1 Accounting Process

This chapter includes	
• Definitions, Accounting Cycle • Objectives • Basic Terms • GAAP • Concepts & Conventions • Events & Transactions • Voucher • “Account”, “Debit” & “Credit” • Types of Accounts, Accounting Process	• Accounting Equation • Accrual & Cash Basis of Accounting • Double Entry System, Books of Prime Entry • Subsidiary Books • Measurement • Valuation and Accounting estimates

Definitions

1. Book-keeping

According to J. R. Batliboi “Book-keeping is an art of recording business transactions in a set of books.”

Only transactions expressed in terms of money find a place in books of accounts. Book-keeping is a continuous activity, the records being maintained as transactions are entered into. These records form the basis for accounting.

2. Financial Accounting

The American Institute of Certified Public Accountants defines Accounting as “an art of recoding, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character, and interpreting the results thereof.”

3. Cost Accounting

According to the Chartered Institute of Management Accountants (CIMA), Cost Accountancy is defined as “application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability as well as the presentation of information for the purpose of managerial decision-making."

4. **Management Accounting**

   According to the Chartered Institute of Management Accountants (CIMA), Management Accounting is "the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources. Management Accounting also comprises the preparation of financial reports for non management groups such as shareholders, creditors, regulatory authorities and tax authorities".

Book-keeping and Accountancy

1. **Meaning:** Book-keeping is considered as end. Accountancy is considered as beginning.
2. **Functions:** The primary stage of accounting function is called Book-keeping. The overall accounting functions are guided by accountancy.
3. **Dependence:** Accountancy can complete its functions with the help of Book-keeping. Accountancy depends on Book-keeping for its complete functions.
4. **Data:** The necessary data about financial performances and financial positions are taken from Book-keeping. Accountancy can take its decisions, prepare reports and statements from the data taken from Book-keeping.
5. **Recording of Transactions:** Financial transactions are recorded on the basis of accounting principles, concepts and conventions. Accountancy does not take any principles, concepts and conventions from Book-keeping.

Difference between Management Accounting and Financial Accounting

Management Accounting	Financial Accounting
1. It is mainly based on the data available from Financial Accounting.	It is based on the monetary transactions of the business.
2. It provides information to the management required for planning, controlling, performance evaluation and decision making.	Its deals with recording and classifying monetary transactions in the books of accounts and preparation of financial statements.
3. Reports prepared are meant for management and as per management requirement.	Reports are meant for the management as well as for shareholders and creditors of the concern.
4. Reports may contain both subjective and objective figures.	Reports should always be supported by relevant figures and it emphasizes on the objectivity of data.
5. Reports are not subject to statutory audit.	Reports are always subject to statutory audit.
6. It evaluates the sectional as well as the entire performance of the business.	It ascertains, evaluates and exhibits the financial position of the whole business.

ACCOUNTING CYCLE: When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.

Steps/Phases of Accounting Cycle

1. **Recording of Transactions:** As soon as a transaction happens it is at first recorded in a subsidiary book.

2. **Journal:** The transactions are recorded in Journal chronologically.
3. **Ledger:** All journals are posted into ledger chronologically and in a classified manner.
4. **Trial Balance:** After taking all the ledger account closing balances, a Trial Balance is prepared at the end of the period.
5. **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.
6. **Adjusted Trial Balance:** An adjusted Trial Balance may also be prepared.
7. **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and P/L A/c.
8. **Financial Statements:** Financial statements are prepared which exhibit the true financial position and operating results.

A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board are called Generally Accepted Accounting Principles (GAAP). Financial statements are prepared on the basis of GAAP. There are various accounting standards developed by professional accounting bodies all over the world. In India, these are governed by The Institute of Chartered Accountants of India, (ICAI) and in the US, by the American Institute of Certified Public Accountants (AICPA). The Financial Accounting Standards Board (FASB) is the body that sets up the International Accounting Standards.

Objectives of accounting

1. To ascertain the amount of profit or loss made by the business.
2. To know the financial position of the business.
3. To comply with statutes and laws applicable.
4. To enable the readers to assess progress made by the business.
5. To disclose information needed by different stakeholders of the business.

Users of Accounting Information: Accounting provides information both to internal users and the external users. The internal users are all the organizational participants at all levels of management (i.e. top, middle and lower). There are also the external users (e.g. Banks, Creditors). They are basically, interested in the solvency and profitability of an enterprise.

Stakeholder	Interest in business	Accounting Information
Owners / Investors	Profits or losses	Financial statements, Cost Accounting records, Management Accounting reports
Lenders	Capability of the business to pay interest and principal of amount lent.	Financial statements and valuation of assets given as security.
Customers and suppliers	Stability and growth of the business	Financial and Cash flow statements
Government	Compliance with various legal requirements	Vouchers, bills, employee obligations and financial statements
Employees and trade unions	Growth and profitability	Financial statements
Competitors	Performance and scope of tie-ups / mergers / acquisitions	Accounting information to find out possible synergies

Types of accounting information

1. Accounting Information relating to financial transactions and events.
   (i) Financial Position
   (ii) Financial Performance
   (iii) Cash Flows

   This information may be classified as follows:
   (a) Historical Cost
   (b) Current Cost
   (c) Realizable Value

(d) Present Value

2. Accounting information relating to cost of a product, operation or function.
3. Accounting information relating to planning and controlling the activities of an enterprise for internal reporting.
   This information may be classified as follows:
   (i) Finance
   (ii) Production
   (iii) Marketing
   (iv) Personnel
   (v) Other Areas (such as Research & Development)
4. Accounting information relating to Social Effects of business decisions.
5. Accounting information relating to Environment and Ecology.
6. Accounting information relating to Human Resources.

Qualitative Characteristics of Accounting Information

1. Reliability: Information is reliable when it is free from material error and bias and can be depended upon by users. Reliability of the financial statements is dependent on:

(i) Faithful Representation: Information must represent faithfully the transactions and other events which either portrays to represent or could reasonably be expected to represent.

(ii) Substance Over Form: Transactions and events should be accounted for and presented in accordance with their substance and economic reality and not merely by their legal forms.

(iii) Neutrality: To be reliable financial statements must be neutral. Financial statements are not neutral if by selective presentation of information, they influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

(iv) Prudence: Prudence is the inclusion of a degree of caution, so that, assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the creation of hidden reserves or excessive provisions.

(v) **Completeness:** Information in the financial statements must be complete.

2. **Relevance:** Information is relevant when it influences the economic decisions of the users by helping them to evaluate past, present or future events or confirming or correcting their past evaluation.
3. **Materiality:** Information is material if its omission or mis-statement can influence the economic decisions of users made on the basis of financial statements.
4. **Understandability:** The information provided in financial statements must be easily understandable by users. However, information about complex matters should not be excluded merely on the grounds that it may be too difficult for certain users to understand.
5. **Comparability:** Comparability requires consistency in choosing accounting policies. Lack of consistency may disturb the comparability quality of the financial statement information.

Important Terms

1. **Transaction:** It means an event or a business activity which involves exchange of money or money's worth between parties. When the parties settle the transaction immediately by making payment in cash or by cheque, it is called a cash transaction. In credit transaction, the payment is settled at a future date as per agreement between the parties.
2. **Goods/Services:** These are tangible articles or commodities in which a business deals. These are either bought and sold or produced and sold. 'Goods' to one business firm may not be 'goods' to the other firm. Services are intangible in nature which are rendered with or without the object of earning profits.
3. **Profit:** The excess of Income over expense is called profit. It could be calculated for each transaction or for business as a whole.
4. **Loss:** The excess of expense over income is called loss. It could be calculated for each transaction or for business as a whole.
5. **Asset:** Asset is a resource owned by the business with the objective of using it for generating future profits. Assets can be Tangible and Intangible. Tangible Assets have physical existence, and hence, can be seen, touched and felt, e.g. Land and Building, Plant and Machinery, Furniture and Fittings, Computers, Vehicles, etc. The assets which have

no physical existence and whose value is limited by the rights and anticipated benefits attached with them are known as Intangible Assets. They cannot be touched or felt e.g. Goodwill, Patents, Copyrights, Trade-marks, Designs, Intellectual Property, etc.

