SRI SANTHA VIDYALAYA MATRIC HIGHER SECONDARY SCHOOL GANGAISUDAMANI

ACCOUNTANCY

HIGHER SECONDARY FIRST YEAR

(Important 2Marks&3MarksTheroy)

NAME: ____________________________

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PREPARED BY:

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1.INTRODUCTION TO ACCOUNTING

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 theledger and ultimately prepare the final accounts.

(vi) Assistance to government

Government needs full information on the financial aspects of the business for various purposes such as taxation, grant of subsidy, etc.

3. Who are the parties interested in accounting information?

There are several persons who need the accounting information for various purposes. They can be classified into two:

A) Internal users : **(i) Owners (ii) Management (iii) Employees**

B) External users : **(i)Creditos and financial institutions (ii) Investors (iii) Customers (iv) Tax authorities and other regulatory bodies (v) Government (vi) Researchers (vii) General public**

1. 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.

(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.

2. 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) Information to interested groups

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

(iii) Legal evidence

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

3. 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) Public relation officer

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

2.CONCEPTUAL FRAMEWORK OF ACCOUNTING

1. Define book-keeping.

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

2. What is meant by accounting concepts?

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

1. Write a brief note on Accounting Standards.

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

3. BOOKS OF PRIME ENTRY

1. What are source documents?

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

2. Write any one transaction which

a) Decreases the assets and decreases the liabilities

b) Increases one asset and decreases another asset

a) Cash paid to creditors

b) Purchase furniture for cash

3. 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. An entry made in the journal is called a journal entry.

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

Golden rules of double entry 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

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

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

(a) Natural person's account: Natural person means human beings. Example: Vinoth a/c, Malini a/c.

(b) ***Artificial person's account:*** Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Ex: BHEL a/c, Bank a/c.

(c) ***Representative personal accounts:*** These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account.

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

According to this system, every transaction has a two fold effect. That is, there are two aspects involved, namely, receiving aspect and giving aspect. 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.

4. LEDGER

1. What is a ledger?

Ledger account is a summary statement of person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts.

2. What is meant by posting?

The process of transferring the debit and credit items from the journal to the ledger accounts is called posting.

1. What is ledger? Explain its utilities.

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.

2. 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	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. Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
4.Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account.

5. TRIAL BALANCE

1. What is trial balance?

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

S. No.	Name of account / Particulars	L.F.	Debit balance `	Credit balance `

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

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

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) 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.

6. SUBSIDIARY BOOKS – I

1. Mention four types of subsidiary books.

- Cash transactions i) Cash book
- Credit transactions
  - 1) Purchases book 2) Purchases returns book
  - 1) Sales book 2) Sales returns book

2. Write short note on debit note? credit note?

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

3. What is an invoice?

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

1. Give the format of purchases book.

Format of purchases book / purchases journal

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

2. 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.

7. SUBSIDIARY BOOKS - IICASH BOOK

1. What is cash book?

Cash book is the book in which only cash transactions are recorded. 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 a petty cash book?

small payments and repetitive in nature. If all these small payments are recorded in the main cash book, it will be loaded with lot of entries. Hence, all petty payments of the business may be recorded in a separate book, which is called as petty cash book

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

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale. 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.

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2. Give the format of 'Single column cash book'& 'Double 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)

Dr. **Cash book with cash and discount columns** Cr.

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

3. Brifly explain about contra entry with examples.

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

Example

(i) 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.

(ii) 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.

8. BANK RECONCILIATION STATEMENT

1. What is meant by bank overdraft?

Bank overdraft is an amount drawn over the above the actual balance kept in the account. This facility available only to the current a/c holders

2. What is bank reconciliation statement?

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

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

(i) To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.

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

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

2. State the timing difference in BRS ?

- cheques issued but not yet presented for payment
- cheques deposited into bank but not yet credited
- bank charges and interest on loan and overdraft
- interest and dividends collected by the bank
- dishonour of cheques and bills
- amount paid by parties directly into the bank
- payment made directly by the bank to others
- bills collected by the bank on behalf of its customer

9. RECTIFICATION OF ERRORS

1. What is meant by rectification of errors?

Error means recording or classifying or summarising the accounting transactions wrongly or omissions to record them by a clerk or an accountant unintentionally.

2. What is meant by error of principle?

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

3. What are compensating errors?

The errors that make up for each other or neutralise each other are known as compensating errors. These errors may occur in related or unrelated accounts.

