreciation is debited to profit and loss account, an equal amount is either retained in the business or invested outside the business.

2) What are the causes for depreciation?

1. Wear and tear
2. Efflux of time
3. Obsolescence
4. Inadequacy for the purpose
5. Lack of maintenance
6. Abnormal factors

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.

Efflux of time

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

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.

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.

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.

Abnormal factors

- Decline in the usefulness of fixed asset may be caused by abnormal factors like damage due to fire accidents, natural calamities, etc.

3) State the advantages and limitations of straight line method of depreciation.**Advantages of straight line method of depreciation:****1. Simple and easy to understand**

- Computation of depreciation under this method is very simple and is easy to understand.

2. Equality of depreciation burden

- Under this method, equal amount of depreciation is debited to the profit and loss account each year. Hence, the burden of depreciation on the profit of each year is equal.

3. Assets can be completely written off

- Under this method, the book value of an asset can be reduced to zero if there is no scrap value or to the scrap value at the end of its useful life.

4. Suitable for the assets having fixed working life

- This method is appropriate for the fixed assets having certain fixed period of working life. In such cases, the estimation of useful life is easy and in turn it helps in easy determination of rate of depreciation.

Limitations of straight line method of depreciation**1. Ignores the actual use of the asset**

- Under this method, a fixed amount of depreciation is provided on each asset by applying the predetermined rate of depreciation on its original cost.

2. Ignores the interest factor

- This method does not take into account the loss of interest on the amount invested in the asset.
- That is, the amount would have earned interest, had it been invested outside the business is not considered.

3. Total charge on the assets will be more when the asset becomes older

- With the passage of time, the cost of maintenance of an asset goes up. Hence, the amount of depreciation and cost of maintenance put together is less in the initial period and goes up year after year.

4. Difficulty in the determination of scrap value

- It may be quite difficult to assess the true scrap value of the asset after a long period say 10 or 15 years after the date of its installation.

4) State the advantages and limitations of written down value method of depreciation.**Advantages of written down value method of depreciation****1. Equal charge against income**

- In the initial years depreciation is high and repair charges are low. When the asset becomes older, the amount of depreciation charged is less but repair charges are high.

2. Logical method

- In the earlier years, when the asset is more productive, high depreciation is charged. In the later years when the asset becomes less productive, the depreciation charge is less.

Limitations of written down value method of depreciation

1. Assets cannot be completely written off

- Under this method, the value of an asset even if it becomes obsolete and useless, cannot be reduced to zero and some balance would continue in the asset account.

2. Ignores the interest factor

- This method does not take into account the loss of interest on the amount invested in the asset. The amount would have earned interest, had it been invested outside the business is not considered.

3. Difficulty in determining the rate of depreciation

- Under this method, the rate of providing depreciation cannot be easily determined. The rate is generally kept higher because it takes very long time to write off an asset down to its scrap value.

4. Ignores the actual use of the asset

- Under this method, a fixed rate of depreciation is provided on the written down value of the asset by applying the predetermined rate of depreciation on its original cost.

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

Point of difference	Straight line method	Written down value method
Basis of calculation	Depreciation is calculated on the original cost of the asset for all the years.	Depreciation is calculated on the written down value of the asset year after year.
Amount of depreciation	The amount of depreciation is the same for all the years.	The amount of depreciation goes on decreasing year after year.
Book value of the asset at the end of its life	The book value of the asset becomes zero when there is no scrap value or is equal to its scrap value at the end of its life.	The book value of the asset never becomes zero.
Computation of rate of depreciation	It is easy to calculate the rate of depreciation.	It is very difficult to calculate the rate of depreciation.
Order of calculation of depreciation amount	Amount of depreciation is calculated first, followed by the rate of depreciation.	Rate of depreciation is calculated first, followed by the amount of depreciation.

UNIT 11 CAPITAL AND REVENUE TRANSACTIONS**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

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**.

Examples:

⇒ Purchase of goods for resale

⇒ Administrative, selling and distribution expenses

⇒ Manufacturing expenses

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**.

Examples:

⇒ Cost of acquisition of land and building

⇒ Cost of acquisition of office equipment, computer and air-conditioner

⇒ Cost of acquisition of plant and machinery including installation charges and trial run

3) What is capital profit?

⇒ It is capital gain which is the profit earned on the sale of capital asset.

⇒ When the asset is sold at a price which exceeds the purchase price the profit 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**.