Assets can also be classified into Current Assets and Non-Current Assets.

Current Assets: An asset shall be classified as Current if it satisfies any of the following points:

(i) It is held primarily for the purpose of being traded,

(ii) It is expected to be realised in, or is intended for sale or consumption in the Company's normal Operating Cycle,

(iii) It is due to be realised within one year after the Reporting Date, or

(iv) It is Cash or Cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for at least 12 months after the Reporting Date.

Non-Current Assets: All Assets other than Current Assets shall be classified as Non-Current Assets.

6. **Liability:** It is an obligation of financial nature to be settled at a future date. It represents amount that the business owes to the other parties. Based on period of holding, these obligations can be classified into Long Term on non-current liabilities and Short Term or current liabilities.

   Current Liabilities: A liability shall be classified as Current when it satisfies any of the following points:

   (i) It is expected to be settled in the Company's normal Operating Cycle,

   (ii) It is due to be settled within 12 months after the Reporting Date, or

   (iii) The Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

   Non-Current Liabilities: All the Liabilities other than Current Liabilities shall be classified as Non-Current Liabilities.

7. **Internal Liability:** It represents proprietor's equity, i.e. all amounts entitled to the proprietor, e.g., Capital, Reserves, Undistributed Profits, etc.

8. **Working Capital:** In order to maintain flow of revenue from operation, every firm needs some amount of current assets. The total amount of these current assets forms the working capital of a firm which is termed as Gross Working Capital.

   Gross Working capital = Total Current Assets = Long term internal liabilities plus long term debts plus the current liabilities minus the amount blocked in the fixed assets.

   There is another concept of working capital according to which, Working capital is the excess of current assets over current liabilities. That is the amount of current assets that remain in a firm if all its current liabilities are paid.

   This concept of working capital is known as Net Working Capital which is a more realistic concept.

   Net Working Capital = Current Assets – Currents Liabilities.
9. **Contingent Liability:** It represents a potential obligation that could be created depending on the outcome of an uncertain future event. Contingent liability is not recorded in books of account, but disclosed by way of a note to the financial statements.
10. **Capital:** It is amount invested in the business by its owners. It may be in the form of cash, goods, or any other asset. For business, capital is a liability which is to be settled only in the event of closure or transfer of the business. For companies, capital is usually represented as share capital.
11. **Drawings:** It represents cash, goods or any other assets which the owner withdraws from business for his personal use. Drawings result in reduction in owners' capital. The concept of drawing is not applicable to companies.
12. **Net worth:** It represents excess of total assets over total outside liabilities of the business. This amount is available to be distributed to owners in the event of closure of the business. It is also called Owner's equity.

13. **Non-current Investments:** These are investments held beyond the current accounting period as to sale or disposal.
14. **Current Investments:** Current investments are investments that are by their nature readily realizable and are intended to be held for not more than one year from the date on which such investment is made.
15. **Debtor:** A Debtor is a person from whom a business has to recover money on account of goods sold or service rendered on credit. Debtors are also called Sundry Debtors or Trade Debtors or Book-Debts. They may be classified as below:
    - **(i) Good debts:** The debts which are sure to be realized are called good debts.
    - **(ii) Doubtful Debts:** The debts which may not be realized are called doubtful debts.
    - **(iii) Bad debts:** The debts which cannot be realized at all are called bad debts.
16. **Creditor:** A creditor is a person to whom the business owes money or money's worth. Creditors are shown under Current Liabilities.
17. **Capital Expenditure:** This expenditure is incurred for the purpose of acquiring a fixed asset which is intended to be used over a long period of time for earning profits.
18. **Revenue expenditure:** This expenditure is incurred to earn revenue in the current period. The benefits of revenue expenses are available only in the year in which they are incurred.
19. **Balance Sheet:** It is the statement of financial position of the business at a particular date. It lists all assets, liabilities and capital.
20. **Profit and Loss Account or Income Statement:** This account displays the revenue earned by the business and the expenses incurred by the business to earn that revenue. This is prepared for a certain accounting period, which can be a month, quarter, half year or year.
21. **Trade Discount:** It is a discount generally allowed by a wholesaler to a retailer calculated on the invoice price or list price. Trade discount is not recorded in the books of accounts. The transactions are recorded at net amounts only.

22. **Cash Discount:** It is a discount generally allowed to a debtor to encourage prompt payment. It is recorded in the books of accounts.

Basic Financial Statements

The three basic financial statements are:

1. The Profit & Loss Account that shows profit or loss of the business for a certain period
2. The Balance Sheet that shows the financial position of the business on a particular date
3. The Cash Flow Statement that depicts the movement of cash from one date to another.

Accounting Concepts and Conventions

Accounting principles are guidelines that provide standards for scientific accounting practices and procedures. They guide as to how the transactions are to be recorded and reported, and assure uniformity and understandability. Accounting concepts ensure recording of financial facts on sound bases and logical considerations. They lay down foundation for accounting principles. Accounting conventions are methods or procedures that are widely accepted. Many times, the terms-principles, concepts and conventions are used interchangeably.

1. Basic Assumptions

(i) Business entity concept

According to this concept, business is distinct and separate from the individuals who own or manage it. This concept enables recording of transactions of the business entity with its owners or managers or other stakeholders. The owner's capital is treated as an obligation of business and has to be paid back to the owner in the event of business closure. Also, the profit earned by the business belongs to the owner and therefore treated as owner's equity.

(ii) Going Concern Concept

According to this concept, business is assumed to exist for an indefinite period and is not established with the objective of closing it down. This concept enables carry forward of values of assets and liabilities from one accounting period to the other.

(iii) Money Measurement Concept

According to this concept, a business transaction is always recorded if it can be expressed in terms of money. When expressed in terms of money, transactions can be added or subtracted to find out the combined effect. When transactions are recorded in terms of money, only absolute value of money is considered. The real value of the money which may fluctuate due to inflation, exchange rate changes, etc., is not considered.

(iv) The Accounting Period Concept

According to this concept, in order to assess the business performance, the business entity is supposed to be paused after a certain time interval. This time interval is called an accounting period. This period is usually one year, which could be a calendar year i.e. 1st January to 31st December or it could be a fiscal year in India as 1st April to 31st March. In India, listed companies must report their quarterly unaudited financial results and yearly audited financial results. For internal control purpose, many organizations prepare monthly financial statements.

(v) The Accrual Concept

The accrual concept is based on recognition of both cash and credit transactions. When goods are sold on credit, business gets the legal right to claim the money from the customer, which is called accrual of revenue. The actual collection of money from customer could be at a later date. Similarly, when goods or services are purchased on credit, an obligation for payment is created which must be recognized. Accrual system is also called mercantile system of accounting.

2. Basic Principles

(i) The Revenue Realisation Concept

According to this concept, revenue should be recognized only to the extent up to which it is certainly realizable. This concept ensures that unearned or unrealized income is not considered as revenue and the firms do not inflate profits.

(ii) The Matching Concept

According to this concept, revenue and expense effect must be recognized during the same accounting period. If an income is recognized in an accounting period, related expenses must also be recognized in the same accounting period.

(iii) Full Disclosure Concept

According to this concept, all significant information must be disclosed in the financial statements.