4. Write a note on suspense account.

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

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

Certain errors affect the agreement of trial balance. If such errors have occurred in the books of accounts, the total of debit and credit balances will not be the same. The trial balance will not tally. Error of partial omission and error of commission affect the agreement of trial balance.

- Entered in the journal but posted to one account and omitted to be posted to the other.
- Posting an amount to the wrong side of a ledger account.
- Posting twice in a ledger account
- Over-casting or Under-casting in a subsidiary book
- Posting a wrong amount to the correct side of an account
- Posting a wrong amount to the wrong side of an account
- Errors arising in carrying forward the page total from one page to the next page.
- Errors arising in the balancing of an account.
- Omission to post an entry from a subsidiary book.

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

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

- Treating revenue expenditure as capital expenditure
- Omitting a transaction completely
- Entering a transaction in a wrong subsidiary book
- Entering a transaction twice in a subsidiary book or journal
- Entering the amount of a transaction wrongly in the journal
- Entering the amount of a transaction wrongly in a subsidiary book

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

- **One- sided errors**

In such cases, the errors are rectified at that stage itself. At this stage, the rectification of one-sided errors is made in the same manner as in the case of rectification before preparing trial balance.

- **Two- sided errors**

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

10. DEPRECIATION ACCOUNTING

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.

i) Straight line method or Fixed instalment method or Original cost method
ii) Written down value method or Diminishing balance method
iii) Annuity method
iv) Sinking fund method
v) Insurance policy method

1. What are the objectives of providing depreciation?

❖ **To find out the true profit or loss**

Hence, when an asset is used for generating income for a business, the cost of the asset attributable to the use.

This is to be done to find out the true cost of production and profit or loss of the business for every accounting period.

❖ **To 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.

❖ **To comply with legal requirements**

Depreciation is provided on fixed assets to comply with the provisions of law

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.

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.

(iv) Lack of maintenance

When there is no proper maintenance, there is a possibility of more depreciation.

3. 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	The book value of the asset never becomes zero.

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11.CAPITAL AND REVENUE TRANSACTIONS

1. What is meant by deferred revenue expenditure?

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

1. Distinguish between capital expenditure and revenue expenditure.

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

2. Distinguish between capital receipt and revenue receipt.

Basis	Capital 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.

12. FINAL ACCOUNTS OF SOLE PROPRIETORS – I

1. Write a note on trading account.

- Trading refers to buying and selling of goods with the intention of making profit.
- The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period.

2. What are wasting assets?

These are the assets which get exhausted gradually in the process of excavation.
Examples: mines and quarries.

3. Name any two direct expenses and indirect expenses.

Direct expenses: Carriage/Freight inwards, Wages, Dock charges, Octroi

Indirect expenses: Office and administrative expenses, Salaries, Postage, Audit fees

4. 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.
3. Stage	It is prepared before the preparation of final accounts.	It is prepared after preparing trial balance and trading and profit and loss account.

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13. FINAL ACCOUNTS OF SOLE PROPRIETORS-II

1. What is adjusting entry?

- In a firm there will be a number of items, both expenses and incomes, which have to be adjusted.
- All such items which need to be brought into books of account at the time of preparing final accounts are called "adjustments".
- Journal entries passed to effect the required adjustments are known as adjusting entries.

2. What is outstanding expense?

Expenses which have been incurred but not yet paid during the accounting period for which the final accounts are being prepared are called as outstanding expenses.

3. What is prepaid expense?

Expenses which have been paid in advance are called as prepaid (unexpired) expenses.

4. What is accrued income?

Income which has been earned but not received during the accounting period is called as accrued income.

1. What is meant by Provision for Doubtful debts? Why its created?

✶ Sundry debtors figure is to be shown correctly in the Balance sheet provision for bad and doubtful debts must be adjusted.

✶ This Provision for bad and doubtful debts is generally provided at a certain percentage on Debtors, based on past experience.

14. COMPUTERISED ACCOUNTING

1. What is CAS?

- Computerised accounting system refers to the system of maintaining accounts using computers.
- The processing of accounting transactions through the use of hardware and software in order to keep and produce accounting records and reports.

2. What is accounting software?

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

3. Name any two accounting packages.

(i) Readymade software, (TALLY, MS- EXCEL)

(ii) Customised software and

(iii) Tailormade software.

1. 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:

- Day books /Journals
- Ledger
- Trial balance
- Trading account
- Profit and loss account
- Balance sheet, etc.