Examples:

- ⇒ Proceeds from sale of goods
- ⇒ Interest on investments received
- ⇒ Rent received
- ⇒ Dividend from investment in shares

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.
- ⇒ The benefit usually accrues for a period of **two or more years**.
- ⇒ It is **non- recurring** in **nature**.

Short answer questions**1) Distinguish between capital expenditure and revenue expenditure.**

Basis	Capital expenditure	Revenue expenditure	Deferred revenue expenditure
Nature	It is non – recurring in nature.	It is recurring in nature.	It is non- recurring in nature.
Purpose	To contribute to the revenue earning capacity of the business.	To carry on the day to day activities of the business.	To get benefit for certain years .
Period of benefits	Its benefit is available for a longer period.	Its benefit is obtained within one accounting period.	Its benefit is available for more than one accounting period.
Effect on profit earning capacity	It increases the profit earning capacity of the business.	It maintains the profit earning capacity of the business.	It is of benefit to the Business for certain years.
Accounting treatment	It will appear on the assets side of the balance sheet .	It will be shown on the debit side of the trading and profit and loss account depending on whether direct or indirect in nature.	The amount written off during the year is shown on the debit side of profit and loss account and the unwritten off portion is shown on the asset side.

2) Distinguish between capital receipt and revenue receipt.

Basis	Capital Receipts	Revenue Receipts
Nature	Non-recurring in nature.	Recurring in nature.
Size	Amount is generally substantial.	Amount is generally smaller.
Distribution	These amounts are not available for distribution as profits.	The excess of revenue receipts over the revenue expenses can be used for distribution as profits.

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

What is 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.
- ⇒ The benefit usually accrues for a period of **two or more years**.
- ⇒ It is **non- recurring** in **nature**.
- ⇒ It is charged against income over a period of certain years.

Examples:

- ⇒ Considerable amount spent on advertising
- ⇒ Major repairs to plant and machinery
- ⇒ Heavy amount on advertisement.

ஆறு பாறைகளுக்குள் நுழைந்து பயனிக்கிறது.
அது பலத்தினால் அல்ல, விடாமுயற்சியால்..!

Unit 12 FINAL ACCOUNTS OF SOLE PROPRIETORS – 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 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**

Very Short Answer Questions**1) Write a note on trading account.**

- ⇒ Trading refers to buying and selling of goods with the intention of making profit.
- ⇒ The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period.
- ⇒ **“The trading account shows the results of buying and selling of goods. In preparing this account, the general establishment charges are ignored and only the transactions in goods are included.”**

2) What are wasting assets?

- ⇒ These are the assets which get exhausted gradually in the process of excavation.
- ⇒ **Examples:** 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.”**

⇒ Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years such as land and building, plant and machinery, motor vehicles, furniture, etc.

⇒ **Fixed assets:** i) Tangible fixed assets ii) Intangible fixed assets.

4) What is meant by purchases returns?

⇒ Goods which have been bought for resale are termed as purchases. 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

⇒ Carriage/Freight inwards, Wages, Dock charges, Royalty, Import duty.

Indirect expenses

⇒ Office and administrative expenses: Salaries, Rent, Audit fees, Legal charges

⇒ Selling and distribution expenses: Advertisement, Commission.

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

Basis	Trial balance	Balance sheet
Nature	Trial balance is a list of ledger balances on a particular date.	Balance sheet is a statement showing the position of assets and liabilities on a particular date.
Purpose	Trial balance is prepared to check the arithmetical accuracy of the accounting entries made.	Balance sheet is prepared to ascertain the financial position of a business.
Contents	It is a summary of balances of all accounts – personal, real and nominal accounts.	It is a statement showing the closing balances of only personal and real accounts.
Format	The trial balance contains columns for debit balances and credit balances.	The items are grouped as assets and liabilities.
Stage	It is prepared before the preparation of final accounts.	It is prepared after preparing trial balance and trading and profit and loss account.
Order	Balances shown in the trial balance need not be in order.	Balances shown in the balance sheet must be in order.
Compulsion	Preparation of trial balance is not compulsory.	Preparation of the balance sheet is compulsory in certain cases.

7) What are the objectives of preparing trading account?

- ⇒ Provides information about gross profit or gross loss
- ⇒ Provides an opportunity to safeguard against possible losses
- ⇒ Provides information about direct expenses and direct incomes

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

- ⇒ Ascertainment of net profit or net loss
- ⇒ Comparison of profit
- ⇒ Control on expenses
- ⇒ Helpful in the preparation of balance sheet

Short Answer Questions**1) What are final accounts? What are its constituents?****What are final accounts?**

⇒ The final accounts are usually prepared at the end of the accounting period on the basis of balances of ledger accounts shown by the trial balance.