(iv) Dual Aspect Concept

According to this concept, Assets = Liabilities + Capital, in other words, every business transaction has dual impact on the financial position of the business. Accounting systems are set up to simultaneously record both these aspects of every transaction; this is the reason why it is called as Double-entry system of accounting. In its present form the double entry system of accounting owes its existence to Mr. Luca Pacioli (an Italian) in the year 1495. The two aspects are decided by golden rules of accounting. After recording both aspects of the transaction, the basic accounting equation will always balance or be equal. This concept is applied in the preparation of the balance sheet.

(v) Verifiable Objective Evidence Concept

According to this concept, accounting data must be verified i.e. documentary evidence of transactions must be kept capable of independent verification.

(vi) Historical Cost Concept

According to this concept, business transactions should always be recorded at the actual cost at which they are undertaken.

(vii) Balance Sheet Equation Concept

According to this concept, all which has been received by us must be equal to all that has been given by us. Receipts are debited and payments are credited. The basic equation is:

Debit = Credit

and

Expenses + Losses + Assets = Revenues + Gains + Liabilities

And if expenses and losses, and incomes and gains are set off, the equation takes the following form –

Assets = Liabilities
or, Asset = Equity + External Liabilities
i.e., the Accounting Equation.

3. Modifying principles

(i) The Concept of Materiality

According to this concept, while accounting for various transactions, only those which may have material effect on profitability or financial status of the business should have special consideration for reporting. This does not mean that the accountant should exclude some transactions from recording. Importance should be given to material details and insignificant details should be ignored while deciding certain accounting treatment. The concept of materiality is subjective and should be decided on case to case basis. The effect is said to be material, if the knowledge of an event would influence the decision of an informed stakeholder.

(ii) The Concept of Consistency

According to this concept, once an organization decides to adopt a particular method of revenue or expense recognition, the same should be consistently applied year after year, unless there is a valid reason for change. Lack of consistency would result in the financial information becoming non-comparable.

(iii) The Conservatism Concept

The concept underlines the prudence of under-stating than over-stating the net income of an entity for a period and the net assets as on a particular date. This is because business is done in situations of uncertainty. This concept means "anticipate no profits but recognize all losses". This can be stated as

(a) Income is not recognized unless one is reasonably sure
(b) Losses are immediately recognized when reasonably sure

(iv) Timeliness Concept

According to this concept, every transaction must be recorded in proper time i.e. when the transaction is made. Also, transaction should be recorded date-wise in the books. Delay in recording such transaction may lead to manipulation, misplacement of vouchers, misappropriation etc. of cash and goods.

(v) Industry Practice

Every industry has its own characteristics and features. Some of them follow the principles, concepts and conventions in a modified way. The accounting practice which has always prevailed in the industry is followed by it. e.g Electric supply companies, Insurance companies maintain their accounts in a different manner.

Transaction vs. Events

Transaction is exchange of an asset with consideration of money value while event is anything in general purpose which occurs at a specific time and particular place. All transactions are events but all events are not transactions. An accounting event is any financial event that would impact the account balances of a company's financial statements. Accounting events can either be external or internal. An external event would occur with an outside party, such as the purchase or sales of a good. An internal event would involve changes in the accounting entity's records, such as adjusting an account on the financial statements.

Voucher

It is a written instrument that confirms or serves as witness (vouch) for some fact, such as a transaction. Generally, voucher is a document that shows goods have bought or services have been rendered, authorizes payment and indicates the ledger account(s) in which these transactions have to be recorded.

Types of Voucher: Usually following types of vouchers are used. i.e.:

1. **Receipt Voucher**

   It is used to record cash or bank receipt. It is of two types:

(i) Cash receipt voucher – it denotes receipt of cash
(ii) Bank receipt voucher – it denotes receipt of cheque or demand draft

2. Payment Voucher

It is used to record payment by cash or cheque. It is of two types:
(i) Cash Payment voucher – it denotes payment of cash
(ii) Bank Payment voucher – it denotes payment by cheque or demand draft.

3. Non Cash or Transfer Voucher

It is used for non-cash transactions as documentary evidence.

4. Supporting Voucher

It is documentary evidence of transaction that has taken place.

Source Documents

Source documents are the basis on which transactions are recorded in subsidiary books. They are the evidence and proof of transactions.

Name of the Book	Source document
Cash Book	Cash Memos, Cash Receipts and Issue vouchers
Purchase Books	Purchase Invoice
Sales Book	Sale Invoice
Return Inward Book	Credit Note issued to debtors and Debit Notes received from debtors
Returns Outward Book	Debit Note issued to creditors and Credit Note received from creditors

‘Account’, ‘Debit’ and ‘Credit’

An ‘Account’ is a summarised record of transactions related to a person or a thing. An account is expressed as a statement in form of English letter ‘T’. It has two sides. The left hand side is called as “Debit’ side and the right hand side is called as “Credit’ side. The debit is connoted as ‘Dr’ and the credit by ‘Cr’.

Dr.	Salary Account	Cr.
Debit side		**Credit side**

Difference in the two sides of an account is called 'balance'. If the total of debit side is more than the credit side, the balance is called as 'debit balance' and if the total of credit side is more than the debit side, the balance is called as 'credit balance'. If the debit and credit sides are equal, the account will show 'nil balance'.

Types of Accounts

1. **Personal Account:** These accounts are related to persons.
   (i) The persons can be natural persons like Ramesh's A/c, Amit's a/c, Mohan's A/c etc.
   (ii) The persons can be artificial persons like companies or association of persons or partnerships etc. e.g. RIL Ltd., Infosys Ltd. A/c, Kamal & Sons, Axis Bank A/c, etc.
   (iii) Sometimes representative personal accounts are used. Individual identity of persons related to these accounts is known, still they are reflected as collective accounts. e.g. salary payable to employees is known individually, but collectively the account is called as 'Salary Payable A/c' or 'Outstanding Salary A/c'.
2. **Real Accounts:** These accounts are related to assets or properties of the business. They are further classified as:
   (i) Tangible Real Account: Assets having physical existence that can be seen and touched. e.g. Machinery A/c, Stock A/c, Cash A/c, Computer A/c etc.
   (ii) Intangible Real Account: These accounts are related to assets that have no physical existence but can be measured in terms of money and have value attached to them. e.g. Goodwill A/c, Trade mark A/c, Patents, Copy Rights A/c, Intellectual Property Rights A/c etc.
3. **Nominal Account:** These accounts are related to expenses or losses and incomes or gains e.g. Salary A/c, Wages A/c, Rent A/c, Traveling Expenses A/c, Commission received A/c, Interest received A/c etc.

THE ACCOUNTING PROCESS

There are two approaches for deciding when to write on the debit side and when to write on the credit side of an account:

1. **American approach:**
   - **(i) For Capital Account:**
     Debit means decrease
     Credit means increase
   - **(ii) For any Liability Account:**
     Debit means decrease
     Credit means increase
   - **(iii) For any Asset Account:**
     Debit means increase
     Credit means decrease
   - **(iv) For any Expense Account:**
     Debit means increase
     Credit means decrease
   - **(v) For any Revenue Account:**
     Debit means decrease
     Credit means increase

2. **British Approach or Double Entry System :**
   - (i) **Personal Account:** Debit the receiver or who owes to business and Credit the giver or to whom business owes
   - (ii) **Real Account:** Debit what comes in and Credit what goes out of business
   - (iii) **Nominal Account:** Debit all expenses or losses and Credit all income or gains

ACCRUAL BASIS AND CASH BASIS OF ACCOUNTING

1. **Accrual Basis of Accounting**

   It is a method of recording transactions in which incomes, expenses, assets and liabilities are reflected in the accounts for the period in which they accrue. This basis is also called mercantile basis of accounting.

