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# ACCOUNTANCY

**N-320**

**Chapter wise Reference Book  
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Based on

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

*By :*

*Renu Gupta* B.Com. (Hons.)



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

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# Solved Sample Paper - 1

Based on NIOS (National Institute of Open Schooling)

## Accountancy - XII

N-320

Time : 3 Hours

Maximum Marks : 100

**Note :** (i) This question paper has two Sections – Section-A and Section-B. (ii) Section-A has 36 questions from Question Nos. 1 to 36. All questions are compulsory. (iii) Section-B has 11 questions from Questions Nos. 37 to 47. All questions are compulsory. (iv) Section-B has two options. **Option-I:** Analysis of Financial Statements and **Option-II :** Application of Computers in Financial Accounting. Candidates are required to attempt questions from one Option only. All questions of an Option are compulsory.

### SECTION-A

**Q. 1. Accounting equation in Assets = Liabilities + Capital. Sold goods of ₹ 6,000 for ₹ 6,700 for cash; the correct effect on accounting equation will be:**

- (a) Decrease in assets by ₹ 6,000
- (b) Increase in assets by ₹ 6,700
- (c) Increase in capital by ₹ 700
- (d) Net increase in assets by ₹ 700 and increase in capital by ₹ 700

**Ans. (d)** Net increase in assets by ₹ 700 and increase in capital by ₹ 700.

Or

**Purchased furniture on credit will be entered in:**

- (a) Cash book
- (b) Purchase book
- (c) Journal proper
- (d) None of the above

**Ans. (c)** Journal proper.

**Q. 2. A firm receives ₹ 18,000 out of ₹ 20,000 due from Nidan. He is unable to pay the balance amount. This ₹ 2,000 is treated debts. Nidan's A/c will be:**

- (a) Debited by ₹ 2,000 (b) Credited by ₹ 18,000
- (c) Credited by ₹ 20,000 (d) Debited by ₹ 18,000

**Ans. (c)** Credited by ₹ 20,000.

Or

**Which is not a case of compound Journal Entry?**

- (a) More than one accounts are debited
- (b) One account is credited and more than one accounts are debited
- (c) More than one accounts are debited and more than one accounts are credited
- (d) Only one account is debited and more than one accounts are credited

**Ans. (d)** Only one account is debited and more than one accounts are credited.

**Q. 3. Goods sold to Kakoo ₹ 6,800 were recorded in the sales book as ₹ 8,600, it is a case of:**

- (a) Error of omission
- (b) Error of commission
- (c) Error of principle

(d) Compensatory error

**Ans. (b)** Error of commission.

Or

**Speed is a/an:**

- (a) Advantage of computer
- (b) Disadvantage of computer
- (c) Characteristic of computer
- (d) Limitation of computer

**Ans. (c)** Characteristic of computer.

**Q. 4. Profit and Loss A/c is prepared to ascertain:**

- (a) Gross profit/gross loss of a business
- (b) Net profit/net loss of a business
- (c) Financial position of a business
- (d) All of the above

**Ans. (b)** Net profit/net loss of a business.

OR

**Stock at the end of the year given in adjustments will be written:**

- (a) Only one the debit side of Trading A/c
- (b) Only on the credit side of Trading A/c
- (c) Only on the assets side of Balance Sheet
- (d) Both on the credit side of Trading A/c and assets side of Balance Sheet

**Ans. (d)** Both on the credit side of Trading A/c and assets side of Balance Sheet.

**Q. 5. Which of the following organizations will prepare Income and Expenditure Account?**

- (a) A firm dealing in readymade garments
- (b) A joint-stock company manufacturing drones
- (c) A society working for the health care in villages
- (d) A cooperative society running milk dairy

**Ans. (c)** A society working for the health care in villages.

Or

**In case of non-for-profit organizations, when is surplus shown?**

- (a) When receipt side exceeds the payment side
- (b) When payment side exceeds the receipt side

# Solved Sample Paper - 2

Based on NIOS (National Institute of Open Schooling)

## Accountancy - XII

N-320

Time : 3 Hours

Maximum Marks : 100

**Note :** (i) This question paper has two Sections – Section-A and Section-B. (ii) Section-A has 36 questions from Question Nos. 1 to 36. All questions are compulsory. (iii) Section-B has 11 questions from Questions Nos. 37 to 47. All questions are compulsory. (iv) Section-B has two options. **Option-I:** Analysis of Financial Statements and **Option-II :** Application of Computers in Financial Accounting. Candidates are required to attempt questions from one Option only. All questions of an Option are compulsory.

