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VIVEKANANDA HR. SEC. SCHOOL
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ACCOUNTANCY STUDY MATERIAL

CLASS – 11

MEDIUM – ENGLISH



NAME : _____

CLASS : _____

EXAM NO : _____

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STUDY MATERIAL

11- ACCOUNTANCY

Unit- 1 INTRODUCTION TO ACCOUNTING

I Multiple Choice Questions

1. The root of financial accounting system is
 - (a) Social accounting
 - (b) **Stewardship accounting**
 - (c) Management accounting
 - (d) Responsibility accounting
2. Which one of the following is not a main objective of accounting?
 - (a) Systematic recording of transactions
 - (b) Ascertainment of the profitability of the business
 - (c) Ascertainment of the financial position of the business
 - (d) **Solving tax disputes with tax authorities**
3. Which one of the following is not a branch of accounting?
 - (a) Financial accounting
 - (b) Management accounting
 - (c) Human resources accounting
 - (d) **None of the above.**
4. Financial position of a business is ascertained on the basis of
 - (a) Journal
 - (b) Trial balance
 - (c) **Balance Sheet**
 - (d) Ledger
5. Who is considered to be the internal user of the financial information?
 - (a) Creditor
 - (b) **Employee**
 - (c) Customer
 - (d) Government

II Very Short Answer Questions

1. Define accounting.

“Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part, at least of a financial character and interpreting the results thereof”. - American Institute of Certified Public Accountants

2. List any two functions of accounting.

- Measurement
- Forecasting
- Comparison
- Decision making

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

- i. Identifying the transactions and journalising
- ii. Posting and balancing
- iii. Preparation of trial balance
- iv. Preparation of trading account
- v. Preparation of profit and loss account
- vi. Preparation of balance sheet

4. Who are the parties interested in accounting information?

Internal users	External users
i. Owners	i. Creditors and financial institutions
ii. Management	ii. Investors
iii. Employees	iii. Customers

5. Name any two bases of recording accounting information.**a) Cash basis**

Under cash basis of accounting, actual cash receipts and actual cash payments are recorded.

b) Accrual or mercantile basis

Revenue is recognised when it is earned or accrued and expenses are recognised when these are incurred

c) Hybrid or mixed basis

This basis is a combination of cash basis and accrual basis of accounting.

III 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.

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

ii) Cost Accounting

It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services.

iii) 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.

iv) 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

v) Human Resources Accounting

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

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

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

ii) Assessment of progress

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

iii) Computation of tax

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

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

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

ii) Government

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.

5. Discuss the role of an accountant in the modern business world.**i) Record keeper**

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

ii) Provider of information to the management

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

iii) Tax manager

The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time.

Unit- 2 CONCEPTUAL FRAMEWORK OF ACCOUNTING

I Multiple Choice Questions

- The business is liable to the proprietor of the business in respect of capital introduced by the person according to
 - Money measurement concept
 - Cost concept
 - Business entity concept**
 - Dual aspect concept
- The concept which assumes that a business will last indefinitely is
 - Business Entity
 - Going concern**
 - Periodicity
 - Conservatism
- GAAPs are:
 - Generally Accepted Accounting Policies
 - Generally Accepted Accounting Principles**
 - Generally Accepted Accounting Provisions
 - None of these
- The rule of stock valuation 'cost price or realisable value' whichever is lower is based on the accounting principle of:
 - Materiality
 - Money measurement
 - Conservatism**
 - Accrual
- In India, Accounting Standards are issued by
 - Reserve Bank of India
 - The Cost and Management Accountants of India
 - Supreme Court of India
 - The Institute of Chartered Accountants of India**

II Very Short Answer Questions

1. Define book-keeping.

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

2. What is meant by accounting concepts?

Accounting concepts are the basic assumptions or conditions upon which accounting has been laid. Accounting concepts are the results of broad consensus.

3. Briefly explain about realisation concept.

According to 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.

