

CLASS-XI COMMERCE



Work Book Cum Question Bank with Answers ACCOUNTANCY



**SCHEDULED CASTES & SCHEDULED TRIBES
RESEARCH & TRAINING INSTITUTE (SCSTRI)
ST & SC DEVELOPMENT DEPARTMENT
BHUBANESWAR**

**WORK BOOK CUM
QUESTION BANK WITH ANSWERS**

**ACCOUNTANCY
CLASS - XI
(COMMERCE)**

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SYLLABUS (1ST YEAR)

Unit - I

- **Introduction to Accounting :** Evolution of Accounting and Need for Accounting, Book-Keeping and Accounting - Meaning, definition and characteristics, Relationship between Book-Keeping, Accounting and Accountancy, Accounting as a language of business, Objectives, Advantages and Limitations of Accounting, Accounting as an information system, Users of accounting information, Branches of Accounting, Accounting Cycle.
- **Basic Accounting Concepts :** Accounting Principles (GAAP), Concepts and Conventions, Accounting Standards: Concept and Objectives, IFRS: Concept and Objectives, Basic Terms: Event, Transaction, Vouchers, Debtors, Creditors, Purchases, Sales, Assets, Liabilities, Goods, Stock, Profit, Loss, Expense, Revenue, Income, Drawings and Capital, Accounting Equation: Meaning and Preparation, System of Record Keeping: Double Entry System and Single Entry System, Basis of Accounting : Cash Basis, Accrual Basis and Hybrid Basis, Classification of Accounts: British Approach and American Approach Rules of Debit and Credit.

Unit - II

- **Journal :** Meaning & Format of Journal, Advantages and Disadvantages of using journal, Rules of Journalizing, Recording of journal entries with narration.
- **Ledger :** Meaning & Format of Ledger, Rules of Posting and Balancing of Ledger Accounts.
- **Subsidiary Book :** Cash Book, Purchase Book, Sales Book, Return Books, Bills Books and Journal Proper.
- **Trial Balance :** Meaning, objectives, advantages and limitations of Trial Balance, Preparation of Trial Balance from ledger accounts & Redrafting of trial balance from incorrect trial balance.

Unit - III

- **Bills of Exchange :** Meaning, Definition, Parties, Specimen, Distinction Between bills of Exchange and Promissory note, Important Terms - Demand Bill, Time Bill, Terms of Bills, Days of Grace, Calculation of Due Date, Treatment of Bill, Accounting Treatment - Honour, Dishonour, Renewal, Retirement of Trade Bills and Accommodation Bill.
- **Computerized Accounting :** Computers and its Components, Functions, Need and Advantages of Computerized Accounting, Accounting Information System (AIS).

Unit - IV

- **Rectification of Errors :** Meaning of Errors and Types of Errors, Errors disclosed and not disclosed by Trial Balance, Rectification of Errors after preparation of trial balance and final accounts, use of suspense account.
- **Bank Reconciliation Statement :** Meaning, Need and Preparation of Bank Reconciliation Statement from cash book balance as well as pass book balance.

QUESTION PATTERN OF CHSE

Theory	:	80 marks
Project Work	:	<u>20 marks</u>
Total	:	100 marks

Group - A (Objective type - Compulsory)

1. Multiple choice Questions (12 bits questions of 1 mark each) 1 x 12 = 12 marks
2. Do as directed questions
 - a) Express in one word/term
 - b) Correct the underlined portion
 - c) Fill in the blanks
 - d) Answer in one sentence(12 bit questions of 1 mark each) 1 x 12 = 12 marks

Group B (Short type Answer)

3. To be answered within 30 words (10 bit questions to be answered out of 13 given, each carrying 2 marks) 2 x 10 = 20 marks
4. To be answered within 50 words (4 bit questions to be answered out of 6 given, each carrying 3 marks) 3 x 4 = 12 marks

Group C (Long Answer type)

- 5.to 9. (3 questions to be answered out of 5, each carrying 8 marks) 8 x 3 = 24 marks

TOTAL

80 marks

N.B. : Questions have been framed as per the syllabus and pattern of question set in the Annual H.S. Examination conducted of CHSE, Odisha.

UNIT-I

KEY CONCEPTS

INTRODUCTION TO ACCOUNTING & BASIC ACCOUNTING CONCEPTS

(A) Introduction to Accounting

- **Book keeping** is the art of recording the financial transactions in a systematic manner.
- **Accounting** is a process of recording, classifying and summarising the transactions of financial character and interpreting the result thereof.
- **Accounting information** is used by both internal and external parties. Owners, employees, management etc. are the internal users. Investors, creditors, financial institutions, debenture holders and other lenders are the external users of information.
- **Qualitative characteristics** of accounting information are reliability, relevance, understandability and comparability.
- There are **three main branches** of accounting. These are Financial Accounting, Cost Accounting and Management Accounting.
- **Accounting cycle** is a sequence of accounting process that begins with recording of transactions and ends with preparation of final accounts.
- **Double entry system** is a method where the two fold aspects of all financial transactions are recorded.

(B) Basic Accounting Concepts

- **GAAP** - Generally Accepted Accounting Principles refers to a set of rules of guidelines adopted for recording and reporting of business transactions in order to ensure uniformity in the preparation and presentation of financial statements.
- **Classification of Accounting Principles** - Accounting principles are classified into Accounting Assumptions, Accounting Concepts and Accounting Conventions.
- **Accounting Assumptions** - Accounting Assumptions help in preparation and presentation of financial statements. Going Concern, Consistency, Accrual and stable monetary unit are fundamental accounting assumptions.
- **Accounting Concepts** - Accounting concepts help in the selection of accounting methods. Business Entity concept, Money Measurement concept, Cost concepts, Accounting Period concept. Dual Aspect concept, Revenue Recognition concept, Matching concept are the Accounting concepts.

- **Accounting Conventions** - Accounting Conventions are accounting procedures followed by the accountants. Full disclosure, conservatism, materiality, and objectivity are the accounting conventions.
- **Accounting Standards** - These are the written statements issued by ICAI. It helps in preparation of uniform and consistent financial statements. There are total 32 standards issued by ICAI.
- **IFRS** - International Financial Reporting Standards is set of accounting standards developed by an independent organisation called International Accounting Standard Board.
- **Accounting Equation** - The relationship between asset, liability and capital is known as accounting equation.
$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity (Capital)}$$
- **Double Entry System** - It was developed by Luca Pacioli in 1494. It is based on the principle of Dual Aspect. Under this system both the aspects of a transaction are recorded. It is based on the principle that every debit must have a corresponding credit.