What are its constituents?

⇒ 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.

Final accounts:

⇒ Income Statement or Trading and Profit and Loss Account.

⇒ Position Statement or Balance Sheet.

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

⇒ Balances of all the nominal accounts are required to be closed on the last day of the accounting year to facilitate the preparation of trading and profit and loss account.

⇒ It is done by passing necessary closing entries in the journal proper

3) What is meant by gross profit and net profit?**Gross profit**

⇒ The word gross means “before any deductions”.

⇒ Gross profit = Net sales – Cost of goods sold.

⇒ The difference between the totals of two sides of the trading account indicates either gross profit or gross loss. If the total of the credit side is more, the difference represents gross profit.

Net profit

⇒ The word net means “after all deductions”.

⇒ Net profit = gross profit – operating expenses

⇒ After debiting indirect expenses and losses and crediting all indirect incomes and gains, if the total of the credit side of the profit and loss account exceeds the debit side, the difference is termed as net profit.

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

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

⇒ Balance sheet is a statement which gives the position of assets and liabilities on a particular date.

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

⇒ The main purpose of preparing a balance sheet is to ascertain the true financial position of the business at a particular point of time.

⇒ It helps in comparing the cost of various assets of the business such as the amount of closing stock, amount due from debtors, amount of fictitious assets, etc.

⇒ Moreover as assets and liabilities of similar nature are grouped and presented in balance sheet, a comparative study of these assets and

liabilities is facilitated. It helps in comparing the various liabilities of the business.

- ⇒ It helps in finding out the solvency position of the firm.
- ⇒ The firm's solvency position is favourable if the assets exceed the external liabilities. The firm's solvency position is not favourable if the external liabilities exceed the assets.

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

- ⇒ The term '**grouping**' means showing the items of similar nature under a common heading.
- ⇒ For example, the amount due from various customers will be shown under the head 'Sundry debtors.' Similarly, under the head 'Current assets', the balance of cash, bank, debtors, stock and other current assets will be shown.
- ⇒ '**Marshalling**' is the arrangement of various assets and liabilities in a proper order.
- ⇒ Marshalling can be made in one of the following two ways:
 - In the order of liquidity
 - In the order of permanence

அதிரஷ்டம் பல நேரங்களில் நம் விரல் பிடிக்கிறது. இது காரணம் ஆனால் முயற்சியை எடுக்கும் நீ கைவிட்டு விடாதே...

UNIT 13 FINAL ACCOUNTS OF SOLE PROPRIETORS-II**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 realisable 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**

Very Short Answer Questions**1) What are adjusting entries?**

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

2) What is outstanding expense?

- ✦ Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses.
- ✦ Outstanding expense account is a representative personal account and expense account is a nominal account.

3) What is prepaid expense?

- ✦ Prepaid expenses refer to any expense or portion of expense paid in the current accounting year but the benefit or services of which will be received in the next accounting period.
- ✦ They are also called as unexpired expenses.
- ✦ Prepaid expense account is a representative personal account. Expense account is a nominal account.

4) What are accrued incomes?

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

- ♣ It generally happens in case of amount to be received on account of commission, interest, dividend, etc.

5) What is provision for discount on debtors?

- ♣ Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.
- ♣ A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.
- ♣ This provision is a charge against profit and hence profit and loss account is debited.

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?

- ♣ Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.
- ♣ At the end of the accounting period, there may be certain debts which are doubtful, i.e., the amount to be received from debtors may or may not be received. The reason may be incapacity to pay the amount or deceit.
- ♣ The amount of loss is impossible to ascertain until it is proved bad, doubtful debts are charged against profit and loss account in the form of provision.
- ♣ A provision for doubtful debts is created and is charged to profit and loss account.

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

- ♣ The unsold goods in the business at the end of the accounting period are termed as closing stock. As per AS-2 (Revised), the stock is valued at cost price or net realisable value, whichever is lower.
- ♣ In the Trading Account - Shown on the credit side.
- ♣ In the Balance Sheet - Shown on the assets side under current assets.

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

Adjusting entries for interest on capital

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

Adjusting entries for interest on drawings

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

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

Bad debts

- ❖ When it is definitely known that amount due from a customer (debtor) to whom goods were sold on credit, cannot be realised at all, it is treated as bad debts.
- ❖ When bad debts already appears in the trial balance it means journal entry is already made, i.e., debtors is already reduced. Hence, bad debt is taken only to debit side of profit and loss account.
- ❖ If there is bad debt in trial balance as well as in adjustments, total bad debt is debited in profit and loss account. Additional bad debt only is deducted from debtors in the balance sheet.

