Little Flower Matriculation Higher Secondary School
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11 Accountancy

Study Material – English Medium

Prepared By

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11 – Accountancy
Unit – I Introduction to Accounting

I. Choose the Correct Answers

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

1. Define accounting.

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

2. List any two functions of accounting.

(i) Measurement

- ⇨ The main function of accounting is to keep systematic record of transactions, post them to the ledger and ultimately prepare the final accounts.

(ii) Forecasting

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

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

(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?

<u>(A) Internal users:</u>

(i) Owners

(ii) Management

(iii) Employees

<u>(B) External users:</u>

(i) Creditors and financial institutions

(ii) Investors

(iii) Customers

(iv) Tax authorities and other regulatory bodies

(v) Government

(vi) Researchers

(vii) General public

5. Name any two bases of recording accounting information.

(i) Cash basis

(ii) Accrual or mercantile basis

(iii) Mixed or hybrid basis

III. Short answer

1. Explain the meaning of accounting.

(i) Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.

(ii) Accounting gives information on:
- (a) The resources available
- (b) How the available resources have been employed
- (c) The results achieved by their use

(iii) The profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and capital can be ascertained from the information recorded in accounts.

2. Discuss briefly the branches of accounting.

(i) Financial Accounting

⇨ It involves recording of financial transactions and events.

⇨ It provides financial information to the users for taking decisions.

⇨ It ends up with the preparation of trading and profit and loss account and balance sheet.

(ii) 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.

(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) 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) Preparation of financial statements

- Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements namely, trading and profit and loss account and balance sheet.

(iii) 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.

(iv) 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

Investors

(i) 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) They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

Government

(i) The scarce resources of the country are used by business enterprises.

(ii) 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.

- An accountant designs the accounting procedures for an enterprise.
- He plays several roles in an organisation.

(i) Record keeper

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

(ii) Provider of information to the management

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

(iii) Protector of business assets

- The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.

(iv) Public relation officer

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

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11 – Accountancy
Unit – 2 Conceptual Framework of Accounting

I. Choose the Correct Answers

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

II. Very short answer

1. Define book-keeping.

R.N.Carter

- "Book-keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth".

2. What is meant by accounting concepts?

(i) Accounting concepts are the basic assumptions or conditions upon which accounting has been laid.

(ii) Accounting concepts provide unifying structure to the accounting process and accounting reports.

3. Briefly explain about concept.

(i) According to realisation concept, any change in value of an asset is to be recorded only when the business realises it.

(ii) 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?

(i) Full Disclosure Principle implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement.

(ii) The disclosure should be full, fair and adequate.

(iii) The users of the financial statements can make correct assessment about the financial position.

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

(i) The consistency assumption implies that the accounting policies must be followed consistently from one accounting period to another.

(ii) The results of different years will be comparable only when same accounting policies are followed from year to year.

III. Short answer

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

(i) According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.

(ii) This concept is based on accrual concept and periodicity concept.

(iii) Periodicity concept fixes the time frame for measuring performance and determining financial status.

(iv) All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

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

(i) Monetary transactions are those transactions, which can be expressed in terms of money, are recorded in the accounts.

(ii) Since, money serves as the medium of exchange transactions expressed in money are recorded.

(iii) The ruling currency of a country is the measuring unit for accounting.

3. "Business units last indefinitely". Mention and explain the concept on which the statements based?

(i) Business units last indefinitely statements comes under Going Concern Concept.

(ii) It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future.

(iii) 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.

(i) Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable.

(ii) It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

(iii) In the words of Kohler, "Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally".

(iv) In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI).

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11 – Accountancy
Unit – 3 Books of Prime Entry

I. Choose the Correct Answers

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

II. Very short answer

1. What are source documents?

(i) Source documents are the authentic evidences of financial transactions.

(ii) These documents show the nature of transaction, the date, the amount and the parties involved.

(iii) 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?

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

(ii) This is based on the dual aspect concept of accounting.

(iii) Assets = Liabilities + Capital + Revenues – Expenses

3. Write any one transaction which

(a)	**Decreases the assets and decreases the liabilities**	Cash paid to creditors
(b)	**Increases one asset and decreases another asset**	Purchase furniture 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?

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

(ii) The personal account may be natural, artificial or representative personal account.

