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Content

FINANCIAL ACCOUNTING

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Sample Preview of the Solved Sample Question Papers

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QUESTION PAPER

June – 2023

(Solved)

FINANCIAL ACCOUNTING

B.C.O.C.-131

Time: 3 Hours] *[Maximum Marks: 100*

Note: *Answer any **five** questions. All questions carry **equal** marks.*

Q. 1. ***(a)*** **What do you mean by Accounting Principles? Discuss the significance of accounting principles.**

Ans. Accounting principles are the rules and procedures that businesses and other entities must adhere to when reporting financial data and information. Typically, accounting principles are based on underlying concepts and assumptions and provide a framework for classifying and interpreting financial data based on GAAP.

They are important because they help maintain accurate and consistent accounting records and aid all stakeholders in making informed decisions. Accounting principles are important when recording financial data.

As mentioned above, by using set rules, accounting principles can help record consistent, standardised and accurate data. This helps stakeholders compare financial performance over the years and with different companies.

Accounting principles can help detect errors, increasing the accuracy of the data recorded.

Accounting principles can also ensure that the data recorded is in compliance with the law of the country and can be used in case of legal issues or actions.

Accounting principles help provide a standard framework for preparing and reporting financial data. This can help investors, creditors, and other stakeholders compare the financial performance of different companies and businesses.

Accounting principles ensure that the financial reporting of data is clear, reliable and accurate. This can aid decision-making.

Accounting principles can help stakeholders make company growth projections by analysing trends and patterns observed in presented data.

Accounting principles can help prevent fraud and data discrepancies. As these principles work on set standards, they minimise irregularities and data mismanagement.

As accounting principles are set in line with international standards, they can aid the comparison of companies with international standards and businesses and can be used to identify cross-border investment opportunities.

(b) **Distinguish between Indian and International Accounting Standards.**

Ans. Ref.: See Chapter-4, Page No. 36, Q. No. 8.

Q. 2. Journalise the following transactions in the books of a trader:

Debit Balances on January 1, 2020 :

	₹
Cash in Hand	**8,000**
Cash at Bank	**25,000**
Inventory of goods	**20,000**
Building	**10,000**
Trade Receivables:	
Ram	**2,000**
Shyam	**2,000**

Credit Balances on January 1, 2020 :

	₹
Trade Payables:	
Krishna	**5,000**
Capital	**55,000**

Following were further transactions in the month of January 2020:

Jan. 1	**Purchased goods worth ₹ 5,000 for cash less 20% trade discount and 5% cash discount.**
Jan. 4	**Received ₹ 1,980 from Ram and allowed him ₹ 20 as discount.**
Jan. 8	**Purchased plant from Bharat for ₹ 5,000 and paid ₹ 100 as cartage for bringing the plant to the factory and another ₹ 200 as installation charges.**
Jan. 12	**Sold goods to Kamal on credit ₹ 600.**
Jan. 15	**Kamal became insolvent and could pay only 50 paise in a rupee.**
Jan. 18	**Sold goods to Raghav for cash ₹ 1,000.**

Ans.

	Pariculars	**L.F.**	**Amount (Dr.)**	**Amount (Cr.)**
	Cash in Hand A.c Dr. Cash at Bank A/c Dr. Inventory of Goods A/c Dr. Building A/c Dr. Ram A/c Dr. Shyam A/c Dr. By Krishna A/c By Capital A/c By General Raserve (Bal. Fig.) (Being Commencment of Business in Further Year)		8,800 25,000 20,000 10,000 2,000 2,000	 5,000 55,000 7,000
Jan. 1	Particulars A/c Dr. To Cash A/c To Discount (For Goods purchased and Discount Recd.)		4,000	 3,800 200
Jan. 4	Cash A/c Dr. Discount A/c Dr. To Ram A/c (For Cash received from Ram and Discount allowed).		1,980 20	 2,000
Jan. 8	Plant A/c Dr. To Bharat A/c (Being Plant purchased and Expenses)		5,300	 5,300
Jan. 12	Kamal A/c Dr. To Sales (For goods sold to Kamal on Credit)		600	 600
Jan 15	Cash A/c Dr. Bad Debts A/c Dr. To Kamal A/c (Being 50 paise in a Rupee Recd. From Kamal)		300 300	 600
Jain 18	Cash A/c Dr. To Sales A/c (For goods sold to Raghav for Cash)		1,000	 1,000
			80,500	**80,500**

Q. 3. Discuss the procedure of ledger creation through Computer Accounting.

Ans. Ref.: See Chapter-19, Page No. 133, 'Ledger Creation'.

Q. 4. Explain any two methods of calculating depreciation with hypothetical examples.

Ans. Ref.: See Chapter-8, Page No. 141, 'Fixed Instalment Method', Page No. 142, 'Diminishing Balance Method'.

