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# ACCOUNTANCY

**N-320**

**Chapter wise Reference Book  
Including Many Solved Sample Papers**

Based on

**N.I.O.S. Class – XII**  
National Institute of Open Schooling

*By :*

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*Based on: NATIONAL INSTITUTE OF OPEN SCHOOLING – XII*

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**Sample Preview  
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# Solved Sample Paper - 1

Based on NIOS (National Institute of Open Schooling)

## Accountancy-X

Time : 3 Hours ]

[ Maximum Marks : 100

- Note :** (i) All questions are compulsory.  
(ii) Marks allotted for each question are indicated against it.

**Q. 1.** According to which accounting concept, both the aspects of a transaction are recorded?

- (a) Matching concept  
(b) Dual aspect concept  
(c) Money measurement concept  
(d) Realisation concept

Ans. (b) Dual aspect concept.

**Q. 2.** The vouchers which are prepared to record non-cash transactions of the business are called:

- (a) Debit vouchers (b) Credit vouchers  
(c) Transfer vouchers (d) None of the above

Ans. (c) Transfer vouchers.

**Q. 3.** Which of the following errors will be disclosed by Trial Balance?

- (a) Errors of omission  
(b) Errors of commission  
(c) Compensating errors  
(d) Wrong casting

Ans. (d) Wrong casting.

**Q. 4.** Capital reserves can be utilised for:

- (a) Issue of bonus shares  
(b) Meeting any future loss  
(c) Meeting specific purpose for which it is created  
(d) None of the above

Ans. (a) Issue of bonus shares.

**Q. 5.** Internal liabilities include:

- (a) Creditor (b) Capital  
(c) Bank Loan (d) Expenses due

Ans. (b) Capital.

**Q. 6.** Which of the following is not an output unit of a computer?

- (a) Printer (b) Speaker  
(c) Magnetic disk (d) Monitor

Ans. (c) Magnetic disk.

**Q. 7.** State any three objectives of Accounting.

Ans. Ref.: See Chapter-1, Page No. 3, 'Objectives of Accounting'.

**Q. 8.** Show the effect of following transactions on accounting equation:

- (a) Ravi started business with cash of Rs. 3,00,000.  
(b) He purchased goods for cash of Rs. 75,000.

Ans.

**Accounting Equation Assets = Liabilities**

- (a) Ravi started business with cash of Rs. 3,00,000/-

$$\text{Cash} = \text{Capital} \\ \text{Rs. 3,00,000} = \text{Rs. 3,00,000}$$

- (b) Goods purchased for Rs. 75,000/- in cash  
Cash (Rs. 2,25,000) + Goods (Rs. 75,000)  
= Capital (Rs. 3,00,000)  
Rs. 3,00,000 = Rs. 3,00,000.

**Q. 9.** What do you mean by ledger? Draw a format of ledger account.

Ans. Ref.: See Chapter-10, Page No. 111, 'Meaning and Purpose of Ledger' and 'Format of a Ledger Account'.

**Q. 10.** State any three objectives of financial statements.

Ans. Ref.: See Chapter-14, Page No. 158, 'Objectives of Financial Statements.'

**Q. 11.** State any three features of Tally.

Ans. Ref.: See Chapter-17, Page No. 186, 'Features of Tally.'

**Q. 12.** Enter the following transactions in a simple cash book and show the balance:

Date 2015	Details	Account (Rs.)
December 1	Cash on hand	25,000
December 7	Cash purchases	5,000
December 18	Cash sales	8,000
December 31	Rent paid	3,000

Ans.

Cash Book

Receipt			Payments		
Date	Particulars	Amount	Date	Particulars	Amount
1-Dec	Balance B/d	25,000	7-Dec	Purchase A/c	5,000
18-Dec	Sales A/c	8,000	31-Dec	Rent Paid A/c	3,000
			31-Dec	Balance C/F	25,000
<b>Total</b>		<b>33,000</b>	<b>Total</b>		<b>33,000</b>

**Q. 13. What is Journal? Distinguish between Journal and Ledger giving any two points of distinction.**

**Ans. Ref.:** See Chapter-6, Page No. 57, Q. No. 1 and Chapter-10, Page No. 111, 'Difference between Journal and Ledger.'