Under the Companies Act, 2013, all companies are required to maintain the books of accounts according to accrual basis of accounting

2. **Cash Basis of Accounting**
   It is a method of recording transactions in which incomes, expenses, assets and liabilities are reflected in the accounts for the period in which actual amounts are received or actual payments are made.

Hybrid or Mixed Basis of Accounting

It is a combination of Cash and Accrual basis. Incomes are recorded on Cash basis but expenses are recorded on Accrual basis. This system is based on the concept of conservatism.

Conversion of Cash Basis of Accounting into Accrual Basis of Accounting:

At first ascertain the amount of outstanding and prepaid expenses and accrued incomes and income received in advance. Thereafter following journal entries should be passed:

1. Accrued Income A/c Dr.
   Prepaid Expenses A/c Dr.
   To, Profit and Loss Adjustment A/c
   (Bringing into account the accrued income and prepaid expenses)
2. Profit and Loss Adjustment A/c Dr.
   To, Income Received in Advance A/c
   To, Outstanding Expenses A/c
   (Bringing into account the income received in advance and outstanding expenses)
3. If there is a profit as a result of above adjustment:
   Profit and Loss Adjustment A/c Dr.
   To, Capital A/c
   (Profit transferred to capital account as a result of conversion from cash basis to accrual basis.)
4. If there is a loss as a result of above adjustment:
   Capital A/c Dr.
   To, Profit and Loss Adjustment A/c

(Loss transferred to capital account as a result of conversion from cash basis to accrual basis.)

Double Entry System

Books of Prime Entry

A journal is often referred to as Book of Prime Entry or the book of original entry. In this book transactions are recorded in their chronological order. The process of recording transaction in a journal is called as 'Journalisation'. The entry made in this book is called a 'journal entry'.

Functions of Journal

1. **Analytical Function:** Each transaction is analysed into the debit aspect and the credit aspect.
2. **Recording Function:** Entries are recorded and each recorded entry is supported by a narration, which explain, the transaction in simple language.
3. **Historical Function:** It contains a chronological record of the transactions for future references.

Advantages of Journal

The following are the advantages of a journal:

1. **Chronological Record :** It is possible to get a detailed day-to-day information.
2. **Minimising the possibility of errors:** The nature of transaction and its effect on the financial position of the business is determined by recording and analyzing into debit and credit aspect.
3. **Narration:** It means explanation of the recorded transactions.
4. **Helps to finalise the accounts:** Journal is the basis of ledger posting and then preparation of Trial Balance. Trial balance helps in preparation of final accounts.

Sub-division of Journals

1. **General Journal**
   (i) This is a book of chronological record of transactions.

(ii) This book records those transactions which occur so infrequently that they do not warrant the setting up of special journals.

Examples of such entries:

(a) opening entries

(b) closing entries

(c) rectification of errors.

2. **Special Journal**

   It is subdivided into Cash Book, Purchase Day Book, Sales Day Book, Returns Inward Book, Returns Outward Book, Bills Receivable Book and Bills Payable Book. These books are called subsidiary books.

Compound Journal

If for a single transaction, only one account is debited and one account is credited, it is known as simple journal. If the transaction requires more than one account which is to be debited or more than one account is to be credited, it is known as Compound Journal.

Subsidiary Books

Transaction	**Subsidiary Book**
All cash and bank transactions	Cash Book
All credit purchase of goods	Purchase Day Book or Purchase register
All credit sale of goods	Sales Day Book or sales register
All purchase returns	Purchase Return Book or Return Outward Book
All sales returns	Sales Return Book or Return Inward Book
All bill receivables	Bills Receivable Book
All bills payable	Bills Payable Book
For all other non cash transactions	Journal Proper

Cash Book

A Cash Book is a special journal which is used for recording all cash receipts and all cash payments. Cash Book is a book of original entry since transactions are recorded for the first time from the source documents. The Cash Book is larger in the sense that it is designed in the form of a Cash Account and records cash receipts on the debit side and cash payments on the credit side. Thus, the Cash Book is both a journal and a ledger.

Cash Book as the only Book of Original Entry

This Cash Book records all types of transactions cash as well as credit. For non cash transactions, there will be two entries, ultimately that will be not affect the cash balance.

Types of Cash Book

1. **Single Column Cash Book:** Single Column Cash book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the credit side, this book is nothing but a Cash Account and there is no need to open separate cash account in the ledger.
2. **Double Column Cash Book:** Cash book with Discount Column has two amount columns, one for cash and other for Discount on each side. All cash receipts and cash discount allowed are recorded on the debit side and all cash payments and discount received are recorded on the credit side.
3. **Triple Column Cash Book:** Triple Column Cash Book has three amount columns, one for cash, one for Bank and one for discount, on each side. All cash receipts, deposits into bank and discount allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on the credit side.

1. **Contra Transactions**

   Transactions which relate only to cash a/c and bank a/c are known as Contra Transactions.

2. Cheque Transactions

When a cheque is received and no any other information about the same is given, it is assumed that the said cheque is deposited into bank on the same day when it was received. But if it is found that the said cheque has been deposited into the bank at a later date, then the entry will be:

(i) When the cheque is received
Cash A/c Dr.
  To Debtors/Party A/c

(ii) When the same was deposited into bank at a later date
Bank A/c Dr.
  To Cash A/c

(iii) When the said cheque is dishonoured by the bank
Debtors/Party A/c Dr.
  To Bank A/c

Ledger Accounts

Ledger is the main book or principal book of account. The entries into ledger accounts travel through the route of journal and subsidiary books. The ledger is the book of final entry and hence is a permanent record. The ledger may also be divided as General ledger and Sub-ledgers. While the General Ledger will have all ledger accounts, the sub-ledgers will have individual accounts of customers and suppliers.

Subdivisions of Ledger

Practically, the Ledger may be divided into two groups:

1. **Personal Ledger:** The ledger in which details of all transactions about the persons who are related to the accounting unit, are recorded, is called the Personal Ledger.
2. **Impersonal Ledger:** The Ledger in which details of all transactions about assets, incomes & expenses etc. are recorded, is called Impersonal Ledger.

Again, Personal Ledger may be divided into two groups:

1. **Debtors' Ledger:** The ledger in which details of transactions about the persons to whom goods are sold, cash is received, etc. are recorded, is called Debtors' Ledger.
2. **Creditors' Ledger:** The ledger in which details of transactions about the persons from whom are purchase goods on credit, pay to them etc. are recorded, is called Creditors' Ledger.

Impersonal Ledger may, again be divided into two groups:

1. **Cash Book:** The Book in which all cash & bank transactions are recorded, is called Cash Book.
2. **General Ledger:** The ledger in which all transactions relating to real accounts, nominal accounts, details of Debtors' Ledger and Creditors' Ledger are recorded, is called General Ledger.

General Ledger may, again, be divided into two groups:

1. **Nominal Ledger:** The ledger in which all transactions relating to incomes and expenses are recorded, is called Nominal Ledger.
2. **Private Ledger:** The Ledger in which all transactions relating to assets and liabilities are recorded, is called Private Ledger.

Advantages of sub-division of Ledger.

The advantages of sub-division of ledger are:

1. **Easy to Divide work:** Division of work is possible and records can be maintained efficiently by the concerned employee.
2. **Easy to handle:** Size and volume of ledger is reduced.
3. **Easy to collect information:** From the different classes of Ledger a particular type of transaction can easily be found out.
4. **Minimizations of mistakes:** Chances of mistakes are minimized.
5. **Easy to compute:** Accounting computations can be made quickly which is very helpful to the management.
6. **Fixation of responsibility:** Allotment of different type of work to different employees is done for which concerned employee will be responsible.

