

CHAPTER	
1	Accounting : An Introduction
Unit : 1	Meaning and Scope of Accounting

- [1] (d) Book keeping is concerned with complete and permanent record of all transactions and to obtain the combined effect of all such transactions on the financial position of the business as a whole. It does not include analysis and interpretation of data.
- [2] (a) Transaction denotes a business performance of an act, an agreement, while event is used to mean a happening, as a consequence of a transaction, a result. Events are the end results of transactions. Therefore, stock left at close of year after all transactions in an event.
- [3] (a) Accounting deals with preparation of financial statements i.e. Balance Sheet and Profit & Loss Account and book keeping is only considered with record keeping, hence they are considered a part of accounting and not book keeping.
- [4] (a) In 1970, the **Accounting Principles Board (APB)** of American Institute of Certified Public Accountants (AICPA) enumerated the functions of accounting.
- [5] (c) Management Accounting is concerned with internal reporting to the managers of a business unit. The different ways of grouping information and preparing reports as desired by managers for discharging their functions are referred to as management accounting. It is not a clerical work or accounting for future, although it is based on historical data.
- [6] (b) Accounting is defined as the art of recording, classifying, summarizing, analyzing, interpreting and communicating the results of transactions and events which are of financial character.
Hence, it includes preparation of final accounts, ascertainment of profit or loss and its communication to users, but it does not include any kind of competitive advantage.
- [7] (a) Self explanatory.
- [8] (d) Transaction means a business, performance of an act, an agreement while event signifies a happening, as a consequence of transaction, a result. Thus, purchase of Machinery on 31st Dec, 2005 i.e. last day of accounting year will be a transaction as well as event.

- [9] (d) Inflation refers to a general price rise in the economy. Thus, all issues related to price rise are handled under Inflation Accounting. Management Accounting deals with Management related transactions, Cost Accounting deals with unit costing of a product and Financial Accounting deals with preparation of financial statements.
- [10] (d) Users of financial statements may be internal or external. Internal users may include Board of Directors, Partners, Managers, officers, etc. and External users may include investors, shareholders, government, vendors, suppliers, etc. Hence, all are users of statements in the given question.
- [11] (d) Financial Statements comprise of Trading and Profit & Loss Account and Balance Sheet. Trading Accounting discloses total sales, Profit & Loss Account discloses total Profit or Loss and Balance Sheet will disclose Capital. Cost of Production is not shown by any of these statements, it is shown by cost sheet.
- [12] (b) A transaction, in accounts means 'a business' performance of an act, an agreement; where as an event means a happening as a consequence of transaction, a result.
Payment of rent is not a result, it is just the performance of an Act, hence is a transaction.
- [13] (b) According to the accounting equation:
Assets - Liabilities = Owners equity.
(Current Assets + Fixed Assets) - (Current Liabilities + Long term liabilities) = Owner's equity.
- [14] (a) According to the accounting equation:
Owners capital = Assets - liabilities
 $50,000 = (70,000 + \text{current assets}) - 30,000$
Current Assets = ₹ 10,000.
- [15] (d) Summarising stage is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as external users of financial statements. This process leads to the preparation of the following financial statements.
Therefore, Net Profit or Loss is derived at the summarising stage.
- [16] (d) Objectives of accounting include systematic recording of transactions, ascertainment of profit ability of business and ascertainment of financial position of the business but it does not in any way include solving tax disputes with tax authorities.
- [17] (b) The end results of all the transactions are called an event. Profit earned by an enterprise at the end of a financial year ₹ 57,000 in a business is an event as it represents the net result of all the transactions which have been carried out throughout the year.

- [18] (b) Sale of goods, purchase of goods and rent paid are all transactions closing stock left at the end of the year is an event.
- [19] (b) Accounting has universal application for recording, classifying and summarising the **transactions** and events and presenting suitable information for decision making.
- [20] (b) In its oldest form, accounting aided the stewards to discharge their stewardship function. The wealthy men employed steward to manage their property; the steward in return rendered an account periodically of their stewardship. Thus '**Stewardship Accounting**' was the root of financial accounting system.
- [21] (d) Interpreting is the final function of accounting. It is concerned with **explaining the meaning and significance of the relationship as established by the analysis of accounting data**. The recorded financial data is analysed and interpreted in a manner that will enable the end users to make a meaningful judgement about the financial condition and profitability of business operations.
Thus, **option (d)** is correct.
- [22] (a) Book-keeping is the recording phase of financial data along with preparation of trial balance. It constitutes a base for accounting. Financial Statements do not form part of this process. Accounting starts where book-keeping ends.
- [23] (b) The term 'Analysis' means methodical classification of the data given in the financial statements. The figures will be of no use unless they are put in a simplified form. For example, all items relating to Fixed Assets are put at one place while all items relating to current assets are put at another place.
- [24] (b) Government is also performing economic activities which do not provide any individual benefit but social benefit i.e. benefit for public at large. Such economic activities are performed through "transactions and events." Transaction is used to mean a business, performance of an act, an agreement, while event is used to mean a happening as a consequence of transaction a **result**.
The deficit/surplus as a result of Governmental activities is thus an event.
- [25] (a) Accounting Standard -1, advocates following of substance over form 'which indicates that while preparing the financial statements, the substance of a transaction should be preferred over its legal form.
e.g. AS-19 (Leases)
- [26] (c) Financial position of a business is ascertained on the basis of accounting reports as they contain the position statement i.e. the balance sheet.
- [27] (a) What takes place on a day to day basis is a transaction and the end results of all transactions are events. Thus, the closing stock left of ₹ 20,000 is an event.

[28] (b) Generally users of accounting are clarified into two categories, (a) internal management and owners; and (b) external users or outsiders.

Internal: BOD, managers, partners

External: Investor, customer, government, lender, supplier.

External users are interested in knowing the overall or key information, whereas users are in need of detailed information as they have to take decisions for business.

[29] (b) Procedure for accounting includes two main components i.e. Generating the information and reporting it to the users.