It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement. This is important because the management is different from the owners in most of the organisations.

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

The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another. The results of different years will be comparable only when same accounting policies are followed from year to year.

III Short Answer Questions

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.

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.

2. “Only monetary transactions are recorded in accounting”. Explain the statement.

This statement mentions about money measurement concept.

- This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the accounts. Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.
- Transactions which do not involve money will not be recorded in the books of accounts. For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.

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. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

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 provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable. It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

Unit- 3 BOOKS OF PRIME ENTRY

I Multiple Choice Questions

1. Accounting equation signifies
 - (a) Capital of a business is equal to assets
 - (b) Liabilities of a business are equal to assets
 - (c) Capital of a business is equal to liabilities
 - (d) Assets of a business are equal to the total of capital and liabilities**
2. 'Cash withdrawn by the proprietor from the business for his personal use' causes
 - (a) Decrease in assets and decrease in owner's capital**
 - (b) Increase in one asset and decrease in another asset
 - (c) Increase in one asset and increase in liabilities
 - (d) Increase in asset and decrease in capital
3. A firm has assets of Rs. 1,00,000 and the external liabilities of Rs. 60,000. Its capital would be
 - (a) Rs. 1,60,000
 - (b) Rs. 60,000
 - (c) Rs. 1,00,000
 - (d) Rs. 40,000**
4. The incorrect accounting equation is
 - (a) Assets = Liabilities + Capital
 - (b) Assets = Capital + Liabilities
 - (c) Liabilities = Assets + Capital**
 - (d) Capital = Assets – Liabilities
5. Accounting equation is formed based on the accounting principle of
 - (a) Dual aspect**
 - (b) Consistency
 - (c) Going concern
 - (d) Accrual
6. Real account deals with
 - (a) Individual persons
 - (b) Expenses and losses
 - (c) Assets**
 - (d) Incomes and gains
7. Which one of the following is representative personal account?
 - (a) Building A/c
 - (b) Outstanding salary A/c**
 - (c) Mahesh A/c
 - (d) Balan & Co
8. Prepaid rent is a
 - (a) Nominal A/c
 - (b) Personal A/c
 - (c) Real A/c
 - (d) Representative personal A/c**
9. Withdrawal of cash from business by the proprietor should be credited to
 - (a) Drawings A/c
 - (b) Cash A/c**
 - (c) Capital A/c
 - (d) Purchases A/c
10. In double entry system of book keeping, every business transaction affects
 - (a) Minimum of two accounts**
 - (b) Same account on two different dates
 - (c) Two sides of the same account
 - (d) Minimum three accounts

II Very Short Answer Questions

1. What are source documents?

Source documents are the authentic evidences of financial transactions. These documents show the nature of transaction, the date, the amount and the parties involved.

Ex - cash receipt, invoice, cheque record slips.

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.

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

3. Write any one transaction which

- a) Decreases the assets and decreases the liabilities - **Paid creditors Rs. 10,000**
- b) Increases one asset and decreases another asset – **Purchased goods for cash**

4. What is meant by journalising?

The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising.

5. What is real account?

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

6. How are personal accounts classified?

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

7. State the accounting rule for nominal account.

Nominal Account – Debit all expenses and losses, Credit all incomes and Gains

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

Personal Account	Debit the Receiver	Credit the Giver
Real Account	Debit What's comes in	Credit What's goes out
Nominal Account	Debit all expenses and losses	Credit all incomes and Gains

III Short Answer Questions

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

i) The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.

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

ii) Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.

As the revenues and expenses will affect capital, the expanded equation may be given as under:

$$\text{Assets} = \text{Liabilities} + \text{Capital} + \text{Revenues} - \text{Expenses}$$

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

Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head.

i) Asset account

Any physical thing or right owned that has a monetary value is called asset. Ex- Land and Building A/c

ii) Liability account

Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities. Ex- creditors account, expenses outstanding account.

iii) Capital account

Financial obligations of a business enterprise towards its owners are grouped under this category; Ex- capital contributed by owner.

iv) Revenue account

Accounts relating to revenues of an enterprise are grouped under this category, Ex- sale of goods, rent received.