Problems and Solutions

Q.1 In preparing the accounts of your company, you are faced with the following problems:

(i) The long-term future success of the company is extremely uncertain;

(ii) Fixed assets would now cost a great deal more than they did when they were originally purchased;

(iii) Although the sales have not yet actually taken place, some reliable customers have placed several large orders that are likely to be extremely profitable;

(iv) The company has had a poor trading year and the owners believe that a more balanced result could be presented if a LIFO stock valuation method was adopted, instead of present FIFO method.

You are required to:

(i) State which accounting concept the accountant should follow in dealing with each of the above problems;

(ii) Explain briefly what each concept means.

Answer :

(i) **Going concern concept :** A business, unless otherwise known, will continue to operate for an indefinitely long period of time. The assets are shown at cost price. The real worth of the assets can be known only when the business will be sold.

(ii) **Historical cost concept :** An asset is recorded at its cost and this cost becomes the basis for subsequent accounting for the asset.

(iii) **Realisation concept :** Revenue is recognised at the point of sale or at the performance of a service.

(iv) **Consistency concept :** Accounting practice should remain the same during the year and also from one year to another. If accrual basis is followed in certain year, cash basis should not be followed in the next year. If a particular item of income is treated in a particular manner in one year, the same should not be treated in a different in another year. Consistency helps comparison of results.

Q.2 Journalise the following transactions in the books of Ramesh:

(i) Started business with ₹ 10,00,000/-, out of which ₹ 1,00,000 was borrowed from ICICI as loan.

(ii) Machinery purchased for ₹ 4,00,000/- on credit and Furniture purchased for ₹ 1,50,000 on cash.

(iii) Deposited cash in Vijaya Bank Current A/c 2,50,000/-

Answer :

In the Book of Ramesh

(i) Cash A/c	Dr.	10,00,000	
To Capital			9,00,000
To Loan from ICICI			10,00,000
(ii) Machinery A/c	Dr.	4,00,000	
To Supplier A/c			4,00,000
Furniture A/c	Dr.	1,50,000	
To Cash A/c			1,50,000
(iii) Vijaya Bank A/c	Dr.	2,50,000	
To Cash			2,50,000

Q.3 (a) Show the Accounting equation for the following transactions of Rakesh Bihari Mittal:

(i) Sold goods costing ₹ 30,000 for ₹ 50,000 to Shyam.

(ii) Purchased household goods for ₹ 15,000 giving ₹ 5,000 in cash and the balance through a loan.

(iii) Received ₹ 49,500 from Shyam in full settlement of an account of ₹ 50,000.

(iv) Paid Salary ₹ 500 and Salary still outstanding ₹ 100.

(v) Paid Rent-in advance ₹ 200.

(vi) Withdrew goods for personal use (Cost ₹ 500, Sale Price ₹ 600).

(b) Journalize the following transactions in the books of Anju Mittal:

(i) Received ₹ 975 from Shyam on his account of ₹ 1,000.

(ii) Sold goods costing ₹ 40,000 to Anil at a profit of 20% on sales less 20% trade discount and charged 10% Value Added Tax.

(iii) Vishal Pandey paid ₹ 975 towards a debt of ₹ 1,000 which was written off as bad in the previous year.

Answer :

(a)

Transaction	Assets =	Liabilities +	Capital
(i)	+ 50,000 - 30,000	0	+ 20,000
(ii)	- 5,000	+ 10,000	- 15,000
(iii)	+ 49,500 - 50,000	0	- 500
(iv)	- 500	+ 100	- 600
(v)	- 200 + 200	0	0
(vi)	- 500	0	- 500

(b)

Date	**Particulars**	**L.F.**	**Dr.** ₹	**Cr.** ₹
(a)	Cash A/c Dr. To Shyam (Being the cash received from Shyam on account)		975	 975

(b)	Anil Dr.		44,000	
	To Sales A/c			40,000
	To Value Added Tax A/c			4,000
	(Being the goods sold to Anil on Credit)			
	Cost 40,000			
	Add : Profit @ 25% on cost 10,000			
	List price 50,000			
	Less : Trade discount @ 20% 10,000			
	Invoice Value 40,000			
	Add : Vat @ 10% 4,000			
	44,000			
(c)	Cash A/c Dr.		975	
	To Bad Debts Recovered A/c			975
	(Being the Bad Debts already w/o, now recovered)			

Q.4 Journalise the following transactions in the books of a trader :

2011

April	1	Goods costing ₹ 600 (sale price ₹ 800) withdrawn for personal use.
"	5	Goods costing ₹ 2,000 (sales price ₹ 2,500) distributed as free samples.
"	8	Goods stolen in transit ₹ 2,000 (cost ₹ 1,500).
"	10	Goods worth ₹ 1,500 stolen by an employee cost of which was ₹ 1,000.
"	15	Goods used in making of furniture (cost ₹ 2,000 selling price ₹ 2,400).

Answer :

Journal

Date	Particulars	₹	₹

2011 April, 1	Drawings A/c Dr. To Purchases A/c	600	 600
April, 5	Free Sample A/c Dr. To Purchases A/c	2,000	 2,000
April, 8	Loss in Transit A/c Dr. To Purchases A/c	1,500	 1,500
April, 10	Loss by embezzlement A/c Dr. To Purchases A/c	1,000	 1,000
April, 15	Furniture A/c Dr. To Purchases A/c	2,000	 2,000

Q.5 Pass Journal Entries :

(1) Started Business with cash ₹ 2,00,000, furniture 80,000 and stock ₹ 20,000.

(2) Deposited ₹ 1,00,000 in the Bank.

(3) Paid wages ₹ 20,000 through cheques.

Answer :

Journal

	Particulars	**₹**	**₹**
1	Cash A/c Dr. Furniture A/c Dr. Stock A/c Dr. To Cash A/c	2,00,000 80,000 20,000	 3,00,000

2	SBI Bank A/c Dr. To Cash A/c	1,00,000	 1,00,000
3	Wages A/c Dr. To Bank A/c	20,000	 20,000

Q.6 Journalise the following transactions in the books of a trader:

2011

Nov. 1 Mr. Dutta was declared insolvent and a sum of ₹ 5,600 would be received instead of ₹ 8,000.

Nov. 4 An old machinery was sold to Rakesh for ₹ 15,000.

Nov. 8 Goods costing ₹ 2,500 (sale price ₹ 3,000) withdrawn from business for personal use.

Nov. 12 Purchased furniture from Vikas for shop ₹ 25,000.

Nov. 15 Deposited ₹ 80,000 in SBI account.

Answer :

In the Books of a Trader

Date	**Particulars**	**Amount ₹**	**Amount ₹**
2011 Nov. 1	Cash A/c Dr. Bad Debts A/c Dr. To Mr. Dutta's A/c	5,600 2,400	 8,000
Nov. 4	Rakesh's A/c Dr. To Machinery A/c	15,000	 15,000
Nov. 8	Drawings A/c Dr. To Purchase A/c	2,500	 2,500
Nov. 12	Furniture A/c Dr. To Vikas's A/c	25,000	 25,000
Nov. 15	Bank Account Dr. To Cash A/c	80,000	 80,000

Q.7 Journalize the following transactions in the books of a trader :

(i) 1st March 2012, paid quarterly interest on borrowed amount of ₹ 20,000 at 12% p.a.

(ii) 10th March 2012, Goods destroyed by fire for ₹ 6,000, for which there is no insurance coverage.

(iii) 15th March 2012, Received commission for ₹ 5,000.

(iv) 21st March 2012, paid transportation charges for machinery of ₹ 1,000 and installation charges for ₹ 1,500.

