

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. Define accounting.

Ans. Accounting may be defined as the process of recording, classifying, summarizing and communicating the financial information to the users of accounting service for making rationale decisions about the entity.

2. What do you mean by accounting ?

Ans. Accounting is the art of recording, classifying, summarizing and interpreting the results of money transactions.

3. Name any two functions of accounting.

Ans. (i) Business transactions are recorded either in the journal or in the subsidiary books depending upon the volume of transactions.

(ii) After recording of transactions in the journal or in the subsidiary books, these are posted to ledger date wise.

4. Name of steps in accounting process.

Ans. Identification of financial transactions, recording, classifying, summarizing, interpreting and communication to users.

5. Name three branches accounting.

Ans. Financial accounting, Cost accounting and management accounting.

6. Define book keeping.

Ans. Book keeping is the art of recording and classifying the business transaction in a set of books.

7. Name two functions of book-keeping.

Ans. Functions of book keeping are :

(i) Identification of financial transactions.

(ii) Recording financial transactions in the books of accounts.

(iii) Classifying the recorded transactions *i.e.* ledger posting.

8. Name any two objectives of accounting.

Ans. Objectives of accounting are :

(i) It keeps complete and systematic recorded of financial transactions of the enterprise.

(ii) It helps in ascertaining profit or loss of the business entity during accounting period.

(iii) It also depicts financial soundness of the business through Balance Sheet.

9. State my two advantages of accounting.

Ans. Advantages of accounting are :

(i) Provides information about profit or loss of the business.

(ii) Provides information about the financial position of the business *i.e.* position of assets, liabilities and capital.

10. Name any two limitations of accounting.

Ans. Limitation of accounting are :

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

- (i) It is based on accounting concepts and conventions. For instance – (a) Fixed assets are valued at historical cost; (b) Provision for doubtful debts is made on the basis of principle of conservatism.
- (ii) It is based on personal judgment for instance – depreciation and provision for doubtful debts are based on personal judgment of the accounting.

11. Name accounting as a source of information. (any two)

- (i) Accounting is the principal source of accounting information to the various end users of accounting service e.g. owner, bankers, creditors etc.
- (ii) Provides information for making inter-firm and intra-firm comparison.

12. Name any two types of accounting information.

- (i) Provides accounting information for making analysis and interpretation of financial statements.
- (ii) Provides information about corporate social responsibilities of the entity.

13. Name any two qualitative features of accounting information.

Ans. Qualitative feature of accounting are :

- (i) Reliability of accounting information y the users.
- (ii) The accounting information must be understandable by various users.

14. Explain in brief about accounting teach part of 1 marks

- (i) Window dressing in accounting
- (ii) Reliability
- (iii) Relevance
- (iv) Understandability
- (v) Comparability
- (vi) Based on historical cost.

- Ans. (i) **Window dressing in accounting** –If the management of the business entity prefers the show more or less profit than the true and fair profit, it is called window dressing in accounting. It can be done by over or under valuation of closing stock by showing revenue expenditure as capital expenditure and *vice versa*.
- (ii) **Reliability** – Reliability means that users of the accounting information must be provided information on which they can depend and rely upon. This is possible only when it is free from personal biasness and transactions are supposed by verifiable evidences.
- (iii) **Relevance** – The accounting information depicted by the financial statements must be relevant keeping in view the informational need of various users. For instance – information about segments, departments and accounting conventions be disclosed.
- (iv) **Understandability** – The various of accounting information posses reasonable knowledge of the business. The management should provide information which is not only understandable but reliable and relevant too.
- (v) **Comparability-** The management should use accounting period, accounting concepts and conventions consistently so that the financial

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

information can be compared with the past and with similar firms.

- (vi) **Based on historical cost** – Fixed assets are shown in the balance sheet at their original cost (historical cost) while they should be shown at their current market price. Thus, fixed assets do not reveal true and fair value and consequently, balance sheet does not reveal true financial position of the business entity.

15. Name two systems to record financial transactions in the books of accounts.

- Ans. (i) Double Entry System
(ii) Single Entry System

16. Which system of accounting is more popular ?

Ans. Double Entry System of accounting is more popular.

17. Who are internal users of accounting information?

Ans. Management, Directors and Officers of the entity are the internal users.

18. Name of the external users of accounting information.

Ans. Shareholders (proprietors), potential investors, bankers and financial institutions, creditors, employees, researchers, government, etc. are the external users of accounting information.

19. Name any two roles of accounting.

Ans. Role of accounting is :

- (i) Accounting is considered as a language of business. Financial statements are technical documents so they can be analyzed and interpreted only by those who are fully conversant with the accounting language.
(ii) Accounting is viewed as a service activity. It provides quantitative financial information of various users of accounting service so that they may take rational decisions about the business entity.

20. What does financial statements include?

- (i) Trading and profit and loss account
(ii) Balance sheet

21. _____ is the art of recording monetary transactions in the books of accounts.

Ans. Book keeping.

22. _____ is the art of recording, classifying, summarizing and interpreting the business transactions. .

Ans. Accounting

23. _____ refers to the entire body of theory and practice of accounting.

Ans. Accountancy.

24. What is the end product of accounting ?

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

Ans. Profit and Loss Account and Balance Sheet.

25. Who use published and unpublished accounting information?

Ans. Internal users – management.

26. Who use published accounting information?

Ans. All external users like shareholders, proprietors, bankers, financial institutions, creditors, employees, researchers etc.



MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What are business transactions?

Ans. Business transactions refer to financial transactions entered into between two parties involving exchange of goods or services of monetary consideration *e.g.* purchase of goods, sale of goods, payment of salary, rent; receipt of cash from debtors etc.

2. Give two examples of internal transactions.

Ans. (i) Charging depreciation on asset.
(ii) Creating provision for doubtful debt on debtors.

3. Distinguish between external and internal transactions.

Ans. Transactions between firm and other party are called external transactions *e.g.* sale of goods to Ram. While transactions which does not involve second party are called internal transactions *e.g.* charging depreciation on machinery.

4. What is an account ?

Ans. An account is a record of all business transactions pertaining to an individual, firm or item in a chronological (date wise) order *e.g.* account of Ram, Mohan Lal & Co., salary, etc. These accounts are kept in ledger of the firm.

5. What is mean by capital ?

Ans. Amount invested by the proprietor owners in the business in the form of cash or assets is called capital.

6. What is drawing?

Ans. Drawing refers to cash or value of goods taken by the proprietor or partners of the firm for their personal use. Thus, capital of the firm is reduced.

7. What is a Liability?

Ans. Liabilities are debts which the business entity owes to outsiders (*i.e.* except proprietor or owners).

8. What is means by internal liability ?

Ans. Internal liability refers to amount due by business entity to proprietors or owners. It is represented by capital of owner and free reserves.

9. What is meant by external liability?

Ans. The amount due to outsiders (except owners) by the firm is called external liability *e.g.* creditors, bills, payable, bank loan, expenses outstanding etc.

10. What are long term liabilities ?

Ans. A liabilities payable after a long period of time (normally after a year) is called as long term liability *e.g.* Bank Loan, Mortgage Loan, Debentures etc.

11. What are current liabilities/short term liabilities?

Ans. Liabilities payable within a year are called short term liabilities or current liabilities *e.g.* creditors, bills payable, bank overdraft, outstanding expenses etc.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

12. Give two examples of current liabilities.

Ans. (i) Creditors
(ii) Bank Overdraft

13. Name two long term liabilities.

Ans. (i) Debentures
(ii) Bank Loan.

14. What are Assets?

Ans. Assets are economic resources of an individual or business enterprise that can be expressed in terms of money *e.g.* land, building, cash, debtors, etc.

15. What are tangible assets?

Ans. Assets having physical existence and which can be seen and touched, are called tangible assets *e.g.* computer, land, machinery, cash, stock etc.

16. What are intangible assets?

Ans. Assets which do not have physical existence are called intangible assets *e.g.* patent, copyright, goodwill, etc.

17. Give two examples each of tangible and intangible assets.

Ans.	(a) Tangible Assets	(b) Intangible Assets
	(i) Computer	(i) Goodwill
	(ii) Machinery	(ii) Patent

18. What are fixed assets?

Ans. Assets which are purchased in the business with a view to produce goods or services and which are not meant for resale are called fixed assets *e.g.* land, building, machinery, furniture, etc.

