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NOTE FROM PUBLISHER

It gives me great pride and pleasure in bringing to you **Sura's Accountancy Guide** for +1 Standard. A deep understanding of the text and exercises is rudimentary to have an insight into Accountancy. The students and teachers have to carefully understand the topics and exercises.

Sura's Accountancy +1 Standard Guide encompasses all the requirements of the students to comprehend the text and the evaluation of the textbook.

- ▲ It will be a teaching companion to teachers and a learning companion to students.
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I pray the almighty to bless the students for consummate success in their examinations.

Subash Raj, B.E., M.S.
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All the Best

CONTENTS

Chapter No	Title	P. No	Month
1.	Introduction to Accounting	1-17	June
2.	Conceptual Framework of Accounting	18-32	
3.	Books of Prime Entry	33-87	
4.	Ledger	88-130	July
5.	Trial Balance	131-147	
I MID TERM (June, July)			
6.	Subsidiary Books - I	148-187	August
7.	Subsidiary Books - II Cash Book	188-225	
8.	Bank Reconciliation Statement	226-248	September
QUARTERLY EXAMINATION (June to September)			

CONTENTS

9.	Rectification of Errors	249-267	October
10.	Depreciation Accounting	268-304	
11.	Capital and Revenue Transactions	305-320	November
12.	Final Accounts of Sole Proprietors - I	321-350	
II MID TERM (October, November)			
13.	Final Accounts of Sole Proprietors - II	351-396	December
14.	Computerised Accounting	397-410	
HALF YEARLY EXAMINATION (All Portions)			
Half Yearly Exam - December 2024-25 Question Paper with answers		411-426	

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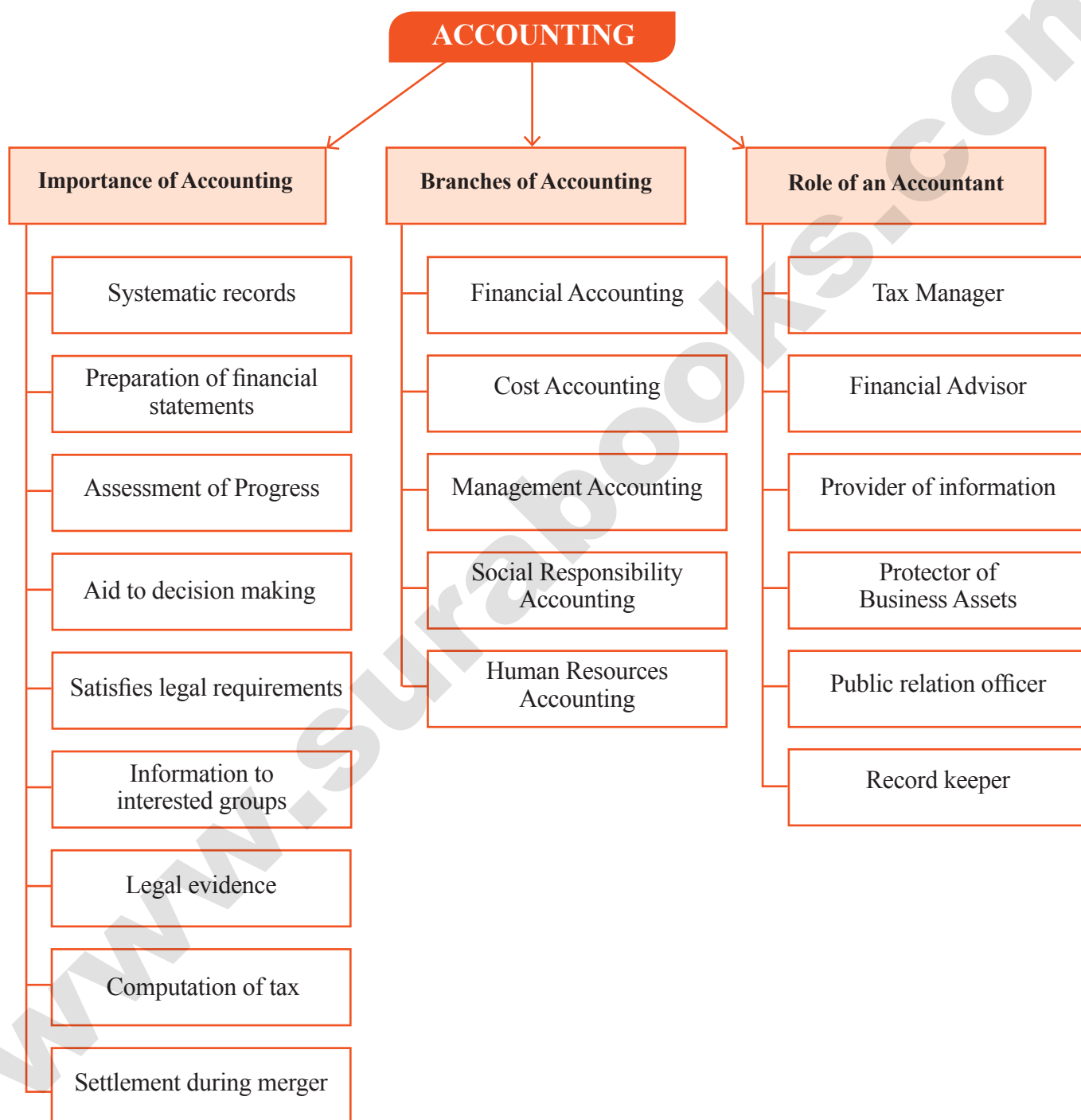
UNIT 1

INTRODUCTION TO ACCOUNTING

CHAPTER SNAPSHOT

- 1.1** Introduction to Accounting
- 1.2** Evolution of Accounting
- 1.3** Meaning and Definition of Accounting
- 1.4** Accounting Cycle
- 1.5** Objectives of Accounting
- 1.6** Functions of Accounting
- 1.7** Importance of Accounting
- 1.8** Basic Accounting terminologies
- 1.9** Branches of Accounting
- 1.10** Bases of Accounting
- 1.11** Users of Accounting information
- 1.12** Role of an accountant

CONCEPT MAP



IMPORTANT POINTS

- Accounting has rightly been termed as the language of the business.
- An individual invests capital with the objective of making profit and thereby increasing his resources.
- Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.
- Accounting has to be a versatile system to serve a large number of goals in the modern business world.
- Accountancy plays a major role in any industry and as such accountants are required to be competent in a number of areas.
- Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two accounts.
- Transaction are of two types, namely, cash and credit transactions.

SELF-EXAMINATION QUESTIONS

I. MULTIPLE CHOICE QUESTIONS.

CHOOSE THE CORRECT ANSWER.

1. The root of financial accounting system is
[BEQ; HY-'18, '19; Mar-'19; Sep-'21; Aug-'22; July-'23 & '24]
(a) Social accounting
(b) Stewardship accounting
(c) Management accounting
(d) Responsibility accounting
[Ans. (b) Stewardship accounting]
2. Which one of the following is not a main objective of accounting? [Sep-2020; May-'22]
(a) Systematic recording of transactions
(b) Ascertainment of the profitability of the business
(c) Ascertainment of the financial position of the business
(d) Solving tax disputes with tax authorities
[Ans. (d) Solving tax disputes with tax authorities]
3. Which one of the following is not a branch of accounting? [BEQ; Govt. MQP-'18; CRT-'22]
(a) Financial accounting
(b) Management accounting
(c) Human resources accounting
(d) None of the above
[Ans. (d) None of the above]

4. Financial position of a business is ascertained on the basis of

[BEQ; First Mid & QY-'18; June-'19; Mar. & HY-'23]

- | | |
|-------------------|-------------------|
| (a) Journal | (b) Trial balance |
| (c) Balance Sheet | (d) Ledger |

[Ans. (c) Balance Sheet]

5. Who is considered to be the internal user of the financial information?

[BEQ; HY-'18;

QY & June-'19; CRT-'22; July & QY-'23; Mar-'24]

- | | |
|--------------|----------------|
| (a) Creditor | (b) Employee |
| (c) Customer | (d) Government |

[Ans. (b) Employee]

II. VERY SHORT ANSWER QUESTIONS.

1. Define accounting. [BEQ; First Mid-'18; Sep-2020; CRT & May-'22; QY-'23; Mar-'24]

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

2. List any two functions of accounting. [BEQ; Govt. MQP-'18; Mar-'19; Sep-'21; Aug-'22; July-'24]

Ans. (i) **Measurement :**

1. The main function of accounting is to keep systematic record of business transactions, post them to the ledger and ultimately to prepare the final accounts.
2. It also shows the current financial position of the business enterprises.

(ii) Comparison :

1. Accounting helps to compare the actual performance with the planned performance.
2. It is also possible to compare with the accounting policies.

3. What are the steps involved in the process of accounting? [HY-'19]

Ans. The Steps involved in accounting are :

- (i) Identifying the transactions and Journalising.
- (ii) Posting and Balancing.
- (iii) Preparation of Trial Balance.
- (iv) Preparation of Trading Account.
- (v) Preparation of Profit and Loss Account.
- (vi) Preparation of Balance Sheet.

4. Who are the parties interested in accounting information? [QY-'19; Mar. '23]

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

(i) Internal users :

1. Owners
2. Management
3. Employees

(ii) External users :

1. Creditors and Financial institutions
2. Investors
3. Customers
4. General public
5. Tax authorities and regulatory bodies
6. Government
7. Researchers

5. Name any two bases of recording accounting information. [BEQ; HY-'18; CRT-'22]

Ans. There are three bases of accounting in common usage, namely

- (i) Cash Basis
- (ii) Accrual or mercantile basis
- (iii) Mixed or hybrid basis

III. SHORT ANSWER QUESTIONS**1. Explain the meaning of accounting.** [QY-'18]

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

(ii) Accounting gives information on:

1. the resources available
2. how the available resources have been employed and
3. the results achieved by their use.

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

2. Discuss briefly the branches of accounting.

[BEQ; First Mid-'18; Aug-'22; July & HY-'23; July-'24]

Ans. The various branches of accounting are

(i) Financial Accounting :

1. It involves recording of financial transactions and events.
2. It provides financial information to the users for taking decisions.
3. It ends up with the preparation of trading and profit and loss account and balance sheet.

(ii) Cost Accounting : It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purposes of cost control and managerial decision making.

(iii) Management Accounting : It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day - to - day operations of an enterprise.

(iv) Social Responsibility Accounting: It is concerned with presentation of accounting information from the view point of the society by showing the social costs and social benefits.

(v) Human Resource 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. [Mar-'19 & '23; QY-'19; Sep-'21; CRT-'22]

Ans. Importance of accounting is enumerated as below: [July-'24]

(i) Systematic records :

1. All the business transactions are recorded in the books of accounts.
2. Any event or happening which has financial effects is included in the accounting records.

(ii) Preparation of financial statements:

Results of business operations and the financial position of the concern are provided by accounting periodically through the preparation of financial statements namely profit and loss account and balance sheet.

(iii) Assessment of progress : Analysis and interpretation of financial statements can be done to assess the progress made in different areas and it also identify the areas of weaknesses.

(iv) Information to interested groups: Accounting supplies appropriate information to different interested groups like owners, creditors, management, employees, financiers, tax authorities and government.

(v) Computation of tax : Accounting records are the basic source for computation and settlement of income tax and other taxes.

4. Why are the following parties interested in accounting information? [HY-'19; CRT-'22]

(a) Investors (b) Government

Ans. (a) Investors :

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

(b) Government :

1. The scarce resources of the country are used by business enterprises.

2. 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.

3. Government also administers prices of certain commodities.

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

[BEQ; HY-'18; Sep-2020; May-'22; QY-'23]

Ans. An accountant designs the accounting procedures for an enterprise. He plays several roles in an organisation as follows :

(i) Record keeper :

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

(ii) Provider of information to the management:

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

(iii) Protector of business assets: The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.

(iv) 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:

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

Government Exam Questions and Answers

I. CHOOSE THE CORRECT ANSWER.

1 MARK

(i) CHOOSE THE CORRECT OPTION.

1. Luca Pacioli an Italian developed double entry book keeping system in the year.

[First Mid-'18; QY-'18 & '19]

(a) 1449 (b) 1494 (c) 1944 (d) 1459

[Ans. (b) 1494]

2. Who is considered to be the external uses of the financial information?

[First Mid-'18]

(a) Owner (b) Investors
(c) Management (d) Employees

[Ans. (b) Investors]

3. There are _____ bases of Accounting.

[Sep-2020]

(a) One (b) Two (c) Three (d) Four

[Ans. (c) Three]

4. The person who developed double-entry book-keeping system :

[Mar. '23]

(a) R.N. Carter (b) J.R. Batliboi
(c) M.C. Shukla (d) Luca Pacioli

[Ans. (d) Luca Pacioli]

5. A famous book of "Arthashastra" was written by :

[July-'23]

(a) Kautilya (b) Kambhar
(c) Valmiki
(d) Chandragupta Maurya

[Ans. (a) Kautilya]

(ii) MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1. *[BEQ; Govt. MQP-'18]*

List I	List II
(i) Internal user of accounting information	1. Human Resource Accounting
(ii) External user of accounting information	2. Tax manager
(iii) Role of an accountant	3. Researchers
(iv) Branches of accounting	4. Employees

Codes:

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	2	1
(d)	2	3	1	4

[Ans. (c) (i) - 4 (ii) - 3 (iii) - 2 (iv) - 1]

(iii) PICK THE ODD ONE OUT.