7. State the accounting rule for nominal account.

(i) Debit all expenses and losses.

(ii) 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 comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

III. Short answer

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.

(ii) 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 equated.

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

(iv) Capital + Liabilities = Assets

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

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

Meaning of Account

- 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.
- For example, Land and Buildings account, Plant and Machinery account.

(ii) Liability account

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

(iii) Capital account

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

(iv) Revenue account

- Accounts relating to revenues of an enterprise are grouped under this category.
- For example; revenues from sale of goods, rent received.

(v) Expense account

- Expenses incurred and losses suffered for earning revenue are grouped under this category.
- For example, purchase of goods, salaries paid.

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

Personal account:

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

(ii) The personal account may be natural, artificial or representative personal account.

(a) Natural person's account:

(i) Natural person means human beings.

(ii) Example: Vinoth account, Malini account.

(b) Artificial person's account:

(i) Artificial person refers to the persons other than human beings recognised by law as persons.

(ii) They include business concerns, charitable institutions, etc.

(iii) Example: BHEL account, Bank account.

(c) Representative personal accounts:

(i) These are the accounts which represent persons natural or artificial or a group of persons.

(ii) Example: Outstanding salaries account, Prepaid rent account.

(iii) When expenses are outstanding, it is payable to a person.

(iv) Hence, it represents a person.

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

⇨ Insurance premium paid on the life of the proprietor is a personal expense.
⇨ It is not related to business expenses.
⇨ So, it is treated as drawings.

Drawings a/c	Dr.	XXX	
Cash/Bank a/c			XXX

(Being insurance premium paid on the life of the proprietor)

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

(i) In every business transaction, there are two aspects.

(ii) The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.

(iii) These two aspects involve minimum two accounts; at least one debit and at least one credit.

(iv) For every debit, there is a corresponding and equivalent credit.

(v) If one account is debited the other account must be credited.

6. Briefly explain about steps in journalising.

(1) Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.

(2) Classify the above accounts under Personal account, Real account or Nominal account.

(3) Apply the rules of debit and credit for the above two accounts.

(4) Find which account is to be debited and which account is to be credited by the application of rules of double entry system.

(5) Record the date of transaction in the date column.

(6) Write the narration within brackets in the next line in the particulars column.

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

<u>Meaning</u>

(i) Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation.

(ii) According to this system, every transaction has a twofold effect.

(iii) That is, there are two aspects involved, namely, receiving aspect and giving aspect.

(iv) It is denoted by debit (Dr.) and credit (Cr.).

(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.
- ⇨ This helps to ascertain the net profit earned or loss incurred during an accounting period.

(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.

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11 – Accountancy
Unit – 4 Ledger

I. Choose the Correct Answers

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

1. What is a ledger?

(i) Ledger is known as principal book of accounts.

(ii) It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.

(iii) Account wise balance can be determined from the ledger.

(iv) The ledger accounts are prepared based on journal entries passed.

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?

⇨ If the total on the debit side exceeds the total on the credit side, it results in debit balance.

4. What is credit balance?

⇨ If the total on the credit side exceeds the total on the debit side, it results in credit balance.

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

1. Distinguish between journal and ledger.

Basis	Journal	Ledger
1. Recording	As and when transactions take place entries are made in journal.	In ledger, entries may be posted either on the same day or at the end of a specified period.
2. Stage of recording	Recording in the journal is the first stage.	Recording in the ledger is the second stage, which is done on the basis of entries made in the journal.
3. Order of recording	Entries are made in the chronological order, i.e., date wise in the order of occurrence.	Entries are made account wise.
4. Process	The process of recording in journal is called journalising.	The process of recording in the ledger is called posting.
5. Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account.

2. What is ledger? Explain its utilities.

Ledger

(i) Ledger is known as principal book of accounts.
(ii) It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.
(iii) Account wise balance can be determined from the ledger.

Utilities of Ledger

(i) Quick information about a particular account
- ⇨ Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc.

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

(iii) Trial balance can be prepared
- ⇨ With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

(iv) Helps to prepare financial statements

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

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

(a) 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.

(b) Record the date of the transaction in the date column on the debit side of that account.

(c) Record the name of the account credited in the journal with the prefix 'To' in particulars column.

