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## ACCOUNTANCY - 11-STD

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## UNIT 1 INTRODUCTION TO ACCOUNTING

### II Very short answer questions:

#### 1. Define accounting.

- ♥ American Accounting Association has defined accounting "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.

- ♥ Measurement
- ♥ Forecasting
- ♥ Comparison
- ♥ Decision Making
- ♥ Control
- ♥ Assistance to government

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

- ♥ Identifying the transactions and journalising.
- ♥ Posting and balancing
- ♥ Preparation of trial balance
- ♥ Preparation of trading account
- ♥ Preparation of profit and loss account
- ♥ Preparation of balance sheet

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

- ♥ **Internal Users :-** (i) Owners (ii) Management (iii) Employees
- ♥ **External Users :-** (i) Creditors (ii) investors (iii) Customers

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

- ♥ Cash basis
- ♥ Accrual or mercantile basis
- ♥ Mixed or hybrid basis

### III Short answer questions:

#### 1. Explain the meaning of accounting.

- ♥ Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.
- ♥ Accounting gives information on:
  - (i) The resources available
  - (ii) How the available resources have been employed and
  - (iii) The results achieved by their use.
- ♥ 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 is historical in nature and records are maintained for transactions and events which have already occurred.
- ♥ It provides financial information to the users for taking decisions.

- ♥ It is concerned with identification, recording, classifying and summarising of financial transactions and events and ends up with the preparation of financial statements, namely, trading and profit and loss account or income statement and balance sheet and communication of the same to the interested users.
- ♥ Trading and profit and loss account shows the profit or loss made during an accounting period and the balance sheet shows the financial position of the business as on a particular date.

### **(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.
- ♥ The information collected from financial accounting, cost accounting, etc. are grouped, modified and presented as per the requirements of management for discharging their functions and for decision making.

### **(iv) Social Responsibility Accounting**

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

### **(v) Human Resources Accounting**

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

## **3. Discuss in detail the importance of accounting.**

### **(i) Systematic records**

- ♥ All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts.
- ♥ The records are classified under common heads and summaries are prepared.

### **(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, income statement or trading and profit and loss account and balance sheet.
- ♥ This helps in distribution of profits to the owners and to provide funds for future growth of the business.

**(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. Management is provided with a complete picture of the liquidity, profitability and solvency of the business.

**(iv) Aid to decision making**

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

**(v) Satisfies legal requirements**

- ♥ Various legal requirements like maintenance of Provident Fund (PF) for employees, Employees State Insurance (ESI) contributions, Tax Deducted at Source (TDS), filing of tax returns are properly fulfilled with the help of accounting.
- ♥ Preparation of accounts and financial statements as per the legal requirements is also facilitated.

**(vi) Information to interested groups**

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

**(vii) Legal evidence**

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

**(viii) Computation of tax**

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

**(ix) Settlement during merger**

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

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

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

**(b) Government:**

- ♥ The scarce resources of the country are used by business enterprises.
- ♥ Information about performance of business units in different industries helps the government in policy formulation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc.
- ♥ Government also administers prices of certain commodities.

- ♥ In such cases, government agencies have to ensure that the guidelines for pricing are followed.

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

### **(i) Record keeper**

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

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

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

### **(iii) Protector of business assets**

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

### **(iv) Financial advisor**

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

### **(v) Tax manager**

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

### **(vi) Public relation officer**

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

## **UNIT 2 CONCEPTUAL FRAMEWORK OF ACCOUNTING**

### **II Very short answer questions**

#### **1. Define book-keeping.**

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

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

- ♦ Accounting concepts are the basic assumptions or conditions upon which accounting has been laid.
- ♦ Accounting concepts are the results of broad consensus.
- ♦ The word concept means a notion or abstraction which is generally accepted.
- ♦ Accounting concepts provide unifying structure to the accounting process and accounting reports.
- ♦ The word convention refers to traditions or usage.

- ♦ The accounting conventions are the usage or practices which are followed as a guide to the preparation of accounting statements.
- ♦ The utility of these accounting conventions have been recognised by regulatory authorities of accountancy in making financial statements more realistic, reliable, and useful to all concerned parties.

### **3. Briefly explain about realisation concept.**

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

### **4. What is "Full Disclosure Principle" of Accounting?**

- ♦ It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement.
- ♦ This is important because the management is different from the owners in most of the organisations.
- ♦ The disclosure should be full, fair and adequate so that the users of the financial statements can make correct assessment about the financial position and performance of the business unit.

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

- ♦ The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another.
- ♦ The results of different years will be comparable only when same accounting policies are followed from year to year.
- ♦ For example, if a firm follows the straight line method of charging depreciation since its purchase or construction, the method should be followed without any change. However, it does not mean that changes are not possible.

## **III Short answer questions**

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

- ♦ According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.
- ♦ This concept is based on accrual concept and periodicity concept.
- ♦ Periodicity concept fixes the time frame for measuring performance and determining financial status.
- ♦ All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.
- ♦ On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues.
- ♦ Also due provisions are made for depreciation of the fixed assets, bad debt, etc., relating to the accounting period.
- ♦ Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

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

- ◆ Money serves as the medium of exchange only those transactions which can be expressed in terms of money, are recorded in the accounts.
- ◆ Which do not involve money will not be recorded in the books of accounts.

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

- ◆ It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future.
- ◆ Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues.
- ◆ For example, assets are generally valued at historical cost.
- ◆ Any increase or decrease in the value of assets in the short period is ignored.

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

- ◆ Accounting Standards 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"
- ◆ Thus, Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.
- ◆ The need for accounting standards is as follows:
  - (i) To promote better understanding of financial statements
  - (ii) To help accountants to follow uniform procedures and practices
  - (iii) To facilitate meaningful comparison of financial statements of two or more entities.
  - (iv) To enhance reliability of financial statements
  - (v) To meet the legal requirements effectively

### **UNIT 3 BOOK OF PRIME ENTRY**

#### **II Very short answer questions**

**1. What are source documents?**

- Source documents are the authentic evidences of financial transactions.
- These documents show the nature of transaction, the date, the amount and the parties involved.
- Source documents include cash receipt, invoice, debit note, credit note, pay-in-slip, salary bills, wage bills, cheque record slips, etc.
- They are the bases of recording transactions in the books of accounts.
- They also serve as legal evidence in case of any legal dispute.

## 2. What is accounting equation?

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

## 3. Write any one transaction which

### a) Decreases the assets and decreases the liabilities

- Withdraw cash from bank for personal use

### b) Increases one asset and decreases another asset

- Purchased furniture for cash

## 4. What is meant by journalising?

- Journal is the book of original entry in which business transactions are recorded in chronological order, that is, in the order of occurrence.
- Transactions are recorded for the first time in the journal.
- Entries are made in the journal based on source documents.
- Record of business transactions in the journal is known as Journal entry.
- The process of recording the transactions in journal is called as journalising.

## 5. What is real account?

- All accounts relating to tangible and intangible properties and possessions are called real accounts.
  - a. **Tangible real accounts:**
    - These include accounts of properties and possessions which can be seen and touched. These have physical existence.
    - Example: Plant, Machinery, Building, Furniture, Stock.
  - b. **Intangible real accounts:**
    - These include accounts of properties and possessions which can not be seen and touched. These do not have physical existence.
    - Example: Goodwill, Patents, Copy rights.

## 6. How are personal accounts classified?

- Account relating to persons is called personal account.
- The personal account may be natural, artificial or representative personal account.
  - (a) **Natural person's account:**
    - Natural person means human beings.
    - Example: Vinodh account, Malini account.
  - (b) **Artificial person's account:**
    - Artificial person refers to the persons other than human beings recognised by law as persons.
    - They include business concerns, charitable institutions, etc.
    - Example: BHEL account, Bank account.
  - (c) **Representative personal accounts:**
    - These are the accounts which represent persons natural or artificial or a group of persons.
    - Example: Outstanding salaries account, Prepaid rent account.
    - When expenses are outstanding, it is payable to a person. Hence, it represents a person.

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

Nominal account	Debit all expenses and losses	Credit all incomes and gains
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- The accounts relating to expenses, losses, revenues and gains are called nominal accounts.
- Example: Salaries, wages, rental income, interest income, etc.
- These are temporary accounts and are transferred to Trading and Profit and Loss account depending on whether these are direct or indirect respectively.