1. *[Govt. MQP-'18]*

(a) Journalising (b) Posting
(c) Trial Balance (d) Trade Discount

[Ans. (d) Trade Discount]

Reason: Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. Other three are process of accounting.

II. SHORT ANSWER QUESTIONS. 3 MARKS

1. What are the objectives of Accounting?

[First Mid-'18; June-'19]

Ans. Following are the objectives of accounting :

- (i) To keep a systematic record of financial transactions and events
- (ii) To ascertain the profit or loss of the business enterprise
- (iii) To ascertain the financial position or status of the enterprise
- (iv) To provide information to various stakeholders for their requirements
- (v) To protect the properties of an enterprise and
- (vi) To ascertain the solvency and liquidity position of an enterprise

2. Read the passage given below and answer the questions that follow:

Accounting is the language of business. The most important function of language is to facilitate communication. The information

about business entities regarding their operating performance and financial status can be obtained from the financial information recorded in the accounting records. The information is communicated to the interested users. [BEQ; Govt. MQP-'18]

Questions:

- (i) Who are the external users of accounting information?
- (ii) Who are the internal users of accounting information?

(iii) Why do the users need accounting information?

- Ans.**
- (i) External users are the persons who are outside the organisation but make use of accounting information for their purposes.
 - (ii) The internal users are owners, management and employees who are within the organisation.
 - (iii) The main need for accounting information is ascertain the profit or loss of the business enterprise.

Additional Questions and Answers

I. CHOOSE THE CORRECT ANSWER.

1 MARK

(i) CHOOSE THE CORRECT OPTION.

1. Accounting is not a modern concept and it is as old as

- | | |
|--------------|------------------|
| (a) money | (b) goods |
| (c) services | (d) all of these |

[Ans. (a) money]

2. The industrial revolution took place in

- | | |
|------------------------------|------------------------------|
| (a) 18 th century | (b) 19 th century |
| (c) 20 th century | (d) Both (a) and (b) |

[Ans. (d) Both (a) and (b)]

3. All the business transactions are recorded in the book of

- | | |
|------------------|-------------------|
| (a) accounts | (b) book keeping |
| (c) transactions | (d) none of these |

[Ans. (a) accounts]

4. Accounting cycle begins with recording of business transactions and ends with the preparation of

- | | |
|------------------------|-------------------------|
| (a) Final accounts | (b) Cost accounts |
| (c) Financial accounts | (d) Management accounts |

[Ans. (a) Final accounts]

5. The activities of a business, which involve transfer of money or money's worth are called

- | | |
|----------------------|-------------|
| (a) Transactions | (b) Events |
| (c) Accounting cycle | (d) Costing |

[Ans. (a) Transactions]

6. What is decreased by the amount of losses incurred and the amounts withdrawn by the proprietor?

- | | |
|-------------|-----------------|
| (a) Assets | (b) Liabilities |
| (c) Capital | (d) Drawings |

[Ans. (d) Drawings]

7. Goodwill is an examples of

- | |
|-----------------------|
| (a) Tangible assets |
| (b) Liabilities |
| (c) Intangible assets |
| (d) Capital |

[Ans. (c) Intangible assets]

8. The document prepared by the seller when he sells goods to the buyer is

- | | |
|-------------|-------------|
| (a) Voucher | (b) Invoice |
| (c) Receipt | (d) Ticker |

[Ans. (b) Invoice]

9. A person who owns a business is called

- | | |
|--------------|----------------|
| (a) Creditor | (b) Proprietor |
| (c) Debtor | (d) Solvent |

[Ans. (b) Proprietor]

10. Financial statements do not consider

- | |
|---|
| (a) Assets expressed in monetary terms |
| (b) Liabilities expressed in monetary terms |
| (c) Assets expressed in non-monetary terms |
| (d) Liabilities expressed in non-monetary terms |

[Ans. (c) Assets expressed in non-monetary terms]

11. External reporting is done for

- (a) Journal
- (b) Trial balance
- (c) Balance Sheet
- (d) Ledger

[Ans. (b) Trial balance]

(ii) MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.**1.**

List I	List II
(i) Internal users of accounting information	(1) Financial advisor
(ii) External users of accounting information.	(2) Management Accounting
(iii) Role of an accountant	(3) Customers
(iv) Branches of accounting	(4) Owners

Codes:

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	1	2
(d)	2	3	1	4

[Ans. (c) (i) - 4 (ii) - 3 (iii) - 1 (iv) - 2]

2.

List I	List II
(i) Capital	(1) Invoice
(ii) Drawings	(2) Divident
(iii) Voucher	(3) Value of goods, assets
(iv) Income	(4) Proprietor

Codes:

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	1	2
(d)	2	3	1	4

[Ans. (c) (i) - 4 (ii) - 3 (iii) - 1 (iv) - 2]

(iii) CHOOSE THE CORRECT OPTION AND FILL IN THE BLANKS.**1.** _____ has rightly been termed as the language of the business.

- (a) Accounting
- (b) Book-keeping
- (c) Accountant
- (d) None of these

[Ans. (a) Accounting]

2. _____ must be properly maintained to increase their productivity.

- (a) Liabilities
- (b) Assets
- (c) Debtors
- (d) None of these

[Ans. (b) Assets]

3. _____ of a business have to be repaid in due time.

- (a) Assets
- (b) Sales
- (c) Liabilities
- (d) None of these

[Ans. (c) Liabilities]

4. _____ also require accounting records to submit in courts to prove their claims.

- (a) Salesmen
- (b) Owners
- (c) Producers
- (d) Businessmen

[Ans. (d) Businessmen]

5. Double - entry book keeping first emerged in Italy in the _____ century.

- (a) 13th
- (b) 14th
- (c) 18th
- (d) 19th

[Ans. (b) 14th]**6.** _____ wrote his 'Summa de arithmetica'.

- (a) Kautilya
- (b) Valluvar
- (c) Luca pacioli
- (d) Chanakaya

[Ans. (c) Luca pacioli]

7. _____ provides the relevant data to make appropriate decisions.

- (a) Management
- (b) Accounting
- (c) Accountant
- (d) Leadership

[Ans. (b) Accounting]

8. Accounting works as a tool for measuring past performance of the _____ enterprises.

- (a) commerce
- (b) business
- (c) both 'a' and 'b'
- (d) none of these

[Ans. (b) business]

9. _____ involves recording of transactions and events which are financial in nature.

- (a) Financial Accounting
- (b) Cost Accounting
- (c) Management Accounting
- (d) Human Resource Accounting

[Ans. (a) Financial Accounting]

10. _____ is concerned with identification, quantification and reporting of investments made in human resources.

- (a) Management Accounting
- (b) Human Resource Accounting
- (c) Cost Accounting
- (d) Financial Accounting

[Ans. (b) Human Resource Accounting]

11. _____ are interested to know whether the business has earned a profit or loss during a particular period.

- (a) Owners
- (b) Management
- (c) Employees
- (d) Producers

[Ans. (a) Owners]

12. _____ use the accounting data in their bargaining strategies with the management.

- (a) Production department
- (b) Labour unions
- (c) Tax authorities
- (d) Researchers

[Ans. (b) Labour unions]

13. _____ also administers prices of certain trades. [BEQ]

- (a) Government
- (b) Tax authorities
- (c) Researchers
- (d) Consumers

[Ans. (a) Government]

14. _____ of a firm has to make innumerable routine and strategic decisions while discharging its functions.

- (a) Book-keeping
- (b) Accounts
- (c) Management
- (d) All the above

[Ans. (c) Management]

15. Accounting works as a tool for measuring past performance of the _____ enterprises.

- (a) commerce
- (b) business
- (c) management
- (d) money

[Ans. (b) business]

16. _____ ends up with the preparation of trading and profit and loss account and balance sheet.

- (a) Cost Accounting
- (b) Human Resource Accounting
- (c) Management Accounting
- (d) Financial Accounting

[Ans. (d) Financial Accounting]

17. _____ is provided with a complete picture of the liquidity, profitability and solvency aspects of the business.

- (a) Accounts
- (b) Transaction
- (c) Management
- (d) Book-keeping

[Ans. (c) Management]

(iv) **PICK THE ODD ONE OUT.**

1. (a) Capital (b) Drawing
(c) Voucher (d) Trial balance

[Ans. (d) Trial balance]

Reason: Trial Balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. Other three are basic accounting terminologies.

2. (a) Financial accounting
(b) Cost accounting
(c) Bank reconciliation statement
(d) Human Resource accounting

[Ans. (c) Bank reconciliation statement]

Reason: Bank reconciliation statement is prepared by the business entity. Other three are branches of accounting.

(v) **WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?**

1. (a) Internal users - Employees
(b) External users - Investors
(c) Record keepers - Systematic record
(d) Asset - Financial obligation

[Ans. (d) Asset - Financial obligation]

(vi) WHICH ONE OF THE FOLLOWING IS CORRECTLY MATCHED?

1. (a) Luca Pacioli - Double Entry book keeping
 (b) Industrial revolution - 20th Century
 (c) Social Responsibility Accounting - 19th Century
 (d) Accounting Cycle - Bank reconciliation statement

[Ans. (a) Luca Pacioli - Double Entry book keeping]

2. (a) Cash transaction - Credit receipt
 (b) Capital - Salary
 (c) Voucher - Cash memo
 (d) Expense - Commission

[Ans. (c) Voucher - Cash memo]

(vii) CONSIDER THE FOLLOWING STATEMENT.

1. **Assertion (A) : Any written or printed document in support of a business transaction is called a voucher.**

Reason (R) : Cash receipt, invoice, cash memo, bank pay-in-slip are the examples of voucher.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

2. **Assertion (A) : The cost incurred by a business in the process of earning revenue are known as expenses.**

Reason (R) : ABC company paid ₹20,000 as salaries, reduction in the value of asset.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

3. **Assertion (A) : The first step in the Accounting process is identifying the financial transactions of a business.**

Reason (R) : Entries are made in the journals on the basis of source documents in the chronological order, i.e., the order of occurrence of the transactions.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

4. **Assertion (A) : Accounting provides relevant information to the management for planning, evaluation of performance and control.**

Reason (R) : Accounting works as a tool for measuring the performance of the business enterprises.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 (c) (A) is true, but (R) is false.
 (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

(viii) CHOOSE THE CORRECT STATEMENT

1. (i) Accountancy provides the basic theory, principles and methods to be followed to account for all financial activities taking place in an organisation.
(ii) Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.
(iii) Accounting cycle is the sequence of steps involved in the accounting process.
(a) (i) is correct (b) (ii) is correct
(c) (iii) is correct
(d) (i), (ii) and (iii) are correct

[Ans. (d) (i), (ii) and (iii) are correct]

2. (i) The first step in the accounting process is identifying the financial transactions of a business.
(ii) Transferring the entries from the ledger to the journal is called posting.
(iii) Finding the difference between the total of the debit column and credit column of all the ledger accounts is called balancing.
(a) (i) is correct (b) (ii) is correct
(c) (i) and (iii) are correct
(d) (i), (ii) and (iii) are correct

[Ans. (c) (i) and (iii) are correct]

II. VERY SHORT ANSWER QUESTIONS.

2 MARKS

1. What is financial accounting?

- Ans.** (i) Financial Accounting involves recording of transactions and events which are financial in nature.
(ii) It provides financial information to the users for taking decisions
(iii) It ends up with the preparation of trading and profit and loss account and balance sheet.

2. What is sales?

- Ans.** When goods meant for resale are sold, it is called sales.

3. What is cost accounting?

[BEQ]

- Ans.** Cost Accounting 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.

4. Who is a proprietor?

[BEQ]

- Ans.** (i) A person who owns the business is called proprietor.
(ii) He contributes capital to the business with the intention of earning profit.

5. What is meant by drawings?

- Ans.** Drawing is the amount of cash or value of goods, assets, etc., withdrawn from the business by the owner for the personal use of the owner.

6. What do you mean by accounting cycle?

- Ans.** An accounting cycle is a complete sequence of accounting process, that begins with the recording of business transactions and ends with the preparation of final accounts.

7. What is bad debt?

- Ans.** Bad debt is a loss to the business arising out of failure of a debtor to pay the dues.

8. What is depreciation?

- Ans.** Depreciation refers to the gradual reduction in the value of fixed assets due to usage and passage of time.

9. What is purchases and purchase returns?

- Ans.** (i) Buying of goods with the intention of resale is called purchases.
(ii) When goods bought are returned to the suppliers, it is known as purchase return or returns outward.