### SECTION-A

**Q. 1. Which accounting principle states that expenses should be recognized when they are incurred, not when they are paid?**

- (a) Matching principle
- (b) Revenue recognition principle
- (c) Materiality principle
- (d) Conservatism principle

**Ans. (a)** Matching principle.

**Q. 2. Which accounting concept dictates that financial statements should be prepared assuming that the business will continue operating indefinitely?**

- (a) Going concern
- (b) Consistency
- (c) Accrual
- (d) Prudence

**Ans. (a)** Going concern.

**Q. 3. What is the primary aim of the accounting concept of conservatism?**

- (a) To overstate assets and revenues
- (b) To understate liabilities and expenses
- (c) To maximize shareholder value
- (d) To increase reported profits

**Ans. (b)** To understate liabilities and expenses.

**Q. 4. When a business pays rent for its office space, which account is debited?**

- (a) Rent Expense
- (b) Cash
- (c) Accounts Payable
- (d) Prepaid Rent

**Ans. (b)** Cash.

**Q. 5. What is a journal entry?**

- (a) A summary of financial transactions
- (b) A record of all business transactions in chronological order
- (c) A report detailing the financial performance of a company
- (d) A ledger account showing assets and liabilities

**Ans. (b)** A record of all business transactions in chronological order.

**Q. 6. What is the primary function of a ledger in accounting?**

- (a) To record business transactions in chronological order.
- (b) To summarize all financial transactions of a business.
- (c) To prepare financial statements.
- (d) To analyze business performance.

**Ans. (b)** To summarize all financial transactions of a business.

**Q. 7. What is a cash book?**

- (a) A record of all financial transactions
- (b) A ledger account showing assets and liabilities
- (c) A summary of cash transactions
- (d) A statement of financial position

**Ans. (c)** A summary of cash transactions.

**Q. 8. Which special purpose book is used to record all credit purchases made by a business?**

- (a) Sales Day Book
- (b) Purchases Day Book
- (c) Cash Book
- (d) Journal Proper

**Ans. (b)** Purchases Day Book.

**Q. 9. What is the purpose of a trial balance?**

- (a) To identify errors in financial statements.
- (b) To summarize all financial transactions of a business.
- (c) To verify the equality of debit and credit balances.
- (d) To prepare financial statements.

**Ans. (c)** To verify the equality of debit and credit balances.

**Q. 10. What is a bank reconciliation statement?**

- (a) A statement prepared by the bank

# Sample Preview of The Chapter

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# ACCOUNTANCY

## MODULE-I: BASIC ACCOUNTING



### Accounting – An Introduction

#### INTRODUCTION

Whenever a person starts a business, whether it is large or small, sole proprietorship or firm; he arranges money from certain sources and has to spend on certain items. Hence, the details of all these activities have to be recorded in a clear and systematic manner. Recording of transactions of a businessman in a systematic manner is known as accounting.

#### CHAPTER AT A GLANCE

##### BOOK-KEEPING AND ACCOUNTING.

**1. Book-keeping:** Business transactions are numerous. It is possible for any businessman to recall all the business transactions. He has to record these transactions in the books of accounts that is called Book-keeping.

**2. Accounting:** The main objective of every business is to earn profit. Book-keeping doesn't present a clear financial picture of a business. A clear financial statement enables the businessman to keep an eye on the business activities to maximise profit. Hence, accounting is a language of business and a system which collects and process financial information of the business. The relevant aspects of the definition of accounting are:

1. Economic events consists of transaction which are measurable in monetary terms e.g., purchase of an asset.
2. Identification implies determining what transactions are to be recorded.
3. Measurement means grouping business transactions which can be expressed only in monetary terms.
4. **Recording:** All the identified and measured transactions should be recorded in the books.
5. **Communication:** The result obtained are communicated to all internal and external people who

are intervened in our business through accounting report. Organisation refers to all business enterprises.

Hence, Accounting is a cyclic process which begins with recording and ends with the preparation of final reports.