**8. 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

**III Short answer questions****1. Write a brief note on accounting equation approach of recording transactions.**

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

**Capital + Liabilities = Assets**

- Capital can also be called as owner's equity and liabilities as outsider's equity.
- Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
- This is based on the dual aspect concept of accounting.
- This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise.
- As the revenues and expenses will affect capital, the expanded equation may be given as under:

**Assets = Liabilities + Capital + Revenues – Expenses**

- Therefore, under this approach, accounts are classified into five categories: (i) Asset account, (ii) Liability account, (iii) Capital account, (iv) Revenue account and (v) Expense account as follows:

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

- Every transaction has two aspects and each aspect affects minimum one account.
- An account is the basic unit of identification in accounting.
- A ledger account is a summary of relevant transactions at one place relating to a particular head.

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

### **Classification of account**

- Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.
  - (i) **Personal account:** Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.
    - (a) **Natural person's account:** Natural person means human beings. Example: Vinoth account, Malini account.
    - (b) **Artificial person's account:** Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.
    - (c) **Representative personal accounts:** These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.
  - (ii) **Impersonal accounts:** All accounts which do not affect persons are called impersonal accounts. These are further classified into a) Real accounts and b) Nominal accounts.
    - (a) **Real account:** All accounts relating to tangible and intangible properties and possessions are called real accounts.
      - 1. **Tangible real accounts:** These include accounts of properties and possessions which can be seen and touched. These have physical existence. Example: Plant, Machinery, Building, Furniture, Stock.
      - 2. **Intangible real accounts:** These include accounts of properties and possessions which can not be seen and touched. These do not have physical existence. Example: Goodwill, Patents, Copy rights.
    - (b) **Nominal account:** The accounts relating to expenses, losses, revenues and gains are called nominal accounts. Example: Salaries, wages, rental income, interest income, etc. These are temporary accounts and are transferred to Trading and Profit and Loss account depending on whether these are direct or indirect respectively.

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

- (i) **Personal account:** Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.
  - (a) **Natural person's account:** Natural person means human beings. Example: Vinoth account, Malini account.

- (b) **Artificial person's account:** Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.
- (c) **Representative personal accounts:** These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.

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

**Transaction:** Insurance premium paid on the life of the proprietor

**Analysis:** This is a cash/Bank transaction as cash/bank is involved.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Insurance premium paid on the life of the proprietor	Drawings A/c	Personal A/c	Proprietor is treated as	Debit
	Cash / Bank A/c	Real A/c / personal A/c	Drawings.  Cash goes out / bank is a giver	Credit

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

- Following are the principles of double entry system:
  - (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. If one account is debited the other account must be credited.

#### 6. Briefly explain about steps in 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.
- The following steps are followed in journalising:
  - Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
  - Classify the above accounts under Personal account, Real account or Nominal account
  - Apply the rules of debit and credit for the above two accounts.
  - Find which account is to be debited and which account is to be credited by the application of rules of double entry system
  - Record the date of transaction in the date column.

- Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.
- Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.
- Write the narration within brackets in the next line in the particulars column.

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

- Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation.
- According to this system, every transaction has a 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.).
- The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit.
- Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital.
- Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.
- **Advantages of double entry system**
  - (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 and also to know the financial position as on a particular date.
  - (iii) Comparative study**
    - The business results of the current year can be compared with those of the previous years and also with other business firms.
    - It facilitates business planning for future.
  - (iv) Common acceptance**
    - The business records maintained under this system are accepted by financial institutions, government and others, because it is a systematic and scientific system.

**UNIT 4 LEDGER****II Very short answer questions****1. What is a ledger?**

- ♣ Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect.
- ♣ From the transactions recorded in the journal, the ledger account is prepared.
- ♣ Ledger is known as principal book of accounts.
- ♣ It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.
- ♣ Account-wise balance can be determined from the ledger.
- ♣ The ledger accounts are prepared based on journal entries passed.
- ♣ The financial statements can be prepared from the ledger balances.
- ♣ Ledger may be maintained in the business enterprises in the form of a bound register or in the form of loose sheets with spiral binding.
- ♣ Normally one page or one sheet may be provided for one account.
- ♣ An index is provided in the beginning of the ledger giving details of the accounts contained in it such as specific code for each account, page number, etc.
- ♣ Where computerised accounting is followed, once the transactions are recorded in the journal, ledger accounts are automatically prepared.

**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 questions

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

Basis	Journal	Ledger
<b>1. Recording</b>	As and when transactions take place entries are made in journal.	In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained.
<b>2. Stage of recording</b>	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.
<b>3. Order of recording</b>	Entries are made in the chronological order, i.e., date-wise in the order of occurrence.	Entries are made account-wise.
<b>4. Process</b>	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
<b>5. Facilitating preparation of trial balance</b>	Amount from the journal does not serve as the basis for preparing trial balance.	Ledger balances serve as the basis for preparing trial balance.
<b>6. Basis of entries</b>	Entries in the journal are made on the basis of source documents.	Posting is done in ledger on the basis of journal entries.
<b>7. Net position</b>	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 account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect.
- ♣ From the transactions recorded in the journal, the ledger account is prepared.
- ♣ Ledger is known as principal book of accounts.
- ♣ It is a book which contains all sets of accounts, namely, personal, real and nominal accounts.
- ♣ Account-wise balance can be determined from the ledger.
- ♣ The ledger accounts are prepared based on journal entries passed.
- ♣ The financial statements can be prepared from the ledger balances.
- ♣ Ledger may be maintained in the business enterprises in the form of a bound register or in the form of loose sheets with spiral binding.
- ♣ Normally one page or one sheet may be provided for one account.

- ♣ An index is provided in the beginning of the ledger giving details of the accounts contained in it such as specific code for each account, page number, etc.
- ♣ Where computerised accounting is followed, once the transactions are recorded in the journal, ledger accounts are automatically prepared.

### **Utilities of ledger**

- ♣ Following are the 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., at a glance.
- ♣ For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account.

#### **(ii) Control over business transactions**

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

#### **(iii) Trial balance can be prepared**

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

#### **(iv) Helps to prepare financial statements**

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

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

- ♣ The process of transferring the debit and credit items from the journal to the ledger accounts is called posting.
- ♣ **The procedure of posting from journal to ledger is as follows:**
  - ♣ Locate the ledger account that is debited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.
  - ♣ Record the date of the transaction in the date column on the debit side of that account.
  - ♣ Record the name of the account credited in the journal with the prefix 'To' in particulars column.
  - ♣ Record the amount of the debit in the 'amount column'.
  - ♣ Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the credit side of the account. Record the date of the transaction in the date column. Record the name of the account debited in the journal entry in the particulars column with the prefix 'By' and write the amount in the amount column.

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

##### ♣ Following is the procedure for balancing an account:

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

### UNIT 5 TRIAL BALANCE

#### II Very short answer questions

##### 1. What is trial balance?

- ✓ Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date.
- ✓ It is arranged in the form of debit and credit columns placed side by side and 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 as on ...

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹

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

##### (i) Balance method

- ✓ In this method, the balance of every ledger account either debit or credit, as the case may be, is recorded in the trial balance against the respective accounts.
- ✓ The balance method is widely used, as it helps in the preparation of financial statements.

**(ii) Total method**

- ✓ Under this method, the total amounts on the debit side of the ledger accounts and the total amounts on the credit side of the ledger accounts are ascertained and recorded in the trial balance.
- ✓ This method is not commonly used as it cannot help in the preparation of financial statements.

**(iii) Total and Balance method**

- ✓ This method is a combination of both total method and balance method.
- ✓ Under this method, four columns are provided, namely, (a) totals of debit side of the ledger accounts, (b) totals of the credit side of the ledger accounts (c) debit balances of ledger accounts and (d) credit balances of the ledger accounts. This method is not in practice.

**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 – <b>Dr</b>   | (ii) Carriage inwards – <b>Dr</b>    |
| (iii) Sales – <b>Cr</b>             | (iv) Purchases – <b>Dr</b>           |
| (v) Bad debts – <b>Dr</b>           | (vi) Interest paid – <b>Dr</b>       |
| (vii) Interest received – <b>Cr</b> | (viii) Discount received – <b>Cr</b> |
| (ix) Capital – <b>Cr</b>            | (x) Drawings – <b>Dr</b>             |
| (xi) Sales returns – <b>Dr</b>      | (xii) Purchase returns – <b>Cr</b>   |

**III Short answer questions****1. What are the objectives of preparing trial balance?****(i) Test of arithmetical accuracy**

- ✓ Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked.
- ✓ When the totals of debit column and credit column in the trial balance are equal, it is assumed that posting from subsidiary books, balancing of ledger accounts, etc. are arithmetically correct.
- ✓ However, there may be some errors which are not disclosed by trial balance.