19. What are current assets?

Ans. Assets which are likely to be converted into cash within a period of one year are called current assets *e.g.* debtors, bills receivable, closing stock etc.

20. Give two examples of current assets.

Ans. (i) Debtors (ii) Stock (iii) Prepaid Expenses.

21. Give two examples of tangible assets.

Ans. (i) Land (ii) Cash (iii) Computer.

22. Give two examples of intangible assets.

Ans. (i) Goodwill (ii) Patent (iii) Trade Mark

23. What is liquid asset?

Ans. Assets which are available to business entity in the form of cash or which are likely to be converted into cash within a very short period are called liquid assets *e.g.* debtors, bills receivable, marketable securities etc.

24. What is meant by fictitious asset ?

Ans. Fictitious assets are neither tangible or intangible assets. They are deferred

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

revenue expenditure or capital losses and they yield benefit to business entity in some cases *e.g.* Advertisement Development, Share Discount, preliminary expenses, loss on issue of debentures etc.

25. What do you mean by capital receipt?

Ans. The money received by the business entity from proprietor or partners as capital or money received by issuing share capital, debentures or raising bank loan is a capital.

26. What is meant by sales ?

Ans. The term sales is used for sale of only those goods in which firm is dealing or it is producing goods for sale purposes. The term is never used for sale of assets, however, it includes revenue generated from services rendered to customers.

27. What is stock/inventory?

Ans. The term stock or inventory refers to include value of goods remaining unsold in the business at the end of the accounting year.

28. What is a debtors?

Ans. The person or a firm to whom goods have been sold on credit or services rendered on credit are called our debtors.

29. What is meant by Bills receivable?

Ans. A bill exchange drawn by seller of goods becomes bills receivable on seeing the acceptance of the buyer (drawee) of goods or service.

30. Who is a creditor?

Ans. Creditors are the person or firm from whom we have purchased goods or procured services on credit.

31. What is Bills Payable?

Ans. On the acceptance of bills of exchange of goods or services, it becomes bills payable for the buyer (drawee) of bill.

32. What is goods?

Ans. Goods is referred as the product in which the business entity in dealing *i.e.* buying and selling the goods or is producing the product and selling it.

33. What is voucher?

Ans. A voucher is a written document prepared by the accountant providing the evidence of a business transactions they are printed forms of the firm and they specify which account is to be debited and which account is to be credited. Business transactions are recorded in the books of original entry *i.e.* journal or in subsidiary books.

34. What is discount?

Ans. A reduction of the price of goods by the business entity to its customers is called discount. It may be in the form of trade discount or cash discount.

35. What is Trade discount?

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

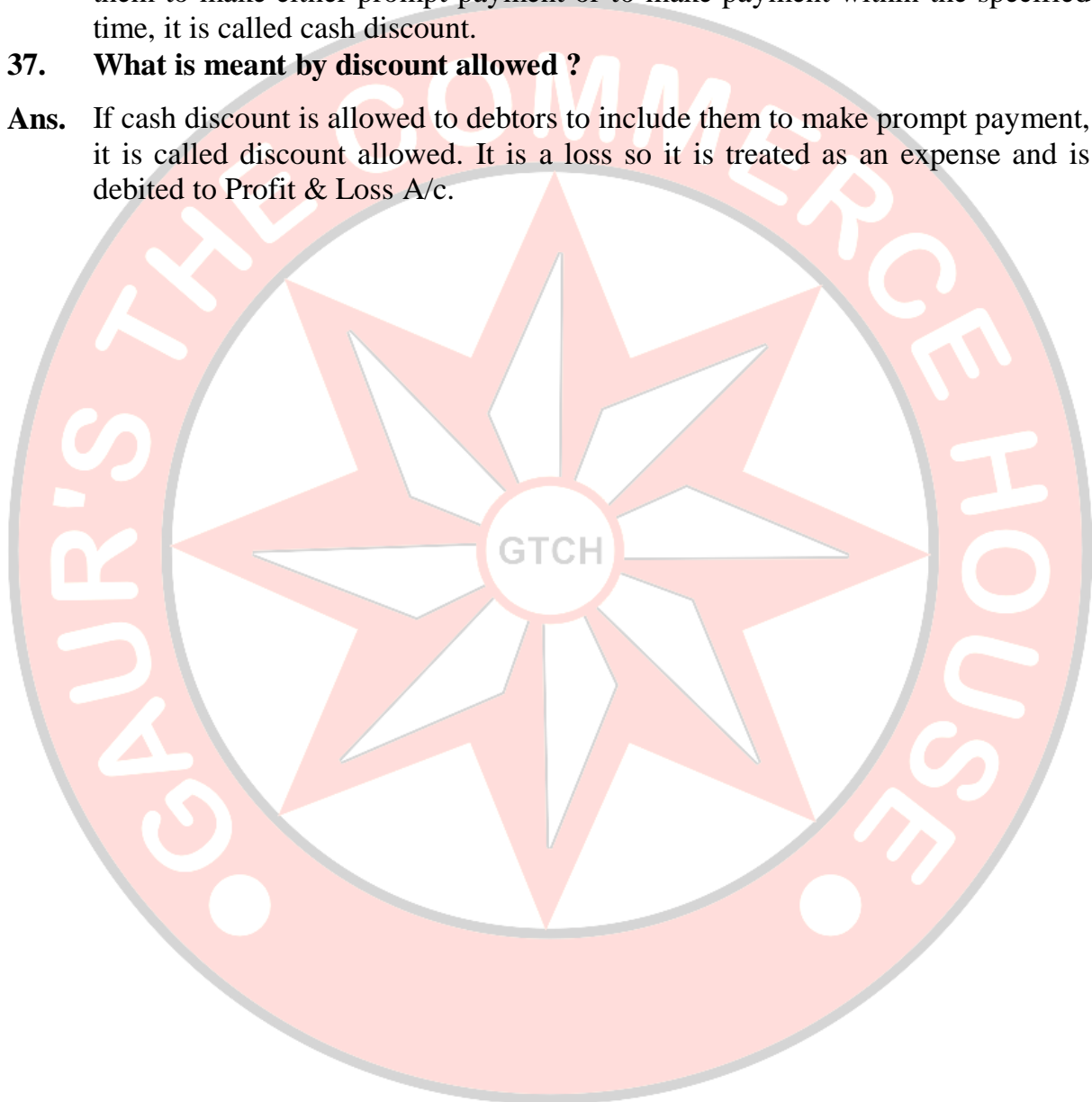
Ans. A reduction of the price of goods at a fixed percentage on the list price or catalogue price by the seller to buyer is called a trade discount. The objective of giving reduction is that ultimate consumer of goods get the product at the listed price.

36. What is Cash Discount?

Ans. When the debtors are allowed some reduction in the amount due to induce them to make either prompt payment or to make payment within the specified time, it is called cash discount.

37. What is meant by discount allowed ?

Ans. If cash discount is allowed to debtors to induce them to make prompt payment, it is called discount allowed. It is a loss so it is treated as an expense and is debited to Profit & Loss A/c.



MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHootNATH MARKET, INDRA NAGAR LKO.

1. What do you mean by accounting principles?

Ans. Accounting principles refer to rules or guidelines adopted for recording business transactions in the books of accounts so as to bring uniformity in the preparation and presentation of financial statements.

2. Name two features of accounting principles.

- (i) Accounting principles are man made based on experience so they are not exact as principle of natural science.
- (ii) Accounting principles are theory base of accounting. They act as guide for accounting.

3. What is the need of having accounting principles?

Ans. The accounting principles are needed to make financial statements in a standardized form so that they serve the end users of financial statements in a better way.

4. What is meant by accounting assumptions or concepts?

Ans. The accounting concepts are fundamental assumptions within which the accounting operates. They are generally accepted accounting rules and business transactions are recorded in the books of accounts based on the concepts for assumptions.

5. What is meant by going concern assumption.

Ans. The concept of going concern assumes that business will continue to operate for a long period of time. Thus, fixed assets are recorded at their cost price less estimated depreciation based on their useful life in each accounting year.

6. What is meant by consistency assumption?

Ans. The consistency assumption means following uniform accounting policies and practices by the firm over a long period of time so that inter-firm and intra-firm (inter period) comparison can be made.

7. What is mean by accrual assumption?

Ans. As per accrual assumption, revenues and expenses are recognized in the period of their accordance rather than when they are received or paid. The accrual concept is a part of accounting concept in real practice.