(d) Record the amount of the debit in the 'amount column'.

(e) Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened.

(f) Write the name of the account in the top middle.

(g) Record the date of the transaction in the date column.

(h) 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.

(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 particulars 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.

(v) The total is to be distinguished from other figures by drawing lines above and below the amount.

(vi) The difference has to be brought down to the opposite side below the total.

(vii) '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.

(viii) 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.

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11 – Accountancy
Unit – 5 Trial Balance

I. Choose the Correct Answers

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. 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

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

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

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

1. What is trial balance?

(i) Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date.

(ii) It is arranged in the form of debit and credit columns placed side by side.

(iii) Trial balance prepared with the object of checking the arithmetical accuracy of entries made in the books of accounts and to facilitate preparation of financial statements.

2. Give the format of trial balance.

Trial balance of _______ as on ______

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

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

- A trial balance can be prepared in the following methods:

  (i) Balance method
  (ii) Total method
  (iii) Total and Balance method

4. State whether the balance of the following accounts should be placed in the debit or the credit column of the trial balance:
(i) Carriage outwards (ii) Carriage inwards (iii) Sales (iv) Purchases (v) Bad debts (vi) Interest paid (vii) Interest received (viii) Discount received (ix) Capital (x) Drawings (xi) Sales returns (xii) Purchase returns

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

III. Short answer

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 financial 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.

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

(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?

(i) It is possible to prepare trial balance of an organisation, only if the double entry system is followed.

(ii) Even if some transactions are omitted, the trial balance will tally.

(iii) Trial balance may tally even though errors are committed in the books of account.

(iv) 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.

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

(i) Yes, I agree with this statement.

(ii) Trial Balance is not a complete proof of arithmetical accuracy of account.

(iii) A Trial Balance in which the credit and debit accounts match does not prove that, all transactions have been recorded in the proper accounts.

(iv) For example, the wages paid for the installation of machinery had been erroneously recorded by debiting the wages account in the place of machinery account, the Trial Balance would still agree.

(v) Similarly, an agreed Trial Balance does not prove that all transactions have been recorded in the books of original entry.

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11 – Accountancy
Unit – 6 Subsidiary Books - I

I. Choose the Correct Answers

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

1. Mention four types of subsidiary books.

(i) Subsidiary book for entering cash transactions - Cash book

(ii) Subsidiary books (special journal) for entering non-cash transactions:
- (a) Purchases book
- (b) Sales book
- (c) Purchases returns or returns outward book
- (d) Sales returns or returns inward book

2. What is purchases book?

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

(ii) Goods here mean the items in which the business entity is dealing.

3. What is purchases returns book?

(i) 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.

(ii) Since goods are going out to the suppliers, they are also known as returns outward and the book is called as 'returns outward book or returns outward journal'.

4. What is sales book?

(i) Sales book is a subsidiary book maintained to record credit sale of goods.

(ii) Goods mean the items in which the business is dealing.

(iii) This book is also named as sales day book, sold day book, sales journal or sale register.

5. What is sales returns book?

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

(ii) Goods returned by the customers are known as 'returns inwards'.

6. Write short note on debit note?

(i) A 'debit note' is a document, bill or statement sent to the person to whom goods are returned.

(ii) It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.

7. Write short note on credit note?

(i) 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.

(ii) It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

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.

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

(i) At the end of the accounting year, all nominal accounts are closed but the business has to be carried on with previous year's assets and liabilities.

(ii) Hence, these accounts are to be brought into the accounts of the current year.

(iii) 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?

(i) 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.

(ii) Thus, the invoice is a source document of prime entry both for the buyer and the seller.

III. Short answer

1. Give the format of purchases book.

Format of purchases book / purchases journal

Date	**Particulars (Name of the suppliers and details of goods purchased)**	**Invoice No.**	**L.F.**	**Amount ₹**	
				Details	Total
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchase 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	Purchase book
(iv)	When the proprietor takes goods for personal use	Proper journal
(v)	Goods returned to suppliers for which cash is not received immediately	Purchase Return book
(vi)	Asset purchased as credit	Proper journal

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) Efficiency

- ⇨ The sub-division of work gives the advantage of specialisation.
- ⇨ Thus, specialisation leads to efficiency in accounting work.