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

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

**(iii) Location of errors**

- ✓ When the trial balance does not tally, it is an indication that certain errors have occurred.
- ✓ The errors may have occurred at one or more of the stages of accounting process, namely, journalising or recording in subsidiary books, totalling subsidiary books, posting in ledger accounts, balancing the ledger accounts, carrying ledger account balances to the trial balance, totalling the trial balance columns, etc.
- ✓ Hence, the errors should be located and rectified before preparing the financial statements.

**(iv) Summarised information of ledger accounts**

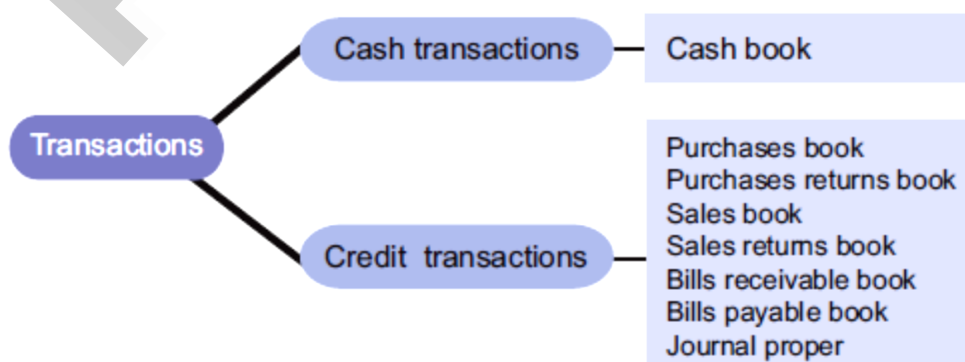
- ✓ The summary of ledger accounts is shown in the trial balance.
- ✓ Ledger accounts have to be seen only when details are required in respect of an account.

**2. What are the limitations of trial balance?**

- ✓ It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
- ✓ Even if some transactions are omitted, the trial balance will tally.
- ✓ Trial balance may tally even though errors are committed in the books of account.
- ✓ If trial balance is not prepared in a systematic way, the final accounts prepared on the basis of trial balance may not depict the actual state of affairs of the concern.
- ✓ Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records. This is because there are certain errors which are not disclosed by trial balance such as complete omission of a transaction, compensating errors and error of principle.

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

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

**UNIT 6 SUBSIDIARY BOOKS – I****II Very short answer questions****1. Mention four types of subsidiary books.**

## 2. What is purchases book?

- ⌘ Purchases book is a subsidiary book in which only credit purchases of goods are recorded.
- ⌘ When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately recorded.
- ⌘ Goods here mean the items in which the business entity is dealing.
- ⌘ In other words, it is the item which is purchased for regular sales.
- ⌘ For example, furniture will be treated as goods in the case of the firm dealing in furniture.
- ⌘ For other firms, which are not dealing in furniture it will be an asset.
- ⌘ Hence, while recording transactions in the purchases book, it must be ascertained whether the credit purchase is related to the item in which the firm is dealing.
- ⌘ Purchases of assets and purchase of goods for cash are not entered in purchases book.

## 3. What is purchases returns book?

- ⌘ After purchases of goods, the business unit may find that some of the goods are not upto the satisfactory level because of the following reasons:
  - (a) Goods may be defective.
  - (b) They might have been damaged in transit.
  - (c) Quantities delivered may not agree with the invoice.
  - (d) They might have been received quite late (off-season).
  - (e) They might not be as per the samples or specifications.
  - (f) There may be a breach of agreement.
- ⌘ Therefore, the buyer may return them to the suppliers.
- ⌘ 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.
- ⌘ 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?

- ⌘ Sales book is a subsidiary book maintained to record credit sale of goods.
- ⌘ Goods mean the items in which the business is dealing. These are meant for regular sale.
- ⌘ Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book.
- ⌘ This book is also named as sales day book, sold day book, sales journal or sale register.
- ⌘ The preparation of the sales book is similar to that of purchases book.
- ⌘ The entries are made in the sales book on the basis of copies of the invoice sent to the buyer.

## 5. What is sales returns book?

- ⌘ Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded.
- ⌘ Just as goods may be returned to suppliers, goods may be returned by customers for the following reasons:
  - (i) Defect in the goods
  - (ii) Delay in the dispatch of goods to the customers
  - (iii) Over-supply of goods
  - (iv) Goods not being in accordance with the samples and specifications
  - (v) Violation of the terms of the contract, etc.
- ⌘ Goods returned by the customers is known as 'returns inwards'.
- ⌘ This book is not concerned with the return of assets or return of goods for which cash is paid.
- ⌘ This book is prepared just like the other day books.

## 6. What is debit note?

- ⌘ A 'debit note' is a document, bill or statement sent to the person to whom goods are returned.
- ⌘ This statement informs that the supplier's account is debited to the extent of the value of goods returned.
- ⌘ 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. What is credit note?

- ⌘ A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned.
- ⌘ Credit note is a statement prepared by a trader who receives back from his customer the goods sold.
- ⌘ 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.
- ⌘ Thus, journal proper or general journal is a book in which the residual transactions which cannot be entered in any of the sub divisions of journal are entered.
- ⌘ The usual entries that are passed through this journal are given below:
  - (i) Opening journal entry
  - (ii) Closing journal entry
  - (iii) Adjusting entries
  - (iv) Transfer entries
  - (v) Rectifying entries
  - (vi) Miscellaneous entries

## 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?

- ⌘ 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.
- ⌘ Hence, these accounts are to be brought into the accounts of the current year.
- ⌘ Journal entry made in the beginning of the current year with the balances of assets and liabilities of the previous year is opening journal entry.
- ⌘ In this entry, asset accounts are debited, liabilities and capital accounts are credited.

### Example

Ramnath carried forward the following items. Make the opening entry in journal proper as on 1st January, 2017.

Cash	₹ 30,000	Stock	₹ 15,000
Furniture	₹ 3,000	Sundry Creditors	₹ 10,000

### Opening Entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Jan 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Sundry creditors A/c <b>To Capital A/c</b> (Balance of assets and liabilities brought forward)		30,000 15,000 3,000	10,000 <b>38,000</b>

## 11. What is an invoice?

- ⌘ Entries in the purchases day book are made from invoices which are popularly known as bills.
- ⌘ Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc.
- ⌘ Thus, the invoice is a source document of prime entry both for the buyer and the seller.

## III Short answer questions

### 1. Give the format of purchases book.

#### Format of purchases book / purchases journal

Date	Particulars	Invoice No.	L.F	Amount	
				Details	Total
	Purchase A/c 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 – **Journal Proper**
- (v) Goods returned to suppliers for which cash is not received immediately – **Purchase Return Book**
- (vi) Asset purchased as credit. – **Journal Proper**

**3. What are the advantages of subsidiary books?**

**(i) Proper and systematic record of business transactions**

- ⌘ All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc.
- ⌘ As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.

**(ii) Convenient posting**

- ⌘ All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books.
- ⌘ For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book.
- ⌘ It facilitates posting to purchases account, sales account and concerned personal accounts.

**(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.
- ⌘ When the same work is done by a person repeatedly the person becomes efficient in handling it.
- ⌘ Thus, specialisation leads to efficiency in accounting work.

**(v) Helpful in decision making**

- ⌘ Subsidiary books provide complete details about every type of transactions separately.
- ⌘ Hence, the management can use the information as the basis for deciding its future actions.
- ⌘ For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

**(vi) Prevents errors and frauds**

- ⌘ Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person.

- ⌘ With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised.
- (vii) **Availability of requisite information at a glance**
  - ⌘ When all transactions are entered in one journal, it is difficult to locate information about a particular item.
  - ⌘ When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books.
  - ⌘ The maintenance of subsidiary books helps in obtaining the necessary information at a glance.
- (viii) **Detailed information available**
  - ⌘ As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information.
  - ⌘ It is easy to arrive at monthly or quarterly totals.
- (ix) **Saving in time**
  - ⌘ As there are many subsidiary books, work of entering can be done simultaneously by many persons.
  - ⌘ Thus, it saves time and accounting work can be completed quickly.
- (x) **Labour of posting is reduced**
  - ⌘ Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.