8. What is accounting entity or business entity principle?

Ans. As per accounting entity or business entity principle, business is considered a separate entry distinct from its owner(s). Thus, the proprietor as a creditor of the business to the extent of his capital.

9. What is money measurement principle?

Ans. As per money measurement principle, only those transactions are recorded in the books of accounts which can be measured in terms money. They are also recorded in terms of money.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

10. What is meant by accounting period principle?

Ans. As per principle of going concern, life of business is fairly long and users of accounting service cannot wait for the financial statements till the liquidation of the business. It is therefore, prudent that all business should prepare their financial statements on a periodic basis, normally on yearly basis. As per companies Act, 1956 and Income Tax Act, 1961, accounting period is counted from 1st April to 31st March on yearly basis.

11. What is meant by full disclosure principle?

Ans. The principle of full disclosure that all material facts which helps in the appraisal of operating and financial performance of an organization must be disclosed in the financial statements and in footnotes.

12. State Materiality principle.

Ans. The principle of materiality requires the accounting of material facts in the books of accounts. An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of an informed investor.

13. What is meant by prudence or conservatism principle?

Ans. According to principle of conservatism or prudence, if the management anticipate loss, provision should be made for loss but if it anticipates profits should not be recorded in the books of accounts unless and until it is realized.

14. What is cost concept or historical cost principle?

Ans. According to cost concept, assets are recorded in the books of accounts at their purchase price which includes cost of asset, transportation installation charges and cost spent for making the asset ready to use. It is also called historical cost. The depreciation on assets are charged based on their useful life to the firm.

15. Explain the matching concept or matching principle.

Ans. According to matching concept, expenses incurred in an accounting period should be matched with revenue during that period. Since, accounts are prepared on accrual basis so expenses incurred in an accounting period are matched with revenue recognized in that period.

16. What do you mean by dual aspect or duality principle?

Ans. The duality principle state that every transaction has two aspects *i.e.* a debit and a credit of equal amount. for every debit there is a credit of equal amount in one or two accounts and *vice-versa*.

17. What is revenue recognition concept?

Ans. As per revenue recognition concept, revenue is considered as realized when the transaction has taken place irrespective of the fact that cash is received or not. Recognition of revenue and receipt of payment are two different aspects.

18. When should revenues be recognized?

Ans. The revenue is recognized when sales is made or service is rendered rather than

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

when cash is received.

19. When should expense be recognized

Ans. Expense is recognized when goods or service has been used to generate venue irrespective of the fact whether the expense is paid or not.

20. Why is owner's capital considered as liability to firm?

Ans. According to business entity concept, business is considered a separate entity distinct from its owner(s). Thus, owner of the business is considered as creditor of the firm to the extent of his capita.

21. Gove twp reasons for showing the fixed assets at their historical cost.

Ans. Fixed assets are shown at historical cost become :

- (i) The cost price paid for purchase of asset is verifiable from cost records.
- (ii) It is difficult to determine the market price of each asset. Moreover, the valuation of asset will vary from person to person.

22. Give two drawbacks of cost concept.

Ans. Drawbacks of historical cost are:

- (i) The cost of various assets purchased over a period of time are not comparable.
- (ii) During inflationary period, cost of assets does not show their true worth.

23. What is verifiable objective concept?

Ans. The verifiable objective concept requires that accounting transactions should be recorded in an objective manner and should be free from personal bias of the accountant. This is feasible if transactions are supported by documentary evidence and vouchers.

24. What is the full form of GAAP?

Ans. GAAP stands for Generally Accepted Accounting Principles.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. State the steps involved in the process of accounting.

Ans. Steps in the process of accounting are :

- (i) Identification of financial transactions.
- (ii) Preparation of vouchers.
- (iii) Recording transactions in the books of accounts.
- (iv) Posting into ledger.
- (v) Preparation of Trial Balance
- (vi) Preparation of Financial Statements.
 - (a) Trading and Profit & Loss Account
 - (b) Balance Sheet.

2. What is meant by source document?

Ans. Source Documents – Documentary evidence in support of a business transaction is called as source documents e.g. cash memo, purchase invoice sale invoice, pay-in-slip, rent receipt, etc.

3. What is a voucher ?

Ans. Voucher – Vouchers are usually printed forms containing name of firm, columns of date, voucher number. It is further divided into debit (Dr.) and credit (Cr.) with amount columns along with column of signature of person who prepares it. Vouchers are prepared from source documents stating as to which account is to be debited and which account is to be credited. Source documents is attached with each voucher.

4. What does a voucher signify ?

Ans. Voucher are prepared from source documents. They signify as to which account is to be debited and which account is be credited.

5. Name any four subsidiary books of accounting.

- Ans.**
- (i) Cash book
 - (ii) Purchases Book
 - (iii) Sales Book
 - (iv) Bills Receivable Book.

6. How is Trial Balance prepared.

Ans. A Trial Balance is prepared by placing all the accounts having debit balances on the debit side and by placing all the accounts having credit balances on the credit side. Thus, total of debit side should tally with the total of the credit side of Trial Balance.

7. What does a Trail Balance signify?

Ans. The agreement of both sides of Trial Balance signifies arithmetical accuracy of books of accounts.

8. What is cash basis of accounting ?

Ans. Cash Basis of Accounting – Under this system of accounting, the financial transactions are recorded only when cash is received or cash is paid. Thus, credit transactions are not recorded. It means revenue is recognized on receipt of cash and expense is recognized on payment of cash. Difference between total receipts and total expenses represents either profit or loss. Usually, this

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

system of accounting is followed by non-trading concerns like school, college, club, charitable trusts, professionals like lawyers, doctors, chartered accountants etc.

9. What is accrual basis of accounting ?

Ans. Accrual Basis of Accounting – It is most scientific system of accounting. Under accrual basis of accounting, income is recognized when sales is made or service is rendered rather than when cash is received. Similarly, expense is recognized when an asset or service has been used to generate revenue irrespective of the fact that expense is paid or not. Thus, credit sales and credit purchases are considered. Under accrual basis of accounting, net profit is ascertained on the principles of matching concept.

10. State two advantage of cash basis of accounting.

Ans. (i) Cash basis of accounting is simple to understand.
(ii) Technique is suitable where almost all the transactions are recorded on cash basis.

11. State two disadvantages of cash basis of accounting.

Ans. (i) Cash basis of accounting is not based on principle of matching concept.
(ii) System is not scientific so profit/ loss can be easily manipulated by deferring the receipt of income or payment of expense.

12. Mention two advantages of accrual basis of accounting.

Ans. (i) Accrual basis of accounting is based on double entry system and it is most scientific system of accounting.
(ii) It follows principle of recognition and matching concept so the system discloses true and fair profit for the accounting period and also exhibits true and fair view of financial position through Balance Sheet.

13. Mention two disadvantages of accrual basis of accounting.

Ans. (i) Accrual basis of accounting is not simple in relation to cash basis accounting system.
(ii) The system requires personal judgment of accountant/ management in respect of valuation of stock, charging depreciation creation of provision for doubtful debts. Thus, true profit may not be ascertained due to personal biasness of accountant/ management.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHootNATH MARKET, INDRA NAGAR LKO.

1. What is an accounting equation.

Ans. An accounting equation is a mathematical equation which shows that assets of a business are always equal to total of its liabilities and capital. Thus,
Assets = Liabilities + capital

2. Give an example of increase in asset and increase in liability.

Ans. Purchase of goods or furniture on credit.

3. Give an example of decrease in asset and decrease in liability.

Ans. Payment on Creditor/Repayment of loan.

4. Give an example of increase in asset and increase in capital

Ans. Started business with cash.

5. Give two examples of increase in asset and decrease of another asset.

Ans. (i) Cash received from debtors.
(ii) Cash deposited into bank

6. Give an example of decrease in liability and increase in capital.

Ans. Conversion of loan into capital.

7. How the accounting equation is affected if goods costing Rs. 4000 is sold to Ram for Rs. 5000?

Ans. Rs. 4000 (stock) + Rs. 5000 (debtor) = + Rs. 1000 capital (profit).

8. What is an account?

Ans. Account refers to ledger record of each item in a summarized form. Transactions are recorded on debit and credit side as per accounting rules.

9. Give a specimen of an account.

Ans.

Dr.