4. Write short notes on:

(a) Endorsement of a bill

(i) Endorsement means signing on the face or back of a bill for the purpose of transferring the title of the bill to another person.

(ii) The person who endorses is called the "Endorser".

(iii) The person to whom a bill is endorsed is called the "Endorsee".

(iv) The endorsee is entitled to collect the money.

(b) Discounting of a bill

(i) 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.

(ii) This process is referred to as the discounting of bill.

(iii) 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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11 – Accountancy
Unit – 7 Subsidiary Books - II

I. Choose the Correct Answers

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

1. What is cash book?

(i) Cash book is the book in which only cash transactions are recorded.

(ii) The cash book is the book of original entry or prime entry.

(iii) 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?

(i) Simple or single column cash book (only cash column).

(ii) Cash book with cash and discount column (double column cash book).

(iii) Cash book with cash, discount and bank columns (three column cash book).
(iv) Petty cash book

3. What is simple cash book?

(i) Single column cash book or simple cash book, like a ledger account has only one amount column, i.e., cash column on each side.

(ii) Only cash transactions are recorded in this book.

(iii) All cash receipts and payments are recorded systematically in this book.

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

Dr. **Simple Cash Book** **Cr.**

Date	Receipts	R.N.	L.F.	Amount	Date	Payments	V.N.	L.F	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

5. What is double column cash book?

(i) It is a cash book with cash and discount columns.

(ii) 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'.

Cash book with cash and discount columns

Date	**Receipts**	**R.N**	**L.F**	**Amount**		**Date**	**Payments**	**R.N**	**L.F**	**Amount**	
				Discount	Cash					Discount	Cash

7. What is three column cash book?

(i) A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount.

(ii) This cash book is prepared in the same way as simple and double column cash books are prepared.

(iii) 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?

(i) Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment.

(ii) It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment.

(iii) The discount is allowed when payment is received or made.

(iv) Hence, the entry for discount is also passed with the entry of payment.

9. What is trade discount?

(i) Trade discount is a deduction given by the supplier to the buyer on the list price of the goods.

(ii) It is given as a trade practice or when goods are purchased in large quantities.

(iii) It is shown as a deduction in the invoice.

10. What is a petty cash book?

(i) Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, etc.

(ii) If all these small payments are recorded in the main cash book, it will be loaded with lot of entries.

(iii) Hence, all petty payments of the business may be recorded in a separate book, which is called as petty cash book.

III. Short answer

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

(i) The amount given to the petty cashier in advance is known as "Imprest Money".

(ii) The word imprest means payment in advance.

(iii) The petty cashier makes payments from this amount and records them in petty cash book.

(iv) At the end of a particular period, the petty cashier submits the petty cash book to the head cashier.

(v) The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier.

(vi) Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period.

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

S.No	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. The more the purchases, the more will be the rate and amount of discount.
4.	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.

(i) There can be better control over petty payments.

(ii) There is saving of time of the main cashier.

(iii) Cash book is not loaded with many petty payments.

(iv) 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.

(i) Discount column represents discount allowed on the debit side and discount received on the credit side.

(ii) 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.

(iii) For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

(iv) The cash columns are balanced.

(v) Discount columns are not balanced, since debit represents discount allowed and credit represents discount received.

(vi) They are totalled, separately.

5. Briefly explain about contra entry with examples.

(i) When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself.

(ii) As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

Example:

(a) 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.

(b) 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.

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11 – Accountancy
Unit – 8 Bank Reconciliation Statement

I. Choose the Correct Answers

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

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

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

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

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

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

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

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

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

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

II. Very short answer

1. What is meant by bank overdraft?

(i) Bank overdraft is an amount drawn over the above the actual balance kept in the account.

(ii) This facility is available only to the current account holders.

2. What is bank reconciliation statement?

(i) If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records.

(ii) But, practically it may not be possible.

(iii) When the balances do not agree with each other, the need for preparing a statement to explain the causes arises.

(iv) 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.

(A) Timing differences

(i) The different times at which the same items are entered.

(ii) Cheques issued but not yet presented for payment,

(B) Errors in recording

(i) Difference arising due to errors in recording the entries.

(ii) Errors committed in recording the transactions by the business in the cash book.

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

(i) Rent paid by bank as per standing instruction.