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

Personal account: Account relating to persons is called personal account.

(a) Natural person's account:

Natural person means human beings. Ex- 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. Ex- BHEL account, Bank account.

(c) Representative personal accounts:

These are the accounts which represent persons natural or artificial or a group of persons. Ex- 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 A/c (Insurance paid for owner life insurance)		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.

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

Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation. According to this system, every transaction has a twofold effect.

i) 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.

ii) Ascertainment of business results

Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available.

iii) 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.

iv) 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.

Unit- 4 LEDGER

I Multiple Choice Questions

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

II 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.

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 and is placed on the credit side as 'By Balance c/d'.

4. What is credit balance?

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

5. What is balancing of an 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.

III Short Answer Questions

1. Distinguish between journal and ledger.

Basis	Journal	Ledger
1. Recording	As and when transactions take place entries are made in journal.	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.
2. Stage of recording	first stage	Second Stage
3. Order of recording	Entries are made in the chronological order.	Entries are made account wise.
4. Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
5. 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.

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.

(i) Quick information about a particular account

Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance.

(ii) Control over business transactions

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

(iii) Trial balance can be prepared

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

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

- i) 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. Now entries are to be made on the debit side of the account.
- ii) Record the date of the transaction in the date column on the debit side of that account.
- iii) Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- iv) Record the amount of the debit in the 'amount column'.
- v) Record the name of the account debited in the journal entry in the particular's column with the prefix 'By' and write the amount in the amount column.

4. Explain the procedure for balancing a ledger account.

- i) The debit and credit columns of an account are to be totalled separately.
- ii) The difference between the two totals is to be ascertained.
- iii) 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 particular's column against the difference and in the date column the last day of the accounting period is entered.
- iv) 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.
- v) 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.
- vi) 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.

Unit- 5 TRIAL BALANCE

I Multiple Choice Questions

1. Trial balance is a
(a) **Statement** (b) Account (c) Ledger (d) Journal
2. After the preparation of ledger, the next step is the preparation of
(a) Trading account (b) **Trial balance** (c) Journal (d) Profit and loss account
3. The trial balance contains the balances of
(a) Only personal accounts (b) Only real accounts (c) Only nominal accounts (d) **All accounts**
4. Which of the following is/are the objective(s) of preparing trial balance?
(a) Serving as the summary of all the ledger accounts
(b) Helping in the preparation of final accounts
(c) Examining arithmetical accuracy of accounts (d) **a, b and c**
5. A list which contains balances of accounts to know whether the debit and credit balances are matched is
(a) Journal (b) Day book (c) **Trial balance** (d) Balance sheet
6. Which of the following method(s) can be used for preparing trial balance?
(a) Balance method (b) Total method (c) Total and Balance method (d) **a, b and c**
7. While preparing the trial balance, the accountant finds that the total of the credit column is short by Rs. 200. This difference will be
(a) Debited to suspense account (b) **Credited to suspense account**
(c) Adjusted to any of the debit balance (d) Adjusted to any of the credit balance
8. The account which has a debit balance and is shown in the debit column of the trial balance is
(a) Sundry creditors account (b) Bills payable account (c) **Drawings account** (d) Capital account
9. The difference of totals of both debit and credit side of trial balance is transferred to:
(a) Trading account (b) Difference account (c) **Suspense account** (d) Miscellaneous account
10. Trial balance is prepared:
(a) At the end of the year (b) **On a particular date** (c) For a year (d) None of the above

II Very Short Answer Questions

1. What is trial balance?

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

2. Give the format of trial balance.

S.No	Name of the Account / Particulars	L.F	Debit (Rs)	Credit (Rs)
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3. What are the methods of preparation of trial balance?