## UNIT 7 SUBSIDIARY BOOK – II CASH BOOK

### II Very short answer questions

#### 1. What is cash book?

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

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

- ➔ The main cash book may be of various types and following are the three most common types.
  - (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).
- ➔ Apart from the main cash book, petty cash book may also be prepared to enter the petty expenses, i.e., expenses involving small amount.

#### 3. What is simple cash book?

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

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

Date	Receipts	R.N	L.F	Amount ₹	Date	Payments	V.N	L.F	Amount ₹

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

- It is a cash book with cash and discount columns.
- As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.
- The double column cash book is prepared on the lines of simple cash book.
- It has only one additional column, i.e., discount column on each side.
- Discount column represents discount allowed on the debit side and discount received on the credit side.
- In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded.
- The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side.
- For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book.
- 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.
- The cash columns are balanced. Discount columns are not balanced, since debit represents discount allowed and credit represents discount received.
- They are totalled, separately.

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

Date	Receipts	R. N	L. F	Amount ₹		Date	Payments	V. N	L. F	Amount ₹	
				Discou nt Allowe d	Cas h					Discou nt Receive d	cash

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

- A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount.
- This cash book is prepared in the same way as simple and double column cash books are prepared.
- The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively.
- Opening balance of cash and favourable bank balance appear as the first item on the debit side of the three column cash book in case of existing business.
- If the business is a new one, capital contributed in cash and/or bank deposit appear as the first item on the debit side.

- All the transactions which decrease the cash and bank balance are recorded in the cash and bank columns on the credit side.
- The balancing figures will be the closing balances of cash and bank.
- Cash will always have debit balance.
- Bank balance may be debit or credit depending on whether the balance is favourable or unfavourable respectively.
- If there is any discount allowed it is entered in the discount column on the debit side against the particular account.
- Similarly, if there is any discount received, it is entered in the discount column on the credit side.

### **8. What is cash discount?**

- Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment.
- It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment.
- The discount is allowed when payment is received or made and hence, the entry for discount is also passed with the entry of payment.
- The earlier the payment, the more may be the discount.
- Cash discount motivates the debtor to make the payment at an earlier date to avail discount facility.
- For example, the terms may be.
  - “5% discount will be allowed if the payment is made within one month.
  - 3% discount will be allowed if the payment is made within two months”.
- Discount allowed account will be shown on the debit side of profit and loss account and discount received account will be shown on the credit side of profit and loss account.
- When cash discount is allowed in respect of sale of goods or services, the seller allows cash discount to the buyer when payment is made.

### **9. What is trade discount?**

- Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods.
- It is given as a trade practice or when goods are purchased in large quantities.
- It is shown as a deduction in the invoice.
- Trade discount is not recorded in the books of accounts. Only the net amount is recorded.
- Example: Suppose the sale of goods for ₹ 10,000 was made and 10% was allowed as trade discount, the entry regarding sales will be made for ₹ 9,000 (10,000 – 10 per cent of 10,000). In the same way, purchaser of goods will also record purchases as ₹ 9,000).

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

- Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items.
- These are small payments and repetitive in nature.
- 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 and the person who maintains the petty cash book is called the petty cashier.
- Thus business concerns may maintain main cash book and petty cash book separately.
- All the small payments must be supported by vouchers, that is, documentary evidences. The vouchers must be numbered and filed in order.
- Petty cashier makes only cash payments.
- He must not be allowed to receive any cash except for reimbursement.
- Petty cashier has to make payments only within the specified limit.
- Payments involving large amounts must be made only by main cashier.
- At the end of the relevant period, petty cash book is balanced.
- Balancing of petty cash book is similar to the balancing of simple cash book.

### III Short answer questions

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

- Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (It may be a week or fortnight or month).
- The amount given to the petty cashier in advance is known as "Imprest Money".
- The word imprest means payment in advance.
- The petty cashier makes payments from this amount and records them in petty cash book.
- At the end of a particular period, the petty cashier submits the petty cash book to the head cashier.
- The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier so that the total amount with the petty cashier is now equal to the amount he had received in the beginning as advance.
- Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period.
- This method thus provides an effective control over petty payments.
- For example, On 1st June, 2017, ₹ 1,000 was given to the petty cashier. He had spent ₹ 940 during the month. He will be paid ₹ 940 on 30th June by the cashier so that he may again have ₹ 1,000 for the next month i.e., July, 2017.

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

Basis	Cash discount	Trade discount
<b>1. Purpose</b>	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.
<b>2. Time of allowance</b>	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.

<b>3. Amount of discount</b>	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.
<b>4. Recording in books of accounts</b>	Cash discount is recorded in the books of account. Cash discount allowed is shown on the debit side of cash book. Cash discount received is shown on the credit side of the cash book.	Trade discount is not recorded in the books of account. No journal entry is made for the same. Details are just shown in the purchases or sales book.
<b>5. Deduction from invoice value</b>	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

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

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

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

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

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

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

#### Example

- (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.
- To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides.

- Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose.
- The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

## UNIT 8 BANK RECONCILIATION STATEMENT

### II Very short answer questions

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

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

Record	Debit balance	Credit balance
<b>Bank statement</b>	Overdraft (negative balance)	Favourable balance (positive balance)
<b>Cash book</b>	Favourable balance (positive balance)	Overdraft (negative balance)

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

- ❖ If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records.
- ❖ But, practically it may not be possible.
- ❖ When the balances do not agree with each other, the need for preparing a statement to explain the causes arises.
- ❖ This statement is called bank reconciliation statement (BRS).
- ❖ The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount.
- ❖ As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

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

- ❖ The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement.
- ❖ Sometimes, the bank balance as per both the records may be the same, but the entries may not match.
- ❖ In such cases also, bank reconciliation statement is to be prepared.
- ❖ But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.
- ❖ Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

- (i) Timing differences – The different times at which the same items are entered
- (ii) Errors in recording - Difference arising due to errors in recording the entries

**(i) Timing differences**

- (a) Cheques issued but not yet presented for payment
- (b) Cheques deposited into bank but not yet credited
- (c) Bank charges and interest on loan and overdraft
- (d) Interest and dividends collected by the bank
- (e) Dishonour of cheques and bills
- (f) Amount paid by parties directly into the bank
- (g) Payment made directly by the bank to others
- (h) Bills collected by the bank on behalf of its customer

**(ii) Errors in recording**

- (a) Errors committed in recording the transactions by the business in the cash book
- (b) Errors committed in recording the transactions by the bank.

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

- ❖ Rent paid by bank as per standing instruction.
- ❖ Insurance premium, loan instalment, etc., paid 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 statement**
- (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 questions**

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

- ❖ To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- ❖ To identify the delay in the clearance of cheques.
- ❖ To ascertain the correct balance of bank column of cash book.

- ❖ To discourage the accountants of the business as well as bank from misusing funds.

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

- ❖ When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business.
- ❖ But, this may not be entered in the bank statement on the same day.
- ❖ It will be entered in the bank statement only after it is presented with the bank.
- ❖ For example, the balances as per cash book and bank statement are ₹ 20,000 for X & Co. X & Co. issued a cheque in favour of Y & Co for ₹ 10,000, on 27th March 2017. So, X & Co's cash book is credited with ₹ 10,000 on 27th March 2017. But, the cheque is presented to bank on 2nd April 2017. In case, bank sends a statement to X & Co, upto 31st March 2017, it will not contain this transaction.

As a result, there will be a difference of ₹ 10,000, between balance shown as per cash book and balance as per bank statement. As a result of this,



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

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

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

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

## 5. State the timing differences in BRS with examples.

- Cheques issued but not yet presented for payment
- Cheques deposited into bank but not yet credited
- Bank charges and interest on loan and overdraft
- Interest and dividends collected by the bank
- 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

## UNIT 9 RECTIFICATION OF ERRORS

### II Very short answer questions

#### 1. What is meant by rectification of errors?

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

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

#### 3. What is meant by error of partial omission?

- ♣ When the accountant has failed to record a part of the transaction, it is known as error of partial omission.
- ♣ This error usually occurs in posting.
- ♣ This error affects only one account.

##### Examples

<b>a</b>	Cash received from Ponnarasan recorded in the cash book but not posted to Ponnarasan's account in the ledger.
<b>b</b>	Goods sold to Cheran on credit recorded in the sales book but not posted to Cheran's account in the ledger.

#### 4. What is meant by error of complete omission?

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

##### Examples

<b>a</b>	Purchase of a machine from Aadhavan & Co. on credit is not recorded in the journal.
<b>b</b>	Sale of goods to Arivuchelvan on credit not recorded in the sales book.