Ram's Account

Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)

10. Name five categories of accounts.

Ans. Asset, liabilities, capital, expense (loss) and income (gain).

11. Asset = Liabilities +.....

Ans. Capital

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

12. What are the two sides of an account called ?

Ans. Debit and credit.

13. What do debit item of capital account and credit item of a debtor's account mean?

Ans. Debit item of capital A/c refers to drawing and credit item of debtor's A/c means cash received from debtor.

14. Name the side on which increase in cash and increase in capital are recorded.

Ans. Increase in cash-debit and increase in capital – credit side.

15. Why are the rules for recording debit and credit items are same for both capital and liability?

Ans. Rules for recording debit and credit items are same for recording capital and liability as they are written on the same side of Balance Sheet *i.e.* liability side. Moreover, capital is considered as internal liability.

16. What is meant by debit and credit?

Ans. **Debit** – When an account is recorded on the left had side of an account. It is called debit.

Credit- When an amount is written on the right hand side of an account, it called credit.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What do you mean by source document?

Ans. Business transactions are recorded in the books of accounts on the basis of some written evidence, called source document *e.g.* invoice for sale of goods, pay-in-slip for depositing cash or cheque in the bank, cash memo – evidence of cash sales.

2. What is a Cash Memo ?

Ans. Cash Memo is prepared while selling goods for cash. It contains columns for detail of goods, quantity, rate amount received and date of transaction.

3. What is an Invoice?

Ans. An invoice or bills is prepared by seller of goods while selling goods to customer on credit. It contains details in respect of buyer of goods, detail of goods sold, rate, amount of sales etc.

4. What is a Receipt ?

Ans. Receipt is issued to customer when cash is received from him. It is an acknowledgement of cash received from the customer.

5. What is pay-in-slip?

Ans. Pay-in-slip a printed document of a bank which is used by its customers for depositing cash or cheques of customer for collection of payment in our bank account. It has two portions namely-pay-in-slip and counter foil which is returned by bank to the customer after acknowledging cash/ cheques sent for collection of payment.

6. What is a Debit Note?

Ans. A debit note is a source document prepared and sent by the buyer of goods to the seller of goods stating that the account of the buyer has been debited on account of return of defective goods or over valued etc.

7. What is a Credit Note?

Ans. A credit note is a source document prepared and sent by the seller of goods to the buyer of good then the sold goods is returned by the buyer or more discount is offered to the buyer. It states that account of the buyer of goods has been credited.

8. What is voucher?

Ans. A voucher is a written document prepared by the accountant providing the evidence of a business transaction. A separate voucher is prepared for each transaction specifying which account is to be debited or credited.

10. State two differences between Source Documents and Vouchers.

Ans. (i) Source documents are written evidences in support of transactions while voucher is a written document prepared by the accountant providing the evidence of a business transaction.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

- (ii) Source document is an evidence of a business transaction while voucher is an evidence of correct recording of transaction in the books of accounts.

11. What is a Cash Voucher?

Ans. Cash vouchers are those voucher which are prepared at the time of receipt of cash/cheque or while making payment in cash/cheque.

12. Explain Debit Voucher.

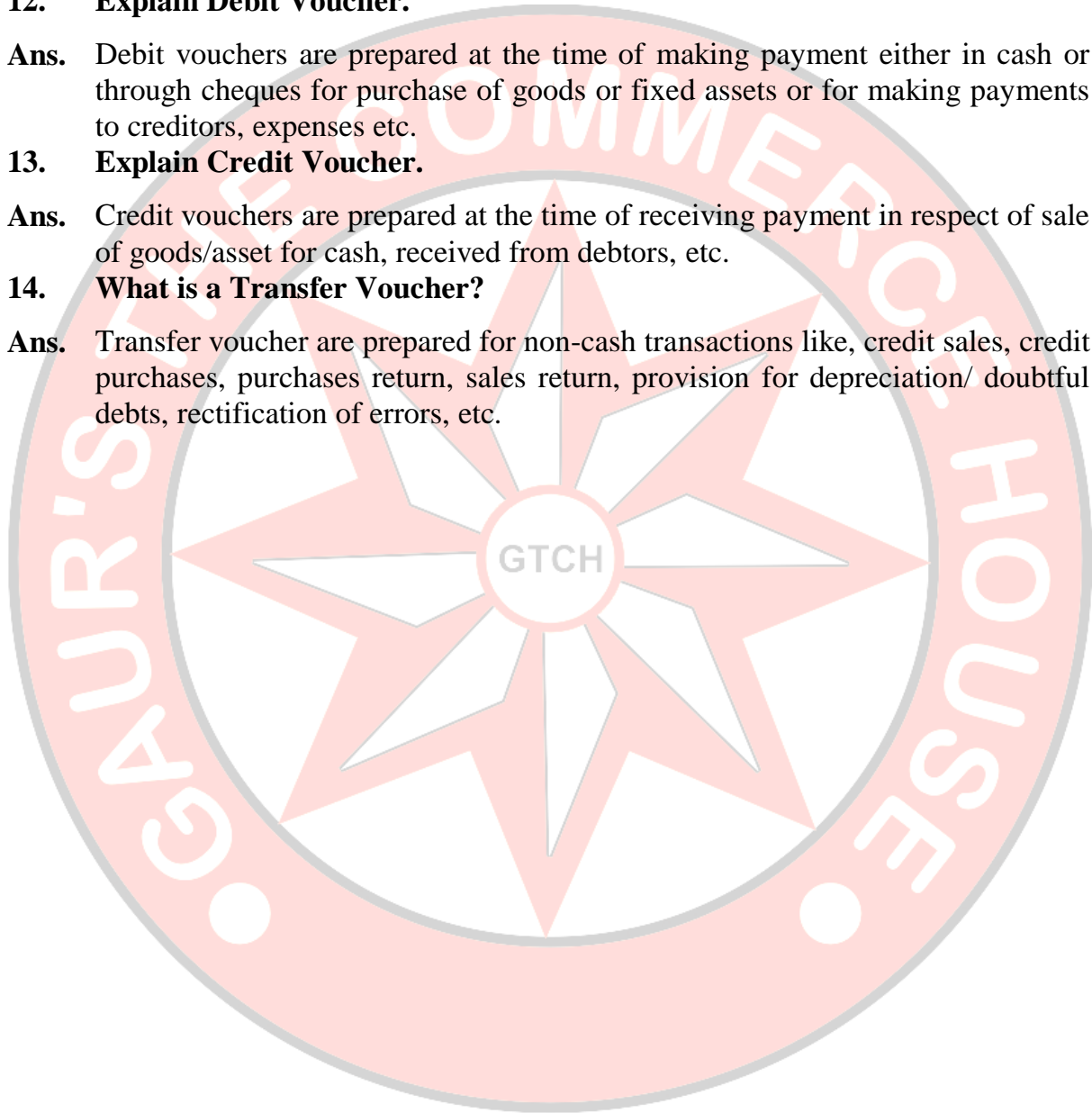
Ans. Debit vouchers are prepared at the time of making payment either in cash or through cheques for purchase of goods or fixed assets or for making payments to creditors, expenses etc.

13. Explain Credit Voucher.

Ans. Credit vouchers are prepared at the time of receiving payment in respect of sale of goods/asset for cash, received from debtors, etc.

14. What is a Transfer Voucher?

Ans. Transfer voucher are prepared for non-cash transactions like, credit sales, credit purchases, purchases return, sales return, provision for depreciation/ doubtful debts, rectification of errors, etc.



MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What is Journal?

Ans. Journal in the basic book of original entry as all the business transactions are recorded for the first time in journal based on the principle of double entry system. The transactions are recorded with the help of vouchers supported by the source documents. .

2. What is journalizing?

Ans. The process of recording transactions in the journal on the basis of rules of double entry system is called as journalizing.

3. State three features of Journal.

Ans. Features of Journal are :

- (i) If records both debit and credit aspects of a transaction based on double entry system.
- (ii) Each Journal entry is accompanied by brief explanation of the transaction, called system.
- (iii) Transaction of the business entity are recorded in the journal on daily basis.

4. State three advantages of Journal.

Ans. Advantages of journal are -

- (i) Provides date wise recording of business transactions.
- (ii) Provides detail of each transaction in the form of narration.
- (iii) Facilities ledger posting of transaction.