Answer :

	Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
(i)	1.3.12	Interest Account Dr.		600	
		To Cash Account			600
		(Being the amount paid as quarterly interest on borrowed Amount of ₹ 20,000 @ 12% p.a.)			
(ii)	10.3.12	Loss By Fire Account Dr.		6,000	
		To Purchase Account			6,000
		(Being the goods not insured lost by fire)			
(iii)	15.3.12	Cash Account Dr.		5,000	
		To Commission Account			5,000
		(Being the commission received)			
(iv)	21.3.12	Machinery Account Dr.		2,500	
		To Cash Account			2,500
		(Being the transportation and installation charges on Machinery paid in cash)			

Questions and Answers of September 2014

1. Which of the following concepts, if violated, would make comparison of financial statements over a period of time difficult?
   (a) Cost concept (b) Consistency concept
   (c) Accounting period concept (d) Accrual concept
   Answer: (b)
2. Conservatism concept does not require
   (a) Making provision for doubtful debts
   (b) Valuing stock at lower of cost or net realisable value
   (c) Creating provision for discount on creditors
   (d) Making provision for an unfavourable legal suit
   Answer: (c)
3. As per duality concept or accounting equivalence concept, which of the following is correct?
   (a) All increase in liabilities and increase in assets represent sources of funds
   (b) All decrease in liabilities and decrease in assets represent sources of funds
   (c) All increase in liabilities and decrease in assets represent sources of funds
   (d) All increase in liabilities and increase in assets represent uses of funds
   Answer: (c)
4. How is the “distribution of goods as free sample'' recorded in the Journal?

	Debit	Credit
(a)	Trading Account	Sales Account
(b)	Advertisement Account	Profit and Loss Account
(c)	Purchase Account	Advertisement Account
(d)	Advertisement Account	Purchase Account

Answer: (d)

5. Which is the correct equation as per the double entry concept?
   (a) Liabilities = capital + assets (b) Assets + liabilities = capital
   (c) Capital = assets - liabilities (d) Assets = capital - liabilities
   Answer: (c)
6. Which of the following is not a personal account?
   (a) Capital account (b) Pre-paid rent account
   (c) Salary account (d) Interest outstanding account
   Answer: (c)
7. From the following, which is not considered as subsidiary book?
   (a) Bills Receivable Book (b) Bills Payable Book
   (c) Journal Proper (d) Cash Book
   Answer: (d)
8. Journal is a
   (a) Memorandum Record (b) Primary Record
   (c) Secondary Record (d) All of the above
   Answer: (b)

Questions and Answers of December 2014

1. Which of the following is NOT a characteristic of Cash Book?
   (a) It has two identical sides—left hand side, the debit side and right hand side, the credit side
   (b) It verifies the arithmetic accuracy of posting of entries from the Journal to the Ledger
   (c) The difference between the total of two sides of cash book shows cash in hand
   (d) It always shows debit balance. It can never show credit balance
   Answer: (d)
2. Ledger is also called
   (a) Principal book of accounts (b) Cash books
   (c) Subsidiary book (d) None of these
   Answer: (a)

3. The process of balancing of an account involves equalization of both sides of the account. If the debit side of an account exceeds the credit side, the difference is put on the credit side. The said balance is
   (i) A Debit balance
   (ii) A Credit balance
   (iii) An expenditure or an Asset
   (iv) An Income or a Liability
   (a) Only (ii) above
   (b) Only (iv) above
   (c) Both (i) and (iii) above
   (d) Both (ii) and (iii) above
   Answer: (c)
4. This is more of a convention than a concept, it proposes that while accounting for various transactions, only those which may have material effect on profitability or financial status of the business should have special consideration for reporting, this concept is known as
   (a) Concept of Consistency
   (b) Concept of Conservation
   (c) Concept of Materiality
   (d) Concept of Disclosure
   Answer: (c)
5. Recording of Fixed Assets at cost ensures adherence of
   (a) Conservatism Concept
   (b) Going Concern Concept
   (c) Cost Concept
   (d) Both (a) and (b) above
   Answer: (c)

Questions and Answers of March 2015

1. Human resources will not appear in the balance sheet according to ______ concept.
   (a) Accrual
   (b) Going concern
   (c) Money measurement concept
   (d) None
   Answer: (c)

2. If wages are paid for construction of business premises ______ A/c is credited and _____ A/c is debited.
   (a) Wages, Cash
   (b) Premises, Cash
   (c) Cash, Wages
   (d) Cash, Premises
   Answer: (d)
3. Which of the following is not a Real Account?
   (a) Cash A/c
   (b) Investments A/c
   (c) Outstanding rent A/c
   (d) Purchases A/c
   Answer: (c)
4. What is the principle of nominal A/c?
   (a) Debit what comes in, credit what goes out.
   (b) Debit all expenses & losses & credit all incomes & gains.
   (c) Debit the receiver, credit the giver.
   (d) Debit all assets, credit all liabilities.
   Answer: (b)
5. The ____ concept means that similar items in a set of accounts should be given similar accounting treatment and it should be applied from one period to another.
   (a) Going Concern
   (b) Prudence
   (c) Consistency
   (d) Materiality
   Answer: (c)
6. 'A Limited' purchased goods of ₹ 10,00,000, and sold 90% of goods and remaining goods market value is ₹ 90,000, and closing stock is 10%, but he recorded ₹ 90,000 and not ₹ 1,00,000. Which concept does he follows:
   (a) Materiality concept
   (b) Cost concept
   (c) Entity concept
   (d) Conservatism concept
   Answer: (d)

7. Debit notes issued are used to prepare _____.
   (a) Sales Returns Book
   (b) Purchase Returns Book
   (c) Journal Proper
   (d) Purchases Book
   Answer: (b)

Questions and Answers of June 2015

1. Omission of Paise and showing the round figures in financial statements is based on:
   (a) Conservatism Concept
   (b) Consistency Concept
   (c) Materiality Concept
   (d) Realization Concept.
   Answer: (c)
2. The _________ in a ledger helps in locating the accounts contained in it:
   (a) Folio
   (b) Pages
   (c) Serial Number
   (d) None of these.
   Answer: (a)
3. Purchase of goods on credit:
   (a) Increases Liabilities
   (b) Increases Assets
   (c) Increases both Assets and Liabilities
   (d) Decreases Assets.
   Answer: (c)

4. An Investment is one asset A/c may lead to:
   (a) Increase in Liability A/c
   (b) Decrease in A/c asset
   (c) Either a or b
   (d) Both a and b
   Answer: (c)
5. In an account if Debit side> Credit side, the balance is known as the:
   (a) Negative Balance
   (b) Debit Balance
   (c) Positive Balance
   (d) Credit Balance
   Answer: (b)
6. Which of these transactions will not be recorded in cash book:
   (a) Cash received from debtors
   (b) Cash paid to creditors
   (c) Salary remained outstanding
   (d) Cash deposited with bank.
   Answer: (c)
7. Revenue is generally recognised as being earned at that point of time when:
   (a) Sale is effected
   (b) Cash is received
   (c) Production is completed
   (d) Debts are collected.
   Answer: (a)
8. A Customer returning the goods purchased on credit, may inform the seller by sending:
   (a) Debit Note
   (b) Credit Note
   (c) Court Notice
   (d) Return Invoice.
   Answer: (a)

Questions and Answers of September 2015

1. Assets are held in the business for the purpose of:
   (a) Re-sale
   (b) Conversion into cash
   (c) Earning reverse
   (d) None of the above.
   Answer: (c)
2. It is essential to standardize the accounting principles and policies in order to insure:
   (a) Transparency
   (b) Consistency
   (c) Comparability
   (d) All of the above.
   Answer: (d)
3. Sales of office furniture should be credited to:
   (a) Sales Account
   (b) Furniture Account
   (c) Purchase Account
   (d) Cash Account
   Answer: (b)
4. Sale or Return Day Book and Sale or ledger Return Ledger are known as:
   (a) Principal books
   (b) Subsidiary books
   (c) Memorandum books
   (d) None of the above
   Answer: (c)

Questions and Answers of December 2015

1. Rohan purchased goods for ₹ 25,00,000 and sold 4/5th of the goods amounting ₹ 18,00,000 and met expenses amounting ₹ 2,50,000 during the year, 2013. He counted net profit as ₹ 3,50,000 which accounting concept was followed by him?