#### 5. What are compensating errors?

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

##### Example

- ♣ Purchases book and sales book are overcast by ₹ 1,000 each.

### III Short answer questions

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

- ♣ It means the mistake committed in the application of fundamental accounting principles in recording a transaction in the books of accounts.
- ♣ 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 ₹ 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 ₹ 500 was entered in the sales book.

**(iii) Treating a capital expenditure as a revenue expenditure****Example**

- ♣ An amount of ₹ 3,000 spent on the construction of an additional room is debited to repairs account.

**(iv) Treating a revenue expenditure as a capital expenditure****Example**

- ♣ An amount of ₹ 2,000 paid for repairs to a machine is debited to machinery account.

**2. Write a note on suspense account.**

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

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

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

**Examples of such errors are as follows:**

- 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
- Compensating error

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

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

**Examples of such errors are follows:**

- 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.

- (iii) Posting twice in a ledger account
- (iv) Over-casting or Under-casting in a subsidiary book
- (v) Posting a wrong amount to the correct side of an account
- (vi) Posting a wrong amount to the wrong side of an account
- (vii) Errors arising in carrying forward the page total from one page to the next page of an account or subsidiary book.
- (viii) Errors arising in the balancing of an account.
- (ix) Omission to post an entry from a subsidiary book.

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

**a) One-sided errors**

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

**b) Two sided errors**

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

**UNIT 10 DEPRECIATION ACCOUNTING**

**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.
- ♣ It is an allocation of cost against the benefit derived from a fixed asset during an accounting period.

**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) 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

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

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

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

#### 4. What is annuity method?

- ♣ Under this method, not only the original cost of the asset but also the amount of interest on the investment is taken into account while computing depreciation.
- ♣ 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.
- ♣ To calculate the amount of depreciation, annuity factor is used.
- ♣ Annuity factor can be found out from the annuity table or by using formula.
- ♣ Amount of depreciation is computed as follows:

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

**The following formula is used to compute annuity factor:**

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

where,  $i$  = interest rate;

$n$  = estimated life of the asset in number of years

#### 5. What is sinking fund method?

- ♣ This method is similar to the diminishing balance method.
- ♣ The amount of depreciation goes on decreasing year after year in proportion to the unexpired life of the asset.
- ♣ This method is suitable for those assets having more probability of obsolescence and increased repair charges as the assets grow older.
- ♣ Under this method, amount of depreciation per year is calculated by multiplying the cost of the asset and the number of remaining years of life and dividing it by the sum of the digits of all years of life of the asset.
- ♣ The following formula is used to compute the amount of depreciation under this method:

$$\text{Amount of depreciation} = \frac{\left[ \begin{array}{c} \text{Total number of years of remaining} \\ \text{life of the asset} \\ \text{(including the current year)} \end{array} \right] \left[ \begin{array}{c} \text{Original cost - Scrap value} \end{array} \right]}{\text{Sum of all the digits of all years from 1 to the life of the asset in years}}$$

### III Short answer questions

#### 1. What are the objectives of providing depreciation?

##### (i) To find out the true profit or loss

- ♣ According to matching principle, the expenses incurred during a period must be matched with revenue earned during that period.
- ♣ Hence, 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.
- ♣ The written down value is the true value of fixed assets which represent cost not yet written off.
- ♣ The balance sheet must represent a true and fair view of financial status.
- ♣ Hence, fixed assets must be shown at their at written down value.

##### (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.
- ♣ Hence, depreciation is computed and charged to profit and loss account to reduce tax liability.

##### (v) To comply with legal requirements

- ♣ Depreciation is provided on fixed assets to comply with the provisions of law apart from Income Tax Act.
- ♣ For example, Section 123(1) of the Indian Companies Act, 2013, requires every company to provide depreciation on fixed assets before declaring dividend to its shareholders.

#### 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.
- ♣ For example, preference of latest computers by the users.

**(iv) Inadequacy for the purpose**

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

**(v) Lack of maintenance**

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

**(vi) Abnormal factors**

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

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

Following are the merits of straight line method of depreciation:

**(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. Hence, the burden of depreciation on the profit of each year is equal.

**(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. Thus the asset account can be completely written off.

**(d) Suitable for the assets having fixed working life**

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

### ♣ Limitations

Following are the limitations of straight line method of depreciation:

#### (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. But, the actual use of the asset is not considered in computation of depreciation.

#### (b) Ignores the interest factor

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

#### (c) Total charge on the assets will be more when the asset becomes older

- ♣ With the passage of time, the cost of maintenance of an asset goes up. Hence, the amount of depreciation and cost of maintenance put together is less in the initial period and goes up year after year. But, this method does not consider this.

#### (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

Following are the merits of written down value method.

#### (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. Hence, the total burden on profit in respect of depreciation and repairs put together remains almost similar year after year.

#### (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

Following are the limitations of written down value method.

#### (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.

**(d) Ignores the actual use of the asset**

- ✦ Under this method, a fixed rate of depreciation is provided on the written down value of the asset by applying the predetermined rate of depreciation on its original cost. But, the actual use of the asset is not considered in the computation of depreciation.

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

<b>Point of difference</b>	<b>Straight line method</b>	<b>Written down value method</b>
<b>1. Basis of calculation</b>	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.
<b>2. Amount of depreciation</b>	The amount of depreciation is the same for all the years.	The amount of depreciation goes on decreasing year after year.
<b>3. Book value of the asset at the end of its life</b>	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.
<b>4. Computation of rate of depreciation</b>	It is easy to calculate the rate of depreciation.	It is very difficult to calculate the rate of depreciation.
<b>5. Order of calculation of depreciation amount</b>	Amount of depreciation is calculated first, followed by the rate of depreciation.	Rate of depreciation is calculated first, followed by the amount of depreciation.
<b>6. Total charge</b>	As the cost of repair goes on increasing with the passage of time, the total charge, i.e., the total of depreciation amount and repair amount keeps on increasing from year to year.	As the cost of repair increases and depreciation decreases with the passage of time, total of depreciation amount and repair amount charged to profit and loss account remains almost the same from year to year.

<b>7. Suitability</b>	It is suitable for assets for which the repair charges are less and the possibility of obsolescence is less and expiration of cost of asset depends upon time period involved.	It is suitable for assets which are affected by technological changes and assets which require more repairs with the passage of time.
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## UNIT 11 CAPITAL AND REVENUE TRANSACTIONS

### II Very short answer questions

#### 1. What is meant by revenue expenditure?

- The expenditure incurred for day to day running of the business or for maintaining the earning capacity of the business is known as revenue expenditure.
- It is recurring in nature.
- It is incurred to generate revenue for a particular accounting period.
- The revenue expenditure may be incurred in relation with revenue or in relation with a particular accounting period.
- For example, cost of purchases is a revenue expenditure related to sales revenue. Rent and salaries are related to a particular accounting period.

#### 2. What is capital expenditure?

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

#### 3. What is capital profit?

- The profit realised over and above the cost of the fixed asset is called capital profit.
- Capital profit is the profit which arises not from the normal course of the business.
- Profit on sale of fixed asset is an example for capital profits.

#### 4. Write a short note on revenue receipt.

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

#### **Examples**

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

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

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

#### Examples

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

### III Short answer questions

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

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

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

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

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

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

**Features of deferred revenue expenditure**

Following are the features of deferred revenue expenditure:

- (a) It is a revenue expenditure, the benefit of which is to be derived over a subsequent period or periods.
- (b) It is not fully written off in the year of actual expenditure. It is written off over a period of certain years.
- (c) The balance available after writing off (i.e., Actual expenditure - Amount written off) is shown on the assets side balance sheet.

**Examples**

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

**UNIT 12 FINAL ACCOUNTS OF SOLE PROPRIETORS – I****II Very short answer questions****1. Write a note on trading account.**

- ❖ Trading refers to buying and selling of goods with the intention of making profit.
- ❖ The trading account is a nominal account which shows the result of buying and selling of goods for an accounting period.
- ❖ Trading account is prepared to find out the difference between the revenue from sales and cost of goods sold.
- ❖ Cost of goods sold refers to directly related cost.
- ❖ Direct cost includes the purchase price of goods purchased and all other expenses which are incurred to bring the goods to the business premises or godown and to make these ready for sale.
- ❖ All the goods purchased during the accounting period may not be sold during the same accounting period.
- ❖ Hence, it is necessary to calculate the cost of goods sold during the period.
- ❖ Matching principle is applied here.