10. Write short notes on :

- a) Debtors b) Creditors**

Ans. a) Debtors :

A person who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time.

b) Creditors :

A person who gives a benefit without received money or money's worth immediately buy to claim in future.

11. What do you mean by solvency and Insolvency?

- Ans.** (i) Solvency is the capability of a person or an enterprise to pay the debts.
 (ii) Insolvency is the incapability of a person or an enterprise to pay the debts.

12. What do you mean by Accounting Cycle?

- Ans.** (i) Accounting cycle is the sequence of steps involved in the accounting process.
 (ii) Accounting cycle starts with the identification and recording of financial transactions of an organisation and ends with the preparation of final accounts for the accounting year.

III. SHORT ANSWER QUESTIONS. 3 MARKS**1. Explain the term transactions.**

- Ans.** (i) Transactions are those activities of a business, which involve transfer of money or goods or services between two persons or two accounts.
 (ii) For example, purchase of goods, sale of goods, leading of money, salaries paid, rent paid, commission received and dividend received.
 (iii) Transactions are of two types, namely cash and credit transactions.

1. Cash transaction :

It is a transaction in which cash receipt or cash payment is involved.

2. Credit transaction :

It is a transaction in which cash is not received or paid immediately, but will be paid or received later.

2. Briefly explain the following terms [BEQ]

a) Account b) Voucher c) Invoice

- Ans. a) Account :**
 (i) An Account is the basic unit of accounting.
 (ii) Transactions are recorded into various accounts.
 (iii) In other words, an account is a summary of transactions under some common head.
b) Voucher :
 (i) Any written document in support of a business transaction is called a voucher.

- (ii) **Example :** Cash receipt, invoice, cash memo, bank pay-in-slip etc.

c) Invoice :

- (i) It is a statement prepared by a seller of goods to be sent to the buyer.
 (ii) It shows details of quantity, price, value etc., of the goods and any discount given, finally showing the net amount payable by the buyer.

3. Write short notes on a) Income b) Expense c) Revenue**Ans. a) Income :**

Income is the difference between revenue and expense.

b) Expense :

- (i) Expenses is the amount spent in order to produce and sell the goods and services.
 (ii) For example, purchase of raw materials, payment of salaries, wages etc.

c) Revenue :

Revenue means the amount receivable or realised from sale of goods and earnings from interest, dividend, commission, etc.

4. Write short notes on a) Capital b) Assets c) Liabilities**Ans. a) Capital :**

- (i) Capital is the amount invested by the owner in an organisation.
 (ii) This amount is increased by the profit of the business and the amount of additional capital introduced.

b) Assets :

- (i) Any physical thing or right owned that has a monetary value is called assets.
 (ii) Assets can be classified into tangible and intangible.
 (iii) Tangible assets are those having physical existence. It can be seen and touched.
 (iv) Intangible assets are those assets having no physical existence. It cannot be seen and touched.

c) Liabilities :

- (i) Liabilities refers to the financial obligations of a business.

- (ii) For example, loans from banks or other persons, creditors for goods supplied, bills payable, outstanding expenses, bank overdraft etc.

5. What are the informational needs of internal users?

Ans. The internal users comprise of owners, management and employees who are with in the organisation.

(i) Owners :

1. The owners of a business furnish capital to be used for the purpose of business.
2. They are interested to know whether the business has earned a profit or loss during a particular period and also its financial position on a particular date.

(ii) Management :

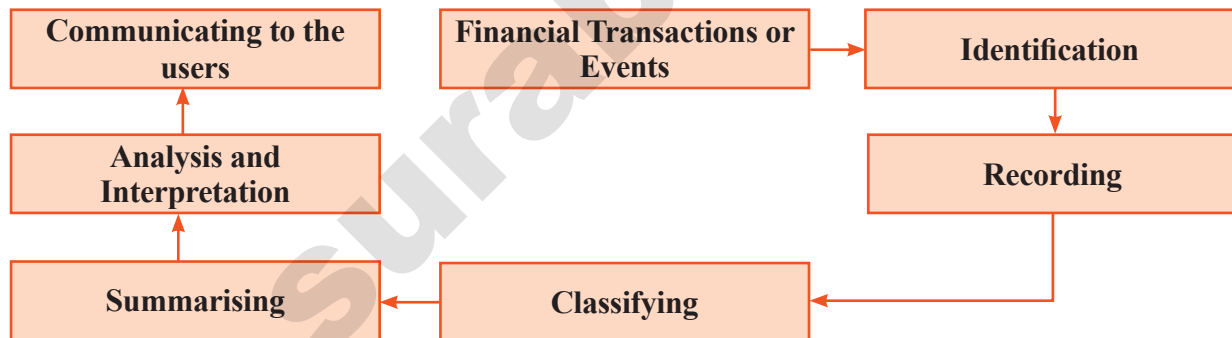
1. Accounting data are the basis for most of the decisions made by the management.
2. The trends in sales and purchases, relationship of expenses to the turnover, productivity of workers, comparative profitability of different products and divisions etc.

(iii) Employees :

1. The employees are interested in the profit earning capacity of the business which will affect their salary, bonus, incentives and working conditions.
2. Labour unions use the accounting data in their bargaining strategies with the management.

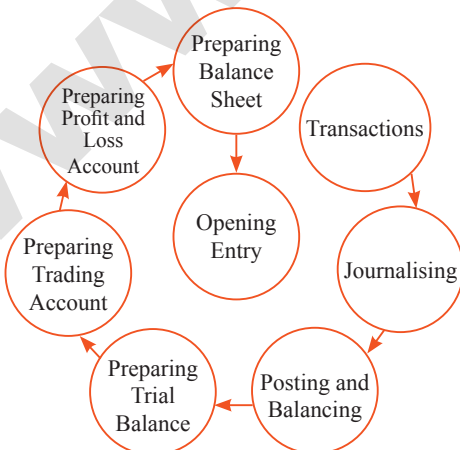
6. What is the process of accounting?

- Ans.** (i) Accounting process starts with identifying financial transactions, involves recording, classifying, and summarising and ends with interpreting accounting information to various concerned parties.
- (ii) Accounting process can be explained with the help of the diagram given below.



7. Explain the Process of Accounting cycle.

Ans. Process of Accounting cycle :



- (i) When a businessman starts his business activities, he records the day-to-day transactions in the journal.
- (ii) From the journal the transactions move further to the ledger where accounts are written up.
- (iii) Preparation of trading and profit and loss account is the next step.
- (iv) The balancing of profit and loss account gives the net result of the business transactions.
- (v) Thus this cyclic movement of the transactions through the books of accounts (accounting cycle) is a continuous process.

IV. LONG ANSWER QUESTIONS. 5 MARKS**1. Narrate the evolution of accounting.**

- Ans.** (i) In the earliest days of civilisation, accounting was done by stewards who managed the properties of wealthy people. They rendered accounts periodically to the owners of property.
- (ii) The stewardship accounting is said to be the root of accounting. Records of debit and credit were found in the 12th century itself.
- (iii) In 1494, Luca Pacioli an Italian developed double-entry book-keeping system.
- (iv) Due to the industrial revolution in the 18th and 19th centuries, large scale operations were carried on and joint stock companies emerged as an important form of organisation which required separation of ownership from management.
- (v) Hence, to safeguard the interest of owners and investors, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.
- (vi) In the 20th century, the need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of accounting.
- (vii) Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21st century, due to the vast growth in business activities as a result of development in various fields.

2. Explain the Accounting cycle.

- Ans.** Accounting cycle is the sequence of steps involved in the accounting process. Accounting cycle starts with the identification and recording of financial transactions of an

organisation and ends with the preparation of final accounts for the accounting year. The steps involved are :

(i) Identifying the transactions and journalising :

- (1) The first step in the accounting process is identifying the financial transactions of a business.
- (2) All the monetary transactions are recorded in the books of original entry called journals.

(ii) Posting and balancing :

- (1) Transferring the entries from the journal to the ledger is called posting.
- (2) In the ledger, entries are made in each account after classifying them under common heads. Finding the difference between the total of the debit column and credit column of all the ledger accounts is called balancing.

(iii) Preparation of trial balance :

- (1) The list of ledger balances namely trial balance is prepared as the next step.
- (2) On the basis of ledger balances the financial statements are prepared.

(iv) Preparation of trading account :

- (1) Next step is preparation of trading account for a particular accounting period.
- (2) All the direct revenues and direct expenses are transferred to trading account.
- (3) The balance in the trading account is the gross profit or gross loss.

(v) Preparation of profit and loss account:

- (1) Profit and loss account is prepared next for a particular accounting period.

(2) All the indirect revenues and indirect expenses along with gross profit or gross loss are transferred to profit and loss account.

(3) The balance in the profit and loss account is the net profit or net loss.

(vi) Preparation of balance sheet :

(1) A statement showing the balances of assets and liabilities namely balance sheet is prepared as the final step in the accounting process.

(2) It is prepared on a particular date, normally, on the last day of the accounting period.

3. Briefly explain the functions of accounting.

Ans. The main functions of accounting are as follows :

(i) Measurement :

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

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

(ii) Forecasting :

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

(iii) Comparison :

1. Accounting helps to assess the actual performance with the targets.

2. It also discloses the accounting policies.

(iv) Decision making :

1. Accounting assists the management in planning, evaluation of performance, control and decision making by providing required information to various users of accounts.

2. This will help them to take various decisions on cost, price, sales, volume, etc.

(v) Control :

1. As accounting works as a tool of control, the strengths and weaknesses are identified to provide feedback on various measures adopted.

2. It serves as a tool for evaluating compliance of business policies and programmes.

(vi) Assistance to Government :

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

2. Accounting provides relevant information about the business to exercise government control on business enterprises.

4. What are the bases of accounting? and briefly explain it.

Ans. There are three bases of accounting in common usage, namely

- (i) Cash basis
- (ii) Accrual or mercantile basis
- (iii) Mixed or hybrid basis

(i) Accounting on cash basis :

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

2. Credit transactions are not recorded till the cash is actually received or paid.

3. Under the basis,

- a) Any income received
- b) Any expenditure paid
- c) Any asset purchased for which cash is paid.
- d) Any liability paid during the accounting period. Whether related to the past, present or future is taken into account.

(ii) Accrual or mercantile basis :

- 1) Under accrual basis of accounting, the income whether received or not but has been earned or accrued during the period and expenses incurred whether paid or not are recorded.
- 2) Under this basis,
 - a) Any income earned whether received or not
 - b) Any expenditure incurred whether paid or not
 - c) Any asset purchased whether cash is paid or not
 - d) Any liability incurred whether paid or not during the accounting period is recorded.

(iii) Hybrid or mixed basis :

1. Under mixed basis of accounting both cash basis and accrual basis are followed.
2. Incomes are generally recorded on cash basis whereas expenses are generally taken on accrual basis.

5. Describe the informational needs of external users.*[BEQ]*

Ans. External users are the persons who are outside the organisation but make use of accounting information for their own purposes. They are :

(i) Creditors and Financial institutions :

1. Suppliers of goods and services, commercial banks, public deposit holders, debenture holders etc; are included in this category.
2. They are interested in the liquidity position and repaying capacity of the business to know the safety of getting the interest and get back the principal amount.

(ii) Investors :

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

2. They are more interested in future earning and risk.

(iii) Customers :

1. Those who use the products and services of a firm are interested in knowing the justification for the prices charged to them.
2. They examine the expenses, sales and profits to see if they are paying fair prices for the products and services.

(iv) Tax authorities :

1. Accounting information helps them in computing goods and services Tax, Income tax etc., to be collected from business units.
2. They scrutinise the revenues and expenses of business firms to determine their accuracy.

(v) Government :

1. Government also administers prices of certain trades.
2. In such cases, government agencies have to ensure that the guidelines for pricing are followed.

vi) Researchers :

Researchers to carry out their research can make use of the published financial statements in their analysis and evaluation.

Creative Questions**VERY SHORT ANSWER QUESTIONS. 2 MARKS**

1. "The role of accounting has changed over the period of time". Do you agree?

Ans. Earlier the role of Accounting was limited to recording of transactions. Now, it has sifted to providing information to managers and interested parties, to help them take appropriate decision. It is now regarded as an information system.

2. 'Accounting information should be comparable'. Do you agree with this statement? Give two reasons.

Ans. Yes, Accounting information should be comparable because,

- i) It helps to make inter-firm comparisons, i.e., to find out how a firm has performed as compared to the other firms.
- ii) It helps to make inter-period comparisons, i.e., to find out how it has performed as compared to the previous years.

SHORT ANSWER QUESTIONS.**3 MARKS**

1. Non-monetary transactions are not recorded in the books of accounts'. Give reason and explain.

- Ans.**
- (i) Accounting records only those transactions and events which can be expressed in terms of money such as sale of purchase of goods, salary paid etc.
 - (ii) Non-monetary transactions i.e. those transactions which cannot be expressed in terms of money are not recorded in the books of accounts.
 - (iii) Example of such transactions are value of human resources, appointment of a new managing director, etc.
 - (iv) These transactions may be important for the business but these are not recorded in the books of accounts. Because these cannot be measured in monetary terms.