- Balance method
- Total method
- Total and Balance method

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

Particulars	Debit	Credit
i) Carriage outwards	xxx	
ii) Carriage inwards	xxx	
iii) Sales		xxx
iv) Purchases	xxx	
v) Bad Debts	xxx	
vi) Interest Paid	xxx	
vii) Interest Received		xxx
viii) Discount Received		xxx
ix) Capital		xxx
x) Drawings	xxx	
xi) Sale Returns	xxx	
xii) Purchase Returns		xxx

III Short Answer Questions

1. What are the objectives of preparing trial balance?

i) Test of arithmetical accuracy

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

ii) Basis for preparing final accounts

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

iii) Location of errors

When the trial balance does not tally, it is an indication that certain errors have occurred.

iv) 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 prima facie evidence of the arithmetical accuracy of records. Do you agree with this statement? Give reasons.

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

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

Unit- 6 SUBSIDIARY BOOKS – I

I Multiple Choice Questions

1. Purchases book is used to record
 - (a) all purchases of goods (b) all credit purchases of assets
 - (c) all credit purchases of goods** (d) all purchases of assets
2. A periodic total of the purchases book is posted to the
 - (a) debit side of the purchases account** (b) debit side of the sales account
 - (c) credit side of the purchases account (d) credit side of the sales account
3. Sales book is used to record
 - (a) all sales of goods (b) all credit sales of assets
 - (c) all credit sales of goods** (d) all sales of assets and goods
4. The total of the sales book is posted periodically to the credit of
 - (a) Sales account** (b) Cash account (c) Purchases account (d) Journal proper
5. Purchase returns book is used to record
 - (a) returns of goods to the supplier for which cash is not received immediately**
 - (b) returns of assets to the supplier for which cash is not received immediately
 - (c) returns of assets to the supplier for which cash is received immediately
 - (d) None of the above
6. Sales return book is used to record
 - (a) Returns of goods by the customer for which cash is paid immediately
 - (b) Returns of goods by the customer for which cash is not paid immediately**
 - (c) Returns of assets by the customer for which cash is not paid immediately
 - (d) Returns of assets by the customer for which cash is paid immediately
7. Purchases of fixed assets on credit basis is recorded in
 - (a) Purchases book (b) Sales book (c) Purchases returns book **(d) Journal proper**
8. The source document or voucher used for recording entries in sales book is
 - (a) Debit note (b) Credit note **(c) Invoice** (d) Cash receipt
9. Which of the following statements is not true?
 - (a) Cash discount is recorded in the books of accounts
 - (b) Assets purchased on credit are recorded in journal proper
 - (c) Trade discount is recorded in the books of accounts**
 - (d) 3 grace days are added while determining the due date of the bill
10. Closing entries are recorded in
 - (a) Cash book (b) Ledger **(c) Journal proper** (d) Purchases book

II Very Short Answer Questions

1. Mention four types of subsidiary books.

- Cash Book
- Purchases Book
- Purchases Return Book
- Sales Book
- Sales Return Book

2. What is purchases book?

Purchases book or purchases journal – for recording only credit purchase of goods in which the trader deals.

3. What is purchases returns book?

Purchases returns or returns outward book – for recording return of goods purchased by the trader, for which no cash is immediately received.

4. What is sales book?

Sales book or sales journal – for recording only credit sale of goods dealt in by the trader.

5. What is sales returns book?

Sales returns or returns inward book – for recording the goods returned (out of previous sale) by customers for which no cash is immediately paid.

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.

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".

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. In this entry, asset accounts are debited, liabilities and capital accounts are credited.

11. What is an invoice?

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.