Q. 5. ***(a)*** **Describe the usage of financial statements for employees and trade unions.**

Ans. Financial statement analysis provides valuable insights into the financial health and performance of a company. This information is important not only for investors and creditors, but also for employees and trade unions. Salary, benefits, and job security Employees are interested in financial statement analysis for several reasons. Firstly, financial statements provide an indication of a company's profitability and financial stability. This information is essential for employees to assess the company's ability to pay salaries and benefits, which directly affects their job security. If a company is

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The Chapter

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FINANCIAL ACCOUNTING

BLOCK-1: THEORETICAL FRAMEWORK

Nature and Scope of Accounting

1

INTRODUCTION

Accounting is the language of finance. It is being used by everyone, now a days. The good understanding of accounting, thus, is beneficial to all. Accounting is a vast concept. To understand it efficiently, it is important to understand its functions, branches, advantages, limitations and basis. In this chapter, the need for accounting is elaborated and nature, scope and importance of accounting is discussed in detail.

CHAPTER AT A GLANCE

NEED FOR ACCOUNTING

Business information is useful for the management to plan, control and evaluate business operations, whereas, some external parties like banks, creditors, etc., also get great benefits. For example, the business information is required for filing income tax, sales tax and other tax returns. On the basis of firms financial position and profit earning capacity, the banks and creditors grant loans and supply goods on credit respectively. Accounting is necessary in all types of non-business organisations like schools, hospitals, libraries, etc.

OBJECTIVES OF ACCOUNTING

- Various financial transactions including purchase and sales of goods receipts and payment of cash, etc., are required to be systematically recorded.
- Systematic record of all types of receipts and payments help the businessman to know about profits earned or losses incurred during a particular time period.
- Accounting helps the businessman to know about where does his business stand. Information regarding increase or decrease in capital can be ascertained through balance-sheet (position statement).
- Various parties; internal or external to business are keen to know about business. These are banks creditors, tax authorities, management etc. Accounting serves all the purposes and furnishes requisite information.

DEFINITION AND SCOPE OF ACCOUNTING

Accounting cannot be defined and described with a single definition. This comprehensive discipline is described by different authorities in different ways.

"Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information"

–**American Accounting Association**.

The owner/proprietor of a business may deploy own funds or acquire additional funds from banks and creditors to start and run his business. These funds are utilized to carry out many business activities e.g., purchase of assets, stocks, etc. The accountant has to measure these activities in monitory term and records them properly in appropriate books of accounts, classifies them under separate heads, summarizes periodically of profit and loss account and Balance Sheet. This is how the analysis, interpretation and communication of a business's position is done by accountants and various other interested parties.

BOOK-KEEPING, ACCOUNTING AND ACCOUNTANCY

Book-keeping is a narrow term which is restricted to record keeping. It covers identifying, measuring records and classifying the transactions. Whereas accounting has a broader scope. Book-keeping can be treated as a part of accounting. As a separate discipline, accounting refers to the process of preparing and presenting the books of accounts.

If accounting is the art of preparing books of accounts, accountancy is a science, a body of systematised knowledge. Generally, both the terms are used as synonyms, but accounting is becoming more popular.

USERS OF FINANCIAL ACCOUNTING INFORMATION

Various parties internal and external to the organisation are benefitted from accounting information in many ways:

(i) To know about the present position of the business.

(ii) To compare its present position with that of its past years.

(ii) To compare its present position with that of other business. Some of these parties are:

- Owners are interested to know about the return on capital/funds invested by them. Also, they use accounting information to evaluate the performance of managers.
- Managers use accounting information to plan, control and evaluate the operations of business and such accounting information supports their decisions.
- Before investing/lending money, the lenders would necessarily want to know about solvency of company in order to assure safe lending and repayment.
- Creditors supply goods and services to an enterprise on credit basis. So, they are keen to know about solvency of enterprise. So, as to make decision whether credit should be granted or not.
- For a safe and rewarding proposed investment, a person who wants to become a partner in a partnership concern, would be needing accounts.
- Financial Statements of an enterprise help the tax authorities of government to assess the tax liabilities of enterprise.
- To safeguard their interest in the organisation, the employees are interested to know the state of affairs of the organisation in which they an working.

ACCOUNTING AS AN INFORMATION SYSTEM

Accounting involves all the financial and non-financial information of an organisation to process, indentity, measure or communicate the data. These accounting information are used by a number of parties including employees, investors, creditors and government, etc.

Financial accounting is used by persons external to the organisation i.e., shareholders, creditors, financial analysis, Governments authorities and labour unions, etc., to review and evaluate the financial status of business. Whereas managerial accounting helps the manager within the organisation i.e. production manager, sales manager, etc.