(ii) Insurance premium paid by the as per standing instruction.

5. Substitute the following statements with one word / phrase.

(a)	A copy of customer's account issued by the bank	-	Bank Pass Book
(b)	Debit balance as per bank statement	-	Bank overdraft
(c)	Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement	-	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

III. Short answer

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

(i) To identify the delay in the clearance of cheques.

(ii) To ascertain the correct balance of bank column of cash book.

(iii) 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?"

(i) When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business.

(ii) But, this may not be entered in the bank statement on the same day.

(iii) It will be entered in the bank statement only after it is presented with the bank.

(iv) It is also Known as outstanding cheque.

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?

(i) Cash Book maintained by trader, cash will goes out from the trader point of view, so money deposited into the bank appear on the debit side of the cash book.

(ii) Bank statement prepared by bank, deposited money by trader, it is liability from bankers view, so money deposited into the bank, it will appear in the credit side of the bank statement.

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

(i) Cash Book shows a debit balance or the Pass Book shows a credit balance, that is, the Bank owes an amount to the trader.

(ii) Generally, a bank allows its customer to draw from his account over and above its balance up to a limit as agreed upon.

(iii) The facility is known as over-draft.

(iv) Overdraft balance will be increased, if the interest is charged by the bank.

5. State the timing difference in BRS with examples?

(i) Cheques issued but not yet presented for payment

(ii) Cheques deposited into bank but not yet credited

(iii) Bank charges and interest on loan and overdraft

(iv) Interest and dividends collected by the bank

(v) Dishonour of cheques and bills

(vi) Amount paid by parties directly into the bank

(vii) Payment made directly by the bank to others

(viii) Bills collected by the bank on behalf of its customer

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11 – Accountancy
Unit – 9 Rectification of Errors

I. Choose the Correct Answers

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

II. Very short answer questions

1. What is meant by rectification of errors?

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

(ii) In other words, the process of systematically correcting the accounting errors is known as rectification of errors.

2. What is meant by error of principle?

⇨ Error of principle 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?

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

(ii) This error usually occurs in posting.

(iii) This error affects only one account.

4. What is meant by error of complete omission?

(i) It means the failure to record a transaction in the journal or subsidiary book or failure to post both the aspects in ledger.

(ii) This error affects two or more accounts.

5. What are compensating errors?

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

(ii) These errors may occur in related or unrelated accounts.

(iii) Thus, excess debit or credit in one account may be compensated by excess credit or debit in some other account.

(iv) These are also known as offsetting errors.

III. Short answer questions

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

Error of principle

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

❖ The following are the possibilities of error of principle:

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

Example:
Machinery purchased on credit for Rs.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.

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

2. Write a note on suspense account.

(i) 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'.

(ii) Suspense account will remain in the books until the location and rectification of errors.

(iii) If all the errors are located and rectified, the suspense account gets closed.

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

(i) Certain errors will not affect the agreement of trial balance.

(ii) Though such errors occur in the books of accounts, the total of debit and credit balance will be the same.

(iii) The trial balance will tally.

(iv) 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:
(a) Treating revenue expenditure as capital expenditure.
(b) Omitting a transaction completely.
(c) Entering a transaction in a wrong subsidiary book.
(d) Entering the amount of a transaction wrongly in the journal.
(e) Compensating error

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

(i) Certain errors affect the agreement of trial balance.

(ii) If such errors have occurred in the books of accounts, the total of debit and credit balances will not be the same.

(iii) The trial balance will not tally.

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

- Examples of such errors are follows:
  - (a) Entered in the journal but posted to one account and omitted to be posted to the other.
  - (b) Posting an amount to the wrong side of a ledger account.
  - (c) Posting twice in a ledger account.
  - (d) Over-casting or Under-casting in a subsidiary book.
  - (e) Posting a wrong amount to the correct side of an account.
  - (f) Posting a wrong amount to the wrong side of an account.

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

<u>One-sided errors</u>

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

(ii) In such cases, the error can be rectified by giving an explanatory note in the account affected as to whether the concerned account is to be debited or credited.

<u>Two sided errors</u>

⇨ 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.

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11 – Accountancy
Unit – 10 Depreciation Accounting

I. Choose the Correct Answers

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?

⇨ The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation.