2. Is accounting an art or a Science?

Ans. Accounting is both an art as well as Science.

i) Art :

- 1. Art is the technique of achieving some pre-determined objectives.
- 2. And accounting is also an art of recording, classifying and summarising financial transactions.

ii) Science :

- 1. Science is an organised knowledge based on certain basic principles.
- 2. Therefore, Accounting is also a Science as it is an organised knowledge based on certain principles.

HOTS Questions

VERY SHORT ANSWER QUESTIONS.**2 MARKS**

1. Accounting records of business transactions and events which are of financial nature. Is this a limitation of accounting?

Ans. Yes, it is a limitation of accounting because there are events which impact business but are not recorded because they are not of financial nature.

2. A firm follows a practice of giving the figures of previous year along with the figures of current year. Now the accountant of the firm wants to discontinue this practice. Do you justify this decision?

Ans. No, comparability of current year figures with that of previous year is a qualitative characteristic of financial information. Discontinuation of this practice will result in discontinuation of a good practice being followed by the firm.

3. Mr. Suresh, an electronic good dealer, gifted a microwave of value ₹40,000 to his friend Roshan and recorded it in books as drawings. Is he correct?

Ans. Yes, he is correct, it will be treated as drawings and will be recorded in the books.



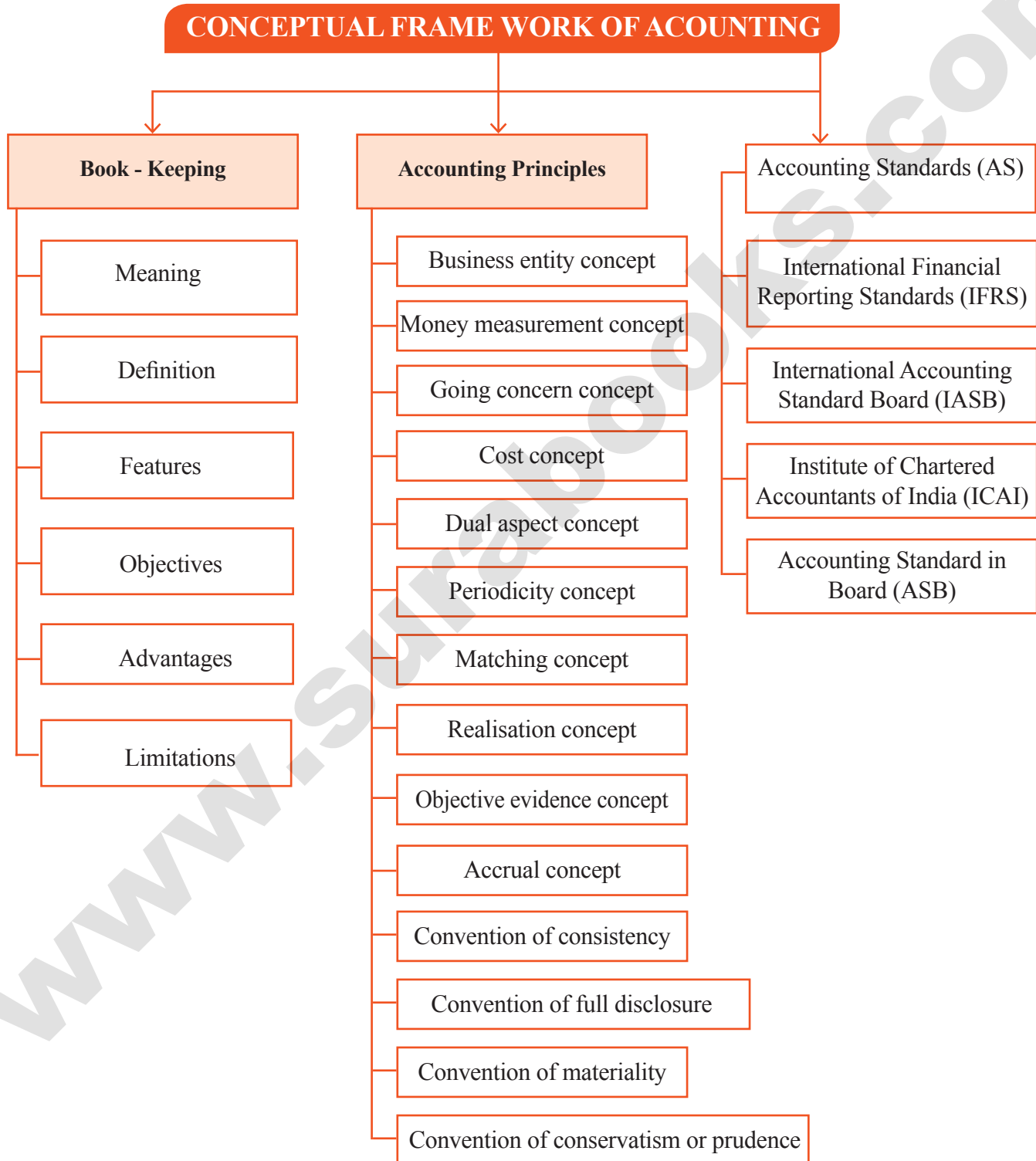
UNIT 2

CONCEPTUAL FRAMEWORK OF ACCOUNTING

CHAPTER SNAPSHOT

- 2.1 Book-keeping – An introduction**
 - 2.1.1** Meaning of book-keeping
 - 2.1.2** Definition of book-keeping
 - 2.1.3** Features of book-keeping
 - 2.1.4** Objectives of book-keeping
 - 2.1.5** Advantages of Book-keeping
 - 2.1.6** Limitations of book-keeping
- 2.2 Book-keeping Vs. Accounting**
- 2.3 Relationship among Book-keeping, Accounting and Accountancy**
- 2.4 Accounting Principles**
- 2.5 Accounting Standards (AS)**
 - 2.5.1** Need for accounting standards
- 2.6 International Financial Reporting Standards (IFRS)**
- 2.7 Accounting Standards in India**

CONCEPT MAP



IMPORTANT POINTS

- Accounting is the language of business. It records business transactions taking place during the accounting period.
- The basic assumptions of accounting are like the foundation pillars on which the structure of accounting is based.
- Six concepts guide how business transactions are reported.
- To make the accounting information useful to various interested parties, the basic assumptions and concepts discussed earlier have been modified.
- IASC the main purpose of this committee is to formulate and publish in public interest, standards to be observed in the presentation of audited financial statements and to promote their world-wide acceptance and observance.
- The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards.

SELF-EXAMINATION QUESTIONS

I. MULTIPLE CHOICE QUESTIONS.

CHOOSE THE CORRECT ANSWER.

1. The business is liable to the proprietor of the business in respect of capital introduced by the person according to

[BEQ; Govt. MQP & QY-'18 & '23; Mar-'19; Sep-'21]

- (a) Money measurement concept
- (b) Cost concept
- (c) Business entity concept
- (d) Dual aspect concept

[Ans. (c) Business entity concept]

2. The concept which assumes that a business will last indefinitely is

[QY-'19, Sep-2020; CRT-'22; July-'23; Mar-'24]

- (a) Business Entity (b) Going concern
- (c) Periodicity (d) Conservatism

[Ans. (b) Going concern]

3. GAAPs are : [HY-'19; May-'22; Mar-'24]

- (a) Generally Accepted Accounting Policies
- (b) Generally Accepted Accounting Principles
- (c) Generally Accepted Accounting Provisions
- (d) None of these

[Ans. (b) Generally Accepted Accounting Principles]

4. The rule of stock valuation 'cost price or realisable value' whichever is lower is based on the accounting principle of :

[BEQ; HY-'18; Sep-'21; Aug-'22]

- (a) Materiality
- (b) Money measurement
- (c) Conservatism
- (d) Accrual

[Ans. (c) Conservatism]

5. In India, Accounting Standards are issued by [Govt. MQP & First Mid-'18; QY. '18, '19 & '23;

HY-'18 & '23; June-'19; Mar. & July-'23 & '24]

- (a) Reserve Bank of India
- (b) The Cost and Management Accountants of India
- (c) Supreme Court of India
- (d) The Institute of Chartered Accountants of India

[Ans. (d) The Institute of Chartered Accountants of India]

II. VERY SHORT ANSWER QUESTIONS.

1. Define Book Keeping.

[BEQ; Govt. MQP-'18; Mar-'19; July & HY-'23; July-'24]

Ans. According R.N. Carter defines, "Book keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth".

2. What is meant by accounting concepts?

- Ans.** (i) Accounting concepts are the basic assumptions or conditions upon which accounting has been laid.
- (ii) Accounting concepts are the results of broad consenses.
- (iii) The word concept means a notion or abstraction which is generally accepted.
- (iv) Accounting concepts provide unifying structure to the accounting process and accounting reports.

3. Briefly explain about realisation concept.

[CRT-'22]

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

4. What is "Full Disclosure Principle" of accounting? [BEQ; HY-'18, Sep-2020; CRT-'22; QY-'23]

- Ans.** (i) It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement.
- (ii) This is important because the management is different from the owners in most of the organisations.
- (iii) 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.

[Sep-'21]

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

III. SHORT ANSWER QUESTIONS.**1. What is matching concept? Why should a business concern follow this concept?**

[QY-'19; CRT-'22]

- Ans.** (i) According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.
- (ii) This concept is based on accrual concept and periodicity concept.
- (iii) Periodicity concept fixes the time frame for measuring performance and determining financial status.
- (iv) All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

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

[BEQ; Govt. MQP-'18; June-'19; Mar. '23]

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

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

[Mar. '23]

- Ans.** (i) "Business units last indefinitely". This statement is used in Going Concern Concept.
- (ii) 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 incomes.

(iii) The values involved in the going concern concept are :

1. **Growth** : By following the going concern concept, business activities are to be carried out for future growth.
2. **Preparing for future** : By following the going concern assumption, business firm always intends to prepare for the future.

4. Write a brief note on Accounting Standards.

Ans. (i) Accounting Standards provide the framework and norms so that the financial statements of different enterprises become comparable.

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

(iii) Accounting standards in India are issued by the Institute of Chartered Accountants of India (ICAI).

Definition :

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".

Government Exam Questions and Answers

I. CHOOSE THE CORRECT ANSWER.

1 MARK

(i) CHOOSE THE CORRECT OPTION.

1. IFRS is [First Mid-'18]

- (a) Indian Financial Reporting Standards
- (b) Indian Funds Reporting Standards
- (c) International Financial Reporting Standards
- (d) None of these

[Ans. (c) International Financial Reporting Standards]

2. _____ said "Book keeping is an art of recording business dealings in a set of books". [BEQ; June-'19]

- (a) Norcot
- (b) J.R. Batliboi
- (c) R.N. Carter
- (d) Keynes

[Ans. (b) J.R. Batliboi]

3. According to Accounting Principles Assets are recorded at : [CRT-'22]

- (a) Cost price
- (b) Market price
- (c) Re-sale price
- (d) Maximum price

[Ans. (a) Cost price]

(ii) CONSIDER THE FOLLOWING STATEMENT.

1. Assertion (A): Book keeping provides a permanent and reliable record for all business transactions.

Reason (R) : Transactions are recorded systematically in chronological order in the books of account.

[BEQ; Govt. MQP-'18]

Select the correct answer:

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

II. VERY SHORT ANSWER QUESTIONS.

2 MARKS

1. Give any two advantages of Book-keeping. [QY-'19]

Ans. Book-keeping has the following advantages:

- (i) Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- (ii) Book-keeping is useful to get the financial information.

III. LONG ANSWER QUESTIONS. 5 MARKS

1. Explain the meaning of Book-keeping and its features. (Or)

Write down the features of book-keeping.

[BEQ; First Mid-'18]

Ans. Meaning of Book-keeping :

- (i) Book-keeping is the process of recording financial transactions in the books of accounts.
- (ii) It is the primary stage in the accounting process.
- (iii) It includes recording the transactions and classifying the same under proper heads.
- (iv) Book-keeping work is of routine nature.

Features of Book-Keeping :

Following are the features of book-keeping :

- (i) It is the process of recording transactions in the books of accounts.
- (ii) Monetary transactions only are recorded in the accounts.
- (iii) Book-keeping is the primary stage in the accounting process.
- (iv) Book-keeping includes journalising and ledger processing.

2. What do you mean by accounting concepts? Explain any five concepts. [BEQ; First Mid-'18]

Ans. (i) Accounting principles are the rules of action or conduct which are adopted by the accountants universally. Such accounting principles are known as Generally Accepted Accounting Principles (GAAP).