**Q. 14. Explain the term convention of conservatism with example and also explain its significance.**

**Ans. Ref.:** See Chapter-2, Page No. 13, 'Convention of Conservatism.'

**Q. 15. Define the following terms:**

(a) Creditor

**Ans. Ref.:** See Chapter-3, Page No. 22, Q. No. 1 (iv) (Terminal Exercise).

(b) Revenue

**Ans. Ref.:** See Chapter-3, Page No. 22, Q. No. 2, 'Revenue' (Terminal Exercise).

(c) Payables

**Ans. Ref.:** See Chapter-3, Page No. 20, 'Payables'

(d) Liability

**Ans. Ref.:** See Chapter-3, Page No. 22, Q.No. 2 'Liability' (Terminal Exercise).

(e) Assets

**Ans. Ref.:** See Chapter-3, Page No. 19, 'Assets.'

**Q. 16. Journalise the following transactions in the books of Karunakar:**

	Rs.
<b>2015</b>	
(a) Jan.-1 Commenced business with cash	50,000
(b) Jan.-4 Deposited into bank	10,000
(c) Jan.-9 Purchased goods for cash	18,000
(d) Jan.-15 Commission received	50,000
(e) Jan.-20 Sold goods to Amogh on credit	50,000

Ans.

Journal entries in the books of Karunakar

	Dr.	Cr.
(a) 1-Jan Cash a/c To Capital A/c (Being business commenced with capital in cash)	50000	50000
(b) 4-Jan Bank A/c To Cash A/c (Being money deposited in bank)	10000	10000
(c) 9-Jan Purchase A/c To Cash a/c (Being goods purchased in cash)	18000	18000
(d) 15-Jan Cash A/c To Commission Received A/c (Being commission received)	1000	1000
(e) 20-Jan Amogh A/c To Sales A/c (Being goods sold to Amogh on credit)	5000	5000

**Q. 17. State the general rules in creation of reserves. (any five)**

**Ans. Ref.:** See Chapter-13, Page No. 154, 'General Rules in Creation of Reserves.'

**Q. 18. Name the concept used by the computerised accounting. Give any three differences between manual accounting and computerised accounting.**

# **Sample Preview of The Chapter**

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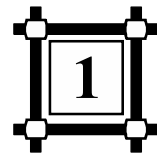
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# ACCOUNTANCY

## Module-I: Introduction and Basic Concepts



### Introduction to Accounting

#### CHAPTER AT A GLANCE

A business is an economic unit that sells goods and services at prices which provide an adequate return to its owners. A businessman cannot remember all the transactions of sale purchase and would need to keep a record of such transactions in writing. The task of recording, classifying and summarising of such transactions is known as book-keeping. The systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information is known as accounting. In this chapter, we will discuss the meaning, objectives and uses of book keeping and accounting, various branches and uses of accounting, difference between book-keeping and accounting.

**Business Transactions:** We do various transactions in our daily routine life like buying grocery items, newspaper, household items, paying electricity/water bills, paying school fees, rent, etc. Some transactions are simple exchanges such as paying for a cup of coffee is a business transaction. Getting a haircut, eating at restaurant or even buying some expensive items can also be a business transaction. Many transactions are complex. Purchasing an item with credit involves a series of transactions before the purchase can be completed. Getting a mortgage to buy a house which requires numerous transactions with the lender, real estate agency, buyer, seller, etc. Few business transactions are ongoing like relationship with

bank is an ongoing business transaction that may encompass multiple types of transactions. Thus, business transactions are the interactions between businesses and their customers, vendors and others with whom they do business. Business transaction is an event that must be measurable in terms of money and that essentially impacts the financial position of the business. A valid business transaction would have following five important characteristics:

- It is a monetary event.
- It affects financial position of the business.
- It belongs to business not to the owner or any other person managing the business.
- It is initiated by an authorised person.
- It is supported by recording in the books of accounts.

In accounting, the business transactions may be classified as cash transactions and credit transactions; internal transactions and external transactions. A transaction in which cash is paid or received immediately at the time when transaction occurs is known as cash transactions. For example, Ramesh sold goods to John for Rs. 5,000 and John immediately paid Rs. 5,000 to Ramesh for the goods purchased. It is a cash transaction. In a credit transaction, the cash is does not paid at the time of transaction rather it is paid is at a future date. For example, Sam sold goods to Ajay for Rs. 10,000. Ajay requests Sam to receive payment of Rs. 10,000 by next month. If Sam agrees to get the payment by next month such transaction is called credit transaction in which payment is pending.

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On the other hand, the internal transactions are those transactions in which no external parties are involved. Such transactions do not involve in the exchange of values between two parties but the event constituting the transaction is measurable in monetary terms and impacts the financial position of the business. For example, transactions like recording depreciation of fixed assets, realizing the loss of assets caused by fire etc. The external transactions are those transactions in which a business exchanges values with external parties. Such type of transactions occur on daily basis. For example, transactions like purchase of goods from suppliers, sale of goods to customers, etc.