(a) Entity
(b) Periodicity
(c) Matching
(d) Conservation.

Answer: (c)

2. The determination of expenses for an accounting period is based on the principle of:
   (a) Objectivity
   (b) Materiality
   (c) Matching
   (d) Periodicity.

   Answer: (c)
3. The concepts of Conservation in balance sheet results in:
   (a) Increase in Cash
   (b) Decrease in Cash
   (c) Decrease in assets
   (d) No change in assets.

   Answer: (a)
4. ₹ 1,000 paid as wages for erecting machine should be debited to:
   (a) Repair account
   (b) Machine account
   (c) Capital account
   (d) Furniture account.

   Answer: (b)

Questions and Answers of March 2016

1. If the going concern concept is no longer valid, which of the following is true?
   (a) All prepaid assets would be completely written-off immediately.
   (b) Potal contributed capital and retained earnings would remain unchanged.

(c) Intangible assets would continue to be carried at net amortized historical cost.
(d) Land held as an investment would be valued at its realizable value.

Answer : (d)

2. Under which of the following concepts are shareholders created as creditors for the amount they paid on the shares they subscribed to ?
(a) Cost concept
(b) Duality concept
(c) Business entity concept
(d) Since the shareholders own the business, they are not treated as creditors.

Answer : (c)

3. The process of balancing of an account involves equalization of both sides of the account. If the debit side of an account exceeds the credit side the difference is put on the credit side. The said balance is :
(i) A debit balance
(ii) A credit balance
(iii) An expenditure or an asset
(iv) An income or a liability
(a) Only (ii) above
(b) Only (iv) above
(c) Both (i) and (ii) above
(d) Both (ii) and (iii) above

Answer : (c)

4. Which of the following is not a contingent liability ?
(a) Claims against the company not acknowledged as debts
(b) Debts included on debtors which are doubtful in nature
(c) Uncalled liability on partly paid shares
(d) Arrears of cumulative fixed dividends.

Answer : (b)

5. Which of the following is not a contingent liability:
(a) Debts included in sundry debtors which are doubtful in nature
(b) Uncalled liability on partly paid shares

(c) Claims against the company not acknowledged as debts
(d) Arrears of fixed cumulative dividend.

Answer : (a)

6. The concept of conservatism will have the effect off:
(a) Overstatement of Assets
(b) Understatement of Assets
(c) Overstatement of Liabilities
(d) Understatement of Liabilities.

Answer : (b)

7. Which of the following is an example of Personal Account?
(a) Machinery
(b) Rent
(c) Cash
(d) Creditor

Answer : (d)

Questions and Answers of June 2016

1. Which English alphabet is similar to the shape of an account?
(a) I
(b) T
(c) H
(d) None of the above.

Answer: (b)

2. Recording of Fixed Assets at cost ensure adherence of:
(a) Conservatism concept
(b) Going concern concept
(c) Cost concept
(d) Both (a) and (b) above.

Answer: (c)

3. Which column of Cash Book never balanced?
(a) Discount column
(b) Cash

(c) Bank
(d) Petty cash.
Answer: (a)

4. The amount payable to a person as consideration for the use of right vested in him is:
   (a) Dividend
   (b) Royalty
   (c) Purchase consideration
   (d) Installment.
   Answer: (b)
5. The closing balance of a petty cash book is a / an_____ .
   (a) Liability
   (b) Gain
   (c) Assets
   (d) Loss.
   Answer: (c)
6. Accounting is a / an _____.
   (a) Science
   (b) Art
   (c) Subject matter of sociology
   (d) Subject matter philosophy.
   Answer: (b)

Multiple Choice Questions

1. Book-keeping is mainly related to
   (a) Recording of financial data.
   (b) Designing the systems in recording, classifying and summarising the recorded data.
   (c) Interpreting the data for internal and external users.
   (d) None of the above.
   Answer: ______
2. All of the following are functions of Accounting except

(a) Decision making. (b) Measurement.
(c) Forecasting. (d) Ledger posting.

Answer: ☐

3. Financial statements are part of
(a) Accounting. (b) Book-keeping.
(c) All of the above. (d) None of the above.

Answer: ☐

4. Users of accounting information include
(a) Creditors. (b) Lenders.
(c) Customers. (d) All of the above.

Answer: ☐

5. Financial statements do not consider
(a) Assets expressed in monetary terms.
(b) Liabilities expressed in monetary terms.
(c) Only assets expressed in non-monetary terms.
(d) Assets and liabilities expressed in non-monetary terms

Answer: ☐

6. All the following items are classified as fundamental accounting assumptions except
(a) Consistency. (b) Business entity.
(c) Going concern. (d) Accrual.

Answer: ☐

7. Stek Enterprises follows the written down value method of depreciating machinery year after year due to
(a) Comparability (b) Convenience.
(c) Consistency. (d) All of the above.

Answer: ☐

8. A purchased a van for ₹ 5,00,000, making a down payment of ₹ 1,00,000 and signing a ₹ 4,00,000 bill payable due in 30 days. As a result of this transaction
(a) Total assets increased by ₹ 5,00,000.

(b) Total liabilities increased by ₹ 4,00,000.
(c) Total assets increased by ₹ 4,00,000.
(d) Total assets increased by ₹ 4,00,000 with corresponding increase in liabilities by ₹ 4,00,000.

Answer:

9. Ravi purchased goods for ₹ 15,00,000 and sold 4/5 th of the goods amounting ₹ 18,00,000 and met expenses amounting ₹ 2,50,000 during the year, 2013. He counted net profit as ₹ 3,50,000. Which accounting concept was followed by him?
(a) Entity. (b) Periodicity.
(c) Matching. (d) Conservatism.

Answer:

10. Rohan purchased goods for ₹ 25,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2013. The market value of the remaining goods was ₹ 4,00,000. He valued the closing stock at cost. He violated the concept of
(a) Money measurement. (b) Conservatism.
(c) Cost. (d) Periodicity.

Answer:

11. Capital introduced by the proprietor is an example of
(a) Increase in asset and increase in liability.
(b) Increase in liability and decrease in asset.
(c) Increase in asset and decrease in liability.
(d) Increase in one asset and decrease in another asset.

Answer:

12. Assets are held in the business for the purpose of
(a) Resale. (b) Conversion into cash.
(c) Earning revenue. (d) None of the above.

Answer:

13. Revenue from sale of products, is mostly, realized in the period in which
(a) Cash is collected. (b) Sale is made.
(c) Products are manufactured. (d) None of the above.

Answer:

14. The concept of conservatism in balance sheet results in
    (a) Understatement of assets. (b) Overstatement of assets.
    (c) Overstatement of capital. (d) None of the above.

    Answer:

15. Decrease in the amount of creditors results in
    (a) Increase in cash. (b) Decrease in cash.
    (c) Decrease in assets. (d) No change in assets.

    Answer:

16. The determination of expenses for an accounting period is based on the principle of
    (a) Objectivity. (b) Materiality.
    (c) Matching. (d) Periodicity.

    Answer:

17. If an individual asset is increased, there will be a corresponding
    (a) Increase of another asset or increase of capital.
    (b) Decrease of another asset or increase of liability.
    (c) Decrease of specific liability or decrease of capital.
    (d) Increase of drawings and liability.