III Short Answer Questions

1. Give the format of purchases book.

S.No	Particulars (Name of the suppliers and details of goods purchased)	Invoice No	L.F	Amount	
				Details	total
i	ii	iii	iv	v	vi
	Purchase Dr				

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

- (i) Sale of goods for cash – **Cash Book**
- (ii) Sale of goods on credit – **Sales Book**
- (iii) Purchases of goods on credit – **Purchases Book**
- (iv) When the proprietor takes goods for personal use – **Journal proper**
- (v) Goods returned to suppliers for which cash is not received immediately – **Purchase return Book**
- (vi) Asset purchased as credit – **Journal proper**

3. What are the advantages of subsidiary books?

i) Proper and systematic record of business transactions

All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc.

ii) Convenient posting

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

iii) Division of work

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.

iv) Helpful in decision making

Subsidiary books provide complete details about every type of transactions separately. Hence, the management can use the information as the basis for deciding its future actions.

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

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

(b) Discounting of a bill

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

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Unit- 7 SUBSIDIARY BOOKS - II CASH BOOK

I Multiple Choice Questions

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**

II 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.

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.

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

Dr					Simple cash book					Cr	
Date	Receipts	R.N	L.F	Amount (Rs)	Date	Payment	V.N	L.F	Amount (Rs)		
1	2	3	4	5	6	7	8	9	10		

5. What is double column cash book?

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

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

Dr					Double column cash book					Cr	
Date	Receipts	R.N	L.F	Amount (Rs)	Date	Payment	V.N	L.F	Amount (Rs)		
				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. The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively.

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?

Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature.

III Short Answer Questions**1. Explain the meaning of imprest system of petty cash book.**

Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (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.

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

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

3. Write the advantages of maintaining petty cash book.

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

In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book.

5. Briefly explain about contra entry with examples.

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

Example – i) cash is paid into bank, ii) cash is drawn from bank for office use.

II 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.

2. What is bank reconciliation statement?

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

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.

- Insurance premium.
- loan instalment.

5. Substitute the following statements with one word/phrase

- (a) A copy of customer's account issued by the bank – **Pass Book**
- (b) Debit balance as per bank statement – **Pass book favourable**
- (c) Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement – **1) Timing difference 2) Errors in recording**

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. - **Yes**

III Short Answer Questions

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

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

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

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

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

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

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

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement.

5. State the timing differences in BRS with examples.**i) Cheques issued but not yet presented for payment**

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.

Ex- Balance as per bank statement (Rs. 20,000) is more than balance as per cash book

ii) Cheques deposited into bank but not yet credited

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

Ex- Balance as per cash book (Rs. 25,000) is more than balance as per bank statement

iii) Bank charges and interest on loan and overdraft charged by the bank

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business.

Ex- Balance as per cash book (Rs. 7,000) is more than balance as per bank statement

iv) Interest and dividends collected by the bank

The bank may collect dividends on its customer's investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection.

Ex- Balance as per bank statement (Rs. 16,000) is more than balance as per cash book

Unit- 9 RECTIFICATION OF ERRORS

I Multiple Choice Questions

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 overcasting
 - (c) Errors of undercasting
 - (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.

II Very Short Answer Questions

1. What is meant by rectification of errors?

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

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.

Ex- i) Entering the purchase of an asset in the purchases book

ii) Entering the sale of an asset in the sales book

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.

4. What is meant by error of complete omission?

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

5. What are compensating errors?

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

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

III Short Answer Questions

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

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

i) Entering the purchase of an asset in the purchases book

Ex- Machinery purchased on credit for ₹ 10,000 by M/s. Anbarasi garments manufacturing company entered in the purchases book.

(ii) Entering the sale of an asset in the sales book

Ex- Sale of old furniture on credit for ₹ 500 was entered in the sales book.

2. Write a note on suspense account.

When the trial balance does not tally, the amount of difference is placed to the debit (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.

Ex- i) Treating revenue expenditure as capital expenditure

ii) 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. Error of partial omission and error of commission affect the agreement of trial balance.

Ex- i) Entered in the journal but posted to one account and omitted to be posted to the other.

ii) Posting an amount to the wrong side of a ledger account.