- ❖ Hence, the cost of stock not sold must be deducted, i.e., value of closing stock must be deducted.
- ❖ But if there is any opening stock of goods that will be sold during the accounting period, it is to be added to the cost of purchases made during the period.
- ❖ If there is cost of goods manufactured, it must also be added to find out the cost of goods sold.

**Cost of goods sold = Opening stock + Net purchases + Direct expenses – Closing stock**

- ❖ If the amount of sales exceeds the cost of goods sold, the difference is gross profit.
- ❖ On the other hand, the excess of cost of goods sold over the amount of sales results in gross loss.

Sales – Cost of goods sold = Gross profit

Sales – Gross profit = Cost of goods sold

## 2. What are wasting assets?

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

## 3. What are fixed assets?

- ❖ Fixed assets are those assets which are acquired or constructed for continued use in the business and last for many years such as land and building, plant and machinery, motor vehicles, furniture, etc.
- ❖ According to Finney and Miller, "Fixed assets are assets of a relatively permanent nature used in the operations of business and not intended for sale." As the purpose of keeping such assets is not to sell but to use them, changes in their realisable values are ignored and these are always shown in the balance sheet at cost less depreciation.
- ❖ Fixed assets can be classified into i) Tangible fixed assets ii) Intangible fixed assets.

### i) Tangible fixed assets

- ❖ Tangible fixed assets are those which have physical existence or which can be seen and felt. Examples: plant and machinery, building and furniture.

### ii) Intangible fixed assets

- ❖ Intangible fixed assets are those which do not have any physical existence or which cannot be seen or touched.
- ❖ Examples: goodwill, trade-marks, copy rights and patents. Intangible assets are as much valuable as tangible assets because they also help the firm in earning profits.
- ❖ For example, goodwill helps in attracting customers and patents represent the know-how which helps in producing the goods.

**Cash in hand and stock are tangible assets.**

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

- ❖ Goods which have been bought for resale are termed as purchases.
- ❖ Goods purchased which are returned to suppliers are termed as purchases returns or returns outward.
- ❖ Purchases include both cash purchases and credit purchases.
- ❖ Net purchases, i.e., purchases minus purchases returns are shown in the debit side of the trading account.

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

<b>To Direct expenses:</b> Carriage/Freight inwards Wages Dock charges Octroi Royalty Import duty To Cost of goods	<b>To Indirect expenses:</b> <b>To Office and administrative expenses</b> Salaries Rent, rates and taxes Printing and stationery Postage Legal charges Audit fees Establishment expenses Trade expenses General travelling expenses Lighting Insurance premium  <b>To Selling and distribution expense</b> Carriage outwards Advertisement Commission Brokerage Bad debts or provision for bad debts Export duty Packing charges <b>To Other expenses and losses:</b> Repairs Depreciation Interest charges Discount allowed Provision for discount on debtors Bank charges Interest on capital Donation and charity Loss on sale of fixed assets Abnormal loss due to fire, theft etc. not covered by insurance Miscellaneous expenses
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**6. Mention any two differences between trial balance and balance sheet.**

<b>Basis</b>	<b>Trial balance</b>	<b>Balance sheet</b>
<b>1. Nature</b>	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.
<b>2. Purpose</b>	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.
<b>3. Contents</b>	It is a summary of balances of all accounts – personal, real and nominal accounts.	It is a statement showing the closing balances of only personal and real accounts.
<b>4. Format</b>	The trial balance contains columns for debit balances and credit balances.	The items are grouped as assets and liabilities.
<b>5. Stage</b>	It is prepared before the preparation of final accounts.	It is prepared after preparing trial balance and trading and profit and loss account.
<b>6. Period</b>	It can be prepared periodically, say at the end of the month, quarterly, half yearly, etc.	It is generally prepared at the end of the accounting period.
<b>7. Order</b>	Balances shown in the trial balance need not be in order.	Balances shown in the balance sheet must be in order.
<b>8. Compulsion</b>	Preparation of trial balance is not compulsory.	Preparation of the balance sheet is compulsory in certain cases.

**7. What are the objectives of preparing trading account?****(i) Provides information about gross profit or gross loss**

- ❖ It shows the gross profit or gross loss of the business for an accounting year.
- ❖ This helps the business persons to find out gross profit ratio by expressing the gross profit as a percentage of sales.
- ❖ It helps to compare and analyse with the ratios of the previous years.
- ❖ Thus, it provides data for comparison, analysis and planning for a future period.

**(ii) Provides an opportunity to safeguard against possible losses**

- ❖ If the ratio of gross profit has decreased in comparison to the preceding years, effective measures can be taken to safeguard against future losses.
- ❖ For example, the sale price of goods may be increased or steps may be taken to analyse and control the direct expenses.

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

- ❖ All the expenses incurred on the purchase of goods are direct expenses.
- ❖ They are recorded in the trading account.
- ❖ Trading account also shows sales revenue, which is a direct income.
- ❖ With the help of trading account, percentage of such expenses on sales revenue can be calculated and compared with similar ratios of the previous years.
- ❖ Thus, it enables the management to have control over the direct expenses.

**8. What is the need for preparing profit and loss account?****(i) Ascertainment of net profit or net loss**

- ❖ The profit and loss account discloses the net profit available to the proprietor or net loss to be borne by him.
- ❖ Ascertainment of profitability helps in planning for the growth and efficiency of a business enterprise.
- ❖ Inter-firm comparison and intra-firm comparison of profit and loss account items help in assessing efficiency in comparison with other enterprises and other departments of the same enterprise respectively.

**(ii) Comparison of profit**

- ❖ The net profit of the current year can be compared with the profit of the previous years.
- ❖ It helps to know whether the business is conducted efficiently or not.

**(iii) Control on expenses**

- ❖ Profit and loss account helps in comparing various expenses with the expenses of the previous years.
- ❖ The percentage of individual expenses to net sales can be calculated and compared with the similar ratios of previous years.
- ❖ Such a comparison will be helpful in taking effective steps for controlling unnecessary expenses.

**(iv) Helpful in the preparation of balance sheet**

- ❖ A balance sheet can be prepared only after ascertaining the net profit or loss through profit and loss account.
- ❖ Net profit or loss is shown in the balance sheet.
- ❖ Thus, it facilitates preparation of balance sheet.

**III Short answer questions****1. What are final accounts? What are its constituents?**

- ❖ The business entities are interested in knowing periodically the results of business operations carried on and the financial soundness of the business.
- ❖ In other words, they want to know the profitability and the financial position of the business.

- ❖ These can be ascertained by preparing the final accounts or financial statements.
- ❖ The final accounts are usually prepared at the end of the accounting period on the basis of balances of ledger accounts shown by the trial balance.

**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?**

- ❖ Balances of all the nominal accounts are required to be closed on the last day of the accounting year to facilitate the preparation of trading and profit and loss account.
- ❖ It is done by passing necessary closing entries in the journal proper.
- ❖ Purchases has debit balance and purchases returns has credit balance.
- ❖ At the end of the accounting year, the balance in purchases returns account is closed by transferring to purchases account.
- ❖ Similarly, sales account has credit balance and sales returns has debit balance.
- ❖ At the end of the accounting year, the balance in sales returns account is closed by transferring to sales account.

**1. For closing purchases returns account**

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

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

**Gross profit:**

- ❖ Trading account is prepared to find out the difference between the revenue from sales and the cost of goods sold.
- ❖ The difference between these two items are called gross earning.
- ❖ Such gross earning is called as gross profit.
- ❖ If the amount of sales exceeds, the cost of goods sold, the difference is gross profit.

**Net Profit:**

- ❖ Profit and loss account contains all the items of indirect incomes and gains, in addition to gross profit or gross loss pertaining to the accounting period.
- ❖ If such expenses are less than the gross profit, the result will be net profit.

**4. "Balance sheet is not an account"- Explain.**

- ❖ Balance sheet is a statement which gives the position of assets and liabilities on a particular date.
- ❖ Assets are the resources owned by the business.
- ❖ Liabilities are the claims against the business.
- ❖ After ascertaining the net profit or net loss of the business enterprise, a business person would like to know the financial position of the business.
- ❖ For this purpose, balance sheet is prepared which contains amounts of all the assets and liabilities of the business enterprise as on a particular date.
- ❖ The statement so prepared is called 'balance sheet' because it gives the balances of ledger accounts which are still there, after the closure of all nominal accounts by transferring to the trading and profit and loss account.
- ❖ Balances of all the personal and real accounts are grouped into assets and liabilities.
- ❖ In the balance sheet, liabilities are shown on the left hand side and assets on the right hand side.