(ii) Accounting concepts are bye laws whereas conventions are guidelines based upon customs or usage. The important Accounting concepts are listed out below :

1. Business entity concept :

[Mar-'19]

- a) This concept implies that a business unit is separate and distinct from the persons who supply capital to it.
- b) Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view.

- c) This concept helps in keeping business affairs free from the influence of personal affairs of the owner.

2. Money measurement concept :

[QY-'19]

- a) This concept implies that in Accounting, every transaction, or happening or event is recorded in terms of money.
- b) In other words, only those transactions, which can be expressed in terms of money, are recorded in the accounts.

3. Going concern concept : [Mar-'19]

- a) It is the basic assumption that business will continue for a quite long time and it will go on and will not be closed down or stopped for quite a long time.
- b) 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 incomes.

4) Cost concept :

- a) As asset is recorded in the books at the value of price paid for it at the time of its purchase and the cost paid will be the base for all further Accounting.
- b) It is recorded at cost at the time of its purchase, but is systematically reduced in its value by charging depreciation.

5) Accounting period concept :

- a) The true profit or loss earned by a business unit can be ascertained only when the business is liquidated.
- b) But many persons such as proprietors, investors, creditors, employees and the government are interested in knowing the performance of the business unit.

3. What are the differences between Book keeping and Accounting?

[BEQ; First Mid-'18; Mar-'24]

Ans.

S. No.	Basis of distinction	Book-keeping	Accounting
1.	Scope	It is concerned with recording and classifying the business transactions.	It is concerned with recording, classifying, summarising, analysing and interpreting the financial data.
2.	Stage	Book-keeping is the primary stage in accounting. It is the base for accounting.	Apart from the primary stage, it includes secondary stage of analysis and interpretation.
3.	Nature of job	It is routine and clerical in nature.	It is analytical in nature.
4.	Knowledge required	It requires basic knowledge of the principles of journalising and posting.	It requires thorough knowledge of accounting principles, procedures and practices.
5.	Skill required	Analytical skill is not required for book-keeping.	It requires analytical skill.

Additional Questions and Answers

I. CHOOSE THE CORRECT ANSWER.**1 MARK****(i) CHOOSE THE CORRECT OPTION.**

1. The profounder of double entry system of book-keeping is

- (a) J. R. Batlibai (b) Luca Pacioli
(c) Old Kesal (d) Menhar

[Ans. (b) Luca Pacioli]

2. Which of the following does not follow dual aspect concept?

- (a) Increase in one asset and decrease in other asset
(b) Increase in both asset liability
(c) Decrease in one asset and decrease in other asset
(d) Increase in one asset and increase in capital

[Ans. (c) Decrease in one asset and decrease in other asset]

3. Book keeping prepares the ground for the important steps of finalising and interpretation which are usually performed by

- (a) accounting (b) economics
(c) double entry (d) none of these

[Ans. (a) accounting]

4. Assets =

[BEQ]

- (a) Capital – Liability
(b) Capital + Liability
(c) Capital + Investments
(d) Capital + Creditors

[Ans. (b) Capital + Liability]

5. International Financial reporting standards established in

- (a) 1947 (b) 1956 (c) 1970 (d) 1973

[Ans. (d) 1973]

6. The land is purchased for ₹5,00,000 and its market value is ₹ 8,00,000 at the time of preparing final accounts the land value is recorded only for

- (a) ₹5,00,000 (b) ₹8,00,000
(c) ₹3,00,000 (d) ₹6,50,000

[Ans. (a) ₹5,00,000]

7. The dual aspect concept is the basis for

- (a) single entry system
(b) double entry system
(c) book keeping
(d) all the above

[Ans. (b) double entry system]

8. ASB stands for

- (a) Accounting Standard Board
(b) Accounting Standard Business
(c) Accounting Statistics Business
(d) Accounting Standard Books

[Ans. (a) Accounting Standard Board]

9. The proprietor of the business is treated as a creditor for capital introduced by him according to
- Money measurement concept
 - Cost concept
 - Business entity concept
 - Dual aspect concept

[Ans. (b) Cost concept]

10. Which of the following may be called the language of the business?

- Economics
- Statistics
- Accountancy
- English

[Ans. (c) Accountancy]

11. Which of the following is included in the process for book keeping?

- Reading
- Elimination
- Analysis
- Recording and Classification

[Ans. (d) Recording and Classification]

12. The policy of 'anticipate no profit and provide for all possible losses' is followed due to the convention of

- Conservatism
- Consistency
- Materiality
- Realisation

[Ans. (a) Conservatism]

13. Which of the following concepts assumes that a business will last indefinite?

- Business Entity Concept
- Going Concern Concept
- Periodicity Concept
- Conservation Concept

[Ans. (b) Going Concern Concept]

14. If a company fails to make mention of a major law suit filed against it, which it might lose, the Accounting principle violated is that of

- conservatism
- cost principle
- materiality
- full disclosure

[Ans. (d) full disclosure]

15. A firm purchased five briefcases for its managers costing ₹1000 each. The accountant charged it to profit and loss account instead of showing as an asset this was done under

- Consistency concept
- Business entity concept
- Money measurement concept
- Materiality concept

[Ans. (d) Materiality concept]

16. Matching concept is based on the

- Accrual Concept
- Going concern concept
- Money measurement concept
- Accounting Period Concept

[Ans. (d) Accounting Period Concept]

17. Which of the following is / are objectives of issuing Accounting Standard?

- Improve the reliability of financial statements
- Improve the comparability of financial statements
- Provides a set of Accounting policies
- All of these

[Ans. (d) All of these]

- (ii) MATCH LIST I WITH LIST II AND SELECT THE CORRECT ANSWER USING THE CODES GIVEN BELOW.

1.

List I	List II
(i) Book keeping	(1) Accounting Standards Board
(ii) GAAP	(2) Industrial Financial Reporting Standards
(iii) ASB	(3) Accounting Principles
(iv) IFRS	(4) Accounting Process

Codes :

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	1	2
(d)	2	3	1	4

[Ans. (c) (i) - 4, (ii) - 3, (iii) - 1, (iv) - 2]

2.

List I	List II
(i) Accounting	(1) Primary stage
(ii) Accountancy	(2) Collective process
(iii) Book keeping	(3) Process of recording
(iv) Accounting cycle	(4) Systematic knowledge

Codes :

	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	4	1	2
(c)	4	3	1	2
(d)	2	3	1	4

[Ans. (b) (i) - 3, (ii) - 4, (iii) - 1, (iv) - 2]

(iii) CHOOSE THE CORRECT OPTION AND FILL IN THE BLANKS.

1. When money came into existence, _____ activities involving money also flourished along with it.

(a) science (b) economic
(c) commerce (d) business

[Ans. (d) business]

2. _____ involves recording business transactions of financial nature in the books of accounts.

(a) Balance Sheet (b) Trial balance
(c) Book keeping (d) All the above

[Ans. (c) Book keeping]

3. _____ is an art of recording business transactions based on certain principles.

(a) Double entry (b) Single entry
(c) Book keeping (d) Accounting

[Ans. (c) Book keeping]

4. _____ cannot remember all the transactions for quite a long time.

(a) Owners (b) Bankers
(c) Consumers (d) Business Managers

[Ans. (d) Business Managers]

5. _____ is useful to find out tax liability in case of sales tax, income tax, property tax, etc.

(a) Double entry (b) Book keeping
(c) Economics (d) Statistics

[Ans. (b) Book keeping]

6. _____ is basically generating financial information.

(a) Accounting (b) Accountancy
(c) Economic (d) Book keeping

[Ans. (a) Accounting]

7. _____ is the process of managing the income and expenses of a business firm.

(a) Economic (b) Statistics
(c) Accountancy (d) None of these

[Ans. (c) Accountancy]

8. _____ is a branch of knowledge. [BEQ]

(a) Accountancy (b) Accounting
(c) book keeping (d) double entry

[Ans. (a) Accountancy]

9. _____ concept helps in keeping business affairs free from the influence of personal affairs of the owner.

(a) Business entity
(b) Money measurement
(c) Cost

(d) Dual aspect [Ans. (a) Business entity]

10. According to _____ concept only business transactions are recorded.

(a) Dual aspect
(b) Cost
(c) Business entity
(d) Money measurement

[Ans. (c) Business entity]

11. _____ concept implies that is Accounting, every transaction, or happening or event is recorded in terms of money.

(a) Business entity
(b) Money measurement
(c) Cost
(d) Full disclosure

[Ans. (b) Money measurement]

12. _____ does not mean that the asset will always be shown at cost.

(a) Cost concept
(b) Full disclosure concept
(c) Dual aspect
(d) Measurement concept

[Ans. (a) Cost concept]

13. _____ are made for outstanding and prepaid expenses and income.

(a) Adjustments (b) Journals
(c) Ledger (d) Trial balance

[Ans. (a) Adjustments]

14. According to _____ concept, revenue is considered as being earned on the date at which it is realised.

- (a) Matching concept
- (b) Realisation concept
- (c) Objective evidence
- (d) Accrual

[Ans. (b) Realisation concept]

15. The word _____ refers to traditions or customs.

- (a) Accounting
- (b) Book keeping
- (c) Convention
- (d) None of these

[Ans. (c) Convention]

16. _____ will be very much uneconomical to record small details in Accounting.

- (a) Full disclosure
- (b) Consistency
- (c) Convention of materiality
- (d) Convention of conservatism

[Ans. (c) Convention of materiality]

(iv) PICK THE ODD ONE OUT.

- 1.**
- (a) Cost concept
 - (b) Dual aspect concept
 - (c) Matching concept
 - (d) Book Keeping

[Ans. (d) Book Keeping]

Reason: Book Keeping is the process of recording financial transactions in the books of accounts. Other three are important accounting concepts.

- 2.**
- (a) Accountancy
 - (b) Accounting
 - (c) Trial balance
 - (d) Book keeping

[Ans. (c) Trial balance]

Reason: Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. Other three are relationship of accounting.

(v) WHICH ONE OF THE FOLLOWING IS NOT CORRECTLY MATCHED?

- 1.**
- (a) Business entity concept - books of accounts
 - (b) Money measurement concepts - terms of money
 - (c) Going concern concept - valuation of assets and liabilities
 - (d) Dual aspect concept - Charging depreciation

[Ans. (d) Dual aspect concept - Charging depreciation]

- 2.**
- (a) Periodicity concept - Particular period
 - (b) Objective evidence concept - Cash receipts
 - (c) Dual aspect concept - Capital – Liabilities = Assets
 - (d) Convention of materiality concept - Nature of information

[Ans. (c) Dual aspect concept - Capital – Liabilities = Assets]

(vi) WHICH ONE OF THE FOLLOWING IS CORRECTLY MATCHED?

- 1.**
- (a) Capital + Liabilities = Assets
 - (b) Capital – Liabilities = Assets
 - (c) Assets = Liabilities
 - (d) Liabilities = Capital

[Ans. (a) Capital + Liabilities = Assets]

- 2.**
- (a) IFRS - International Financial Reporting Standards
 - (b) ICAI - International Chartered Accountants of India
 - (c) ASB - Accounting Standing Board
 - (d) IASB - Internating Accounting State Board

[Ans. (a) IFRS - International Financial Reporting Standards]

(vii) CONSIDER THE FOLLOWING STATEMENT.

- 1. Assertion (A) :** The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another.

Reason (R) : A firm follows the straight line method of charging depreciation since its purchase or construction. the method should be followed without any change.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

- 2. Assertion (A) : Book-keeping is the process of recording financial transactions in the books of accounts.**

Reason (R) : Book-keeping is part of accounting.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)]

- 3. Assertion (A) : Periodicity concept deals with preparing accounts for a particular period.**

Reason (R) : This concept helps the business in distribution of income to the owners and comparing and evaluating performance of different periods.

Select the correct answer.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
- (c) (A) is true, but (R) is false.
- (d) (A) is false, but (R) is true.

[Ans. (a) Both (A) and (R) are true and (R) is the correct explanation of (A)]

(viii) CHOOSE THE CORRECT STATEMENT

- 1.**
- (i) Book keeping is the primary stage in the accounting process.
 - (ii) Accounting principles provide the basic framework within which the accounting records.
 - (iii) Balance sheet is useful to find out the tax liability.
- (a) (i) is correct
 - (b) (ii) is correct
 - (c) (i) and (ii) are correct
 - (d) (i), (ii) and (iii) are correct

[Ans. (c) (i) and (ii) are correct]

- 2.**
- (i) Money measurement concept implies that only those transactions, which can be expressed in terms of money.
 - (ii) Cost of acquisition will be the base for all further accounting.
 - (iii) Periodicity concept fixes the time frame for measuring performance and determining financial status.
- (a) (i) is correct
 - (b) (ii) is correct
 - (c) (i), (ii) and (iii) are correct
 - (d) (i) and (ii) are correct

[Ans. (c) (i), (ii) and (iii) are correct]

II. VERY SHORT ANSWER QUESTIONS.

2 MARKS

- 1. What is Accounting?** [BEQ]

- Ans.**
- (i) Accounting is a process of recording, classifying, summarizing business transactions and events.
 - (ii) It is to ascertain the financial position and performance and to communicate the results to the interested users.

