

# ***Accountancy***

## **CLASS – 11 th**

### **Ch-1**

#### **Introduction to Accounting**

*Question 1:*

Define accounting.

**ANSWER:**

Accounting is a process of identifying the events of financial nature, recording them in Journal, classifying in their respective ledgers, summarising them in Profit and Loss Account and Balance Sheet and communicating the results to the users of such information, viz. owner/s, government, creditors, investors etc.

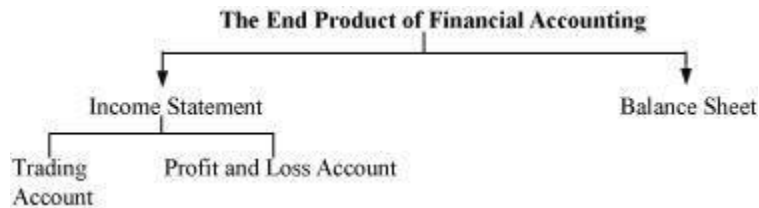
According to the *American Institute of Certified Accountants*, 1941, "Accounting is an art of recording, classifying and summarising in a significant manner and in terms of money transactions and events that are, in part at least, of a financial character and interpreting the results thereof.

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*Question 2:*

State what is end product of financial accounting?

## ANSWER:



1. Income statements (Trading and/or Profit and Loss Account)– An income statement that includes Trading and Profit and Loss Account, ascertains the financial results of a business in terms of gross (or net) profit or loss.
2. Balance Sheet– It depicts the true financial positions of a business that provides required information like assets and liabilities of a business firm, to the users of accounting information like owners, creditors, investors, government, etc.

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### Question 3:

Enumerate main objectives of accounting.

## ANSWER:

The main objectives of accounting are given below.

1. To keep a systematic record of all business transactions
2. To determine the profit earned or loss incurred during an accounting period by preparing profit and loss account

3. To ascertain the financial position of the business at the end of each accounting period by preparing balance sheet
  4. To assist management for decision making, effective control, forecasting, etc.
  5. To assess the progress and growth of business from year to year
  6. To detect and prevent frauds and errors
  7. To communicate information to various users
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*Question 4:*

Who are the users of accounting information?

**ANSWER:**

Users of accounting information are bifurcated in two categories as- Internal Users and External Users.

### **1. Internal Users**

These are the users who are internal to an organisation. Such users have a direct access to the financial statements of a business. Some of the internal users are given below.

- i. Owners
- ii. Management
- iii. Employees and Workers

## 2. External Users

External users are those who are outsiders to an organisation and are interested in the financial affairs of the business. These users do not have a direct access to the financial statements of the business. The following parties come under the head of external users.

- i. Banks and Financial Institutions
- ii. Investors and Potential Investors
- iii. Creditors
- iv. Tax Authorities
- v. Government
- vi. Consumers
- vii. Researchers
- viii. Public

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*Question 5:*

State the nature of accounting information required by long-term lenders.

**ANSWER:**

Accounting information required by the long term lenders are repaying capacity of the business, profitability,

liquidity, operational efficiency, potential growth of business, etc.

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*Question 6:*

Who are the external users of information?

**ANSWER:**

External users of information are the individual or the organisations that have direct or indirect interest in the business firm; however, are **not** a part of management. They do **not** have direct access to the internal data of the firm and uses published data or reports like profit and loss accounts, balance sheets, annual reports, press releases, etc. Some examples of external users are government, tax authorities, labour unions, etc

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*Question 7:*

Enumerate informational needs of management.

**ANSWER:**

The informational needs of management are concerned with the activities given below.

1. Assists in decision making and business planning
2. Preparing reports related to funds, costs and profits to ascertain the soundness of the business
3. Comparing current financial statements with its own historical financial statements and of other similar

firms to assess the operational efficiency of the business.

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*Question 8:*

Give any three examples of revenues.

**ANSWER:**

Three examples of revenue are given below.

1. Sales revenue
  2. Interest received
  3. Dividends
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*Question 9:*

Distinguish between debtors and creditors; Profit and Gain.

**ANSWER:**

Difference between Debtors and Creditors is given below.

<b>Basis of difference</b>	<b>Debtors</b>	<b>Creditors</b>
<b>Meaning</b>	Persons or organisations that are liable to pay money to a firm are called debtors.	Persons or organisations to whom the firm is liable to pay money are called creditors.