5. State three limitations of Journal.

Ans. Limitation of Journal are :

- (i) It is a complex system of recording business transactions.
- (ii) Not suitable when volume of business transactions is large.
- (iii) Journal is no substitute of ledger.

6. What is simple journal entry?

Ans. If a journal entry involves one debit and one credit account, it is called as simple journal entry.

7. What is a compound journal entry? Give examples:

Ans. A journal entry in which more than one accounts are either debited or credited is called compound journal entry *e.g.*

	(Rs.)			(Rs.)
(i) Cash A/c	Dr. 3800	(ii) Salary A/c	Dr. 1000	
Discount allowed A/c	Dr. 200	Wages A/c	Dr. 500	
To Ram	4000	To Cash A/c	1500	

8. What is Double Entry System?

Ans. Double entry system is a system of accounting in which both the aspects of a business transaction are recorded in terms of debit and credit amount.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

9. Give format of a journal and point out the essential of journal.

Date	Particulars	J.F.	Dr. Amount	Amount (Rs.)

Format has columns for date, particulars, ledger folio (L.F.), Dr. amount and Cr. Amount

10. Name of the various types of accounts as per British system of accounting.

Ans. (i) Personal Account (ii) Impersonal Accounts.

11. Explain

(a) **Personal Account.**

(b) **Real Account**

(c) **Nominal Account**

Ans. (a) **Personal Account.** – Account related to an individual, firm, company, institutions, etc. are called personal accounts.

(b) **Real Account** – Accounts of all the properties of the business whether tangible or intangible are termed as real accounts *e.g.* cash, furniture, good will A/c.

(c) **Nominal Account** – All the documents related to expenses, losses revenue, income and gains are termed as nominal account *e.g.* Purchases A/c, Sales A/c, Salary A/c, Bad debt. A/c, Interest received A/c.

12. Name of the various types of accounts as per rules of debit and credit.

Ans. There are 5 types of accounts as per rules of Debit and Credit:

(i) Assets (ii) Liabilities (iii) Capital (iv) Expenses losses (v) Revenue/ Gains.

13. Explain the rule of debit and credit for assets and expenses/losses.

Ans. (i) Dr. Increase in Assets/ Expenses (losses).

(ii) Cr. Decrease in assets.

14. Explain the rule of debit and credit for liabilities, capital and income/ gains.

Ans. (i) Cr. Increase in Liabilities / Capital/ Revenue / Gain.

(ii) Dr. decrease in liabilities/ Capital.

15. What are representative personal account ?

Ans. An account representing a particular person or group of persons is termed as representative personal account *e.g.* wages for the month of December is due but not paid to workers input under the head, “wages outstanding”. This

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

account represent all the workers whose wages has not been paid.

16. What is opening entry?

Ans. Opening Entry a journal entry through which closing balances of the previous year balance sheet are brought forward in the beginning of the next year.

17. What entry is passed for loss of goods by fire?

(i) Loss by Fire A/c Dr.
To Purchase A/c

(ii) Insurance Co. A/c Dr.
To Loss by Fire A/c

18. Give journal for -

- (a) Salary due but not paid
(b) Depreciation on furniture
(c) Insurance prepaid

Ans. (a) Salary A/c Dr.
To Salary O/s A/c

(b) Depreciation A/c Dr.
To Furniture A/c

(c) Prepaid Insurance A/c Dr.
To Insurance A/c

19. What entry is passed for wages paid for installation of machinery?

Ans. Machinery A/c Dr. 1000
To Cash A/c 1000

(Paid wages for installation of Machinery).

20. What entries are passed for using goods in making furniture for?

- (a) Officer use
(b) Personal use

Ans. (a) Furniture A/c Dr.
To Purchase A/c

(b) Drawing A/c Dr.
To Purchase A/c

21. Give two examples each of tangible and intangible assets.

- Ans.** (i) Tangible Assets – Furniture, Machinery A/c
(ii) Intangible Assets – Goodwill, Patent A/c

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHootNATH MARKET, INDRA NAGAR LKO.

1. Why is journal sub-divided?

Ans. Journal is sub-divided into a number of books to simplify the process of recording of business transactions of similar and repetitive nature.

2. Name various books of original and entries/ subsidiary books.

Ans. Various subsidiary books are – (i) Cash Book (ii) Purchases Book (iii) Sales Book (iv) Purchase Return Book (v) Sales Return Book (vi) Bills Receivable Book (vii) Bills Payable Book (viii) Journal Proper.

3. Give three advantages of keeping subsidiary books.

Ans. Advantages of subsidiary books are :

- (i) Division of work as per ability of clerks.
- (ii) Easy ledger posting as transactions of only one nature are recorded in the subsidiary book.
- (iii) Efficiency of account clerk increases as he recorded transaction in the subsidiary book entrusted to him only.

4. What is meant by cash book?

Ans. Cash book is a subsidiary book in which all cash and bank transactions of receipts and payments are recorded date wise.

5. Give three features of cash book.

Ans. Features of cash book are -

- (i) Only cash transactions are recorded in it, however, bank transactions can also be recorded in it.
- (ii) Receipt of cash is recorded on the debit side and payment of cash is recorded on the credit side.
- (iii) Transactions are recorded date wise.
- (iv) Cash account is not prepared if Cash Book is kept.

6. Why is cash book called a book of original entry?

Ans. Since all the cash transactions of a business entity are recorded for the first time in the Cash Book so it is called as book of original entry.

7. What kind of transactions are recorded in cash book?

Ans. Only cash and bank transactions are recorded in the cash book.

8. Is cash book a journal or a ledger?

Ans. Cash Book is both a journal and a ledger. Since cash and bank transactions are recorded for the first time in the Cash Book so it is a journal. When Cash Book is maintained no separate cash account is prepared so it is a part of ledger as well.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

9. Give two differences between a cash book and cash A/c.

- Ans.** (i) Cash book is a part of subsidiary book while cash account is a part of ledger.
(ii) Cash book is a Book of Original Entry so journal is not kept for recording cash transactions while transactions are posted from journal to cash account.
(iii) Both aspects of a transactions are recorded in the Cash Book while only cash aspect of transactions are recorded in Cash Account.

10. Name different types of Cash Book.

- Ans.** Simple or single column Cash Book and Two Column Cash Book.

11. What is meant by simple cash book.

- Ans.** Simple Cash book is a cash book with only cash column of both the sides to record only cash transactions.

12. Why cash column of a cash book always depicts a debit balance?

- Ans.** Cash book with cash column always depicts a debit balance as payment side can never exceed the receipt side of cash.

13. Bank column of a cash book may have debit or credit balance why?

- Ans.** Bank column of a cash book represent Bank Account. If receipt exceeds payment side, it will show debit balance and if the payment side exceeds receipt side, it will show credit or overdrawn balance.

14. What do you mean by contra entry?

- Ans.** A contra entry refers to entries which are recorded on both the sides of two column Cash Book by writing 'C' in the column of ledger folio. Those entries are passed for (i) depositing cash into bank and (ii) for withdrawing cash from bank for office use.

15. Give three examples of contra entry.

- Ans.** (i) Cash deposited into bank
(ii) Cash withdrawn from bank for officer use.
(iii) When cheque received from a customer is not deposited into bank on the same.

16. Which balance of bank account of a cash book signifies for bank overdraft?

- Ans.** Credit Balance of bank column of a cash book signifies for bank overdraft.

17. What is meant by petty cash book?

- Ans.** Petty Cash Book is a cash book in which numerous small payments is respect of postage carriage, coolie, stationery items, etc are recorded on daily basis.

18. What is meant by imprest system of petty cash book?

- Ans.** Under imprest system of petty cash book, petty cashier is given a fixed amount of cash in the beginning of a period for meeting petty expenses based on post

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

experience. The amount spent by him during the period is reimbursed at the end of the period so again he is having the same amount for spending in the next period. This system is called imprest system of petty cash book.

19. Give three advantages of imprest system of petty cash book.

- Ans.** (i) Ensures saving of time and effort of the head cashier.
(ii) Remote chances of misuse of cash by the petty cashier.
(iii) The petty expenses are checked by the head cashier at the time of periodical reimbursement of amount spent by the petty cashier.

20. Give three advantages of keeping a petty cash book.

- (i) Saving of time and effort of head cashier.
(ii) Easy posting of petty cash book items into ledger.
(iii) Keeps control on petty cash expenses.