#### Difference between Book-keeping and Accounting

Basis of Difference	Book-keeping	Accounting
Relation	It is the first step to accounting.	It begins when book-keeping ends.
Function	Its scope is limited.	Its scope is quite wide.
Objective	It is to maintain records.	It aims at ascertaining business income.
Level of knowledge	It is enough to have elementary knowledge of accounting.	For accounting depth knowledge and understanding is required.

#### BRANCHES AND OBJECTIVES OF ACCOUNTING

As the business operations increased have given rise to specialised branches of Accounting:

**1. Financial Accounting:** It is concerned with recording business transaction to ascertain profit or loss incurred during a financial year. It provide financial information required by management and other parties.

**2. Cost Accounting:** It relates to collection, classification and ascertainment of the cost of production or job undertaken by the firm.

**3. Management Accounting:** It is concerned with generating information relating to funds cost and profit etc. It meant to assist the management for the purpose of policy-making for the performance of various department.

**4. Tax Accounting:** It deals with difficult tax laws such as income tax, sales tax, etc.

**5. Social Accounting:** It discloses the social benefits and the cost incurred by the enterprise e.g. provident fund, canteen, etc.

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**Objectives and Functions of Financial Account**

**1. Finding out various Balances:** Provides vital information about various balances like cash balance, bank balance, etc.

**2. Providing knowledge to transactions:** Give details of every transaction.

**3. Ascertaining Net Profit or Loss:** Preparation of Profit and Loss Account.

**4. Depicting Financial position:** Balance Sheet is prepared to know the assets and liabilities of the business.

**5. Information to all interested users** means to communicate business position all interested users.

**6. Fulfilling legal obligation:** For example, sales tax, income tax, etc.

**Functions of Accounting**

Financial Accounting performs the following major functions:

**1.** Maintaining systematic records and summarised into financial statement.

**2.** Communicating the final records to all interested users.

**3. Meeting legal requirements** helps in providing the final accounts for Income tax return, return for VAT, etc.

**4. Fixing responsibility** of department heads in computation of profits of an enterprises.

**5. Decision-making:** It supplies information to make decisions to maximise profit and minimise cost of the business.

**Advantages of Accounting**

**1. Financial information about business:** It is known through accounting at the end of the accounting period.

**2. Assistance of Management:** On the basis of accounting information the management makes business plan.

**3. Replace Memory:** The accounting record helps to recall the necessary information whenever required.

**4. Facilitates the Comparative Study:** It helps to compare one year's result with those of previous year and helps to reshape the policies if required.

**5. Facilitates Settlement of Tax Liabilities:** It is because accounting records are good evidence of correctness of transactions.

**6. Facilitates Loans:** Accounting makes available all the information with respect to performance of the business which helps the investor to grant loan.

**7. Evidence in Court:** Accounting records are accepted by the court as evidence.

**8. Facilitates Sale of Business:** Final report of the business helps in sale and purchase of business.

**9. Assistance in the Case of Insolvency:** Accounting records help in settling disputes in such a situation.

**10. Helpful to Partnership firm:** Accounting records help to reach settlement in case of partnership firm.

**Limitations of Accounting**

**1.** Accounting information is expressed in monetary terms only, non-monetary term are completely omitted.

**2.** Fixed Assets are recorded in the accounting records at the original cost. As a result final accounts does not represent the true position of the business.

**3.** Accounting information are sometimes based on estimation e.g. life of an asset.

**4.** These information cannot be used to test the performance of management.

**5.** Accounting informations are biased as they do not include social cost i.e., noise or noise pollution.

**ACCOUNTING AS AN INFORMATION SYSTEM AND ITS USES**

Accounting is a common language use to communicate financial informations to all the people interested in a business as well as government and its regulatory agencies.

No human is capable enough to memorise all the business transactions. Thus he/she rely upon accounting process. This makes accounting necessary in all modern business organisation.

**ACCOUNTING AS A SOURCE OF INFORMATION**

Accounting is a source of information. Accounting collects data record them systematically and present whenever required. Dissemination of information is an essential function of accounting.

**Users of Accounting Information**

There are two types of users of accounting information: 1. Internal users 2. External users.

**1. Internal Users**

**Owners:** Person or a group of persons who started business and are exposed to maximum risk. The financial statement give the information about profit or loss of the business.