**Book-Keeping:** Book-keeping is recording the financial transactions on a day-to-day basis and information pertaining to a business. Book-keeping provides the information from which accounts are prepared. It is a distinct process which occurs within the broader scope of accounting. Each transaction, whether purchase or sale, must be recorded. There are usually set structures in place for book-keeping that are called 'quality controls', which help ensure timely and accurate records. It is essential for businesses, but is also useful for individuals and non-profit organisations. The persons responsible for book-keeping for a business would record all transactions that are related but not limited to expense payments to suppliers, loan payments, customer payments for invoices, and generating financial reports, etc. Book keeping and accounting are often being used interchangeably, however, accounting is the process of managing finances of a business or individual while book-keeping refers more specifically to the tasks involved in recording the financial activities.

**Need of Book Keeping:** It is essential and beneficial for a business owners. Proper book-keeping can help businesses effectively manage cash flow, stay well informed on company performances and develop plans for the future. We can consider following points to understand the need of book-keeping:

- (i) It helps in assessing the financial position of a business. It helps a businessman in monitoring the financial success and understanding the existing scenario of financial status to achieve objective and to avoid unexpected losses.
- (ii) It helps in taking future business decisions. Future business decisions can only be taken on the basis of current financial status. Thus, it is extremely important to keep accurate financial records in a systematic way.

- (iii) Book-keeping helps in filing income tax returns. Tax preparation is a key reason to maintain a detailed set of books. It is important to know how much money of a business is bringing in and where the money is being spent. With proper records it is easy to prepare tax returns.
- (iv) It helps in preparing budget. Keeping previous year financial records helps a businessman in preparing budget for forthcoming year. It helps a businessman to avoid unwanted expenditure.
- (v) With the help of proper records, a businessman can conveniently prepare tax assessments. It would help him to prepare payroll, tax returns and sales tax.

**Objectives of Book-keeping:** Objectives of book keeping may be stated as follows:

- (i) To have a permanent record of each transaction of the business.
- (ii) To show the financial effect on the entity of each transaction recorded.
- (iii) To ascertain the combined effect of all the transactions (during an accounting period) on the financial position on a particular date.
- (iv) To disclose the factors responsible for earning profit or suffering loss in a given period.
- (v) The amount recoverable by the business from others (debtors) and payable to others (creditors).
- (vi) Determination of tax-liability of the business and prevention of errors and frauds.
- (vii) Protection of assets and measure of exercising a system of control.

**Accounting:** Accounting is a systematic process of identifying, recording, measuring, classifying, verifying, summarising, interpreting and communicating financial information. It reveals profit or loss for a given period and the value and nature of firm's assets, liabilities and owner's equity. Accounting provides information on the resources available to a firm and the results achieved through their use. The main function of accounting is to provide quantitative information about the economic entities required in making economic decisions. The American Accounting Association has defined accounting as "A process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information". There are three main branches of accounting:

- (i) **Financial Accounting:** Financial accounting involves recording financial transactions and supplying information internally within the organization and to external stakeholders including shareholders, creditors and government/regulatory agencies as required.
- (ii) **Cost Accounting:** Cost accounting helps in finding out the cost of production of a product manufactured.
- (iii) **Management Accounting:** Management accounting emphasizes the preparation and analysis of accounting information related to funds, costs, profits, etc., within the organization.

**Objectives of Accounting:** Accounting has following main objectives:

- **To keep systematic records:** Accounting helps to keep a systematic record of financial transactions. In the absence of accounting there would have been terrific burden on human memory which in most cases would have been impossible to bear.
- **To protect business properties:** Accounting provides protection to business properties from unjustified and unwarranted us. This is possible on account of accounting supplying the information to the manager or the proprietor.
- **To ascertain the operational profit or loss:** With the help of accounting a businessman ascertains the net profit earned or loss suffered on account of carrying the business. This is done by keeping a proper record of revenues and expenses of a particular period. The profit and loss account is prepared at the end of a period and if the amount of revenue for the period is more than the expenditure incurred in earning that revenue, there is said to be a profit. In case the expenditure exceeds the revenue, there is said to be a loss.
- **To ascertain the financial position of business:** The profit and loss account gives the amount of profit or loss made by the business during a particular period. However, it is not enough. The businessman must know about his financial position *i.e.*, where he stands; what he owes and what he owns? This objective is served by the balance sheet or position statement.
- **To facilitate rational decision-making:** Accounting these days has taken upon itself the task of collection, analysis and reporting

of information at the required points of time to the required levels of authority in order to facilitate rational decision-making.