UNIT - I**GROUP - A : OBJECTIVE TYPE QUESTIONS**

1. *From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.*

A. Introduction to Accounting

1. Book keeping refers to the record keeping aspects of
 - (a) financial activities of the business
 - (b) non-financial activities
 - (c) both financial and non-financial activities
 - (d) personal activities of the owner
2. The oldest form of accounting is
 - (a) Financial Accounting
 - (b) Cost Accounting
 - (c) Management Accounting
 - (d) Computerised Accounting
3. Internal users of accounting information are
 - (a) Government
 - (b) Owners
 - (c) Management
 - (d) Researchers
4. The Father of Book-keeping & Accounting is
 - (a) J. R. Batleboi
 - (b) Luca Paciole
 - (c) R. N. Carter
 - (d) F. M. Lloyd
5. In financial accounting, the position of the business on a particular date is shown by a statement known as
 - (a) Profit & Loss Account
 - (b) Balance Sheet
 - (c) Cost Sheet
 - (d) Trading Account
6. The income disclosed by accounting is :
 - (a) authoritative
 - (b) approximation
 - (c) exact
 - (d) specific
7. The nature of Book-keeping is
 - (a) clerical
 - (b) analytical
 - (c) interpretive
 - (d) skillful
8. To make accounting information more useful, it must possess the characteristics of reliability, understandability relevance and
 - (a) comparability
 - (b) partiality
 - (c) unverifiability
 - (d) uncredibility
9. Which one of the following is not an objective of Accounting ?
 - (a) maintenance of business record
 - (b) calculation of profit & loss
 - (c) depiction of financial position
 - (d) exact profit determination
10. The complete sequence of accounting process of recording transaction in the journal to preparation of Balance Sheet is known as
 - (a) Accounting period
 - (b) Accounting cycle
 - (c) Accounting knowledge
 - (d) Accounting skill
11. In double entry system of Book keeping, every transaction affects
 - (a) two accounts
 - (b) two sides of the same account
 - (c) same account on two different dates
 - (d) one account
12. Accounting requires
 - (a) special skill & knowledge of the book keeper
 - (b) personal judgement of book keeper
 - (c) impact of inflation to be recorded
 - (d) non monetary information

B. Basic Accounting Concepts

1. A Uniform system of accounting is based on :
 - (a) GAAP
 - (b) IFRS
 - (c) CCA
 - (d) CPP
2. The general rule and laws which guide accounting personnel in the process of recording and reporting are termed as :
 - (a) Principles
 - (b) Postulates
 - (c) Axiom
 - (d) Accounting standard
3. The norms of accounting policies and practices which guide treatment of transactions and events are termed as :
 - (a) Principles
 - (b) Doctrines
 - (c) Accounting Standard
 - (d) Axiom
4. The fundamental accounting assumptions are stated by :
 - (a) Institute of Chartered Accounts of India (ICAI)
 - (b) International Accounting Standards Committee (IASC)
 - (c) Standards Interpretation Committee (SIC)
 - (d) Both (a) and (b)
5. The principle that implies a particular accounting method once adopted, will not be changed from year to year :
 - (a) Going Concern
 - (b) Consistency
 - (c) Accrual
 - (d) Objectivity
6. Date of receipt of revenue and payment of expenses is immaterial according to :
 - (a) Accrual Concept
 - (b) Stable Monetary Unit Concept
 - (c) Consistency Concept
 - (d) Going Concern Concept
7. According to which concept, the owner is treated as the creditor
 - (a) Business Entity Concept
 - (b) Going Concern Concept
 - (c) Accrual Concept
 - (d) Matching Concept
8. The concept which is closely related to the going concern concept is :
 - (a) Dual Aspect Concept
 - (b) Revenue Recognition Concept
 - (c) Full disclosure Concept
 - (d) Cost concept Concept
9. According to which concept, the claim of creditors have to be met first and the proprietor there after :
 - (a) Dual Aspect
 - (b) Matching Concept
 - (c) Accounting Period
 - (d) Cost Concept
10. The concept which brings together all revenues and expenses relating to the period under review :
 - (a) Cost Concept
 - (b) Revenue Recognition
 - (c) Conservatism
 - (d) Matching Concept
11. The principle which communicates all material and relevant facts concerning financial position and the results of operation to the users.
 - (a) Materiality
 - (b) Full disclosure
 - (c) Consistency
 - (d) Accrual
12. According to which principle, all prospective losses are considered and all prospective profits are left :
 - (a) Money Measurement Concept
 - (b) Dual Aspect Concept
 - (c) Conservatism principle
 - (d) Full disclosure principle

26. The fixed assets which cannot be touched and seen :
- (a) Tangible Fixed Assets
 - (b) Intangible Fixed Assets
 - (c) Fictitious Assets
 - (d) Wasting Assets
27. The assets which donot have any physical form or any relisable value is known as
- (a) Tangible Fixed Asset
 - (b) Intangible Fixed Asset
 - (c) Fictitious Asset
 - (d) Current Asset
28. All claims or rights against the assets of the enterprise is known as :
- (a) Fixed Assset (b) Current Asset
 - (c) Equity (d) Liability
29. Those liabilities which fall due for payment in a relatively short period is termed as :
- (a) Fixed Liability (b) Current Liability
 - (c) Contigent Liability (d) Both (b) & (c)
30. The amount which may or may not be payable in future is known as
- (a) Fixed Liability (b) Current Liability
 - (c) Contigent Liability (d) Both (b) & (c)
31. The portion of the expenditure which has been consumed during the accounting period to earn revenue is termed as :
- (a) Expense (b) Cost
 - (c) Expired Cost (d) All of the above
32. Payment made for the receipt of the benefit is called :
- (a) Expenditure (b) Cost
 - (c) Expenses (d) Expired Cost
33. Which of the following is an unwanted burden on the business ?
- (a) Expenditure (b) Loss
 - (c) Expenses (d) Expired Cost
34. A profit of an irregular nature is termed as :
- (a) Income (b) Revenue
 - (c) Gain (d) None of these
35. The transactions of similar nature recorded at one place is termed as :
- (a) Account
 - (b) Books of Journal
 - (c) Ledger
 - (d) Paper Transaction
36. The account that represents natural or artificial person is called as :
- (a) Natural Personal Account
 - (b) Real Account
 - (c) Representative Personal Account
 - (d) Nominal Account
37. A document which records transactions relating to cash sale or cash purchase is termed as :
- (a) Invoice (b) Receipt
 - (c) Cash Memo (d) Both (a) & (b)
38. A document which records credit transaction relating to sale and purchase of commodities is termed as :
- (a) Invoice (b) Receipt
 - (c) Cash Memo (d) Both (b) & (c)
39. A voucher which contains multiple debits and credits is known as :
- (a) Journal Voucher (b) Complex voucher
 - (c) Memo (d) Both (a) & (b)