5. Write a note on one-sided errors and two sided errors.**i) One – sided errors:**

When preparing the trial 'balance, if the total of debit balances and credit balances are not the same, there is disagreement of trial balance.

ii) Two – sided errors:

Rectification of two – sided errors at the time of preparing the trial balance is just similar to that of their rectification before preparation of trial balance.

Unit- 10 DEPRECIATION ACCOUNTING

I Multiple Choice Questions

1. Under straight line method, the amount of depreciation is
 - (a) Increasing every year
 - (b) Decreasing every year
 - (c) Constant for all the years**
 - (d) Fluctuating every year
2. If the total charge of depreciation and maintenance cost are considered, the method that provides a uniform charge is
 - (a) Straight line method
 - (b) Diminishing balance method**
 - (c) Annuity method
 - (d) Insurance policy method
3. Under the written down value method of depreciation, the amount of depreciation is
 - (a) Uniform in all the years
 - (b) Decreasing every year**
 - (c) Increasing every year
 - (d) None of the above
4. Depreciation is caused by
 - (a) Lapse of time
 - (b) Usage
 - (c) Obsolescence
 - (d) a, b and c**
5. For which of the following assets, the depletion method is adopted for writing off cost of the asset?
 - (a) Plant and machinery
 - (b) Mines and quarries**
 - (c) Buildings
 - (d) Trademark
6. A depreciable asset may suffer obsolescence due to ____
 - (a) Passage of time
 - (b) Wear and tear
 - (c) Technological changes**
 - (d) None of the above.
7. Which method shall be efficient, if repairs and maintenance cost of an asset increases as it grows older.
 - (a) Straight line method
 - (b) Reducing balance method**
 - (c) Sinking fund method
 - (d) Annuity method
8. Residual value of an asset means the amount that it can fetch on sale at the ____ of its useful life.
 - (a) Beginning
 - (b) End**
 - (c) Middle
 - (d) None
9. Depreciation is to be calculated from the date when
 - (a) Asset is put to use**
 - (b) Purchase order is made
 - (c) Asset is received at business premises
 - (d) Invoice of assets is received
10. If the rate of depreciation is same, then the amount of depreciation under straight line method vis-à-vis written down value method will be
 - (a) Equal in all years
 - (b) Equal in the first year but higher in subsequent years**
 - (c) Equal in the first year but lower in subsequent years
 - (d) Lower in the first year but equal in subsequent years.

II Very Short Answer Questions

1. What is meant by depreciation?

According to R.N. Carter, “Depreciation is the gradual and permanent decrease in the value of an asset from any cause”.

2. List out the various methods of depreciation.

- Straight line method
- Written down value method
- Sum of years of digits method
- Machine hour rate method

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

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

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

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.

$$\text{Amount of depreciation} = \text{Annuity factor} \times \text{Original cost of the asset}$$

5. What is sinking fund method?

This method is adopted especially when it is desired not merely to write off an asset but also to provide enough funds to replace an asset at the end of its working life. Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business.

III Short Answer Questions

1. What are the objectives of providing depreciation?

- To find out the true profit or loss
- To present the true and fair view of financial position
- To facilitate replacement of fixed assets
- To avail tax benefits
- To comply with legal requirements

2. What are the causes for depreciation?

- | | | |
|--------------------------------|------------------------|---------------------|
| i) Wear and tear | ii) Efflux of time | iii) Obsolescence |
| iv) Inadequacy for the purpose | v) Lack of maintenance | vi) Abnormal factor |

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

Advantages

i) Simple and easy to understand

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

ii) Equality of depreciation burden

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

iii) 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.

Limitations

i) 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.

ii) Ignores the interest factor

This method does not take into account the loss of interest on the amount invested in the asset.

iii) 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

i) 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.

ii) 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

i) 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.

ii) 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.