2. List out the various methods of depreciation.

❖ The following are the different methods of providing depreciation:

(i) Straight line method or Fixed instalment method or Original cost method
(ii) Written down value method or Diminishing balance method
(iii) Sum of years of digits method
(iv) Machine hour rate method
(v) Depletion method
(vi) Annuity method
(vii) Revaluation method
(viii) Sinking fund method
(ix) Insurance policy method

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

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

$$\text{Rate of depreciation} = \frac{\text{Amount of depreciation peryear}}{\text{Original cost}} \text{x } 100$$

4. What is annuity method?

(i) 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.

(ii) 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.

5. What is sinking fund method?

(i) 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.

(ii) Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business.

(iii) This method is also known as depreciation fund method.

III. Short answer questions

1. What are the objectives of providing depreciation?

(i) To find out the true profit or loss

- ⇨ When an asset is used for generating income for a business, the cost of the asset attributable to the use, i.e., the reduction in the book value of the asset proportionate to the benefit derived from it, should be charged against the revenue.
- ⇨ This is to be done to find out the true cost of production and profit or loss of the business for every accounting period.

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

- ⇨ When the depreciation is charged on fixed assets, the book value of fixed assets are reduced to that extent and the remaining value is shown in the balance sheet.
- ⇨ The balance represents the value of benefit that is yet to be derived from them.

(iii) 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.
- ⇨ When the useful life of an asset comes to an end, a new asset can be purchased by using the resources available in the business.

(iv) To avail tax benefits

- ⇨ As per the Indian Income Tax Act, while computing tax on business income, depreciation is deductible from income.

2. What are the causes for depreciation?

(i) Wear and tear

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

(ii) Efflux of time

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

(iii) Obsolescence

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

(v) Lack of maintenance

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

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

Merits:

(a) Simple and easy to understand

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

(b) Equality of depreciation burden

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

(c) 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:

(a) 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.

(b) Ignores the interest factor

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

(d) 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.

Merits:

(a) 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.

(b) 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:

(a) 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.

(b) 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.

(c) 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.

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.

Thank You

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11 – Accountancy
Unit – 11 Capital and Revenue Transactions

I. Choose the correct answer

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

2. Expenditure incurred ₹ 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?

(i) 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.

(ii) It is recurring in nature.

2. What is capital expenditure?

(i) It is an expenditure incurred during an accounting period, the benefits of which will be available for more than one accounting period.

(ii) It includes any expenditure resulting in the acquisition of any fixed asset or contributes to the revenue earning capacity of the business.

(iii) It is non- recurring in nature.

3. What is capital profit?

(i) The profit realised over and above the cost of the fixed asset is called capital profit.

(ii) Example: Profit on sale of fixed asset.

4. Write a short note on revenue receipt.

(i) Receipts which are obtained in the normal course of business are called revenue receipts.

(ii) It is recurring in nature.

(iii) The amount received is generally small.

5. What is meant by deferred revenue expenditure?

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

III Short answer questions

1. Distinguish between capital expenditure and revenue expenditure.

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.
(iv) Effect on profit earning capacity	It increases the profit earning capacity of the business.	It maintains the profit earning capacity of the business.

2. Distinguish between capital receipt and revenue receipt.

Basis	Capital receipts	Revenue receipts
(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.

(i) 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.

(ii) The benefit usually accrues for a period of two or more years.

(iii) It is for the time being, deferred from being charged against income.

❖ Examples

(a) Considerable amount spent on advertising
(b) Major repairs to plant and machinery

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11 – Accountancy
Unit – 12 Final Accounts of Sole Proprietors - I

I. Choose the correct answer

1. Closing stock is an item of---------------.
   (a) Fixed asset **(b) Current asset** (c) Fictitious asset (d) Intangible asset

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

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

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

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

6. Balance sheet shows the---------------of the business.
   (a) Profitability **(b) Financial position** (c) Sales (d) Purchases

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

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

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

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

II. Very short answer questions

1. Write a note on trading account.

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

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

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

2. What are wasting assets?

(i) These are the assets which get exhausted gradually in the process of excavation.

(ii) 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.

4. What is meant by purchases returns?

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

5. Name any two direct expenses and indirect expenses.

I. Direct expenses

(a) Carriage inwards or Freight inwards
(b) Wages

II. Indirect expenses

(a) Office and administrative expenses
(b) Selling and distribution expenses

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?