Provision for bad and doubtful debts

- ❖ Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.
- ❖ If the provision required at the end plus the bad debts written off, is higher than the existing provision, the difference amount will be created as provision in the current year and will appear on the debit side of profit and loss account.
- ❖ If the provision required at the end plus bad debts written off, is lesser than the existing provision, the excess is written back and will appear on the credit side of profit and loss account.

Provision for discount on debtors

- ❖ Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.
- ❖ If the provision required at the end plus the discount allowed, is higher than the existing provision, the difference amount will be created as provision in the current year and will appear on the debit side of profit and loss account.
- ❖ If the provision required at the end plus discount allowed, is lesser than the existing provision, the excess is written back and will appear on the credit side of profit and loss account.

உன்னால் முடியும் என்று நம்பு.

முயற்சிக்கும் அனைத்திலும் வெற்றியோ..!

ஆசையாடுவதற்கு தகதிதேவை இல்லை.

அதை அடைவதற்கான தகுதியை உருவாக்கிக்கொள்..!

UNIT 14 COMPUTERISED ACCOUNTING**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
 - (d) All the above**
- 2) **Customised accounting software is suitable for.....**
 - (a) Small, conventional business
 - (b) Large, medium business**
 - (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
 - (c) Data**
 - (d) Central Processing Unit
- 4) **An example of output device is.....**
 - (a) Mouse
 - (b) Printer**
 - (c) Scanner
 - (d) Keyboard
- 5) **One of the limitations of computerised accounting system is.....**
 - (a) System failure**
 - (b) Accuracy
 - (c) Versatility
 - (d) Storage
- 6) **Which one of the following is not a method of codification of accounts?**
 - (a) Access codes**
 - (b) Sequential codes
 - (c) Block codes
 - (d) Mnemonic codes
- 7) **TALLY is an example of.....**
 - (a) Tailor-made accounting software
 - (b) Ready-made accounting software**
 - (c) In-built accounting software
 - (d) Customised accounting software
- 8) **People who write codes and programmes are called as.....**
 - (a) System analysts
 - (b) System designers
 - (c) System operators
 - (d) System programmers**
- 9) **Accounting software is an example of.....**
 - (a) System software
 - (b) Application software**
 - (c) Utility software
 - (d) Operating software

Very Short Answer Questions**1) What is a computer?**

- ❖ A computer can be described as an electronic device designed to accept raw data as input, processes them and produces meaningful information as output.
- ❖ It has the ability to perform arithmetic and logical operations as per given set of instructions called program.
- ❖ Computers are nowadays widely used in scientific research, education, business, accounting, transportation, communication, banking, defence, etc.

2) What is CAS?

- ❖ Computerised 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.
- ❖ **Examples** of input devices are keyboard, optical scanner, mouse, joystick, touch screen and slyus which are used to feed data into the computer.

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.
- ❖ **Examples** System software, Programming software, Utility software, Application software, MS-Office.

5) What is accounting software?

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

6) Name any two accounting packages.

1. Standardised or Readymade software
2. Customised software
3. Tailormade software

7) Give any two examples of readymade software.

- ❖ Tally
- ❖ Busy
- ❖ Marg
- ❖ Profitbooks

8) What is coding?

- ❖ Code is an identification mark. Generally, computerised accounting involves codification of accounts.
- ❖ Codification of accounts is needed where there are numerous accounts heads in an organisation.
- ❖ There is a hierarchical relationship between the groups and its components.

9) What is grouping of accounts?

- ❖ In any organisation, the main unit of classification is the major head which is further divided into minor heads.
- ❖ Each minor head may have number of sub-heads.
- ❖ After classification of accounts into various groups 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?

1. A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information.
2. **For example:**
 - Code Information
 - SJ Sales Journals
 - HQ Head Quarters

Short Answer Questions**1) What are the various types of accounting software?****1. Readymade software**

- ❖ These packages are standardised or readymade packages which 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.
- ❖ Few examples of such type of software are Tally, Busy, Marg, Profitbooks.

2. Customised software

- ❖ Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise.
- ❖ In such circumstances, customised packages may help the business enterprise for fulfilling their requirements.
- ❖ Customised packages can be modified according to the need of the enterprise.
- ❖ For example, software can record attendance of the employees and on the requirement of the customer it can also count the absence of employees in a month, etc.