<b>Nature</b>	They have debit balance to the firm.	They have credit balance to the firm.
<b>Payment</b>	Payments are received from them.	Payments are made to them.
<b>Shown</b>	They are shown as assets in the Balance sheet under Current Assets.	They are shown as liabilities in the Balance Sheet under Current Liabilities.

Difference between Profit and Gain is given below.

- **Gain**– Gain is incidental to the business. They arise from irregular activities or non-recurring transactions; for example, profit on sale of fixed assets, appreciation in value of asset, profit on sale of investment, etc.
- **Profit**– This refers to the excess of revenue over the expense. It is normally categorised into gross profit or net profit. Net profit is added to the capital of the owner, which increases the owner’s capital. For example, goods sold above its cost

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*Question 10:*

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

## ANSWER:

Accounting information should be comparable because of the following reasons.

1. Comparable accounting information helps in inter-firm comparisons. This helps in assessing viability and advantages of various policies adopted by different firms.
2. It also helps in intra-firm comparisons that help in determining the changes and also to ascertain the results of various policies and plans adopted in different time periods. This also helps to figure out the errors, ascertain growth and assist in management planning.

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### *Question 11:*

If the accounting information is not clearly presented, which of the qualitative characteristic of the accounting information is violated?

## ANSWER:

If the accounting information is **not** clearly presented, then the qualitative characteristics like, comparability, reliability and understandability, are violated. This is because if the accounting information is **not** clearly presented, then meaningful comparison may **not** be possible, as the data is **not** trustworthy, which may lead to faulty conclusions.

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*Question 12:*

The role of accounting has changed over the period of time”- Do you agree?

Explain.

**ANSWER:**

The role of accounting is ever changing. While in earlier times, accounting was merely concerned with recording the financial events, i.e. record-keeping activity; however, now-a-days, accounting is done with the rationale of **not** only maintaining records, but also providing an information system that provides important and relevant information to various accounting users. The need of this change is brought over due to the ever-changing and dynamic business environment, which is more competitive in nature now than it was in earlier times. Further, there are various relevant activities like decision making, forecasting, comparison, and evaluation that make these changes in the role of accounting, inevitable

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*Question 13:*

Giving examples, explain each of the following accounting terms:

- Fixed assets
- Revenue
- Expenses

- Short-term liability
- Capital

**ANSWER:**

- **Fixed assets**– These are held for long term and increase the profit earning capacity of the business, over various accounting periods. These assets are **not** meant for sale; for example, land, building, machinery, etc.
- **Revenue**– It refers to the amount received from day to day activities of business, *viz.* amount received from sales of goods and services to customers; rent received, commission received, dividend, royalty, interest received, etc. are items of revenue that are added to the capital.
- **Capital**– It refers to the amount invested by the owner of a firm. It may be in form of cash or asset. It is an obligation of the business towards the owner of the firm, since business is treated separate or distinct from the owner.

Capital = Assets – Liabilities.

- **Expenses**– Expenses are those costs that are incurred to maintain the profitability of business, like rent, wages, depreciation, interest, salaries, etc. These help in the production, business operations and generating revenues.

- **Short term liabilities**– Those liabilities that are incurred with an intention to be paid or are payable within a year; for example, bank overdraft creditors, bills payable, outstanding wages, short-term loans, etc
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*Question 14:*

Define revenues and expenses?

**ANSWER:**

**Revenues**– Revenues refer to the amount received from day to day activities of the business, like sale proceeds of goods and rendering services to the customers. Rent received, commission received, royalties and interest received are considered as revenue, as they are regular in nature and concerned with day to day activities. It is shown in the credit side of the profit and loss account or trading account.

**Expenses**– Expenses refer to those costs that are incurred to earn revenue for the business. It is incurred for maintaining profitability of the business. It indicates the amount spent to meet short-term needs of the business. It is shown in the debit side of the profit and loss account or trading account. For example, wages, rent paid, salaries paid, outstanding wages, etc.

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*Question 15:*

What is the primary reason for the business students and others to familiarise themselves with the accounting discipline?

**ANSWER:**

Every monetary transaction must be recorded in such a manner that various accounting users must understand and interpret these results in the same manner without any ambiguity. The reasons for why business students and others should familiarise themselves with the accounting discipline are given below.

1. It helps in learning the various aspects of accounting.
  2. It helps in learning how to maintain books of accounts.
  3. It helps in learning how to summarise accounting information.
  4. It helps in learning how to interpret the accounting information with relative accuracy.
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