40. For determination of operating income an enterprise prepares
- Income Statement
 - Balance Sheet
 - Trading Account
 - Cash flow Statement
41. Real accounts are related to :
- Assets
 - Expenses and Income
 - Capital & Liability
 - Customers and Suppliers
42. Personal accounts are generally related to :
- Assets
 - Debtors & Creditors, Institutions
 - Capital
 - Income & Losses
43. Nominal accounts are related to :
- Expenses, Losses and Income
 - Assets & Liabilities
 - Debtors & Creditors
 - Capital and Drawings
44. The rule “debit what comes in and credit what goes out” is applicable to :
- Personal Account
 - Representative Account
 - Nominal Account
 - Real Account
45. The rule “debit the receiver and credit the giver” is applicable to :
- Nominal account
 - Personal account
 - Real account
 - Both (a) & (c)
46. The rule “debit all losses and expenses, credit all incomes and gains is applicable to :
- Nominal account
 - Personal account
 - Real account
 - Representative
47. Goods purchased for ₹ 5000 on credit from M/s. Ram, which account is credited :
- Purchase account
 - Cash account
 - Ram account
 - Sales account
48. Wages of workmen employed for setting up a new machinery should be debited to :
- Wages account
 - Cash account
 - Expenses account
 - Machinery account
49. Debit signifies :
- Decrease in asset
 - Increase in asset
 - Increase in Capital
 - Increase in Revenue
50. Credit signifies :
- Increase in Capital
 - Decrease in asset
 - Increase in liability
 - All of these
51. The amount entered in the debit side is called :
- Debit
 - Credit
 - Credit balance
 - Debit balance
52. The Accounting Equation is :
- Asset + Liabilities = Capital
 - Asset - Liabilities = Capital
 - Capital - Liabilities = Asset
 - Asset + Capital = Liabilities

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

(A) Introduction to Accounting

1. Who is called as the father of Book keeping and Accounting ?
2. What is the name of the institute that regulates accounting profession in India ?
3. Name an outside agency which requires financial information while granting loan.
4. Which is rightly termed as the language of business ?
5. Which is called as position statement ?
6. Which accounting helps the management to perform its functions ?
7. What is the oldest form of accounting ?
8. Name anyone internal user of accounting information other than management.
9. In which book the financial transactions are recorded first ?
10. Name the international organization that has recognised the qualitative characteristics of accounting information.
7. The person who owes money to the business is called as ?
8. Name the term used for the purchase of goods.
9. The Asset which can be converted in cash as early as possible.
10. An inflow of assets which results in increase in the Owner's Equity.
11. The goods lying unsold on a particular date.
12. Name the discount that is not recorded in the books of seller or buyer.
13. What is the term for the left hand side of an account ?
14. Name the account that shows the amount spent in carrying on business operations.
15. Name the account that represents hundreds or thousands of persons.
16. Name the voucher that contains multiple credits and one debit.

(B) Basic Accounting Concepts

1. Which accounting principles justify "for every debit, there is a credit" ?
2. Name the concept on the basis of which Fixed Assets are recorded at their original cost ?
3. On the basis of which accounting concept only pecuniary transactions are recorded.
4. Name the assumption that states that the purchasing power of money should be constant.
5. Which accounting concept divides the entire life of the firm into time-intervals ?
6. Give an example of paper transaction.
17. Name the voucher that shows one debit and one credit is.
18. The document that serves as a proof of giving cash.
19. Name the statement prepared by a business for computation of operating profit.
20. Which account is affected when the cash is withdrawn for personal use ?
21. Which concept is the basis of Accounting equation ?
22. Name the system where there is an admixture of single entry, double entry and no entry.

2. (b) Fill in the blanks :**(A) Introduction to Accounting**

1. Book keeping is the _____ stage of keeping accounts.
2. Accounting starts when book keeping _____.
3. The scope of Accountancy is _____ than Accounting.
4. Accounting is the _____ of business.
5. There are three main branches of Accounting which include Financial Accounting, Cost Accounting and _____.
6. Owners, management & employees are the _____ users of Accounting information.
7. Accounting is concerned with record keeping of _____ transactions.
8. Accounting process involves recording of transaction, classifying, summarising and _____ of the results.

(B) Basic Accounting Concepts

1. Accounting _____ the required information to its users.
2. Accounting is popularly recognised as a _____ of Business.
3. A uniform system of accounting is based on _____.
4. _____ consists of recognised assumption taken into consideration during the course of recording.
5. Assumption of _____ has an important implication for the valuation of assets and liabilities.
6. _____ ensures uniformity in accounting processes and policies.

7. Stable monetary unit assumes that the purchasing power of money should be _____.
8. The task of measuring income and wealth of an identifiable unit or entity is undertaken by _____ concept.
9. _____ concept is closely related to the going concern concept.
10. _____ states that at any point of time the asset of an entity must be equal to the total of owner's equity and outsider's liabilities.
11. _____ is the measure of the economic performance of a concern.
12. _____ convention builds the confidence and faith among creditors & investors.
13. The principle of conservation says "Anticipate _____, but provide for all losses".
14. The principle of _____ connotes reliability and trustworthiness.
15. _____ is introduced to replace GAAP.
16. The convergence of accounting standard with IFRS is called as _____.
17. _____ transactions are recorded in the books of a/cs.
18. _____ is an example of no-exchange transactions.
19. All _____ are events but all events are not transactions.
20. The transaction which occurs between the internal wings of the organisation is known as _____.
21. Capital is increased with amount of _____.

22. The total amount due from sundry debtors is called as _____.
23. The Bill of exchange for a creditor is known as _____.
24. Account payable is a _____ liability.
25. Purchase a/c is used while purchasing _____.
26. Purchase Return is also known as _____.
27. _____ fixed assets cannot be touched and see.
28. Owner's Equity is called _____.
29. Loss always _____ Owner's Equity.
30. The excess of revenue over expenses is called _____.
31. _____ accounts relates to the property of the business.
32. The amount which a debtor fails to pay is termed as _____.

2. (c) Answer the following questions in one sentence each.

(A) Introduction to Accounting

1. What is Book Keeping ?
2. What is Accounting ?
3. What is Accountancy ?
4. Give an example of non-monetary transaction which is not recorded.
5. Who are the internal users of accounting information ?
6. Who are the external users of accounting information ?
7. What are the qualitative characteristics of accounting information ?
8. Name the main branches of Accounting.
9. What is double entry system of recording transaction ?
10. Give an example of internal economic event.
11. Give one limitation of accounting.
12. What is the main objective of accounting ?
13. Why is the B/S prepared ?
14. What do you mean by accounting cycle ?

(B) Basic Accounting Concepts

1. In which book business transactions are recorded ?
2. Which concept segregates the expenditure between capital and revenue.
3. What is the nature of cost concept ?
4. How increase in asset is treated ?
5. How many accounting standards are issued by ICAI ?
6. What is asset ?
7. Who is a debtor ?
8. What is discount ?
9. What is closing stock ?
10. What is hybrid basis of accounting ?
11. What are real accounts ?
12. What is accounting equation ?
13. Define net worth ?
14. What is the rule for nominal accounts ?
15. Name the two system of record keeping ?