    Answer:

18. Purchase of furniture for cash
    (a) Decreases total assets.
    (b) Increases total assets.
    (c) Retains total assets unchanged.
    (d) Decreases total liabilities.

    Answer:

19. Consider the following data pertaining to Sony Ltd.:

Particulars	₹
Cost of machinery purchased on 1st April, 2012	10,00,000
Installation charges	1,00,000
Market value as on 31st March, 2013	12,00,000

While finalizing the annual accounts, if the company values the machinery at ₹ 12,00,000. Which of the following concepts is violated by the Sony Ltd.?

(a) Cost (b) Matching.
(c) Accrual (d) Periodicity.

Answer:

20. A change in accounting policy can be made
    (a) To comply with accounting standard.
    (b) To ensure more appropriate presentation of the financial statement of the enterprise.
    (c) To comply with law.
    (d) All of the above.

    Answer:

21. Accounting policy for valuation of inventories of a company states that inventories should be valued at the lower of cost determined on weighted average basis or net realizable value. Which accounting principle in followed in adopting the above policy?
    (a) Materiality. (b) Prudence.
    (c) Substance over form. (d) All of the above.

    Answer:

22. The areas wherein different accounting policies can be used are
    (a) Providing depreciation. (b) Valuation of inventories.
    (c) Valuation of investments. (d) All of the above.

    Answer:

23. Measurement discipline deals with
    (a) Identification of objects and events.
    (b) Selection of scale.
    (c) Evaluation of dimension of measurement scale.
    (d) All of the above.

    Answer:

24. All of the following are valuation principles except

(a) Historical cost. (b) Present value.
(c) Future value. (d) Realisable value.

Answer: ☐

25. Book value of machinery on 31 st March, 2013 20,00,000
Market value as on 31 st March, 2013 21,00,000
As on 31 st March, 2013, if the company values the machinery at ₹ 21,00,000, which of the following valuation principle is being followed?
(a) Historical Cost. (b) Present Value.
(c) Realisable Value. (d) Current Cost.

Answer: ☐

26. The rent paid to landlord is credited to
(a) Landlord's account. (b) Rent account.
(c) Cash account. (d) None of the above.

Answer: ☐

27. In case of a debt becoming bad, the amount should be credited to
(a) Debtors account. (b) Bad debts account.
(c) Cash account. (d) Sales account.

Answer: ☐

28. The debts written off as bad, if recovered subsequently are
(a) Credited to Bad Debts Recovered Account
(b) Credited to Debtors Account.
(c) Debited to Profit and Loss Account
(d) None of the above

Answer: ☐

29. In Double Entry System of Book-keeping every business transaction affects:
(a) Two accounts.
(b) Two sides of the same account.
(c) The same account on two different dates.
(d) All of the above

Answer: ☐

30. A sale of goods to Ramesh for cash should be debited to:

(a) Ram (b) Cash
(c) Sales (d) Capital

Answer:

31. A withdrawal of cash from business by the proprietor should be credited to:
    (a) Drawing Account (b) Capital Account
    (c) Cash Account (d) Purchase Account

    Answer:

32. The process of transferring the debit and credit items from Journal to their respective accounts in the ledger is called
    (a) Posting (b) Purchase
    (c) Balancing of an account (d) Arithmetically accuracy test

    Answer:

33. Journal and ledger records transactions in
    (a) A chronological order and analytical order respectively.
    (b) An analytical order and chronological order respectively.
    (c) A chronological order only
    (d) An analytical order only.

    Answer:

34. Ledger book is popularly called
    (a) Secondary book of accounts (b) Principal book of accounts
    (c) Subsidiary book of accounts (d) None of the above

    Answer:

35. The debit note issued are used to prepare
    (a) Sales return book. (b) Purchase return book.
    (c) Sales book. (d) Purchases book.

    Answer:

36. A second hand truck was purchased on credit from B Brothers for ₹ 2,00,000.
    (a) Journal Proper (General Journal)
    (b) Sales Book

(c) Cash Book
(d) Purchase Book

Answer: ☐

37. Goods were sold on credit basis to A for ₹ 5,000.
(a) Cash Book
(b) Journal Proper (General Journal)
(c) Sales Book
(d) Bills Receivable Book

Answer: ☐

38. Accounting for partial recovery from Mr. Z of an amount of ₹ 5,000 earlier written off as bad debt.
(a) Journal Proper (General Journal)
(b) Sales Book
(c) Purchase Book
(d) Cash Book

Answer: ☐

39. Credit purchase of stationery worth ₹ 7,000 by a stationery dealer.
(a) Purchase Book
(b) Sales Book
(c) Cash Book
(d) Journal Proper (General Journal)

Answer: ☐

40. Purchased goods from S worth ₹ 10,000 on credit basis.
(a) Bills Receivable Book
(b) Purchases Book
(c) Journal Proper (General Journal)
(d) Purchases Return

Answer: ☐

41. Unpaid salary for ₹ 16,000 is to be provided for in the accounts.
(a) Bills Receivable Book
(b) Purchases Book
(c) Journal Proper (General Journal)
(d) Purchases Return

Answer:

42. The total of the purchases day book is posted periodically to the debit of:
    (a) Purchases account. (b) Cash book.
    (c) Journal proper. (d) None of these.

Answer:

43. Purchases day book records:
    (a) All cash purchases.
    (b) All credit purchases
    (c) Credit purchases of goods in trade.
    (d) None of the above

Answer:

44. The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the
    (a) Credit of the discount allowed account.
    (b) Debit of the discount received account.
    (c) Credit of the discount received account.
    (d) Debit of the discount allowed account.

Answer:

45. Cash book is a type of __________ but treated as a ____________ of accounts.
    (a) Subsidiary book, principal book
    (b) Principal book, subsidiary book
    (c) Subsidiary book, subsidiary book
    (d) Principal book, principal book

Answer:

46. Salaries due for the month of December will appear
    (a) On the receipt side of the cash book
    (b) On the payment side of the cash book
    (c) As a contra entry
    (d) Nowhere in the cash book

Answer: [ ]

47. The Cash Book records
    (a) All cash receipts
    (b) All cash payments
    (c) All cash receipts and payments
    (d) Cash and credit sale of goods.

Answer: [ ]

48. The balance in the petty cash book is
    (a) An expense
    (b) A profit
    (c) An asset
    (d) A liability.

Answer: [ ]

49. Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as ________.
    (a) Provision.
    (b) Liability.
    (c) Contingent liability.
    (d) None of the above.

Answer: [ ]

50. In the financial statement, contingent liability is
    (a) Recognised
    (b) Not recognised.
    (c) Adjusted.
    (d) None of the above.

Answer: [ ]

Answer

1	(a)	**2**	(d)	**3**	(a)	**4**	(d)	**5**	(d)
6	(b)	**7**	(c)	**8**	(d)	**9**	(c)	**10**	(b)
11	(a)	**12**	(c)	**13**	(b)	**14**	(a)	**15**	(b)
16	(c)	**17**	(b)	**18**	(c)	**19**	(a)	**20**	(d)
21	(b)	**22**	(d)	**23**	(d)	**24**	(c)	**25**	(c)
26	(c)	**27**	(a)	**28**	(a)	**29**	(a)	**30**	(b)

31	(c)	**32**	(a)	**33**	(a)	**34**	(b)	**35**	(b)
36	(a)	**37**	(c)	**38**	(d)	**39**	(a)	**40**	(b)
41	(c)	**42**	(a)	**43**	(c)	**44**	(d)	**45**	(a)
46	(d)	**47**	(c)	**48**	(c)	**49**	(a)	**50**	(b)