Uses of Accounting Information

Accounting provides information for the following three general uses:

1. Managerial decision-making: Management needs to make continuous decisions for short and long run. Managerial Accounting helps them with all the necessary information to transpire at appropriate decisions.

2. Managerial Planning, Control and Internal Performance Evaluation: Managerial accounting helps the management to establish standard by providing information. Therefore, the actual performances can be compared with prognosis (projections).

3. External Financial Reporting: All the relevant parties are authorised to get information regarding the affairs of company. For this purpose, various laws have been passed, so that requisite information is supplied, through financial statements, to the users external to organisation such as creditors, government, shareholders, etc. Information is require according to generally accepted accounting principles.

BRANCHES OF ACCOUNTING

The growing complexities in management function have increased the importance of accounting. This led to rise in branches of accounting. The important branches of accounting are:

- **Financial Accounting:** All the records of financial transactions are essential to ascertain:
  (a) Net profit/loss during an accounting period;
  (b) The financial position at the end of period, and
  (c) Relevent financial information to management and interestes parties.
- **Cost Accounting:** To ascertain the price of a product, it is important know its cost because price is cost plus profit. Cost accounting helps the management to take various decisions regarding cost e.g. cost control, etc.
- **Management Accounting:** Management Accounting helps the management to take rational policy decisions and to evaluate its impacts. Some of the important management decisions are pricing decisions and capital expenditure decisions, etc.

ADVANTAGES OF ACCOUNTING

A properly maintained accounting system gives various benefits to various parties:

- The books of accounts help to acquire all type of data required at any time, hence there is need to rely on memory.
- Information obtained from accounting helps the owners and management to make best use of all the assets like cash in hand and at bank, stock of goods in hand, amount receivable from various parties, etc.
- Accounting information helps to prepare financial statements like profit and loss account and balance sheet which depicts a clear financial position of business.
- Accounting is helpful for various parties related to the organisation, such as owners shareholders, Lenders, managers to get information for decision-making.

LIMITATIONS OF ACCOUNTING

Though, accounting information is of vital use for different parties to form judgement regarding financial strength, it is important to know about its limitations also:

- Qualitative factors are neglected and the transactions which represent the financial character only are taken into consideration.
- The data is historical in nature. All the assets and liabilities are valued on historical cost method.

- Financial Statement provide insufficient data which only provides information regarding overall profitability of business. Information regarding cost and profitability of different activities is not provided.

BASES OF ACCOUNTING

Accounting works in two parts *(i)* Cash basis, *(ii)* Accrual basis.

(i) **Cash Basis of Accounting:** In the system, all the cash related transactions are recorded. In other words, entries are made only if cash is received or paid. All accrued incomes, increased incomes earned but not received or outstanding expenses (expenses incurred but not paid) are not taken care of and recorded in final accounts.

(ii) **Accrual Basis of Accounting:** In this system, all the transactions in the period in which they occur are recorded, neglecting the period in which the amount is received or paid to enterprise. This form of accounting is also called Mercantile system of accounting.

Sometimes, a business adopts a combination of both the systems hence, it is called 'Mixed or Hybrid System' Here, a business may consider income in cash receipts basis and expenses on accrual basis. Such type of system is the most conservative system.

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

- Accounting information must be understandable, relevant, be useful for owner for decision-making process, relevant to a time period, reliable and present accurate position of company's financial health, comparable by owners.

FUNCTIONS OF ACCOUNTING

Funcion of accounting involves creation of financial records of business transactions, flow of finance, process of creating wealth in organisation and presenting financial position of a business. The functions can be summarised as under:

(i) **Recording:** All business transactions of financial character all recorded in an orderly manner in the books of journal.

(ii) **Classifying:** The systematic analysis of recorded data, in order to group transactions of some nature, at one place is done in the book of ledger.

(iii) **Summarizing:** The classified data is presented in an understandable manner, by preparing Trial balance, income statement (profit and loss account) and balance sheet which can be utilized by internal and external users.

(iv) **Analysis and Interpretation:** At the end, the recorded financial data is analyzed and interpreted for users to make meaningful judgements regarding financial condition and profitability of business. Further planning and policy framing can be executed using the data.

(v) **Communication:** The meaningfully analysed and interpreted date is then communicated to proper person through preparation and distribution of accounting reports which include usual income statement, balance sheet and some other additional informations like graphs, accounting ratios, diagrams, fund flow statement, etc.

CHECK YOUR PROGRESS

Q. 1. Give five points in support of the need for accounting.

Ans. Accounting refers to the systematic and detailed recording of financial transactions of a business. There are many types, from accounting for small businesses, government, forensic and management accounting, to accounting for corporations.