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

Point of difference	Straight line method	Written down value method
1. Basis of calculation	Depreciation is calculated on the original cost of the asset for all the years.	Depreciation is calculated on the written down value of the asset year after year.
2. Amount of depreciation	The amount of depreciation is the same for all the years.	The amount of depreciation goes on decreasing year after year.
3. Book value of the asset at the end of its life	The book value of the asset becomes zero when there is no scrap value or is equal to its scrap value at the end of its life.	The book value of the asset never becomes zero.
4. Computation of rate of depreciation	It is easy to calculate the rate of depreciation.	It is very difficult to calculate the rate of depreciation.
5. 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

I Multiple Choice Questions

1. Amount spent on increasing the seating capacity in a cinema hall is
 (a) **Capital expenditure** (b) Revenue expenditure
 (c) Deferred revenue expenditure (d) None of the above.
2. Expenditure incurred Rs. 20,000 for trial run of a newly installed machinery will be
 (a) Preliminary expense (b) Revenue expenditure
 (c) **Capital expenditure** (d) Deferred revenue expenditure
3. Interest on bank deposits is
 (a) Capital receipt (b) **Revenue receipt** (c) Capital expenditures (d) Revenue expenditures
4. Amount received from IDBI as a medium term loan for augmenting working capital
 (a) Capital expenditures (b) Revenue expenditures
 (c) Revenue receipts (d) **Capital receipt**
5. Revenue expenditure is intended to benefit
 (a) Past period (b) Future period (c) **Current period** (d) Any period
6. Pre-operative expenses are
 (a) Revenue expenditure (b) Prepaid revenue expenditure
 (c) Deferred revenue expenditure (d) **Capital expenditure**

II Very Short Answer Questions

1. What is meant by revenue expenditure?

The expenditure incurred for day to day running of the business or for maintaining the earning capacity of the business is known as revenue expenditure. It is recurring in nature.

2. What is capital expenditure?

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

3. What is capital profit?

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

4. Write a short note on revenue receipt.

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

5. What is meant by deferred revenue expenditure?

An expenditure, which is revenue expenditure in nature, the benefit of which is to be derived over a subsequent period or periods is known as deferred revenue expenditure. The benefit usually accrues for a period of two or more years.

III Short Answer Questions

1. Distinguish between capital expenditure and revenue expenditure.

Basis	Capital Expenditure	Revenue Expenditure
i) Nature	It is non – recurring in nature.	It is recurring in nature.
ii) Purpose	To contribute to the revenue earning capacity of the business.	To carry on the day to day activities of the business.
iii) Period of benefits	Its benefit is available for a longer period.	Its benefit is obtained within one accounting period.

2. Distinguish between capital receipt and revenue receipt.

Basis	Capital Receipt	Revenue Receipt
i) Nature	Non-recurring in nature.	Recurring in nature.
ii) Size	Amount is generally substantial.	Amount is generally smaller.
iii) 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.

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.

Ex- i) Heavy amount on advertisement. ii) Cost of major repairs on fixed assets.

Unit- 12 FINAL ACCOUNTS OF SOLE PROPRIETORS – I

I Multiple Choice Questions

1. Closing stock is an item of_____
(a) Fixed asset **(b) current Asset** (c) Fictitious asset (d) Intangible Asset
2. Balance sheet is_____
(a) An account **(b) A statement**
(c) Neither a statement nor an account (d) None of the above
3. Net profit of the business increases the_____
(a) Drawings (b) Receivables (c) Debts **(d) Capital**
4. Carriage inwards will be shown
(a) In the trading account (b) In the profit and loss Account
(c) On the liabilities side (d) On the assets side
5. Bank overdraft should be shown
(a) In the trading account (b) Profit and Loss Account
(c) On the liabilities side (d) On the assets side
6. Balance sheet shows the of the business.
(a) Profitability **(b) Financial position** (c) Sales (d) Purchases
7. Drawings appearing in the trial balance is
(a) Added to the purchases (b) Subtracted from the purchases
(c) Added to the capital **(d) Subtracted from the capital**
8. Salaries appearing in the trial balance is shown on the
(a) Debit side of trading account **(b) Debit side of profit and loss account**
(c) Liabilities side of the balance sheet (d) Assets side of the balance sheet
9. Current assets does not include
(a) Cash (b) Stock **(c) Furniture** (d) Prepaid expenses
10. Goodwill is classified as
(a) A current asset (b) A liquid asset (c) A tangible asset **(d) An intangible asset**

II Very Short Answer Questions

1. Write a note on trading account.

According to J. R. Batliboi, “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 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. i) Tangible fixed assets ii) Intangible fixed assets.