21. What is meant by analytical petty cash book?

Ans. Analytical Petty Cash Book has two sides. Left side is used to record receipt of cash and right side is used to record payment of petty expenses. The payment side has 4 to 6 columns for recording each type of expense.

22. Why is petty cash book maintained?

Ans. Petty Cash Book is maintained so as to save the time and effort of the head cashier in making payments of petty expenses on daily basis.

23. What is a bearer cheque?

Ans. A bearer cheque is a cheque whose payment is made by the bank in cash to the named person or to the bearer of the cheque.

24. What is crossing? What is its impact on a cheque?

Ans. If two parallel lines are drawn on the left hand top portion of the cheque is called crossing of a cheque. Bank does not give cash payment of such cheques. They are lodged in the account of the holder of cheque for collection of payment.

25. What is pay-in-slip ? What purpose does it serve?

Ans. Pay-in-slip is used to deposit either cash or cheque of customers for collection of payment in our bank account. It is available from the bank. It has two portions, namely – pay-in-slip and counter foil which is returned by the bank to the customer. It acts as an evidence that cash/ cheques has been deposited by the customers in his bank account.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What is a Purchases Book?

Ans. Purchases Book is a subsidiary book. The credit purchases of goods are recorded in it in chronological (date wise) order.

2. What is a Sales Book?

Ans. Sales Book is a subsidiary book in which credit sales of goods are recorded.

3. What is Purchases Return Book?

Ans. Purchases Return Book is a subsidiary Book. It is used to record the return of goods which has been purchased by the firm earlier on credit basis.

4. What is Sales Return Book?

Ans. Sales Return Book is a subsidiary book. It is used to record goods returned by the customer who purchased it on credit basis.

5. What is bills receivable book?

Ans. Bills Receivable Book is a subsidiary book in which bills drawn by the firm on its debtors are recorded after their acceptance.

6. What is bills payable book?

Ans. Bills Payable Book is a subsidiary book in which bills accepted by the firm towards its creditors are recorded.

7. What is Journal Proper?

Ans. All those transactions which cannot be recorded in the subsidiary books are recorded in the journal proper. Thus, journal proper is nothing but the same journal entries passed for those transactions which do not come in the subsidiary books. Entries for purchase or sale of assets on credit, opening entries, closing entries, rectifying entries, adjustment entries, transfer entries, etc. are passed through it.

8. What is a Debit Note?

Ans. A Debit Note is prepared by the purchaser of goods at the time of return of goods to the supplier of goods. It is called as debit note as account of supplier of goods is debited with the amount goods returned.

9. What is a credit note?

Ans. A credit note is prepared by the seller of goods when goods is received back from the buyer of goods. It is called as credit note as account of debtor is credited with the amount of goods returned.

10. What is meant by opening entry?

Ans. Opening Entry is passed in the beginning of the accounting year of bring out the Balances of various assets, liabilities and capital appearing in the balance sheet of the last year.

11. Give three items which will appear in journal proper.

Ans. (i) Opening Entries (ii) Closing Entries (iii) Adjustment Entries (iv) Rectifying Entries.

12. Give specimen of Purchase Book.

Ans. Format of Purchases Book:

13. Name special purchase subsidiary Books used by business houses.

Ans. Special purpose subsidiary books used in a business are -

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

(1) Purchases Book (2) Sales Book (3) Purchases Return Book (4) Sales Return Book (5) Bill Receivable Book (6) Bills Payable Book (7) Journal Proper.

14. It is necessary to keep all the special purpose subsidiary books by a business house?

Ans. No, it is not necessary for business firms to keep and maintain all the special purpose subsidiary books. They may keep any of these books depending on the requirement of the firm.

15. Differentiate between Purchases Book and Purchases Account.

Ans. **Difference between purchases books and purchases assets account.**

<i>Basis</i>	<i>Purchases Book</i>	<i>Purchases Account</i>
1. Part	It is a part of Subsidiary book	It the part of Ledger.
2. Format	Like ledger account, it has no debit and credit columns.	It is divided into two parts <i>i.e.</i> debit and credit columns.
3. Recording	Only credit purchases of goods is recorded in it.	It record both cash and credit purchases of goods.
4. Amount	Total amount of the Purchases book is posted to Purchases Account.	Total of purchases account is transferred of Trading Accounts.

16. Differentiate between sales book and sales account.

Ans. **Distinction between Sales Book and Sales Account.**

<i>Basis</i>	<i>Purchases Book</i>	<i>Purchases Account</i>
1. Part	It is a part of Subsidiary book	It the part of Ledger.
2. Format	Like ledger account, it has no debit and credit columns.	It is divided into two parts <i>i.e.</i> debit and credit columns.
3. Recording	Only credit purchases of goods is recorded in it.	It record both cash and credit sales of goods.
4. Amount	Total amount of Sales Book is posted to Sales Account.	Total of Sales A/c is transferred of Trading Accounts.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What is Ledge?

Ans. The book which contains a classified and permanent record of all the transactions of a business is called the ledger.

2. Why is ledger called Principal Book?

Ans. The ledger fulfills the principal objects of a business entity *i.e.* all the transactionals of the business entity are recorded in it so it is called Principal Book.

3. Why is Ledger called Book of Final Entry?

Ans. After recording of business transactions in the journal or in the subsidiary books, they are posted in the ledger. Thereafter, all the accounts are balanced and trial balance is drawn to prepare the financial statements of the business entity so ledger is called the book of final entry.

4. Give two advantages of Ledger.

Ans. Advantages of Ledger are:

- (i) It keeps complete information of each account
- (ii) Trial Balance is prepared from ledger account to check the arithmetical accuracy of the ledger accounts for a particular period.

5. Give format of ledger.

Ans. **Format of Ledger:** See page 10.3 of this book.

6. Give two differences between journal and ledger.

- Ans.**
- (i) Journal is a book of primary entry whereas ledger is a book of final entry.
 - (ii) Trial Balance cannot be prepared on the basis of journal though it can be prepared on the basis of ledger.
 - (iii) Recording of transactions in journal is the first stage while ledger posting of recorded transactions in the journal is the second stage.

7. Give two simple journal entries and post them into ledger.

Ans.

Journal Entries

(i) Jan. 1	Purchases A/c To Ram (Bought goods from Ram)	Dr.	(Rs.) 4000	(Rs.) 4000
(ii) Jan. 4	Ram To Cash A/c (Paid cash to Ram)	Dr.	4000	4000

Ledger.

Dr.		Purchase A/c			Cr.		
Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

Jan1	To Ram		4000				
------	--------	--	------	--	--	--	--

Ram

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
Jan4	To Cash A/c		4000	Jan1	By Purchases A/c		4000

Cash A/c

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
				Jan4	By Ram		4000

8. Give a compound journal entry and post is into ledger.

Ans.

Compound Journal Entry

Jan 10	Cash A/c	Dr.	3800		
	Discount Allowed A/c	Dr.	200		
	To Ram				4000

(Received cash from Ram and allowed discount)

Ledger

Cash A/c

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
Jan10	To Ram		3800				

Discount allowed A/c

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
Jan10	To Ram		200				

Ram

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
				Jan10	By Cash A/c		3800
					By Discount Allowed A/c		200

9. Give rules of ledger posting of purchases book.

Ans. Rules of ledger posting from purchases book are:

- Purchases Book contains the name of our creditors so creditors account be credited by writing – By Purchases A/c.
- Purchases A/c has debit balance so purchases account is totaled on periodical basis and its total is posted on the debit side as – To Sundries as per Purchases Book.