3. Tailormade software

- ❖ Large enterprises have their own way of functioning. For effective management information system, varied and specific information is frequently required by many users which may not be needed in case of small or medium scale enterprises.
- ❖ In such enterprises, depending upon their functioning, need based softwares known as tailored packages are installed.

2) Mention any three limitations of computerised accounting system.

1. Heavy cost of installation
2. Cost of training
3. Fear of unemployment
4. Disruption of work
5. System failure
6. Time consuming
7. Unanticipated errors not known

Heavy cost of installation

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

Cost of training

- ❖ To ensure effective and efficient use of computerised system of accounting, newer versions of hardware and software are to be introduced.
- ❖ These require special training and hence, cost is incurred to train the staff personnel.

Fear of unemployment

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

Disruption of work

- ❖ When computerised system is introduced, the existing process of accounting and other works are interrupted. This results in certain changes in the working environment.

System failure

- ❖ The danger of a system crashing due to some failure in hardware can lead to subsequent interruption of work.
- ❖ This is more when no back-up is made.

Time consuming

- ❖ When there is system failure, an alternative arrangement needs to be made to avoid loss of work. This consumes some time to bring the regular processes back.

Unanticipated errors not known

- ❖ Unlike human beings, computers do not have the capability to judge or detect unanticipated errors in the system.

3) State the various types of coding methods.**1. Sequential codes**

- ❖ In sequential code, numbers and/or letters are assigned in consecutive order. These codes are applied primarily to source documents such as cheques, invoices, etc. A sequential code can facilitate document search.

- ❖ For example:

Code	Accounts
CL001	ABC LTD
CL002	XYZ LTD
CL003	SCERT

2. Block codes

- ❖ In a block code, a range of numbers is partitioned into a desired number of sub-ranges and each sub-range is allotted to a specific group. In most of the cases of block codes, numbers within a sub-range follow sequential coding scheme, i.e., the numbers increase consecutively.

- ❖ For example:

Code	Dealer type
100 – 199	Small pumps
200 – 299	Medium pumps
300 – 399	Pipes
400 – 499	Motors

3. 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

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

1. Day books / Journals
2. Ledger
3. Trial balance

4. Trading account
5. Profit and loss account
6. Balance sheet

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

Input devices:

- ❖ Key Board
- ❖ Gamepad
- ❖ Scanner
- ❖ Microphone
- ❖ OMR
- ❖ Digital Camera

Output devices:

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

இன்றினைப் பாறுவம் என்றிருந்தால் - வழி
என்னென்ன வாகுமோ ஓரிரவில்
சென்றினைப் பாறுக முற்றிடத்தே - தம்பி
தேன்வந்து பாயும் உன் நெஞ்சிடத்தே!
சாதனைப் பூக்களை ஏந்துமுன்னே - இங்கு
நல்லசெடி இளைப் பாறிடுமோ?
வேதனை யாவும் மறந்ததுபார் - செடி
வெற்றி கொண்டேந்திய பூவினிலே.

பொருள் : வாழ்க்கையாகிய வழித்தடம் குப்பைகூளங்களால் அடைபடுமுன் நீ நேர்வழியில் துளியும் சோர்வில்லாமல் விரைந்து செல்லுதல் வேண்டும்.

கல்லும் முள்ளும் உள்ள மலைப்பகுதியைக் கடப்பதற்கு இரண்டு கால்களை உடையவன் நீ. நடக்கும் பாதையில் வளரும் புதர்களை அழிப்பதற்கும் உனக்கு இரு கைகள் உள்ளன.

செல்லும் வழியில் முன்னேறிச் செல்வதற்குக் கண்களும் காதுகளும் துணையாக உள்ளன; இவற்றுடன் மனஉறுதியும் இருந்தால் விண்ணையும் கடந்து வெற்றி கொள்ளும் வழியைக் காணலாம். இன்று ஓய்வெடுத்து நாளை செல்லலாம் என்று எண்ணினால் ஓர் இரவுக்குள் வழித்தடத்தில் என்னென்ன நேருமோ; பணியை முடித்து ஓய்வு பெறுக தம்பி! இனிக்கும் செய்திகள் உன் மனத்தில் வந்து குவியும்.

செடிகள் பூப்பதற்குமுன் ஓய்வெடுப்பதில்லை. செடியின் வெற்றி பூவில் உள்ளதைப்போல், உன் வெற்றிகளால் துன்பங்கள் யாவும் ஓடிவிடும்.