2. (d) Correct the underlined portion of the following sentences.**(A) Introduction to Accounting**

1. Accountancy is the language of management.
2. Accountancy is the basis of Accounting.
3. Accounting involves recording of social activities.
4. B/S tends to match current revenues with expenses incurred.
5. Kautilya is the father of Book keeping.
6. Employee is an external user of accounting information.
7. Potential investors are interested to know the profitability and solvency position of the firm.
8. Cost accounting is concerned with recording of transactions according to accounting principles.
9. The complexities of business environment have necessitated the use of financial accounting.
10. The cyclic movement of the transactions through the books of accounts is a casual process.
11. Single entry system is a method where the two fold aspect of all financial transactions are recorded.
12. Accounting information must possess the characteristics of unreliability, understandability and comparability.
13. Accounting is science as well as commerce.
14. Luca Pacioli is a French mathematician.
15. To know the financial position of a business, a balance sheet is prepared at the beginning of the period.

(B) Basic Accounting Concepts

1. Credit transaction is one where cash receipt on payment is involved in a transaction.
2. An account is a brief history of non-financial transaction.
3. Capital refers to the financial obligations of a business.
4. Current Assets also termed as nominal asset.
5. The capital expenditure is treated in the profit and loss account.
6. Excess of revenue over expenses is called loss.
7. Inventory is valued on the basis of cost or net realizable value whichever is higher.
8. A Bill is a written document in support of a transaction.
9. Going concern concept assumes the business will run for a definite period of time.
10. Asset is what the business owes to the owner.
11. Outstanding wages is an example of prepaid expenses.
12. ICAI has issued 36 accounting standards.
13. Creditor is the person who invests capital in the business.
14. According to matching concept, every transaction has two aspects.
15. Outstanding salaries, outstanding rent are the examples of artificial personal account.
16. Increase in the amount of capital is recorded on the debit side.
17. Decrease in the machinery account is recorded on the debit side of asset account.
18. Accounting equation is not true in all cases.

UNIT - I**GROUP - A : ANSWERS**

1. From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.

A. Introduction to Accounting

1. (a) financial activities of the business
2. (a) Financial Accounting
3. (c) Management
4. (b) Luca Paciolo
5. (b) Balance Sheet
6. (b) approximation
7. (b) analytical
8. (a) comparability
9. (a) maintenance of business record
10. (d) Accounting skill
11. (b) two sides of the same account
12. (a) special skill & knowledge of the book keeper

B. Basic Accounting Concepts

1. (a) GAAP
2. (a) Principles
3. (c) Accounting Standard
4. (d) Both (a) and (b)
5. (b) Consistency
6. (a) Accrual
7. (a) Business Entity Concept
8. (d) Cost concept
9. (a) Dual Aspect
10. (d) Matching Concept
11. (b) Full disclosure
12. (c) Conservatism
13. (d) 32
14. (c) Ind-AS
15. (d) Transaction
16. (c) Event
17. (b) Cash transaction
18. (a) Credit transaction
19. (b) Paper transaction

20. (a) Proprietor
21. (d) Both (a) & (b)
22. (a) Accounts Receivable
23. (b) Account Payable
24. (b) Goods
25. (a) Asset
26. (b) Intangible Fixed Assets
27. (c) Fictitious Asset
28. (c) Equity
29. (b) Current Liability
30. (c) Contingent Liability
31. (d) All of the above
32. (a) Expenditure
33. (b) Loss
34. (c) Gain
35. (a) Account
36. (b) Real Account
37. (c) Cash Memo
38. (a) Invoice
39. (d) Both (a) & (b)
40. (a) Income Statement
41. (a) Assets
42. (b) Debtors & Creditors, Institutions
43. (a) Expenses, Losses and Income
44. (d) Real Account
45. (b) Personal account
46. (a) Nominal account
47. (c) Ram account
48. (d) Machinery account
49. (b) Increase in asset
50. (d) All of these
51. (a) Debit
52. (b) Asset - Liabilities = Capital

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

(A) Introduction to Accounting

1. Luca Paci do
2. ICAI - The Institute of Chartered Accountants of India
3. Bank / Creditor
4. Accounting
5. Balance Sheet
6. Management Accounting
7. Financial Accounting
8. Employee
9. Journal / Subsidiary Book
10. IASB - International Accounting

(B) Basic Accounting Concepts

1. Dual Aspect Concept
2. Going Concern
3. Money Measurement
4. State Monetary Unit

5. Accounting Period Concept
6. Depreciation on Fixed Assets
7. Debtor
8. Purchase a/c
9. Current Asset
10. Revenue
11. Stock
12. Trade discount
13. Debit Side
14. Expenses
15. Representative Personal a/c
16. Credit Voucher
17. Transaction Voucher
18. Receipt
19. Income Statement
20. Capital a/c
21. Dual Concept
22. Single Entry System

2. (b) Fill in the blanks :

(A) Introduction to Accounting

1. Primary / first
2. Ends
3. Wider
4. Language
5. Management Accounting
6. Internal
7. Financial
8. Interpretation

(B) Basic Accounting Concepts

1. Communicates
2. Language
3. GAAP
4. Postulates
5. Continuity
6. Consistency
7. Constant
8. Business Entity
9. Cost
10. Accounting Equation

11. Profit
12. Full disclosure
13. No profit
14. Objectivity
15. IFRS
16. IndAS
17. Financial transaction
18. Payment of IT
19. Transaction
20. Internal Transaction
21. Profit
22. Book debt
23. Bills Receivable
24. Current liabilities
25. Goods
26. Return outward
27. Intangible
28. Capital
29. Decreases
30. Income
31. Real Account
32. Bad debt

2. (c) Answer the following questions in one sentence each.

(A) Introduction to Accounting

1. Book keeping is the art of recording the financial transaction in a systematic manner.
2. Accounting is a process of recording, classifying and summarizing the transactions of financial character and interpreting the result thereof.
3. Accountancy is the art and practice of accounting.
4. New technical innovation by the business is an example of non-monetary transaction.
5. Owner, employees, management etc. are the internal users of accounting information.
6. Investors, creditors, financial institutions, debenture holders and other lenders are the external users of accounting information.
7. Reliability, relevance, understandability and comparability are the qualitative characteristics of accounting information.
8. Financial accounting, cost accounting and management accounting are the main branches of accounting.
9. Double entry system is a method where the two fold aspect of all financial transactions are recorded.

10. Payment of wages to employees is an example of internal economic event
11. Accounting doesnot record non-monetary transactions.
12. The main objective of accounting is to maintain records of business.
13. Balance sheet is prepared to know the financial position of the business on a particular date.
14. Accounting cycle is a sequence of accounting process that begins with recording of transaction and ends with preparation of final accounts.

(B) Basic Accounting Concepts

1. The Books of accounts is the book in which business transactions are recorded.
2. Accounting period concept segregates the expenditure between capital and revenue.
3. The cost concept is historical in nature. According to this concept the assets are recorded at its cost to avoid personal bias.
4. Increase in the amount of assets is recorded on the debit side of the Asset account and decrease in the amount of the assets is recorded on the credit side of the asset account.