- 2. What is Accountancy?**

- Ans.**
- (i) Accountancy is the process of managing the income and expenses of a business firm.
 - (ii) Recording, classification and reporting are some key tasks of accountancy.
 - (iii) Accountancy is a branch of knowledge where as accounting is the action or process.

III. SHORT ANSWER QUESTIONS. 3 MARKS**1. What are the limitations of Book keeping?**

Ans. Book keeping has the following limitations.

- (i) Only monetary transactions are recorded in the books of accounts.
- (ii) Effect of price level changes are not considered.
- (iii) Financial data recorded are historical in nature, i.e., only past data are recorded.

2. What do you mean by IFRS?

- Ans.**
- (i) International Financial Reporting standard are issued by the International Accounting Standard Board (IASB).
 - (ii) IFRS is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements.
 - (iii) IFRS are issued to develop Accounting Standards that would be acceptable worldwide and to improve financial reporting internationally.

3. What are the basic concepts of accounting?

Ans. The following are the basic concepts of accounting :

- (i) Business entity concept
- (ii) Money measurement concept
- (iii) Going concern concept
- (iv) Cost concept
- (v) Dual aspect concept
- (vi) Periodicity concept
- (vii) Matching concept
- (viii) Realisation concept
- (ix) Objective evidence concept
- (x) Accrual concept.

4. What are the objectives of book-keeping?

[BEQ]

Ans. Following are the objectives of book-keeping :

- (i) To have a complete and permanent record of all business transactions in chronological order and under appropriate headings.

- (ii) To facilitate ascertainment of the profit or loss of the business during a specific period.

- (iii) To facilitate ascertainment of financial position.

- (iv) To know the progress of the business.

- (v) To find out the tax liabilities.

- (vi) To fulfill the legal requirements

5. What is the need for accounting standards?

Ans. The need for accounting standards is as follows :

- 1. To Promote better understanding of financial statements.
- 2. To help accountants to follow uniform policies and practices.
- 3. To facilitate meaningful comparison of financial statements of two or more entities.
- 4. To enhance reliability of financial statements.
- 5. To meet the legal requirements effectively.

IV. LONG ANSWER QUESTIONS. 5 MARKS**1. Explain the advantages of Book-keeping.**

Ans. Book-keeping has the following advantages:

- (i) Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- (ii) Book-keeping is useful to get the financial information.
- (iii) It helps to have control over various business activities.
- (iv) Records provided by business serve as a legal evidence in case of any dispute.
- (v) Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- (vi) Book-keeping is useful to find out the tax liability.

2. Explain briefly accounting conventions.**Ans. (i) Accounting Conventions :**

1. The word convention refers to traditions or customs.
2. The accounting convention describes the customs or traditions followed as a guide to the preparation of accounting statements.
3. Modern business world has accepted the utility of these Accounting conventions in making financial statements more realistic, reliable, and useful to all concerned parties.

(ii) Convention of consistency :

1. The consistency convention implies that the Accounting practice should remain the same from one year to another.
2. The results of different years will be comparable only when same accounting methods are followed from year to year.
3. **For Example :** If a firm follows the original or fixed instalment method of charging depreciation since its purchase / construction, the method should be followed without any change.

(iii) Convention of full disclosure :

1. The accounts must disclose all material information. The Accounting reports should disclose full and fair information to the related parties.
2. The financial position and performance should be disclosed very honestly to all the users.
3. All the information should be relevant, reliable, comparable and understood by all the concerned authorities.

(iv) Convention of conservatism or prudence :

It is a policy of caution or playing safe. While recording the business transactions one has to anticipate no income but provide for all possible losses.

Creative Questions

VERY SHORT ANSWER QUESTIONS. 2 MARKS

1. Do you think that the principle of conservatism results in creating of secret reserve?

Ans. Yes, principle of conservatism has two effects.

- (i) Profit and loss account discloses lower profit in comparison to the actual profits.
- (ii) Balance sheet will disclose understatement of assets and overstatement of liabilities.

2. Which value is reflected in the Accounting standards issued by ICAI?

Ans. Value of consistency is reflected by the accounting standards issued by ICAI, as following consistent set of standards, enables comparability of financial statements.

SHORT ANSWER QUESTIONS. 3 MARKS

1. How does matching principle apply to depreciation?

Ans. (i) Matching principle states that the expenses of an accounting period are matched with the related revenue for correct determination of profit.

- (ii) According to the matching principle, the purchase price of fixed asset is not related to the accounting period because the benefit derived from its use will be spread over a number of years.

- (iii) Therefore, only depreciation related to the accounting period is considered for determination of profit.

2. "Despite many advantages, double entry system also has some disadvantages". In the light of this statement discuss the advantages of double entry system.

Ans. Despite of many advantages, double entry system has some disadvantages which are as follows :

- (i) Double entry system is complex and hard to understand.
- (ii) It involves time, labour and money, so it is not possible for small business to keep accounts under this system.
- (iii) It required expert knowledge to keep accounts under this system.
- (iv) As the system is complex, there is greater possibility of committing errors and mistakes.

HOTS Questions

VERY SHORT ANSWER QUESTIONS. 2 MARKS

1. A company purchased goods for ₹10,00,000 and sold 80% of such goods during the year. The market value of remaining goods was ₹1,80,000. The Company valued the closing at ₹2,00,000 i.e., cost. Is the statement correct?

Ans. No, the principle of conservatism is being violated. Here the closing stock should have been valued at ₹1,80,000 i.e., lower of cost or Net Realizable Value (NRV) whichever is less.

2. Due to a labour strike, in a factory the production had to stop for a week. The accountant estimated the loss of production and likely loss of profit and recorded it in the books of accounts. Is the the Accountant correct?

Ans. No, as per the money measurement concept only those transactions and events, which can be recorded in money terms on the basis of documentary evidences are recorded in books of accounts.

3. An accountant advised his client, who is a doctor to maintain his accounts on cash basis. Is the advice of accountant correct?

Ans. Yes, the advice given by the accountant is correct as cash basis of accounting is more appropriate for a doctor as he receives his fee in cash.

4. Why is it necessary for accountants to assume that business entity will remain a going concern?

Ans. The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely. Due to this concept distinction is made between capital and revenue expenditure and thus, assets and liabilities are recognised.

5. What is the difference between IFRS and India GAAP?

Ans. The two principle differences between IFRS and Indian GAAP or Accounting standard are as follows :

IFRS	GAAP
1. IFRS are principle based.	Indian GAAP or accounting standard are rule based.
2. IFRS are based on fair values concept.	Indian GAAP or accounting standard are based on historical cost concept.

SHORT ANSWER QUESTIONS. 3 MARKS

1. As per consistency concept a company cannot change an accounting policy. Does this holds true in all instances? Explain.

Ans. Yes, the method and the rate of depreciation can be changed but only in the following circumstances.

- (i) The change is to comply with statutory regulations. or

- (ii) The change would help in better understanding of the true financial position of the business.

Also, the change and its effect on profit should be disclosed in the financial statements of the enterprise.

2. Name the accounting concept or convention associated with the following.

- (i) Assets are recorded at cost, irrespective of the market price.
 (ii) Life of a business should be divided into smaller periods.
 (iii) Accounting transactions should be free from bias of accountants and others.

Ans. (i) Historical cost concept
 (ii) Accounting period concept
 (iii) Verifiable objective concept

- 3. During the financial year, Rajan had cash sales of ₹4,50,000 and credit sales of ₹3,00,000. Expenses incurred for the year were ₹3,50,000 out of which ₹1,50,000 are still to be paid.**

Find out Rajan's income following.

- (i) Cash Basis of Accounting.
 (ii) Accrual Basis of Accounting.

Ans. (i) Cash Basis of Accounting

$$= 4,50,000 - 2,00,000 \quad (3,50,000 - 1,50,000)$$

$$= ₹2,50,000$$

 (ii) Accrual Basis of Accounting

$$= 4,50,000 + 3,00,000 - 3,50,000$$

$$= ₹4,00,000$$

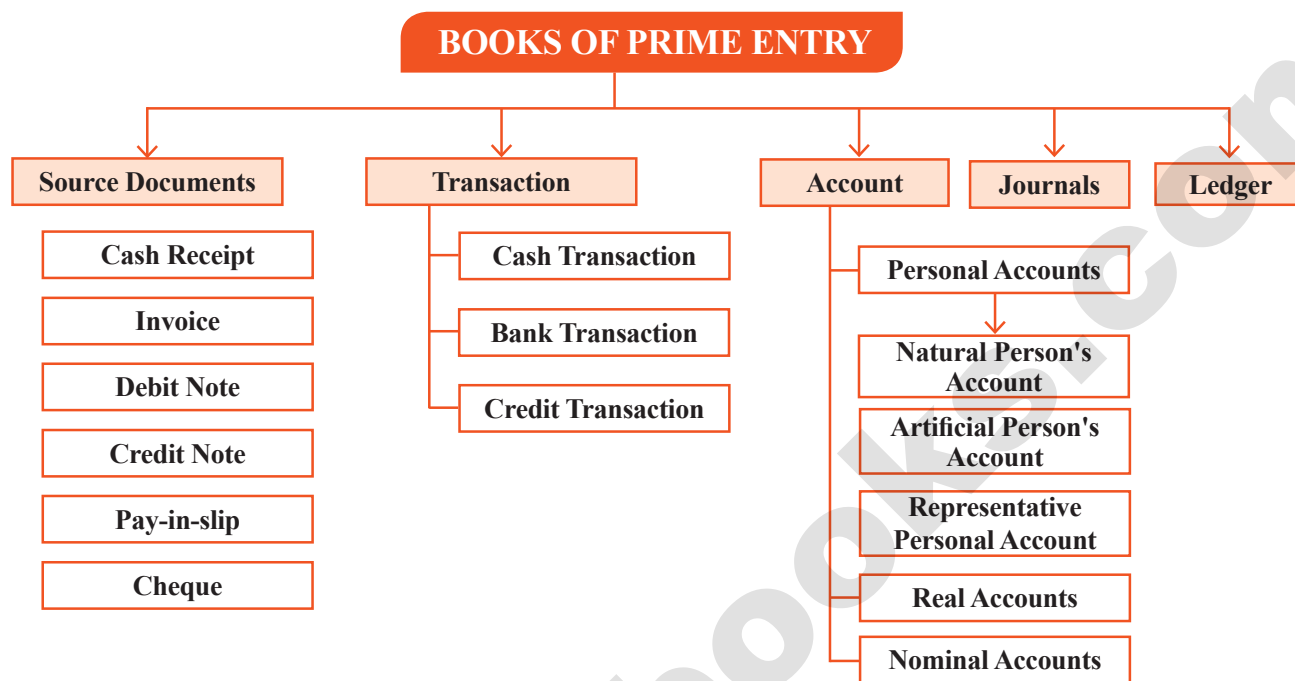
UNIT 3

BOOKS OF PRIME ENTRY

CHAPTER SNAPSHOT

- 3.1** Introduction
- 3.2** Source documents
- 3.3** Double entry system
 - 3.3.1** Definition
 - 3.3.2** Principles of double entry system
 - 3.3.3** Advantages of double entry system
- 3.4** Transaction
- 3.5** Account
- 3.6** Approaches of recording transactions
 - 3.6.1** Accounting equation approach
 - 3.6.2** Traditional approach
- 3.7** Accounting rules
- 3.8** Journal entries
 - 3.8.1** Meaning
 - 3.8.2** Format of Journal
 - 3.8.3** Steps in journalising
 - 3.8.4** Different types of journal entries
 - 3.8.5** Application of rules of double entry system
 - 3.8.6** Analysis of transactions
 - 3.8.7** Advantages of journal

CONCEPT MAP



IMPORTANT POINTS

- ❑ Source documents are the evidence of business transactions.
- ❑ Source documents include cash receipt, invoice, debit note, credit note, pay-in-slip, salary bills, wage bills, counterfoils of cheques.
- ❑ Double entry system is the scientific and complete system of recording the financial transactions of a business.
- ❑ The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit.
- ❑ Transaction can be classified into cash transaction and credit transaction.
- ❑ Accounting Equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
- ❑ Account is the systematic presentation of all material information regarding a particular heading at one place, under one head.
- ❑ In Double entry system of book keeping, for the purpose of recording the various business transactions the accounts are classified as personal accounts and impersonal accounts.
- ❑ Journal is the original book of recording the business transactions in a systematic manner.
- ❑ The transactions are recorded in chronological order in the order of occurrence.
- ❑ Since transactions are first of all recorded in the journal, it is called book of original entry or prime entry or preliminary entry, or first entry.

SELF-EXAMINATION QUESTIONS

I. MULTIPLE CHOICE QUESTIONS.

CHOOSE THE CORRECT ANSWER.