10. Give rules of posting of Sales Book into ledger.

Ans. Rules of posting of Sales Book into ledger are:

- Sales Book contains name of our debtors so account of debtors are debited by writing – To Sales A/c.
- Sales account has credit balance. Sales Book is totaled periodically and it

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

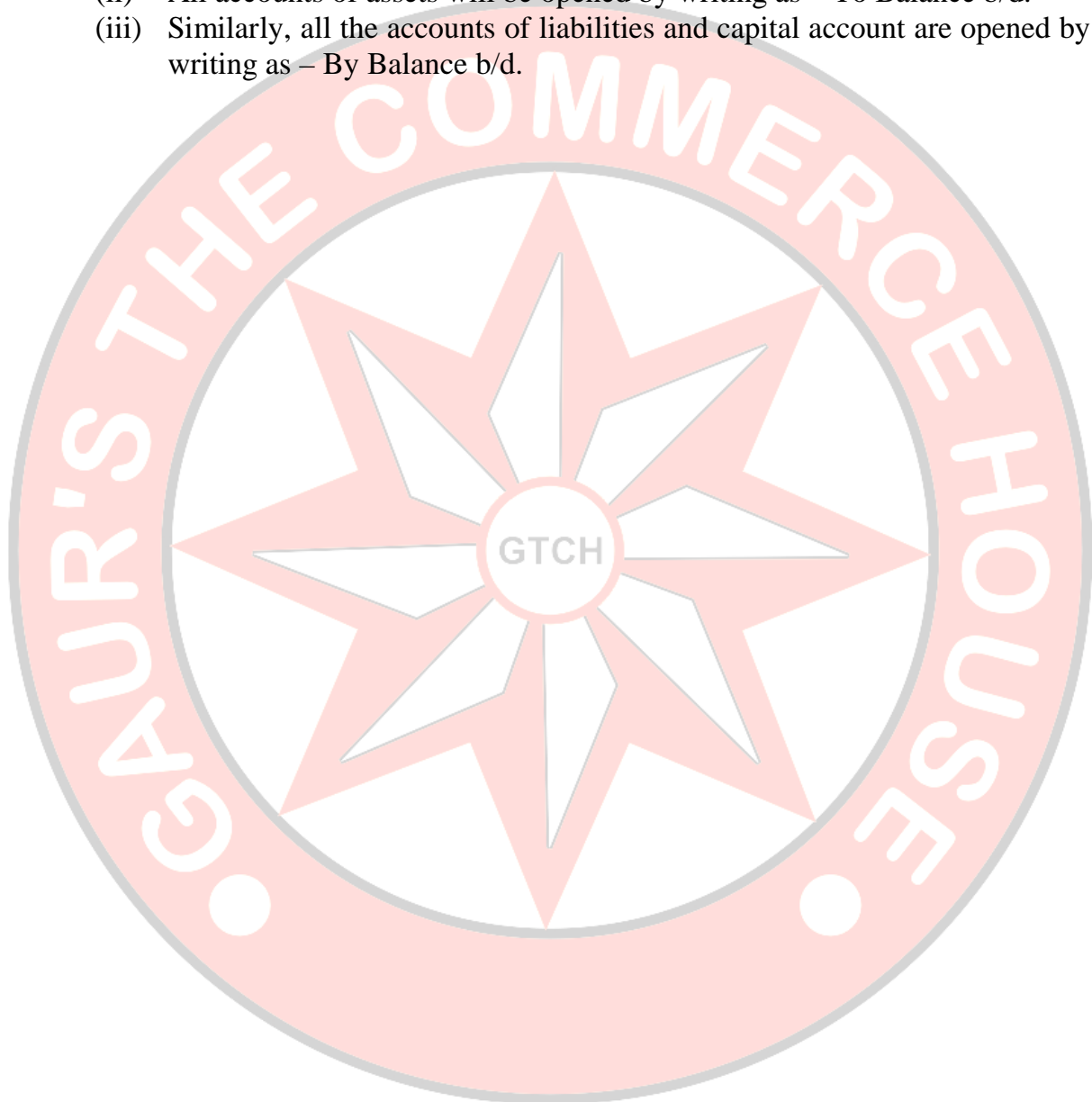
IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

is posted to sales A/c on the credit side as – By sundries as per Sales Book.

11. Give the rules of ledger posting of opening entry.

Ans. Rules of ledger posting of opening entry:

- (i) In the beginning of new accounting year, first entry passed to open the accounts of assets, liabilities and capital is called a opening entry.
- (ii) All accounts of assets will be opened by writing as – To Balance b/d.
- (iii) Similarly, all the accounts of liabilities and capital account are opened by writing as – By Balance b/d.



MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What is a Trial Balance?

Ans. A Trial Balance is a statement prepared with debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books.

2. Mention two features of Trial Balance.

Ans. (i) Trial Balance is a statement.
(ii) It is prepared to test the arithmetical accuracy of the ledger account.
(iii) It includes balances of all ledger accounts and Cash Book.

3. Mention two objectives of preparing Trial Balance.

Ans. (i) To ascertain the arithmetical accuracy of ledger accounts.
(ii) Helps in the detection and location of errors.
(iii) Helps in the preparation of final accounts of the business entity.

4. State two methods of preparing Trial Balance.

Ans. (i) Balance Method (ii) Total Amount Method.

5. Why is Trial Balance not a conclusive proof of accuracy of books of accounts?

Ans. Trial Balance is merely an arithmetical test and not a conclusive proof of accuracy of books of accounts as it does not disclose the following errors:

- (i) Error of Duplication
- (ii) Error of principle.
- (iii) Both sided error of omission
- (iv) Both sided error of commission
- (v) Compensatory error.

6. Mention four items which appear on the debit side of Trial Balance.

Ans. Cash, Purchases, Machinery, Salary.

7. Mention four items which appear on the credit side of Trial Balance.

Ans. Sales, Capital, Creditors, interest received.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. Give two examples of errors not disclosed by Trial Balance.

- Ans.** (i) Paid rent Rs. 2000 to land lord has been debited to him.
(ii) Wages paid Rs. 1000 for installation of plant has been debited to Wages A/c.

2. What is a Suspense A/c?

Ans. A Suspense Account is an account to which difference in the Trial Balance is place till the errors are detected and rectified.

3. How is Suspense A/c disposed off if it is still having a balance?

Ans. If all the errors have not been detected till the date of preparation of Final A/c, debit balance of Suspense A/c is put on the asset side and credit balance is put on the liabilities side of the Balance Sheet. The balance will contains to appear in the Balance Sheet till the errors are detected and rectified.

4. Give two examples of partial error of omission.

- Ans.** (i) Bought goods from Mohan Rs. 2000 has been recorded in Purchases Book but omitted to be posted to his account.
(ii) Sold goods to Amit Rs. 1500 has been recorded in Sales Book and posted to credit to Amit.

5. Give an example of partial error of commission.

Ans. Bought goods from Mohan Rs. 2500 is rectified as Rs 5200 in his account.

6. What is error of duplication ? Give an example.

Ans. If a transaction is recorded twice in the books of accounts and is also posted to ledger twice, it is called error of duplication e.g. bought goods from Amar Rs. 2000 is recorded twice in purchases books.

7. Is agreement of Trial Balance a conclusive test of accuracy of books of accounts?

Ans. No, agreement of Trial Balance is merely an arithmetical proof and not a conclusive proof that books of accounts are correct as error of principle, error of duplication and other both sided errors are not disclosed by agreement of the trial balance.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

1. What is Bank Reconciliation Statement?

Ans. Bank Reconciliation Statement is a statement showing the items of differences between the bank column of Cash Book and the bank balance depicted by the bank pass book on a particular date.

2. What is the need of preparing a Bank Reconciliation Statement?

Ans. Bank reconciliation Statement is needed due to the following reasons:

- (i) Brings out errors of cash book and pass book into lime light.
- (ii) Reasons of difference between two are indentified and corrected
- (iii) Periodical preparation of Bank Reconciliation Statement in reduces the changes of fraud and embezzlement committed by the staff.

3. State any three causes of difference between the balance of Cash Book and Pass Book.

- Ans.**
- (i) Cheque issued but not ye presented for payment.
 - (ii) Cheque deposited into bank but not yet cleared.
 - (iii) Interest allowed by Bank.

4. What is a Pass Book? What purpose does it serve?

Ans. Pass Book is given by bank to its account holders which contains details of bank transactions of the customer. It is used to reconcile the balance of bank column of Cash Book by the customer.

5. What does Cr. Balance of Cash Book mean?

Ans. Credit balance of cash book refers to bank overdraft.

6. What does Dr. balance of Pass Book mean?

Ans. Debit balance pass book means bank overdraft.

7. Which balances of overdraft of Cash Book and Pass Book are called?

- Ans.**
- (i) Overdraft as per Cash Book has credit balance.
 - (ii) Overdraft as per Pass Book has debit balance.

8. Name two items written in plus column while starting Bank Reconciliations Statement with Cash Book.

- Ans.**
- (i) Interest allowed by bank but not recorded in cash book.
 - (ii) Cheques issued but not presented for payment.