Why is Accounting Important?: Accounting plays a vital role in running a business because it helps you track income and expenditures, ensures statutory compliance, and provides investors, management, and government with quantitative financial information which can be used in making business decisions. Without accounting, your business will be like a ship without a radar, moving direction-less. Even in our day to day mundane activities we keep an account of our income and expenses. Small and big businesses also maintain accounts to keep a tab on their financial position, which is the major motive of any business.

There are three key financial statements generated by your records.

- The income statement provides you with information about the profit and loss.
- The balance sheet gives you a clear picture on the financial position of your business on a particular date.
- The cash flow statement is a bridge between the income statement and balance sheet and reports the cash generated and spent during a specific period of time.

It is critical you keep your financial records clean and up to date if you want to keep your business afloat. Here are just a few of the reasons why it is important for your business, big or small!

1. Accounting is Extremely Important for Recording the Financial Transactions in a business: Without accounting, you cannot display the financial health of your business to your stakeholders. Accounting is pivotal for various aspects and plays a crucial role in preparing the compiled financial statements

2. It helps in Evaluating the Performance of Business: Your financial records reflect the results of operations as well as the financial position of your small business or corporation. In other words, they help you understand what's going on with your business financially.

3. It ensures Statutory Compliance: Laws and regulations vary from state to state, but proper accounting systems and processes will help you ensure statutory compliance when it comes to your business.

4. It Helps to Create Budget and Future Projections: Budgeting and future projections can make or break a business, and your financial records will play a crucial role when it comes to it.

5. It Helps in Filing Financial Statements: Businesses are required to file their financial statements with the Registrar of Companies. Listed entities are required to file them with stock exchanges, as well as for direct and indirect tax filing purposes. Needless to say, accounting plays a critical role in all these scenarios.

Q. 2. State the main objectives of Accounting.

Ans. The following are the main objectives of accounting:

1. To maintain full and systematic records of business transactions: Accounting is the language of business transactions. Given the limitations of human memory, the main objective of accounting is to maintain 'a full and systematic record of all business transactions.

2. To ascertain profit or loss of the business: Business is run to earn profits. Whether the business earned profit or incurred loss is ascertained by accounting by preparing Profit & Loss Account or Income Statement. A comparison of income and expenditure gives either profit or loss.

3. To depict financial position of the business: A businessman is also interested in ascertaining his financial position at the end of a given period.

4. To provide accounting information to the interested parties: Apart from owner of the business enterprise, there are various parties who are interested in accounting information. These are bankers, creditors, tax authorities, prospective investors, researchers, etc. Hence, one of the objectives of accounting is to make the accounting information available to these interested parties to enable them to take sound and realistic decisions. The accounting information is made available to them in the form of annual report.

Q. 3. What is profit?

Ans. Profit, also called net income, is the amount of earnings that exceed expenses for the period. In other words, it is the amount of income left over after all the necessary and matched expenses are subtracted for the period.

All of the expenses that were incurred to produce the income must be recognized in the period in which the revenue is earned. Thus, some expenses that aren't actually paid during the period are still subtracted from income to arrive at the net income for the period. In other words, Profit is the revenue remaining after all costs are paid. These costs include labor, materials, interest on debt, and taxes. Profit is usually used when describing business activity. But everyone with an income has profit. It's what's left over after paying the bills.

Q. 4. What do you understand by 'Financial Position'?

Ans. Financial position is "The state of and the relationships among the various financial data found on a firm's balance sheet". For example, a company with fairly valued and relatively liquid assets, combined with a small amount of debt compared to owner's equity, is generally described as being in a strong financial position, also called financial condition.

Financial position, explained as the leverage, solvency, and cash standing of a company which ultimately leads to the ability of the business to survive, is an important factor in large and small businesses alike. Overall, financial position summary forms the most basic aspect of accounting: assets, liabilities, and owners equity. These three factors sum the essence of the financial position of any business. This is so important that a statement of financial position has become one of the most important reports in a business.

Q. 5. Define accounting.

Ans. Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities. The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position and cash flows.

Accounting is one of the key functions for almost any business. It may be handled by a bookkeeper or an accountant at a small firm or by sizable finance department with dozens of employees at larger companies. The reports generated by various streams of accounting, such as cost accounting and managerial accounting, are invaluable in helping management make informed business decisions.

Q. 6. What do you mean by book-keeping?

Ans. Book-keeping, which is also known as financial accounting, is the process of recording and summarizing financial information. Book-keeping involves the recording of transactions (e.g. sales, purchases, and expenses) which are then summarized and presented in the form of financial statements which show the overall health of the business.

Book-keeping helps to organize the financial data which facilitates the effective management of the business by providing key information such as:

- How much they owe to suppliers, tax authorities, banks, employees and others?
- How much each customer owes the business?