5. ICAI has issued 32 accounting standards out of which from AS-1 to AS-29 are mandatory and from AS-29 to AS-32 are not mandatory as on 1st September 2014.
6. Any resources owned by the business having economic value.
7. The debtor is an entity or person who receives a benefit without paying immediately but liable to pay in future.
8. A reduction in the price of a product or service offered by the seller to the buyer for motivating early payment.
9. Closing stock is an amount of unsold stock lying in the hands of a business at an end of accounting period.
10. Hybrid basis of accounting is a system of accounting that combines the features of cash basis and merchantile basis.
11. Real accounts deal with the assets of the business.
12. It represents the relationship between the assets, capital and liabilities. It is the foundation of double entry system.
$$\text{Assets} = \text{Capital} + \text{Liabilities.}$$
13. Networth is the difference between the asset and the liability.
14. "Debit all Expenses and credit all income and gains."
15. "Double entry system and single entry system are the two systems of keeping records."

2. (d) Correct the underlined portion of the following sentences.

(A) Introduction to Accounting

1. Business
2. Book-keeping
3. Economic / financial
4. Profit and loss a/c
5. Luca Paciloi
6. Internal user
7. Safety
8. Financial accounting
9. Management accounting
10. Continuous
11. Double Entry System
12. Reliability
13. Art
14. Italian
15. End

(B) Basic Accounting Concepts

1. Cash
2. Financial
3. Liability
4. Floating / Circulating
5. Balance Sheet
6. Income / Profit
7. Lower
8. Voucher
9. Indefinite
10. Capital
11. Outstanding
12. 32
13. Proprietor / Owner
14. Dual Aspect
15. Representative
16. Credit
17. Credit
18. True

UNIT - I**GROUP - B : SHORT TYPE QUESTIONS****3. Short Questions to be answered within 30 words****(A) Introduction to Accounting**

1. What is the main objective of Book keeping and Accounting ?
2. Distinguish between Accounting and Accountancy with respect to their scope.
3. Write any two objectives of accounting.
4. Write any two advantages of accounting.
5. Write any two limitations of accounting.
6. Who are the internal users of the accounting information?
7. Who are the external users of the accounting information?
8. Explain any two characteristics of accounting information.
9. How does accounting information help the creditors ?
10. How does accounting information help the management?
11. What is Financial accounting?
12. What is cost accounting?
13. What is management accounting?
14. What is accounting cycle?

(B) Basic Accounting Concepts

1. Name the basis on which a Uniform system of accounting is formed.
2. What is accounting standard ?
3. Explain the going concern. Concept and consistency concept.

4. Name the professional body who frames accounting standards in India and how many accounting standards are issued by it ?
5. Which accounting assumption ensure uniformity in accounting processes and policies?
6. Explain the Business entity concept.
7. At what stage revenue should be deemed to have occurred?
8. When accounting is said to be objective?
9. Give an example of non-exchange transaction and Exchange transaction.
10. Explain the terminology goods?
11. What do you mean by fictitious asset?
12. What is the purpose of accounting period concept ?
13. What is the other name of revenue recognition concept?
14. Which is the basis of accounting equation?
15. Define double entry system.
16. Explain the rules of traditional approach of accounting.
17. Give two examples of transaction which affect assets only.
18. Define single entry system.
19. Write three examples of nominal account and real accounts each.
20. What is the treatment of interest on drawings? Pass Journal entry for interest on drawing.

4. Answer the following questions within 50 words each.

(A) Introduction to Accounting

1. What is accounting ? Mention its main three characteristics.
2. What is book keeping ? Why is it needed ?
3. Distinguish between Book keeping and Accounting.
4. How are Book keeping, Accounting and Accountancy related to each other ?
5. Explain "relevance" and "reliability" as the qualitative characteristics of accounting information.
6. How does accounting information help management and employee of an organisation ?
7. Who are the users of the accounting information ?
8. Mention the various steps involved in accounting cycle.
9. Write any four objectives of accounting.
10. Write any four advantages or uses of accounting.
11. Write any four limitations of accounting.
12. Is accounting a science or an art ?

(B) Basic Accounting Concepts

1. Name all the basis of ascertaining profit and loss. Explain the basis recognized under Companies Act 2013.
2. Develop accounting equation from the following transactions.

	Rs.
(a) Shyam Commenced Business with Cash	50,000
(b) Purchased goods for cash	20,000
(c) Purchased goods for credit	20,000
(d) Goods of sold (cost Rs. 8,000) for	10,000
(e) Bought furniture on credit	2,000
(f) Paid salaries	2,000

3. Calculate total asset of the business from the following informations.
Capital Rs.20,000, Creditors Rs.10,000, Revenue earned during the period Rs.55,000, Expenses earned during the period Rs.10,000, Value of stock unsold Rs.10,000.
4. Mohan started a business on 1st January 2017 with a capital of Rs.25,000 and a loan of Rs. 25,000 borrowed from Ram. On 31st December 2017 his assets were Rs. 60,000. Find out his closing capital and profit earned during the period.
5. Find out the opening capital from the following information
On 31st December 2018, the total asset and liabilities of xyz ltd. were Rs.1,00,000 and Rs. 30,000 respectively. An additional Capital of Rs.20,000 was introduced by the proprietor during the year 2018 and Rs.10,000 were withdrawn for personal use. A profit of Rs. 10,000 was made during the period.
6. Distinguish between Accounting Concept and Accounting Convention.
7. What is expenditure ?
8. What do you mean by Single Entry System ?
9. Explain the rule of accounting under modern approach.
10. Explain the convention of consistency.

UNIT - I**GROUP - B : ANSWERS****3. Short Questions to be answered within 30 words****(A) Introduction to Accounting**

1. The main objective of Book keeping is to maintain systematic record of financial transactions. The main objective of accounting is to ascertain the net result and financial position of the business.
2. Accounting starts, where book keeping ends. But Accountancy includes both book keeping and accounting. The scope of accountancy is wider than accounting.
3. The main objective of accounting is to record financial transactions systematically. Secondly accounting helps to find the net result and show the financial position of the business.
4. Accounting provides information to the management for faking managerial decision. Secondly it helps to ascertain profit or loss and financial position of the firm.
5. Accounting ignores non-financial information. Secondly accounts are prepared on the basis of historical cost and does not take into account the future changes in price level.
6. Internal users are the direct beneficiaries of accounting information. They include owners, management and employees of the organization. At present trade unions of employees are also treated as internal uses.
7. External users have only access to the published statements and reports. They include potential investor, banker, creditor government and their agencies. Besides this, competitor and research scholars are also treated as external users.
8. Accounting information must be relevant with respect to the objective of the business. Secondly it must be reliable. Reliability helps in decision making.
9. Creditors are interested in knowing solvency position of the firm. Because it will ensure them the timely payment of their principal and interest.
10. Accounting confirmation helps the management for smooth running of the business. It helps the management to find the cost of the product, profitability of each product etc. It also helps them for estimation of sales and profit in future.
11. Financial accounting is concerned with systematic recording of financial transactions. Its main purpose is to ascertain profit or loss and to show the financial position of the firm. It provides information to the management as well as outsiders for taking decision.
12. Cost accounting is a process and technique to calculate the cost of a product or the cost of providing a service. It helps the management in fixing the price of a product. It also helps controlling the cost.
13. Management accounting is concerned with the planning, organizing, coordinating and controlling functions of the management. It helps the management to prepare policies for the business so as to run it smoothly.
14. Accounting cycle is a step-by-step process, which begins with recording of transactions and ends with preparation of financial statements. It is a continuous process.