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

- ❖ It is helpful in ascertaining the financial position of the business by showing assets and liabilities of the concern on a specific date.
- ❖ It discloses the solvency of business by showing how much assets are available for payment of liabilities.
- ❖ It also discloses the proprietary interest of owner.
- ❖ It helps in calculation of various ratios which help in better management of business.
- ❖ It helps in comparison of assets and liabilities of business on two dates to ascertain the progress being made by business.
- ❖ It helps to ascertain the amount of capital employed in business.

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

- ❖ The assets and liabilities shown in the balance sheet are grouped and presented in a particular order.
- ❖ The term 'grouping' means showing the items of similar nature under a common heading.
- ❖ For example, the amount due from various customers will be shown under the head 'Sundry debtors.'
- ❖ Similarly, under the head 'Current assets', the balance of cash, bank, debtors, stock and other current assets will be shown.
- ❖ '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) In the order of liquidity**

- ❖ According to this method, an asset which is most easily convertible into cash, i.e., cash in hand is shown first and then will follow those assets which are comparatively less easily convertible, so that the least liquid asset i.e., goodwill is shown last.
- ❖ In the same way, the liabilities which are to be paid at the earliest will be shown first.

- ❖ In other words, current liabilities are shown first, then fixed or long-term liabilities and finally the proprietor's capital.

**(b) In the order of permanence**

- ❖ This method is exactly the reverse of the first method.
- ❖ Asset which is more permanent, i.e., goodwill is shown first followed by assets which are less permanent.
- ❖ Similarly, those liabilities which are to be paid last will be shown first.
- ❖ In other words, the proprietor's capital is shown first, then fixed or long-term liabilities and lastly the current liabilities.
- ❖ Joint stock companies are required under the Companies Act to prepare their balance sheet in the order of permanence.

**UNIT 13 FINAL ACCOUNTS OF SOLE PROPRIETORS – II**

**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.
- ➔ In other words, if certain benefits or services are received during the year but payment is not made for the services received and utilised, these are termed as outstanding expenses.
- ➔ Outstanding expense account is a representative personal account and expense account is a nominal account.

**Adjusting entry**

Particulars	L.F	Debit ₹	Credit ₹
Concerned expense A/c Dr. To Outstanding expense A/c (Expense outstanding adjusted)		xxx	xxx

**Presentation in final accounts**

<b>In the Trading A/c or Profit and loss A/c</b>	Amount outstanding is added to particular expense account in the trading account if it is direct expense and in the profit and loss account if it is an indirect expense.
<b>In the Balance Sheet</b>	Amount of outstanding expense is a current liability and is shown on the liabilities side of the balance sheet.

**3. What is prepaid expense?**

- ➔ Prepaid expenses refer to any expense or portion of expense paid in the current accounting year but the benefit or services of which will be received in the next accounting period.

- They are also called as unexpired expenses.
- Though these expenses are paid in the accounting period, they are not incurred during the accounting period.
- Prepaid expense account is a representative personal account.
- Expense account is a nominal account.

#### Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Prepaid expense A/c Dr. To Concerned expense A/c (Expense paid in advance adjusted)		xxx	Xxx

#### Presentation in final accounts

<b>In Trading A/c or Profit and loss A/c</b>	Amount prepaid is deducted from particular expense in the trading account or profit and loss account depending upon whether it is direct or indirect respectively.
<b>In Balance Sheet</b>	Amount of prepaid expense is shown on the assets side under current assets.

#### 4. What are accrued incomes?

- Accrued income is income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year.
- It generally happens in case of amount to be received on account of commission, interest, dividend, etc.

#### Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Accrued income A/c Dr. To Concerned income A/c (Income accrued adjusted)		xxx	Xxx

#### Presentation in final accounts

<b>In Profit and loss A/c</b>	Amount accrued is added to particular income.
<b>In Balance Sheet</b>	Amount of accrued income is shown on the assets side under current assets.

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

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

- Discount should be calculated on sundry debtors after deducting bad debts and provision for bad debts.

### III Short answer questions

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

- Trading, Profit & loss account and balance sheet, all these three together, are called as final accounts.
- Final result of trading is known through Profit and Loss Account.
- Financial position is reflected by Balance Sheet.
- These are, usually, prepared at the close of the year hence known as final accounts.
- They serve the ultimate purpose of keeping accounts.
- Their purpose is to investigate the consequence of various incomes and expenses during the year and the resulting profit or loss.
  1. Trading and profit and loss A/c is prepared to find out the Profit or Loss.
  2. Balance sheet is prepared to find out financial position of a concern.

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

- Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date.
- A provision created on sundry debtors for allowing such discount is called provision for discount on debtors.
- This provision is a charge against profit and hence profit and loss account is debited.
- Provision for discount on debtors is made on the basis of past experience at an estimated rate on sundry debtors.
- Discount should be calculated on sundry debtors after deducting bad debts and provision for bad debts.

#### Adjusting entry

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

#### Presentation in final accounts

<b>In Profit and loss A/c</b>	Amount of provision for discount on debtors is shown on the debit side.
<b>In Balance Sheet</b>	Amount of provision for discount on debtors is deducted from sundry debtors on the assets side.

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

- The unsold goods in the business at the end of the accounting period are termed as closing stock.
- As per AS-2 (Revised), the stock is valued at cost price or net realisable value, whichever is lower.

**Adjusting entry**

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

**4. Give the adjusting entries for interest on capital and interest on drawings.****(i) Interest on capital**

- According to separate entity concept business and proprietor are two separate entities.
- Capital contributed by proprietor is a liability to the business.
- Hence, interest may be provided on capital contributed by proprietor.
- It is treated as a business expense. The purpose is to know the true profit of the business.

**Adjusting entry**

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

**Transfer entry**

Particulars	L.F.	Debit ₹	Credit ₹
Profit and Loss A/c Dr. To Interest on capital A/c (Interest on capital transferred)		xxx	xxx

**Presentation in final accounts**

<b>In Profit and loss A/c</b>	Amount of interest on capital is shown on the debit side.
<b>In Balance Sheet</b>	Amount of interest on capital is added to capital on the liabilities side of the balance sheet.

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

Sl. No.	Adjustment	Journal entry	Treatment in		
			Trading A/c or P & L A/c		Balance Sheet
1	Bad debts	Bad debts A/c To Sundry debtors A/c	Dr.	Shown on the debit side of profit and loss A/c when there is no provision for bad and doubtful debts. (If there is a provision for bad and doubtful debts account existing, bad debts is to be transferred to provision for bad debts A/c).	Shown on the assets side by way of deduction from the amount of sundry debtors.
2	Provision for bad and doubtful debts	Profit & Loss A/c To Provision for bad and doubtful debts A/c	Dr.	Shown on the debit side of profit and loss A/c	Shown on the assets side as a deduction from sundry debtors.
3	Provision for discount on debtors	Profit & Loss A/c To Provision for discount on debtors A/c	Dr.	Shown on the debit side of profit and loss A/c.	Shown on the assets side as a deduction from sundry debtors.

**UNIT 14 COMPUTERISED ACCOUNTING**

**II Very short answer questions**

**1. What is a computer?**

- ♥ A computer can be described as an electronic device designed to accept raw data as input, processes them and produces meaningful information as output.
- ♥ It has the ability to perform arithmetic and logical operations as per given set of instructions called program.
- ♥ A computer system has mainly three components namely, input unit, central processing unit and output unit.

## 2. What is CAS?

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

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

- a) Recording of business transactions b) Payroll accounting
  - c) Stores accounting and d) Generation of accounting reports
- ♥ It is to be noted that the fundamentals of accounting do not change whether books of accounts are maintained manually or computerised.
  - ♥ The same principles of debit and credit are equally applicable in a computerised environment.

## 3. What is hardware?

- ♥ The physical components of a computer constitute its hardware.
- ♥ Hardware consists of input devices and output devices that make a complete computer system.
- ♥ Examples of input devices are keyboard, optical scanner, mouse, joystick, touch screen and stylus which are used to feed data into the computer.
- ♥ Output devices such as monitor and printer are media to get the output from the computer.