**Management:** They use accounting information to make policies to achieve pre-determined goal.

**Employees and Workers:** They need accounting information to check their provident fund and bonus etc. at the end of the year.

**2. External Users**

**Bank and Financial Institution:** They need accounting information to ensure the safety and recovery of the loan advanced.

**Investors and Potential Investors:** They do not have any direct control over the business affairs. They rely upon the accounting information to know how safe their investment?

**Creditors:** The financial statements help the creditors to decide whether they supply goods or services on credit or not.

**Government and its Authorities:** Government use financial statement to compute National Income.

**Researchers:** They use accounting information in their research work.

**Consumers:** Sometimes prices of some goods are fixed by the government. Consumers used financial statement so that they are not exploited.

**Public:** They want to see business running so that they apply for jobs in the business.

### QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATIONS

There are two fundamental characteristics of financial statement: (i) Truth (ii) Fairness.

Besides these two, other qualitative characteristic that make the financial statement meaningful for users are: 1. Reliability 2. Relevance 3. Understandability 4. Comparability.

#### A. Reliability

1. Transactions should be evidenced by documents.
2. It should be unbiased i.e. free from personal judgement.

Reliability of the accounting equation depends upon.

(i) **Neutrality:** Free from personal liking or disliking

(ii) **Prudence:** All accounting information should be prepared on the principle of conservation.

(iii) **Completeness:** Accounting information should be complete in all respect.

(iv) **Substance over form:** All accounting information should be meaningful.

#### B. Relevance

Accounting information should supply all the relevant information for the decision-making need of its users. Relevance of information is always guided by the principal of materiality.

#### C. Understandability

All the accounting information should be presented in a manner that the users should understand it in the manner it showed.

#### D. Comparability

It is necessary to follow standardised accounting policies to present financial information so that users can compare them easily. Accounting information is useful for both the internal and external users it should have all the above characteristics.

### ACCOUNTING TERMS

Some basic terms often used in accountancy are:

**1. Transactions:** It is an event of exchange of goods and services between two or more entities. It can be a cash transaction or credit.

**2. Purchases:** It is used to buy goods to be dealt in purchase of goods in the sum of cash purchases and credit purchases.

**3. Sundry Creditors:** Person or firms which supply goods and services to an enterprise on credit.

**4. Sales:** Total revenue from supplying goods and services to the customers. Sales is the sum of cash sales and credit sales.

**5. Sundry Debtors:** Persons and firms to whom an enterprise supply goods and services on credit.

**4. Revenue:** Amount received by selling goods, providing services, commission, interest, etc.

**5. Expenses:** Costs incurred to earn revenue by business organisation is called expenses e.g. depreciation, wages, etc.

**6. Income:** Excess of revenue over expenses is called income.

**Gain:** Income of irregular nature of capital gain.

**Loss:** Expenses of the firm which do not benefit it. e.g. theft.

**Profit:** Excess of revenue over its cost, there may be a net loss if the expenses are more than the revenue.

**Expenditure:** Expenditure is usually the amount spent for the purchase of assets. If the benefit of expenditure last for one year, they are treated as revenue expenditure, but if their benefit last for more than one year they are treated as capital expenditure.

**Drawings:** It is the amount of money or goods taken by the proprietor for their own use from the business.

**Capital:** It is amount invested by the proprietor to run a business. It may be in cash or in kind (assets).

**Assets:** Anything which will enable the firm to get cash or a benefit in future is called asset. There are two types of assets:

**1. Current Assets:** Those assets which are held for a short period, generally one year e.g. cash in hand.

**2. Non-current Assets/Fixed Assets:** Those assets which are acquired for long term use in business e.g. purchase of machinery, etc.

**Liabilities:** Liabilities means debts. The amount which the firm owes to the outsiders. There are two types of liabilities:

**1. Long Term Liabilities:** Those liabilities which are payable after a long period (more than one year) e.g. debentures.

**2. Short Term Liabilities:** Those liabilities which are payable within a year e.g. bank overdraft.

**Account:** The book containing relevant transactions at one place relating to a particular head.

**Stock or Inventory:** Stock is the tangible property of the businessman. It is the goods remain unsold in the godown or stock comprises open stock. In the beginning of the financial year.