(B) Basic Accounting Concepts

1. The uniform system of accounting is based on Generally Accepted Accounting Principles (GAAP) to make the financial statements more meaningful, acceptable, comparable and unbiased.
2. Accounting standard is the guidelines for dealing with transactions and events. It is a selected set of accounting policies or broad guidelines issued by an accounting body. It ensures uniformity, comparability and qualitative improvement.
3. Going Concern Concept - It assumes that the business will exist for a very long time unless the evidence to contrary is available.

Consistency concept implies that a particular accounting method once adopted, will not be changed from year to year.
4. The Institute of Chartered Accountants of India frames accounting standards in India. It has issued 32 standards.
5. The consistency assumption ensures the uniformity in accounting processes and policies. This assumption is important when alternative accounting practices is equally acceptable.
6. According to Business Entity concept the business unit is separate from its owner. The owner is treated as creditor.
7. In accounting, the revenue is earned only when the goods are transferred to the buyer. It means that profit is deemed to have accrued when property in goods passes to the buyer.
8. Accounting is said to be objective, when the informations are not influenced by personal bias and backed by documentary evidence.
9. Payment of Income Tax is an example of non-exchange transaction. Simultaneous purchase and sale of goods from the same person is an example of exchange transaction.
10. Goods means all those articles which have been purchased by the enterprise for further selling. It also includes raw material purchased for processing.
11. The assets which don't have any physical form and realizable value is known as fictitious asset. Example - expenses incurred before the formation of a company (preliminary expenses).
12. The purpose of accounting period concept is to report the profit earned or loss suffered during a particular period of time. Normally the financial year is known as accounting period.
13. The other name of revenue recognition concept is realization concept. It emphasises that profit should be considered when it is realised.
14. The accounting equation is based on Dual Aspect Concept. According to this concept "for every debit, there is a credit".

$$\text{Asset} = \text{Capital} + \text{Liabilities.}$$
15. The double entry system is based on the rule that the totals of all debits must be equal to the total of all credits. It records two-fold effect of every transaction.
16. Personal Accounts - "Debit the receiver, credit the giver". Real Accounts, "Debit what comes in, credit what goes out". Nominal Accounts - "Debit all losses and expenses, credit all incomes and gains."
17. The two accounts falling under contra account are provision for bad debt and provision for depreciation.
18. It is a statement of asset and liabilities where capital is ascertained by statement of Affairs.
19. The three examples of nominal a/c are salary account, discount account and depreciation account.
20. The interest on drawings is an income for the business. Therefore, it is added to the profits earned by the business.

4. Answer the following questions within 50 words each.

(A) Introduction to Accounting

1. Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are of financial character and interpreting the result hereof.

Its main characteristics are :

- (a) It is an art as well as science
- (b) It records only financial transactions
- (c) It provides information to the various interested parties.

2. Book keeping is concerned with recording of financial transactions of business in a significant and orderly manner. Accounting is based on effective book keeping. The main purpose of accounting is to ascertain profit or loss for the accounting period. But numerous transactions take place during the period and it is not possible to remember the various financial receipt and payments. The idea behind book keeping is to show correct position regarding each item of income and expenditure.

3. The distinction between Book-keeping and Accounting are as follows :

Book Keeping	Accounting
(a) It is the primary stage of keeping records.	(a) It is the secondary stage of keeping accounts.
(b) A book keeper maintains the records who does not require special skill.	(b) Accountant maintains it who require special skill and knowledge.
(c) The work is clerical in nature.	(c) The work is analytical and interpretive.
(d) It records financial transactions in a significant and orderly manner.	(d) Financial statements are prepared from accounting records.

4. Accountancy is the art of accounting. It tells us how do prepare the books of accounts and analyse the information for the use of interested parties.

Accounting begins where book keeping ends. Accountancy includes accounting and book keeping. Thus the scope of accountancy is wider than accounting. The term accounting and accountancy are used synonymously.

5. Relevance implies that all information provided should help the users in making decisions. Financial statements should not include unnecessary and irrelevant information. It must help the users to predict for the future basing on past evaluation.

Reliability implies that the information must be verifiable and an user can depend on it. It must be free from error or bias.

6. Accounting information helps the management in drawing plans & policies for the efficient running of the business. It helps the management to take decision in respect of cost of product profitability of the product, fixing the selling price, future expansion etc.

Employees are interested in profitability position of the firm. Basing on this, they demand hike in wages, bonus and better working conditions etc.

7. Accounting information is the language of business. Various parties both individual and organizations are interested to know the information regarding profitability of the business. The users may be divided as internal and external users. The internal users are management and owners. The external users are investor, creditor, employees, tax authorities, consumers, researchers and the public.
8. Accounting cycle contains various steps which begins with recording of transactions and ends with preparation of financial statements. The steps are
- The day to day transactions are recorded in journal and subsidiary books.
 - The transactions are posted to ledger from journal and being balanced.
 - The balances of each account is transferred to trial balance.
 - Thereafter trading and profit and loss are prepared to know the net result of the business.
 - Finally balance sheet is prepared at the end to know the financial position of the firm.
9. The main objectives of accounting are as follows :
- It keeps a systematic record of financial transactions.
 - Its objective is to ascertain net result of the business for a period.
 - It also helps to know the financial position of the firm.
 - Accounting data helps various interested parties including managers to take correct decision.
10. Accounting gives the following advantages.
- It helps in maintaining a complete record of business transactions.
 - It helps the management in performing its functions like planning, decision making and controlling.
 - It helps a businessman to compare the result of one year with those of other years.
 - Maintenance of records help the tax authorities and it is treated as an evidence in the court.
11. Following are the limitations of accounting.
- Accounting is historical in nature. So it does not disclose the present worth of a business.
 - Certain events and future estimates are influenced by personal judgement which leads to wrong calculation of profit or loss.
 - It ignores certain important nonmonetary information.
 - The accounting data may be manipulated by the management for their benefit.
12. Accounting is both a science as well as an art. Accounting is science because it follows some rules and principles while debiting and crediting certain items. But it is not pure science as it does not study the cause and effects relationship. Similarly, accounting is an art of maintaining the records systematically. Sometimes personal judgements of accountant influences the result of the business. More the art is practiced, more knowledge and proficiency are achieved.

(B) Basic Accounting Concepts

1. The three basis of ascertaining profit and loss are cash basis, Accrued Basis and hybrid basis. Accrual basis of accounting is recognized under Companies Act 2013. Under this basis of accounting both cash transaction and credit transactions are recorded in the books of accounts. All the incomes are credited to the period in which they are earned irrespective whether it is received or not. Similarly all expenses are debited to the period in which they are incurred irrespective whether it is paid or not.