**Advantages of Accounting:** Some of the advantages of accounting are as follows:

- **Complete and Systematic Record:** Accounting is based on generally accepted principles and a scientific way of presentation of business transactions in books of accounts. As such, accounting is a complete and systematic recording of all business transactions. The limitations of humans, that they cannot keep all transactions in mind, is overcome by accounting because each and every business transaction can be recorded and analysed through same.
- **Determination of Selling Price:** The main function of the management is decision making. Accounting helps and guides the management to take decisions in respect of determining selling price, deduction of cost, increase in sales, etc.
- **Valuation of Business:** In case of sale of business or conversion of one business into another, true and fair value of the business is calculated. Through accounting, the correct picture can be depicted in Balance Sheet and as such the purchase price can be determined. Balance Sheet shows the value of assets and liabilities of the business which can be used to calculate its net worth.
- **In Compliance of Law:** Every business has to deal with various government departments like income tax, sales tax, custom and excise, etc. Various periodic returns are to be filed with these departments. Accounting helps in preparation and filing of such returns.
- **Inter-Firm or Intra-Firm Comparison:** Trading and Profit and Loss Account shows net profit earned or net loss sustained by the business. If the accounts are maintained properly, records relating to various expenses, sales, gross profit and net profit, etc. can be compared.
- **Facilitates Audit:** Depending upon the size, nature and type of business, certification of books of accounts, known as audit, is mandatory. Audit certificate issued by the auditor on the accounts is a clean chit to organization which proves that there are no irregularities in the organization.
- **Effective Management:** Accounting facilitates proper feedback to the manage-

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ment. As such, it helps the management in planning as well as control of different activities of the business enterprise. It also helps the management to evaluate the performance of the business enterprise and takes timely action to remove the shortcomings in the management.

**Limitations of Accounting:** Following are the limitations of accounting:

- Transactions of non-monetary nature do not find place in accounting. Accounting is limited to monetary transactions only. It excludes qualitative elements like management reputation, employee morale, labour strike, etc.
- Cost concept is found in accounting. Price changes are not considered. Money value is bound to change often from time-to-time. This is a strong limitation of accounting.
- Acceptable alternatives are so broad based that comparisons are likely to be confusing or misleading. For instance, inventory cost may be ascertained by LIFO or FIFO; or stock may be evaluated at cost price or market price.
- Accounting policies are framed by the Accountant. The figures of balance sheet are largely resulted by personal judgement of accountant hence it is the subjective factor that prevails in accounting and objective factor is ignored.
- Recording and accounting for wages and labour is not carried out for different jobs, processes, products or departments. This

creates problems in analysing the cost associated with different activities.

- It is difficult to know the behaviour of costs in financial accounting as expenses are not assigned to the product at each stage of production. Expenses are not classified into direct and indirect and therefore, cannot be classified as controllable and uncontrollable.
- Control of cost which is the most important objective of all business enterprise, cannot be achieved with the aid of financial accounting alone.
- Accounting does not provide information to analyse the losses due to various factors like idle plant and equipment, seasonal fluctuations in volume of business, etc. It does not help the management in taking important decisions about expansion of business, dropping a product, alternative methods of production, improvement in products, etc.
- Accounting does not set-up a proper system of controlling materials and supplies. Undoubtedly, if materials and supplies are not controlled in a manufacturing concern, they will lead to losses on account of misappropriation, misutilisation, scrap, defectives, etc.

**Difference between Book-Keeping and Accounting:**

Book-keeping and Accounting both are essential for the successful running of any business. Book-keeping is important as it is the primary stage of keeping financial records and accounting is the building of analysis based on the brick of book-keeping. There are following differences between book-keeping and accounting:

Basis for Comparison	Book-Keeping	Accounting
<b>Meaning</b>	Book-keeping is an activity of recording the financial transactions of the company in a systematic manner.	Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period.
<b>Decision-Making</b>	On the basis of book-keeping records, decisions cannot be taken.	Decisions can be taken on the basis of accounting records.
<b>Preparation of Financial Statements</b>	Not done in the book-keeping process.	Part of Accounting Process.
<b>Tools</b>	Journal and Ledgers.	Balance Sheet, Profit & Loss Account and Cash Flow Statement.
<b>Methods/Sub-fields</b>	Single Entry System of Book-keeping and Double Entry System of Book-keeping.	Financial Accounting, Cost Accounting, Management Accounting, Human Resource Accounting, Social Responsibility Accounting.
<b>Determination of Financial Position</b>	Book-keeping does not reflect the financial position of an organization.	Accounting clearly shows the financial position of the entities.