(i) Provides information about gross profit or gross loss.

(ii) Provides an opportunity to safeguard against possible losses

(iii) Provides information about direct expenses and direct incomes.

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

(i) Ascertainment of net profit or net loss

(ii) Comparison of profit

(iii) Control on expenses

(iv) Helpful in the preparation of balance sheet

III Short answer questions

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

Final accounts

(i) The business entities are interested in knowing periodically the results of business operations carried on and the financial soundness of the business.

(ii) In other words, they want to know the profitability and the financial position of the business.

(iii) These can be ascertained by preparing the final accounts or financial statements.

Constituents

- ❖ The final accounts or financial statements include the following:
  - (a) Income Statement or Trading and Profit and Loss Account and
  - (b) Position Statement or Balance Sheet.
- ❖ The purposes of preparing the financial statements are:
  - (i) To ascertain the financial performance of an enterprise and
  - (ii) To ascertain the financial position of an enterprise.

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

I. Closing entries

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

(ii) It is done by passing necessary closing entries in the journal proper.

(iii) Purchases has debit balance and purchases returns has credit balance.

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

(v) Similarly, sales account has credit balance and sales returns has debit balance.

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

II. Closing entry passed

For closing purchases returns account

Particulars	Debit ₹	Credit ₹
Purchases returns A/c Dr. To Purchases A/c (Closing of purchase returns account by transferring to purchases account)	xxx	 xxx

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

I. Gross profit

(i) Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold.

(ii) Cost of goods sold refers to directly related cost.

(iii) If the amount of sales exceeds the cost of goods sold, the difference is gross profit.

❖ Formula:
(a) Sales – Cost of goods sold = Gross profit
(b) Sales – Gross profit = Cost of goods sold

II. Net profit

(i) Profit and loss account contains all the items of indirect expenses and losses and indirect incomes and gains in addition to gross profit or gross loss pertaining to the accounting period.

(ii) Debiting all 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.

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

(ii) A balance sheet is a part of the final accounts.

(iii) However, the balance sheet is a statement and not an account.

(iv) 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?

(i) Balance sheet helps to ascertain the financial position of the business.

(ii) Balance sheet provides detailed information about assets and liabilities for a particular accounting period.

(iii) Balance sheet is that it provides information regarding owners' equity and capital at a given period.

(iv) Balance sheet provides up to date financial aspects of the business.

(v) Balance sheet provides full information about trade debtors and trade creditors at a given period.

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

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

(ii) The term 'grouping' means showing the items of similar nature under a common heading.

(iii) For example, the amount due from various customers will be shown under the head 'Sundry debtors.'

(iv) Similarly, under the head 'Current assets', the balance of cash, bank, debtors, stock and other current assets will be shown.

(v) 'Marshalling' is the arrangement of various assets and liabilities in a proper order.

❖ Marshalling can be made in one of the following two ways:

(a) (a) In the order of liquidity
(b) (b) In the order of permanence

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11 – Accountancy
Unit – 13 Final Accounts of Sole Proprietors - II

I. Choose the correct answer

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

2. Net profit is
(a) Debited to capital account **(b) Credited to capital account**
(c) Debited to drawings account (d) Credited to drawings account

3. Closing stock is valued at
(a) Cost price (b) Market price
(c) Cost price or market price whichever is higher
(d) Cost price or net 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?

(i) 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.

(ii) They are also called as unexpired expenses.

4. What are accrued incomes?

(i) 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.

(ii) 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?

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

(ii) A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

III. Short answer questions

1. What is the need for preparing final accounts?

(i) To determine profit or loss incurred by a business in a given financial period.

(ii) To determine the financial position of the company.

(iii) To act as a source of information to convey the users of accounting information (owners, creditors, investors and other stakeholders) about the solvency of the company.

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

(i) Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.

(ii) 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.

(iii) The reason may be incapacity to pay the amount or deceit.

(iv) A provision for doubtful debts is created and is charged to profit and loss account.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr. To Provision for bad and doubtful debts A/c (Provision for bad and doubtful debts created)		xxx	 xxx

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

(i) The unsold goods in the business at the end of the accounting period are termed as closing stock.