Transactions	Assets =	Liability +	Capital
(a) Commencement of business	50,000	-	50,000
	50,000		50,000
(b) Purchased goods for cash	+ 20,000	-	-
	(-) 20,000		
	50,000		50,000
(c) Purchased goods for credit	20,000	20,000	
	70,000	20,000	50,000
(d) Goods sold	(-) 8,000	-	2,000
	10,000		
	72,000	20,000	52,000
(e) Bought Furniture on Credit	2,000	2,000	-
	74,000	22,000	52,000
(f) Salaries paid	(-) 2,000	22,000	(2,000)
New Equation	72,000	22,000	50,000

3. $Asset = Capital + Liabilities + Profit$

Capital = 20,000

Liabilities = 10,000

Revenue = 55,000

Expenses = 10,000

Asset = 20,000 + 10,000 + 45,000

Profit = 45,000 = (55,000 - 10,000)

= 75,000 (Ans.)

4. Opening Capital - Rs. 25,000

Asset - Rs. 60,000

Liabilities - Rs. 25,000

Closing Capital = Closing Asset - Closing Liabilities

= 60,000 - 25,000

= 35,000

Profit = Closing Capital - Opening Capital

= 35,000 - 25,000

= 10,000

5.	Total Asset	=	Rs. 1,00,000	Closing Capital = Closing Asset - Closing Liabilities	= 1,00,000 - 30,000 = 70,000
	Total Liabilities	=	Rs. 30,000	Opening Capital = Closing Capital + Drawings -	Additional Capital - Profit
	Additional Capital	=	Rs. 20,000		= 70,000 + 10,000 - 20,000 - 10,000
	Drawings	=	Rs. 10,000		= 50,000 (Ans.)
	Profit during the period	=	Rs. 10,000		

6. The distinction between Concept and Convention are as follows :

Concept	Convention
(a) It is an abstract idea which helps in developing a set of principles.	(a) It is a rule of practice accepted by common consent.
(b) It is followed by Accounting Convention.	(b) These are not followed by accounting concept.
(c) It is established by law	(c) It is established by common accounting practices.
(d) It is free from individual bias.	(c) It is not free from individual bias.
(e) Accounting concepts are not based on accounting conventions.	(d) Accounting conventions are based on accounting concepts.

7. An expenditure is the amount used by a business to attain new assets, improve existing one or in reducing a liability. It may be classified under capital expenditure, revenue expenditure and deferred revenue expenditure.

8. Single Entry System records only one side of every transactions. It is the oldest method of recording transactions. It is of three types, they are pure single entry system, simple single entry system and Quasi single entry system. It records transaction relating to cash account and personal account. Single entry system is known as incomplete system of recording transactions.

9. The rule for asset account under American Approach is Debit all increase in asset and Credit all decrease in asset.

The rule under modern approach :

Asset - Increase in asset debit, decrease in asset credit.

Liabilities - Increase in liability credit, decrease in liability debit.

Capital - Increase in capital credit, decrease in capital debit.

Income / gain - Increase in income credit, decrease in income debit.

Expenses / Loss - Increase in Expenses and Loss debit, decrease in expense and loss credit.

10. Convention of consistency requires that the accounting principles and methods should remain constant from year to year. The purpose of this convention is to compare the result of one year with other year. It also prevents personal bias. It admits changes and improved modern techniques of accounting by a proper disclosure.

UNIT - I**GROUP - C : LONG TYPE QUESTIONS****(A) Introduction to Accounting**

1. What is accounting ? What are its objectives ?
2. What Is Book Keeping ? Distinguish between Book-keeping and Accounting ?
3. What are the advantages of Accounting ?
4. Write a brief note on outernal and internal users of accounting information.
5. What are qualitative characteristics of accounting information ?
6. Discuss the different branches of Accounting.
7. Describe the limitations of accounting.

(B) Basic Accounting Concepts

8. What is accounting assumption ? Discuss the Fundamental Accounting Assumptions stated by ICAI.
9. Explain the following
10. Discuss the Accounting conventions in details ?

11. Write short notes on :

- (a) Cash Basis of Accounting
- (b) Accrual Basis of Accounting
- (c) Hybrid Basis of Accounting

12. "Accounting Equation will always hold true for any number of transactions". Explain the statement with the help of some transaction.
13. What is single entry system ? Discuss the advantages and disadvantages of single entry system.
14. What is Double entry system ? Discuss the advantages and disadvantages of double entry system.
15. Briefly explain the concept of IFRS and its objectives.
16. What is Accounting Standard ? Discuss the objectives of accounting objectives.
17. Explain the different types of accounts classified on the basis of British Approach.

UNIT - I**GROUP - C : ANSWER****(A) Introduction to Accounting**

1. Meaning of accounting. Definitions given by American Institute of Certified Public Accountants (AICPA) is most widely accepted. Then various objectives are to be written.
2. Meaning, definition and characteristics of book keeping are to be written. Then various points of distinction are to be mentioned.
3. Meaning and definition of accounting are to be written first. Thereafter various advantages are to be described shortly.
4. Two broad categories of users.
 - (a) Internal users - owner, management, employee.
 - (b) External users - potential investors, creditors, bankers, government, tax authorities, competitors and researcher.
5. International Accounting Standard Board (IASB) has recognised the qualitative characteristics of accounting information. These are Relevant, Reliability, Understandability, Comparability.
6. Three main branches of accounting
 - (a) Financial Accounting
 - (b) Cost Accounting
 - (c) Management AccountingBesides these three, there are other type of accounting such as social responsibility accounting, tax accounting, human resource accounting etc. are in use.
7. In spite of several advantages accounting is not free from its limitations. The limitations are to be explained.

(B) Basic Accounting Concepts

8. Accounting assumptions help in preparation and presentation of financial statements. The accounting assumptions are :
 - (a) Going Concern
 - (b) Consistency
 - (c) Accrual
 - (d) Stable Monetary Unit.The above assumptions should be explained in detail.
9. Write the concept in detail and how it is useful in maintaining accounting records.
10. The term convention means "established usage". The Income statement and the position statement are drawn up according to certain conventions. These conventions are : Full disclosure, Prudence on Conservatism, Materiality and objectivity.
Above conventions are to be explained.
11.
 - (a) Write about cash basis system, how transactions are recorded according to cash basis system, who practises this system of recording.
 - (b) Write about accrual basis system, how transactions are recorded according to accrual basis system, who practises this system of recording.
 - (c) Write about hybrid basis system, how transactions are recorded according to hybrid basis system, who practise this system of recording.

12. At any point of time, the total assets of the firm will be equal to the total claims. It can be expressed as :
- Assets = Equities (Total claims)
OR
Assets = Outsiders claim + Owner's claim
OR
Assets = Liability + Equities
- The equation has been derived from the Dual Aspect concept. This equation is known as accounting equation or balance sheet equation.
- The elements of the equation has to be explained in detail and the effect. Write the effects of atleast five transactions relating to different heads.
13. Meaning of single entry, its features, the methods of calculating profit. Also draw the proforma of statement of affairs.
14. The meaning of double entry system, its features, the methods of calculating profit. Advantages and disadvantages of double entry system are also to be written.
15. The concept of IFRS, its objectives, benefits IFRS in Indian perspective.
16. Concept of Accounting Standard, objectives of accounting standards, advantages of accounting standards.
17. The accounts classified as per British approach are :
- (i) Personal Accounts
 - (ii) Real Accounts
 - (iii) Nominal Accounts.
- The above accounts are to be explained in details and rules of debit and credit under traditional approach should be written.