## 4. What is meant by software?

- ♥ A set of programs that form an interface between the hardware and the user of a computer system are referred to as software.
- ♥ The following are the various types of software:

**a) System software:** A set of programs to control the internal operations such as reading data from input devices, giving results to output devices and ensuring proper functioning of components is called system software. The system software includes the following:

**(1) Operating system:** A set of tools and programs to manage the overall working of a computer using a defined set of hardware components is called an operating system. It is the interface between the user and the computer system. Example: DOS, Windows, UBUNTU, imac, etc.

**(2) Programming software:** Special software to accept data and interpret them in the form of machine/assembly language understandable by a computer. Example: C, PASCAL, COBOL, etc.

**(3) Utility software:** These are designed specifically for managing the computer device and its resources. Example: File manager, Anti-virus software, etc.

**b) Application software:** Programs designed to perform a specific function for a user. An application software can be classified as follows:

**(i) General purpose software:** This type of application can be used for a variety of tasks and not limited to one particular function. Example: MS-Office.

**(ii) Specific purpose software:** This software is created to execute one specific task and they are customised to the needs of user. Example: Accounting software, payroll software, etc.]

**Finacle is a banking software.**

## **5. What is accounting software?**

- ♥ The main function of CAS is to perform the accounting activities in an organisation and generate reports as per the requirements of the users.
- ♥ To obtain the desired results optimally, need based software or packages are to be installed in the organisation.
- ♥ Depending upon the suitability of business requirements there are three types of software, namely, (i) Readymade software, (ii) Customised software and (iii) Tailormade software.

### **(i) Readymade software**

- ♥ These packages are standardised or readymade packages which can be used by the business enterprises immediately on procurement.
- ♥ These packages are used by small and conventional business enterprises.
- ♥ Cost of installation and maintenance is very low.
- ♥ Training cost is negligible and sometimes the vendor provides free of cost training.
- ♥ These softwares are used by those enterprises where financial transactions are simple, uniform and routine in nature.
- ♥ Few examples of such type of software are Tally, Busy, Marg, Profitbooks.

### **(ii) Customised software**

- ♥ Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise.
- ♥ In such circumstances, customised packages may help the business enterprise for fulfilling their requirements.
- ♥ Customised packages can be modified according to the need of the enterprise.
- ♥ For example, software can record attendance of the employees and on the requirement of the customer it can also count the absence of employees in a month, etc.
- ♥ These packages are used by medium or large business enterprises.
- ♥ Cost of installation, maintenance and training is relatively higher than that of ready-to-use packages.

- ♥ These softwares are used by those enterprises where financial transactions are somewhat peculiar in nature.

### **(iii) Tailormade software**

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

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

- (i) Readymade software
- (ii) Customised software
- (iii) Tailormade software

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

- ♥ Examples of such type of software are Tally, Busy, Marg, Profitbooks.

### **8. What is coding?**

- ♥ Code is an identification mark.
- ♥ Generally, computerised accounting involves codification of accounts.
- ♥ Codification of accounts is needed where there are numerous accounts heads in an organisation.
- ♥ There is a hierarchical relationship between the groups and its components.
- ♥ In order to maintain the hierarchical relationships between a group and its sub-groups, proper codification is required.
- ♥ 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.
- ♥ For example, the codes for various accounts may be allotted as follows:  
1 Liabilities and Capital 2 Assets 3 Revenues 4 Expenses

#### **Under Liabilities and Capital**

11 Capital 12 Non-current liabilities 13 Current liabilities

#### **Under Assets**

21 Non-current assets 22 Current assets

- ♥ The above codification scheme utilises the hierarchy present in grouping of accounts.
- ♥ Major advantage of such coding is that if the account codes are listed in ascending order, these will be automatically listed as per the desired hierarchy.

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

- ♥ In any organisation, the main unit of classification is the major head which is further divided into minor heads.
- ♥ Each minor head may have number of sub-heads.

- ♥ After classification of accounts into various groups namely, major, minor and sub-heads and allotting codes to each account these are programmed into the computer system.
- ♥ A proper codification requires a systematic grouping of accounts.
- ♥ The major groups or heads could be Assets, Liabilities, Revenues and Expenses.
- ♥ The sub-groups or minor heads could be capital, non-current liabilities, current assets, sales and so on.
- ♥ In general, the basic classifications of different accounts embodied in a transaction are resorted through accounting equation.

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

- ♥ Each component of the above equation can be divided into groups of accounts as follows:

#### **A. Liabilities and capital**

##### **Capital**

- Capital
- Reserves and surplus

##### **Non-Current Liabilities**

- Long-term borrowings
- Other long-term liabilities

##### **Current liabilities**

- Short term borrowings
- Trade payables
- Other current liabilities

#### **B. Assets**

##### **Fixed tangible assets**

- Land and building
- Plant and machinery
- Furniture and fixtures

##### **Intangible assets**

- Goodwill
- Copyright
- Patents

##### **Current Assets**

- Short term investments
- Inventories
- Trade receivables
- Cash and cash equivalents
- Short term loans and advances
- Other current assets

#### **C. Revenues**

- Sales
- Other income

#### **D. Expenses**

- Material consumed
- Wages

- Manufacturing expenses
- Depreciation
- Administrative expenses
- Interest
- Selling and distribution expenses, etc.

#### 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**

- ♥ These packages are standardised or readymade packages which can be used by the business enterprises immediately on procurement.
- ♥ These packages are used by small and conventional business enterprises.
- ♥ Cost of installation and maintenance is very low.
- ♥ Training cost is negligible and sometimes the vendor provides free of cost training.
- ♥ These softwares are used by those enterprises where financial transactions are simple, uniform and routine in nature.
- ♥ Few examples of such type of software are Tally, Busy, Marg, Profitbooks.

##### **(ii) Customised software**

- ♥ Many a time, it is not possible that ready-to-use packages suit the requirements of the business enterprise.
- ♥ In such circumstances, customised packages may help the business enterprise for fulfilling their requirements.
- ♥ Customised packages can be modified according to the need of the enterprise.
- ♥ For example, software can record attendance of the employees and on the requirement of the customer it can also count the absence of employees in a month, etc.
- ♥ These packages are used by medium or large business enterprises.
- ♥ Cost of installation, maintenance and training is relatively higher than that of ready-to-use packages.
- ♥ These softwares are used by those enterprises where financial transactions are somewhat peculiar in nature.

##### **(iii) Tailormade software**

- ♥ Large enterprises have their own way of functioning.
- ♥ For effective management information system, varied and specific information is frequently required by many users which may not be needed in case of small or medium scale enterprises.

- ♥ In such enterprises, depending upon their functioning, need based softwares known as tailored packages are installed.
- ♥ 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.**

The main limitations of CAS are being dependent upon the operating environment they work in. Some of them are listed as follows:

### **(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.

### **(iv) Disruption of work:**

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

### **(v) System failure:**

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

### **(vi) Time consuming:**

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

### **(vii) Unanticipated errors not known:**

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

### **(viii) Breaches of security:**

- ♥ The danger of viruses and hacking into the system from outside creates a strong need for security of the system.
- ♥ Similarly, the person who has created the specific programme can easily defraud by tampering with the original records.

### **(ix) Health dangers:**

- ♥ Extensive use of computers may lead to many health problems such as eye strain, muscular complaints, back ache, etc.

- ♥ Resulting in reducing work efficiency as well as increased medical expenditure.

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

Following are the three methods of codification.

#### a. Sequential codes

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

##### **Code Accounts**

CL001 ABC LTD

CL002 XYZ LTD

CL003 SCERT

#### b. Block codes

- ♥ In a block code, a range of numbers is partitioned into a desired number of sub-ranges and each sub-range is allotted to a specific group.
- ♥ In most of the cases of block codes, numbers within a sub-range follow sequential coding scheme, 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 refers to the system of maintaining accounts using computers.
- ♥ It involves the processing of accounting transactions through the use of hardware and software in order to keep and produce accounting records and reports.

- ♥ 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.

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

- a) Recording of business transactions b) Payroll accounting
- c) Stores accounting and d) Generation of accounting reports
- ♥ It is to be noted that the fundamentals of accounting do not change whether books of accounts are maintained manually or computerised.
- ♥ The same principles of debit and credit are equally applicable in a computerised environment.

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

- ♥ **Input devices** are keyboard, optical scanner, mouse, joystick, touch screen and stylus which are used to feed data into the computer.
- ♥ **Output devices** such as monitor and printer are media to get the output from the computer.