4. What is meant by purchases returns?

Goods purchased which are returned to suppliers are termed as purchases returns or returns outward. purchases returns are shown in the debit side of the trading account.

5. Name any two direct expenses and indirect expenses.

Direct Expenses	Indirect Expenses
i) Carriage inwards	i) Office and administrative expenses
ii) wages	ii) Selling and distribution expenses
iii) Dock Charges	iii) Other indirect expenses and losses

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

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

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.

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.

III Short Answer Questions

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

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

The final accounts or financial statements include the following:

- 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. Purchases has debit balance and purchases returns has credit balance. At the end of the accounting year, the balance in purchases returns account is closed by transferring to purchases account. Similarly, sales account has credit balance and sales returns has debit balance. At the end of the accounting year, the balance in sales returns account is closed by transferring to sales account.

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

i) Gross profit

The first item on the credit side of profit and loss account is the gross profit brought down from the trading account if there is gross profit.

$$\text{Sales} - \text{Cost of goods sold} = \text{Gross profit}$$

ii) Net profit

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.

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

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

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

The assets and liabilities shown in the balance sheet are grouped and presented in a particular order. 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.

Unit- 13 FINAL ACCOUNTS OF SOLE PROPRIETORS-II

I Multiple Choice Questions

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**

II 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.

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.

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.

III Short Answer Questions

1. What is the need for preparing final accounts?

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

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.

The amount of doubtful debts is calculated on the basis of some percentage on debtors at the end of the accounting period after deducting further bad debts (if any). Since the amount of loss is impossible to ascertain until it is proved bad, doubtful debts are charged against profit and loss account in the form of provision.

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.

- 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.

i) Interest on capital

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

ii) Interest On Drawings

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

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

i) 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.

ii) Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future. Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.

Unit- 14 COMPUTERISED ACCOUNTING

I Multiple Choice Questions

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

II 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. A computer system has mainly three components namely, input unit, central processing unit and output unit.

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. Ex- keyboard, mouse, touch screen

4. What is meant by software?

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

5. What is accounting software?

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.

- Readymade software
- Customised software
- Tailormade software.

7. Give any two examples of readymade software.

- i) Tally ii) Busy iii) Marg iv) Profit books.

8. What is coding?

Code is an identification mark. Generally, computerised accounting involves codification of accounts.

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.

10. What are mnemonic codes?

A mnemonic code consists of alphabets or abbreviations as symbols to codify a piece of information. **Ex- SJ - Sales Journals, HQ - Head Quarters**

III Short Answer Questions**1. What are the various types of accounting software?*****i) 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. Ex- Tally, Busy.

ii) 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.

iii) 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.

2. Mention any three limitations of computerised accounting system.

i) *Heavy cost of installation*

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

ii) *Cost of training*

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

iii) *Time consuming*

When there is system failure, an alternative arrangement needs to be made to avoid loss of work.

3. State the various types of coding methods.

i) *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.

Ex- Code	Accounts
CL001	ABC LTD

ii) *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.

Ex- Code	Dealer type
100- 199	Small pumps

iii) *Mnemonic codes*

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

Ex- Code	Information
SJ	Sales Journals

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

- Liabilities and capital
- Assets
- Revenues
- Expenses

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

Input devices	Output Devices
Key board	Monitor
Mouse	Printer
Joystick	

“ALL POWERS IS WITHIN YOU, YOU CAN DO ANYTHING AND EVERYTHING”

– Swami Vivekananda