1. Accounting equation signifies
[BEQ; First Mid-'18; Mar. '23]
(a) Capital of a business is equal to assets
(b) Liabilities of a business are equal to assets
(c) Capital of a business is equal to liabilities
(d) Assets of a business are equal to the total of capital and liabilities
[Ans. (d) Assets of a business are equal to the total of capital and liabilities]
2. 'Cash withdrawn by the proprietor from the business for his personal use' causes
(a) Decrease in assets and decrease in owner's capital
(b) Increase in one asset and decrease in another asset
(c) Increase in one asset and increase in liabilities
(d) Increase in asset and decrease in capital
[Ans. (a) Decrease in assets and decrease in owner's capital]
3. A firm has assets of ₹1,00,000 and the external liabilities of ₹60,000. Its capital would be
[Mar-'19; QY. & HY-'23]
(a) ₹1,60,000 (b) ₹60,000
(c) ₹1,00,000 (d) ₹40,000
[Ans. (d) ₹40,000]
4. The incorrect accounting equation is
(a) Assets = Liabilities + Capital [Mar-'24]
(b) Assets = Capital + Liabilities
(c) Liabilities = Assets + Capital
(d) Capital = Assets – Liabilities
[Ans. (c) Liabilities = Assets + Capital]
5. Accounting equation is formed based on the accounting principle of
[BEQ; QY-'18 & '23 & HY-'18; July-'24]
(a) Dual aspect (b) Consistency
(c) Going concern (d) Accrual
[Ans. (a) Dual aspect]
6. Real account deals with
[BEQ; First Mid-'18, Sep-2020; May-'22]
(a) Individual persons
(b) Expenses and losses
(c) Assets
(d) Incomes and gains [Ans. (c) Assets]
7. Which one of the following is representative personal account?
[BEQ; First Mid-'18; HY-'18; QY-'19; July-'23]
(a) Building A/c
(b) Outstanding salary A/c
(c) Mahesh A/c (d) Balan & Co
[Ans. (b) Outstanding salary A/c]

8. Prepaid rent is a [QY-'18 & '23; HY-'19; CRT-'22]
(a) Nominal A/c
(b) Personal A/c
(c) Real A/c
(d) Representative personal A/c
[Ans. (d) Representative personal A/c]
9. Withdrawal of cash from business by the proprietor should be credited to
[BEQ; Govt. MQP-'18; CRT-'22; July-'24]
(a) Drawings A/c (b) Cash A/c
(c) Capital A/c (d) Purchases A/c
[Ans. (b) Cash A/c]
10. In double entry system of book keeping, every business transaction affects
[Sep-'21; CRT & Aug-'22; July-'23]
(a) Minimum of two accounts
(b) Same account on two different dates
(c) Two sides of the same account
(d) Minimum three accounts
[Ans. (a) Minimum of two accounts]

II. VERY SHORT ANSWER QUESTIONS.

1. What are source documents?
[Sep-2021; July-'24]
Ans. (i) Source documents are the authentic financial evidence of transactions. These documents show the nature of transaction, the date, the amount and the parties involved.
(ii) Source documents include cash receipt, invoice, debit note, credit note, pay-in-slip, salary bills, wage bills, cheque record slips, etc.
2. What is accounting equation?
Ans. (i) Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
(ii) This is based on the dual aspect concept of accounting.
(iii) This means that total claims of outsiders and the proprietor will always be equal to the total of assets of business enterprise.

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

3. Write any one transaction which : [BEQ]
a) Decreases the assets and decreases the liabilities
b) Increases one asset and decreases another asset

- Ans.** (a) Cash withdrawn by proprietor - Decrease in Cash and decrease in capital.
 (b) Purchase of furniture for cash-Increase in furniture and decrease in cash.

4. What is meant by journalising?

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

5. What is real account? [CRT-'22]

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

6. How are personal accounts classified?

Ans. Personal accounts can be classified into natural, artificial and representative personal accounts.

7. State the accounting rule for nominal account. [BEQ; Govt. MQP-'18]

Ans. 'Debit all expenses and losses and Credit all incomes and gains'. For nominal accounts, the rule is debit all expenses and losses and credit all incomes and gains.

8. Give the golden rules of double entry accounting system. [BEQ; First Mid-'18;

QY & HY-'18, '19; Mar-'19, '23 & '24; Sep-2020; CRT, May & Aug-'22; QY. & HY-'23]

Ans. **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.

- Ans.** (i) The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.
 (ii) Under the double entry system of book keeping, every transaction has two fold effect, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated.
 $\text{Capital} + \text{Liabilities} = \text{Assets}$

- (iii) Capital can also be called as owner's equity and liabilities as outsider's equity.
 (iv) Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital.
 (v) This is based on the dual aspect concept of accounting.
 (vi) As the revenues and expenses will affect capital, the expanded equation may be given as under:

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

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

Ans. Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head, under accounting equation approach, accounts are classified into five categories. They are,

- (i) **Asset Account** : Any physical thing or right owned that has a monetary value is called asset. These assets are grouped and shown separately.
 For example, Land and Buildings account, plant and machinery account.
 (ii) **Liability Account** : Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities.
 For example, creditors account, expenses outstanding account.
 (iii) **Capital Account** : Financial obligations of a business enterprise towards its owners are grouped under this category.
 For example, Capital contributed by owner.
 (iv) **Revenue Account** : Accounts relating to revenues of an enterprise are grouped under this category.
 For example, Revenues from sale of goods, Rent received.
 (v) **Expenses Account** : Expenses incurred and losses suffered for earning revenue are grouped under this category.
 For example, Purchase of goods, Salaries paid.

3. What are the three different types of personal accounts? [BEQ; Govt. MQP-'18; HY-'18]

Ans. **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?**

Ans. (i) Insurance premium paid on the life of the proprietor is a personal account.

(ii) It is spend for the personal use of the proprietor not for the business purpose. Hence, Drawings A/c should be debited. The Entry is

Drawings A/c	Dr	xxxx
To Cash A/c		xxxx

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

Ans. 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.**

Ans. The following steps are followed in journalising :

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

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

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

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

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

(6) 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.

(7) 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.

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

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

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

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

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

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

Following are the advantages of double entry system :

[Sep-2021]

(1) **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.

(2) **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.

- (3) **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.
- (4) **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.

IV. EXERCISES.

1. Complete the accounting equation.

[BEQ; Govt. MQP-'18; Mar-'19; July-'23]

- (a) Assets = Capital + Liabilities
₹1,00,000 = ₹80,000 + ?
- (b) Assets = Capital + Liabilities
₹2,00,000 = ? + ₹40,000
- (c) Assets = Capital + Creditors
? = ₹1,60,000 + ₹80,000

Solution :

- (a) Assets = Capital + Liabilities
₹1,00,000 = ₹80,000 + ₹20,000
- (b) Assets = Capital + Liabilities
₹2,00,000 = ₹1,60,000 + ₹40,000
- (c) Assets = Capital + Creditors
₹2,40,000 = ₹1,60,000 + ₹80,000

2. For the following transactions, show the effect on accounting equation. [BEQ; HY-'18]

- (a) Raj Started business with cash ₹40,000
- (b) Opened bank account with a deposit of ₹30,000
- (c) Bought goods from Hari on credit for ₹12,000
- (d) Raj withdrew cash for personal use ₹1,000
- (e) Bought furniture by using debit card for ₹10,000

- (f) Sold goods to Murugan and cash received ₹6,000
- (g) Money withdrawn from bank for office use ₹1,000

Solution :

S. No.	Transactions	Cash ₹	Bank ₹	Stock ₹	Furniture ₹	Total Assets ₹	=	Total Liabilities ₹	Capital ₹	Creditors ₹
a)	Started business with cash	+40,000							+40,000	
	Balance	+40,000							+40,000	
	Equation					+40,000	=	+40,000		
b)	Deposited with Bank	-30,000	+30,000							
	Balance	+10,000	+30,000						+40,000	
	Equation					+40,000	=	+40,000		
c)	Credit purchases			+12,000						+12,000
	Balance	+10,000	+30,000	+12,000	—				+40,000	+12,000
	Equation					+52,000	=	+52,000		
d)	Cash withdrawn for personal use	- 1,000	—	—					-1,000	
	Balance	+9,000	+30,000	+12,000					+39,000	+12,000
	Equation					+51,000	=	+51,000		

e)	Furniture purchased		-10,000		+10,000					
	Balance	+ 9,000	+20,000	+12,000	+10,000				+39,000	+12,000
	Equation					+51,000	=	+51,000		
f)	Cash received	+6,000		-6,000						
	Balance	+15,000	+20,000	+6,000	+10,000				+39,000	+12,000
	Equation					+51,000	=	+51,000		
g	Cash withdrawn from bank	+1,000	-1,000							
	Balance	+16,000	+19,000	+6,000	+10,000				+39,000	+12,000
	Equation					+51,000	=	+51,000		

3. Prepare accounting equation for the following transactions.

4. [BEQ; Govt. MQP-'18; QY-'18 & '23; Sep-2020; Mar-'24]

- Murugan commenced business with cash ₹80,000
- Purchased goods for cash ₹30,000
- Paid salaries by cash ₹5,000
- Bought goods from Kumar for ₹5,000 and deposited the money in CDM.
- Introduced additional capital of ₹10,000

Solution :

S. No.	Transactions	Cash ₹	Stock ₹	Total Assets ₹	=	Total Liabilities ₹	Capital ₹
a)	Started business with cash	+80,000					+80,000
	Balance	+80,000					+80,000
	Equation			+80,000	=	+80,000	
b)	Cash purchases	-30,000	+30,000				
	Balance	+50,000	+30,000				+80,000
	Equation			+80,000	=	+80,000	
c)	Paid salaries by cash	-5,000					-5,000
	Balance	+45,000	+30,000				+75,000
	Equation			+75,000	=	+75,000	
d)	Deposited money in CDM	-5,000	+5,000				
	Balance	+40,000	+35,000				+75,000
	Equation			+75,000	=	+75,000	
e)	Introduced additional capital	+10,000					+10,000
	Balance	+50,000	+35,000				+85,000
	Equation			+85,000	=	+85,000	

5. What will be the effect of the following on the accounting equation?
- Sunil started business with ₹1,40,000 cash and goods worth ₹60,000
 - Purchased furniture worth ₹20,000 by cash
 - Depreciation on furniture ₹800
 - Deposited into bank ₹40,000
 - Paid electricity charges through net banking ₹500
 - Sold goods to Ravi costing ₹10,000 for ₹15,000
 - Goods returned by Ravi ₹7,500 (costing ₹5,000)

Solution :

S. No.	Transactions	Cash ₹	Stock ₹	Bank ₹	Furniture ₹	Debtors ₹	Total Assets ₹	=	Total Liabilities ₹	Capital ₹
a)	Started business with cash and goods	+1,40,000	+60,000							+2,00,000
	Balance	+1,40,000	+60,000							+2,00,000
	Equation						+2,00,000	=	+2,00,000	
b)	Furniture purchased	- 20,000			+ 20,000					
	Balance	+1,20,000	+60,000		+ 20,000					+2,00,000
	Equation						+2,00,000	=	+2,00,000	
c)	Depreciation on furniture				- 800					- 800
	Balance	+1,20,000	+60,000		+19,200					+1,99,200
	Equation						+1,99,200	=	+1,99,200	
d)	Deposited into Bank	- 40,000		+ 40,000						
	Balance	+ 80,000	+60,000	+ 40,000	+19,200					+1,99,200
	Equation						+1,99,200	=	+1,99,200	
e)	Paid electricity charges			- 500						- 500
	Balance	+ 80,000	+60,000	+ 39,500	+19,200					+1,98,700
	Equation						+1,98,700	=	+1,98,700	
f)	Sold goods for cash		- 10,000			+15,000				+ 5,000
	Balance	+ 80,000	+50,000	+39,500	+19,200	+15,000				+2,03,700
	Equation						+2,03,700	=	+2,03,700	
g)	Goods returned by Ravi		+ 7,500			-5,000				+2,500
	Balance	+ 80,000	+57,500	+39,500	+19,200	+10,000				+2,06,200
	Equation						+2,06,200	=	+2,06,200	

6. Create an accounting equation on the basis of the following transactions:

[BEQ; First Mid-'18]

- Rakesh started business with a capital of ₹1,50,000
- Deposited money with the bank ₹80,000

- (iii) Purchased goods from Mahesh and paid through debit card ₹25,000
- (iv) Sold goods (costing ₹10,000) to Mohan for ₹14,000 who pays through debit card
- (v) Commission received by cheque and deposited the same in the bank ₹2,000
- (vi) Paid office rent through ECS ₹6,000
- (vii) Sold goods to Raman for ₹15,000 of which ₹5,000 was received at once

Solution :