9. Name two items written in minus column while commencing Bank Reconciliation Statement with Cash Book.

- Ans.**
- (i) Cheque deposited into bank but not yet collected.
 - (ii) Bank charges not entered in the cash book.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

A. Very Short Answer Questions (1 Mark questions)

1. What do you mean by depreciation?

Ans. Depreciation is the diminution in the intrinsic value of the asset due to use and/or lapse of time.

2. Mention three causes of depreciation.

Ans. (i) Constant use of asset (ii) Obsolescence of asset (iii) loss of asset due to accident, fire, flood, earthquakes, etc.

3. Give any two features of depreciation.

Ans. (i) Depreciation is charged on all fixed assets except land as it does not have definite economic life.
(ii) Depreciation reduces the book value of assets in the books of accounts and not its market value.

4. Give two objectives of providing depreciation.

Ans. (i) To ascertain true profit or loss of the business entity.
(ii) To ascertain correct cost of production of goods as depreciation must be allocated as an expense to ascertain correct cost of production.

5. State two methods of providing depreciation.

Ans. (i) Original Cost Method/ Straight Line Method.
(ii) Written Down Value Method /Diminishing Balance Method.

6. What is meant by residual (scrap) value of an asset?

Ans. The estimated saleable value of fixed asset after its useful life is called as scrap value/ residual value / breakup value.

7. What factors are involved in providing depreciation? Name any two of them.

Ans. (i) Determination of original cost of asset *i.e.* cost of purchase + freight + installation cost.
(ii) Estimation of useful life of asset.
(iii) Estimation of scrap value of asset after its useful life.

8. What is straight line method of providing depreciation?

Ans. If depreciation on fixed asset is computed at a fixed percentage rate on original cost every year it is called straight line method of charging depreciation.

9. State two merits of providing depreciation under straight line method.

Ans. (i) Value of asset is reduced to zero or equal to scrap value after its useful life but in real practice, asset may last for some more years.
(ii) It is difficult to estimate the scrap value of asset after a long period of time (say 10 or 15 years) on the date of installation of plant.

11. What do you mean by written down value method of providing depreciation?

Ans. If depreciation on fixed asset is charged on the book value of asset every year at a fixed percentage rate, it is called depreciation charged on written down value method.

12. State two merits of providing depreciation under written down value method.

Ans. (i) Method of charging depreciation is easy and simple to compute.
(ii) This method of charging depreciation is permissible under Income Tax Act, 1961

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

13. Give two demerits of providing depreciation under written down value method.
Ans. (i) Book value of asset is never reduced to zero even if the asset is unworkable.
(ii) Under this method of depreciation, original cost of asset is not shown so it is difficult to ascertain the identify of specific asset.
14. Give two points of distinction between original cost method and diminishing balance method of providing depreciation.
Ans. (i) Amount of depreciation charged remains same each year in case of original cost method while the amount of depreciation charge goes on declining each year in case of diminishing balance method.
(ii) Book value of asset is reduced to zero after its useful life in case of straight line method while it can never be reduced to zero in case of diminishing balance method.
15. Give two examples of assets where written down value method of providing depreciation is more appropriate and state reason.
Ans. Diminishing balance method is more appropriate where heavy repair is required in later year and where chances of obsolescence of asset is sure due to technological developments *e.g.* plant and machinery, motor vehicles etc.
16. Give two examples of assets where original cost method of providing depreciation is more suitable with reasons.
Ans. Straight line method of depreciation is more appropriate where repair charges are less and where chances of obsolescence of assets are less *e.g.* copy right, patent, land and building etc.
17. Give the impact of providing depreciation on profit and loss account and on balance sheet.
Ans. Impact of depreciation on Profit and Loss A/c and Balance Sheet:
(i) To ascertain true profit or loss of the entity.
(ii) To ascertain true and fair view of financial position of business entity.
18. What is meant by 'Asset Disposal A/c'.
Ans. Asset Disposal A/c is opened when a part of the existing asset is sold. Sale proceeds of the plant and provision for depreciation are charged to Asset Disposal A/c to determine the profit or loss on sale of asset.
19. Name two items written on plus column of Bank Reconciliation Statement while commencing with pass book balance.
Ans. (i) Cheque paid into bank but not yet collected.
(ii) Interest on overdraft charged by bank.
20. Name two items written on minus side of Bank Reconciliation Statement while starting with Pass Book balance.
Ans. (i) Cheque drawn but not presented for payment.
(ii) Amount wrongly credited by bank.
21. Is bank reconcile statement part of double entry system?
Ans. No, Bank Reconciliation Statement is not a part of double entry system.
22. Name two items which will not come in amended Cash Book.
Ans. (i) Cheque deposited but not clear.
(ii) Cheque issued but not presented for payment.

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

23. What do you mean by provision?

Ans. The amount charged to Profit and Loss Account for any known liability, the amount of which can not be determined accurately, is called provision e.g. provision for doubtful debts, depreciation, etc.

24. What are reserves?

Ans. The amount set aside out of profits of the business with a view to strengthen its financial position is called reserves e.g. General Reserve, Dividend Equalization Reserve, Investment Fluctuation Reserves, etc.

25. Give two examples of provisions.

Ans. (i) Provision for Depreciation.
(ii) Provision for Doubtful Debts.

26. Give two examples of Reserves.

Ans. (i) General Reserve.
(ii) Dividend Equalization Reserve.
(iii) Debenture Redemption Reserve.

27. Give any two features of provisions.

Ans. (i) Provision is always made for known liability, the amount of which cannot be ascertained with substantial accuracy.
(ii) It is a charge against profit.

28. State any two objectives of provisions.

Ans. (i) To ascertain true net profit of the entity.
(ii) To ascertain true financial position of the entity.

29. State any two features of reserves.

Ans. (i) Reserves are created with a view to strengthen the financial position of the business entity.
(ii) Reserves belong to owners of the business so dividend can be declared out of reserves among the shareholders of the company.

30. State any two objects of creating reserves.

Ans. (i) Reserves are used for equalization of dividends.
(ii) Reserves are used to meet unforeseen loss or liability.

31. State any two points of distinction between provision and reserves.

Ans. (i) Provisions are created for providing known liability, the amount of which cannot be determined with substantial accuracy while reserves refers to amount set aside out of profit with a view to strengthen the financial position of the business.
(ii) Provisions are charges against profit while reserves are appropriation of net profits.

32. What are revenue reserves?

Ans. Revenue Reserves are those reserves which are created by setting aside a part of the net profit of the business. These reserves are available for distribution of

MANISH AGARWAL'S ACCOUNTS

@ GAURS THE COMMERCE HOUSE

IIND FLOOR BHOOTNATH MARKET, INDRA NAGAR LKO.

dividend to shareholders.

33. What is meant by General Reserve?

Ans. Reserves created out of profit to meet unforeseen contingencies is called general reserve.

34. What do you mean by Specific Reserve?

Ans. Reserves created for a specific purpose are termed as specific reserves e.g. Dividend Equalization Reserve, Debenture Redemption Reserve, Workmen Compensation Fund, Investment Fluctuation Reserves, etc.

35. What is meant by Capital Reserve?

Ans. Capital Reserves or Capital Profits are those profits of the business entity which do not accrue on recurring basis e.g. profit on sale of fixed assets, profit on Redemption of Debentures, Securities Premium earned on issue of shares of debentures etc.

36. Give two examples of Capital Reserve.

Ans. (i) Profit on sale of fixed assets
(ii) Profit on Redemption of Debentures.

37. State two examples of General Reserve.

Ans. (i) Contingency Reserve
(ii) Free Reserve

38. Mention two examples of Specific Reserves.

Ans. (i) Dividend Equalization Reserve.
(ii) Debenture Redemption Reserve.

39. Give one point of distinction between revenue reserve and capital reserve.

Ans. Revenue Reserves are created out of business profit which arises from the normal operations of the business while capital reserves do not accrue to entity on recurring basis.

40. What is secret reserve?

Ans. A secret reserve is a reserve which is not shown in the balance sheet. It reduces the profit of the business entity and reduces its tax liability.

41. Give two examples by which secret reserve can be created.

(i) By charging depreciation on asset at a higher rate.
(ii) By undervaluation of assets e.g. closing stock.

42. Give two advantages of creating secret reserve.

(i) It increases the working capital of the entity.
(ii) Unexpected heavy losses can be met without disturbing the normal business profit and by without stating them in the financial statements.