(ii) The stock is valued at cost price or net realisable value, whichever is lower.

(iii) Closing Stock is shown on the Credit Side of Trading Account.

(iv) Closing Stock is shown on the Asset Side of Balance Sheet.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Stock (closing) A/c	Dr.		xxx	
To Trading A/c				xxx
(Closing stock brought into account)				

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

I. Adjusting entries for Interest on capital

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

II. Adjusting entries for Interest on drawings

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

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

I. Bad debts

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

(ii) It is a loss for the business and should be charged against profit.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Bad debts A/c	Dr.		xxx	
To Sundry debtors A/c				xxx
(Bad debts written off)				

II. Provision for bad and doubtful debts

(i) Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future.

(ii) 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.

(iii) The reason may be incapacity to pay the amount or deceit.

(iv) A provision for doubtful debts is created and is charged to profit and loss account.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr. To Provision for bad and doubtful debts A/c (Provision for bad and doubtful debts created)		xxx	 xxx

III. Provision for discount on debtors

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

(ii) A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr. To Provision for discount on debtors A/c (Provision for bad and doubtful debts created)		xxx	 xxx

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11 – Accountancy
Unit – 14 Computerised Accounting

I. Choose the correct answer

1. In accounting, computer is commonly used in the following areas:
(a) Recording of business transactions (b) Payroll accounting
(c) Stores accounting **(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 programes 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?

(i) A computer can be described as an electronic device designed to accept raw data as input, processes them and produces meaningful information as output.

(ii) It has the ability to perform arithmetic and logical operations as per given set of instructions called program.

2. What is CAS?

(i) Computerised accounting system refers to the system of maintaining accounts using computers.

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

3. What is hardware?

(i) The physical components of a computer constitute its hardware.

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

4. What is meant by software?

⇨ 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.

6. Name any two accounting packages.

(i) Readymade software
(ii) Customised software

7. Give any two examples of readymade software.

(i) Tally
(ii) Busy
(iii) Marg

8. What is coding?

(i) Code is an identification mark.

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

9. What is grouping of accounts?

(i) A proper codification requires a systematic grouping of accounts. The major groups or heads could be Assets, Liabilities, Revenues and Expenses.

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

10. What are 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

III. Short answer questions

1. What are the various types of accounting software?

I. Readymade software

(i) These packages are standardised or readymade packages which can be used by the business enterprises immediately on procurement.

(ii) These packages are used by small and conventional business enterprises.

(iii) Cost of installation and maintenance is very low.

(iv) Few examples of such type of software are Tally, Busy, Marg, Profit books.

II. Customised software

(i) Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise.

(ii) 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.

(iii) These packages are used by medium or large business enterprises.

(iv) Cost of installation, maintenance and training is relatively higher than that of ready-to-use packages.

(iii) Tailormade software

(i) Large enterprises have their own way of functioning.

(ii) 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.

(iii) The cost of these packages is very high and specific training for using these packages is also required.

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

(iii) Fear of unemployment

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

3. State the various types of coding methods.

❖ Following are the three methods of codification.

(a) Sequential codes

(i) In sequential code, numbers and/or letters are assigned in consecutive order.

(ii) These codes are applied primarily to source documents such as cheques, invoices, etc.

(iii) A sequential code can facilitate document search.

❖ For example:

Code	Accounts
CL001	ABC LTD
CL002	XYZ LTD
CL003	SCERT

(b) Block codes

(i) 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.

(ii) 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

(c) Mnemonic codes

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

❖ For example:

Code	Information
SJ	Sales Journals
HQ	Head Quarters

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

- ❖ Computerised accounting system takes accounting transactions as inputs that are processed through accounting software to generate the following reports.

(i) Day books /Journals
(ii) Ledger
(iii) Trial balance
(iv) Trading account
(v) Profit and loss account
(vi) Balance sheet, etc.

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

I. Input devices

- ⇨ Input devices which are used to feed data into the computer.
- ❖ Examples of input devices

  (i) Keyboard
  (ii) Optical scanner
  (iii) Mouse
  (iv) Joystick
  (v) Touch screen
  (vi) Slylus

II. Output devices

- ⇨ Output devices such as monitor and printer are media to get the output from the computer.

Thank You

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