S. No.	Transaction	Cash ₹	Bank ₹	Stock ₹	Drs ₹	Total Assets ₹	=	Total Liabilities ₹	Capital ₹
i)	Started business with capital	+1,50,000							+1,50,000
	Balance	+1,50,000				+1,50,000	=	+1,50,000	+1,50,000
	Equation								
ii)	Deposited money with the bank	-80,000	+80,000						
	Balance	+70,000	+80,000			+1,50,000	=	+1,50,000	+1,50,000
	Equation								
iii)	Purchased goods from debit card		-25,000	+25,000					
	Balance	+70,000	+55,000	+25,000		+1,50,000	=	+1,50,000	+1,50,000
	Equation								
iv)	Sold goods and received money through debit card		+14,000	-10,000					+ 4,000
	Balance	+70,000	+69,000	+15,000		+1,54,000	=	+1,54,000	+1,54,000
	Equation								
v)	Commission received by cheque		+2,000						+2,000
	Balance	+70,000	+71,000	15,000		+1,56,000	=	+1,56,000	+1,56,000
	Equation								
vi)	Paid rent by ECS		-6,000						- 6,000
	Balance	+70,000	+65,000	15,000		+1,50,000	=	+1,50,000	+1,50,000
	Equation								
vii)	Sold goods to Raman	+5,000		-15,000	+10,000				
	Balance	+75,000	+65,000	0	+10,000	+1,50,000	=	+1,50,000	+1,50,000
	Equation								

7. Create an accounting equation on the basis of the following transactions:

[BEQ; First Mid-'18]

- (i) Started business with cash ₹80,000 and goods ₹75,000
- (ii) Sold goods to Shanmugam on credit for ₹50,000
- (iii) Received cash from Shanmugam in full settlement ₹49,000

- (iv) Salary outstanding ₹3,000
 (v) Goods costing ₹1,000 given as charity
 (vi) Insurance premium paid ₹3000
 (vii) Out of insurance premium paid, prepaid is ₹500

Solution :

S. No.	Transaction	Cash ₹	Stock ₹	Prepaid expenses ₹	Debtors ₹	Total Assets ₹	=	Total Liabilities ₹	Capital ₹	Creditors ₹
i)	Started business with cash and stock	+80,000	+75,000						+1,55,000	
	Balance	+80,000	+75,000						+1,55,000	
	Equation					+1,55,000	=	+1,55,000		
ii)	Credit sales		-50,000		+50,000					
	Balance	+80,000	+25,000		+50,000				+1,55,000	
	Equation					+1,55,000	=	+1,55,000		
iii)	Received cash from Shanmugam	+49,000			-50,000				-1,000	
	Balance	+1,29,000	+25,000		0				+1,54,000	
	Equation					+1,54,000	=	+1,54,000		
iv)	Salary outstanding								- 3,000	+ 3,000
	Balance	+1,29,000	+25,000						+1,51,000	+ 3,000
	Equation					+1,54,000	=	+1,54,000		
v)	Goods costing given as charity		-1,000						-1,000	
	Balance	+1,29,000	+24,000						+1,50,000	+ 3,000
	Equation					+1,53,000	=	+1,53,000		
vi)	Insurance premium paid	-3,000							- 3,000	
	Balance	+1,26,000	+24,000						+1,47,000	+ 3,000
	Equation					+1,50,000	=	+1,50,000		
vii)	Prepaid insurance			+500					+500	
	Balance	+1,26,000	+24,000	+500					+1,47,500	+ 3,000
	Equation					+1,50,500	=	+1,50,500		

8. Enter the following transactions in the journal of Manohar who is dealing in textiles:**2018 March**

1	Manohar started business with cash	₹ 60,000
2	Purchased furniture for cash	10,000
3	Bought goods for cash	25,000
6	Bought goods from Kamalesh on credit	15,000
8	Sold goods for cash	28,000

[BEQ; First Mid-'18; QY-'18, '19; July-'24]

10	Sold goods to Hari on credit	10,000
14	Paid Kamalesh	12,000
18	Paid rent	500
25	Received from Hari	8,000
28	Withdrew cash for personal use	4,000

Solution :

**In the books of Manohar
Journal Entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Cash A/c To Manohar's capital A/c (Account invested in business)	Dr.	60,000	60,000
2	Furniture A/c To Cash A/c (Furniture bought for cash)	Dr.	10,000	10,000
3	Purchases A/c To Cash A/c (Goods purchased by cash)	Dr.	25,000	25,000
6	Purchases A/c To Kamalesh A/c (Credit purchases)	Dr.	15,000	15,000
8	Cash A/c To Sales A/c (Cash sales)	Dr.	28,000	28,000
10	Hari A/c To Sales A/c (Credit sales)	Dr.	10,000	10,000
14	Kamalesh A/c To Cash A/c (Cash paid)	Dr.	12,000	12,000
18	Rent A/c To Cash A/c (Rent paid)	Dr.	500	500
25	Cash A/c To Hari's A/c (Cash received)	Dr.	8,000	8,000
28	Drawings A/c To Cash A/c (Withdrawn for personal use)	Dr.	4,000	4,000

9. Pass journal entries in the books of Sasi Kumar who is dealing in automobiles.

[Mar-'24]

2017 Oct.

1	Commenced business with goods	₹ 40,000
3	Cash introduced in the business	60,000
4	Purchased goods from Arul on credit	70,000
6	Returned goods to Arul	10,000
10	Paid cash to Arul on account	60,000
15	Sold goods to Chandar on credit	30,000
18	Chandar returned goods worth	6,000
20	Received cash from Chandar in full settlement	23,000
25	Paid salaries through ECS	2,000
30	Sasi Kumar took for personal use goods worth	10,000

Solution :**In the books of Sasi Kumar
Journal Entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Oct. 1	Stock A/c To Sasi Kumar's capital A/c (Business started with goods)	Dr.	40,000	40,000
3	Cash A/c To Sasi Kumar's Capital A/c (Capital introduced)	Dr.	60,000	60,000
4	Purchase A/c To Arul's A/c (Credit Purchases)	Dr.	70,000	70,000
6	Arul's A/c To Purchase return A/c (Goods returned to Arul)	Dr.	10,000	10,000
10	Arul's A/c To Cash A/c (Cash Paid)	Dr.	60,000	60,000
15	Chandar's A/c To Sales A/c (Credit Sales)	Dr.	30,000	30,000
18	Sales Return A/c To Chandar's A/c (Goods returned from Chandar)	Dr.	6,000	6,000
20	Cash A/c Discount allowed A/c To Chandar's A/c (Received cash from Chandar)	Dr. Dr.	23,000 1,000	24,000
25	Salaries A/c To Bank A/c (Paid salaries through ECS)	Dr.	2,000	2,000
30	Drawings A/c To Purchases A/c (Being goods taken away by proprietor for personal use)	Dr.	10,000	10,000

10. Journalise the following transactions in the books of Ramesh who is dealing in computers:**2018 March**

[QX-'23]

- Ramesh started business with cash ₹3,00,000, Goods ₹80,000 and Furniture ₹27,000.
- Money deposited into bank ₹2,00,000
- Bought furniture from M/s Jayalakshmi Furniture for ₹28,000 on credit.
- Purchased goods from Asohan for ₹5,000 by paying through debit card.
- Purchased goods from Guna and paid through net banking: ₹10,000
- Purchased goods from Kannan and paid through credit card ₹20,000
- Purchased goods from Shyam on credit for ₹50,000
- Bill drawn by Shyam was accepted for ₹50,000
- Paid half the amount owed to M/s Jayalakshmi Furniture by cheque
- Shyam's bill was paid

Solution :**In the books of Ramesh
Journal Entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Cash A/c Dr. Stock A/c Dr. Furniture A/c Dr. To Ramesh capital A/c (Ramesh started in the business)		3,00,000 80,000 27,000	4,07,000
2	Bank A/c Dr. To Cash A/c (Cash deposited with the bank)		2,00,000	2,00,000
3	Furniture A/c Dr. To M/s Jayalakshmi Furniture A/c (Furniture purchased)		28,000	28,000
4	Purchases A/c Dr. To Bank A/c (Goods purchased and payment made through debit card)		5,000	5,000
5	Purchases A/c Dr. To Bank A/c (Goods purchased and payment made through net banking)		10,000	10,000
6	Purchases A/c Dr. To Bank A/c (Goods purchased through credit card)		20,000	20,000
7	Purchases A/c Dr. To Shyam A/c (Credit purchases made)		50,000	50,000
8	Shyam A/c Dr. To Bills payable A/c (Bill drawn by Shyam and accepted)		50,000	50,000
9	M/s Jayalakshmi furniture A/c Dr. To Bank A/c (Paid half of the amount)		14,000	14,000
10	Bills payable A/c Dr. To Cash A/c (Bills payable paid)		50,000	50,000

11. Raja has a hotel. The following transactions took place in his business. Journalise them.

[QY-'18; Sep-2020; HY.'23]

Jan.		₹
1	Started business with cash	3,00,000
2	Purchased goods from Rajiv on credit	1,00,000
3	Cash deposited with the bank	2,00,000
20	Borrowed loan from bank	1,00,000
22	Withdrew from bank for personal use	800
23	Amount paid to Rajiv in full settlement through NEFT	99,000
25	Paid club bill of the proprietor by cheque	200
26	Paid electricity bill of the proprietor's house through debit card	2,000
31	Lunch provided at free of cost to a charity	1,000
31	Bank levied charges for locker rent	1,000

Solution :**In the books of Raja
Journal Entry**

Date	Particulars	L.F.	Debit ₹	Credit ₹
Jan. 1	Cash A/c Dr. To Raja's capital A/c (Business started with cash)		3,00,000	3,00,000
2	Purchases A/c Dr. To Rajiv A/c (Credit purchases)		1,00,000	1,00,000
3	Bank A/c Dr. To Cash A/c (Cash deposited with the bank)		2,00,000	2,00,000
20	Cash A/c Dr. To Bank loan A/c (Borrowed loan from bank)		1,00,000	1,00,000
22	Drawings A/c Dr. To Bank A/c (Being the amount withdrawn from bank for personal use)		800	800
23	Rajiv A/c Dr. To Bank A/c To Discount received A/c (Rajiv account full settled)		1,00,000	99,000 1,000
25	Drawings A/c Dr. To Bank A/c (Paid club bill of the proprietors by cheque)		200	200
26	Drawings A/c Dr. To Bank A/c (Paid electricity bill by cheque)		2,000	2,000
31	Charity A/c Dr. To Purchases A/c (Goods given for charity)		1,000	1,000
31	Bank charges A/c Dr. To Bank A/c (Bank charges paid)		1,000	1,000

- 12. From the following transactions of Shyam, a stationery dealer, pass journal entries for the month of August 2017.**

August

- 1 Commenced business with cash ₹4,00,000, Goods ₹5,00,000
- 2 Sold goods to A and money received through RTGS ₹2,50,000
- 3 Goods sold to Z on credit for ₹20,000
- 5 Bill drawn on Z and accepted by him ₹20,000
- 8 Bill received from Z is discounted with the bank for ₹19,000
- 10 Goods sold to M on credit ₹12,000
- 12 Goods distributed as free samples for ₹2,000
- 16 Goods taken for office use ₹5,000
- 17 M became insolvent and only 0.80 per rupee is received in final settlement
- 20 Bill of Z discounted with the bank is dishonoured

Solution :**In the books of Shyam
Journal Entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 August 1	Cash A/c Dr. Goods A/c Dr. To Shyam's capital A/c (Shyam commenced business with cash and goods)		4,00,000 5,00,000	9,00,000
2	Bank A/c Dr. To Sales A/c (Sales made and money credited through RTGs)		2,50,000	2,50,000
3	Z's A/c Dr. To Sales A/c (Credit Sales)		20,000	20,000
5	Bills receivable A/c Dr. To Z's A/c (Bill drawn by Z and accepted)		20,000	20,000
8	Bank A/c Dr. Discount A/c Dr. To Bill receivable A/c (Bills receivable discounted with the bank)		19,000 1,000	20,000
10	M's A/c Dr. To Sales A/c (Credit sales)		12,000	12,000
12	Sales promotion A/c Dr. To Purchases A/c (Goods distributed as free samples)		2,000	2,000
16	Office expenses A/c Dr. To Purchases A/c (Goods taken for office use)		5,000	5,000
17	Cash A/c (12,000 × 0.80) Dr. Bad debts A/c Dr. To M A/c (Cash received from M in final settlement)		9,600 2,400	12,000
20	Z A/c Dr. To Bank A/c (Bill discounted with the bank dishonoured)		20,000	20,000

- 13. Mary is a rice dealer having business for more than 5 years. Pass journal entries in her books for the period of March, 2018.**

[BEQ; Govt. MQP & HY-'18; CRT-'22]

March

	₹
1 Ricebags bought on credit from Sibi	20,000
2 Electricity charges paid through net banking	500
3 Returned goods bought from Sibi	5,000
4 Ricebags taken for personal use	1,000
5 Advertisement expenses paid	2,000
6 Goods sold to Mano	20,000
7 Goods returned by Mano	5,000
8 Payment received from Mano through NEFT	