UNIT-II

KEY CONCEPTS

JOURNAL, LEDGER, SUBSIDIARY BOOKS & TRIAL BALANCE

Journal

- **Journal** is called a book of original entry where all transactions are recorded first.
- **Journalising** is a process of recording a transaction in a journal.
- **Narration** is a brief explanation of a transaction.
- **Journal entry** are of two types. **Simple journal entry** and **Compound Journal entry**.
- **Simple Journal entry** - An entry having one debit and one credit.
- **Compound journal entry** - An entry having more than one debit / or more than one credit.
- The journal is divided into five columns. These are date, particulars, ledger folio, debit amount and credit amount.
- **Rules for Journalising :**
 - (a) **Traditional approach (British approach)**
 - (i) **Personal accounts** - "Debit the receiver, Credit the giver.
 - (ii) **Real accounts** - "Debit what comes in, Credit what goes out."
 - (iii) **Nominal accounts** - "Debit all losses and expenses Credit all incomes and gains."
 - (b) **Modern approach**

Sl.No.	Type of account	Debit	Credit
1.	Assets account	increase	decrease
2.	Liabilities account	decrease	increase
3.	Capital	decrease	increase
4.	Income	decrease	increase
5.	Expenses / loss	increase	decrease

Ledger

- **Ledger folio** - It is a column where ledger page number is written when a particular account is posted.
- **Debit** means the amount entered in debit aspect of the transaction.
- **Credit** means the amount entered in credit aspect of the transaction.
- **Opening entry** - An entry through which previous balances of assets, liabilities and capital are brought forward to the current year.
- **Ledger** - It is the principal or primary book of accounts to which the transactions recorded in the books of journal are transferred.
- **Account** - It is a statement which records the transactions at one place relating to a particular subject.
- **Posting** - The procedure of writing up the accounts is known as posting.
- **Balancing** - It means to find out the difference between the debit side and credit side of an account.

Subsidiary Books

- **Subsidiary books** - These are separate books maintained to record each particular class of transactions. These are cash book, purchase book, return outward book, sales book, return inward book, bills receivable book, bills payable book and journal proper.

Trial Balance

- **Trial balance** - It is a list of balances of various ledger accounts. The main objective is to ascertain the arithmetical accuracy of ledger accounts.

UNIT - II**GROUP - A : OBJECTIVE TYPE QUESTIONS**

1. *From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.*

**Journal, Personal Account, Ledger
Subsidiary Book and Trial Balance**

1. Business transactions are recorded :
(a) Weekly (b) Monthly
(c) Yearly (d) Chronologically
2. The first book in which the transactions of a business are recorded is called :
(a) Journal
(b) Ledger
(c) Trial Balance
(d) Opening Balance Sheet
3. A journal entry which contains only one debit entry and one credit entry is called :
(a) Compound journal entry
(b) Simple journal entry
(c) Opening entry
(d) Closing entry
4. The objective of preparing journal is
(a) to assist maintenance of records
(b) to ascertain profit & loss
(c) to know the balance of cash in hand
(d) to know the bank balance
5. A compound journal entry
(a) may require more than one debit or credit or both.
(b) may extend to more than one page
(c) may record only debit aspects of a transaction
(d) does not require any narration
6. A ledger is called a book of
(a) original entry (b) secondary entry
(c) final entry (d) closing entry
7. In a ledger, entries are generally posted at :
(a) the end of the year
(b) the end of the day
(c) at regular interval
(d) the happening of the event
8. Which of the following is not an advantage of journal ?
(a) keeps a permanent record of transaction
(b) reduces possibility of error
(c) act as a documentary evidence
(d) helps in ascertaining the balance
9. In opening entry all the assets are debited and liabilities are credited. The difference in the debit and credit amount is balanced by
(a) income (b) loss
(c) capital (d) opening stock
10. The process of transferring transaction from journal to ledger accounts is known as :
(a) recording (b) casting
(c) posting (d) balancing
11. An account is a summarised record of all transactions relating to :
(a) a particular person
(b) a property
(c) item of income or expense
(d) all of the above

12. The balance of which account is not carried forward to the next year ?
(a) Nominal account (b) Personal account
(c) Real account (d) All of these
13. If the debit total of an account exceeds the credit total, the difference is called
(a) credit balance
(b) no balance
(c) debit balance
(d) either credit balance or debit balance
14. "By balance c/d" means :
(a) Closing debit balance
(b) Closing credit balance
(c) Opening debit balance
(d) Opening credit balance
15. "To balance c/d" means
(a) Opening debit balance
(b) Opening credit balance
(c) Closing debit balance
(d) Closing credit balance
16. Subsidiary books record
(a) every type of transactions
(b) only one particular type of transaction
(c) entries made as done in journal
(d) transactions not following the rule of double entry
17. Subsidiary book is also known as :
(a) day book
(b) sub journal
(c) books of original entry
(d) all of the above
18. Purchase Book records only
(a) Cash purchase of goods
(b) Credit purchase of goods
(c) Both Cash and Credit purchase of goods
(d) Credit purchase of assets
19. Purchase Book is called
(a) Bought day (b) Purchase journal
(c) Invoice Book (d) All of these
20. Trade discount is
(a) a reduction in the amount due to debtor
(b) allowed when paid within specified period
(c) a reduction in the list price of a product
(d) shown in a separate account
21. Which is not a feature of Sales Book ?
(a) it records only credit sales of goods
(b) it ignores the credit sales of assets
(c) it records only the net amount from invoices issued to customer.
(d) it does not record the details of credit sales particular
22. The document prepared by the seller to inform the buyer about crediting his account is known as :
(a) Debit note (b) Sales journal
(c) Bought journal (d) Credit note
23. Credit Note provides the basis for recording in
(a) Sales Return Book
(b) Purchase Return Book
(c) Purchase Book
(d) Sales Book
24. The document prepared by the customer while returning goods is known as :
(a) Credit Note
(b) Debit Note
(c) Sales Journal
(d) Bought Journal
25. Debit Note provides the basis for recording in
(a) Sales Book
(b) Sales Return Book
(c) Purchase Book
(d) Purchase Return Book

26. Cash discount is calculated on
(a) the amount payable to creditor
(b) the amount receivable from customer
(c) either (a) or (b)
(d) the amount actually paid to creditors or received from customer
27. Cash book with cash and discount column is known as :
(a) Simple column cash book
(b) Double column cash book
(c) Triple column cash book
(d) Petty cash book
28. Petty Cash Book is used to record
(a) Petty cash receipt
(b) Petty cash expenses
(c) All petty expenses and receipts
(d) all cash expenses
29. Cash account will show
(a) debit balance
(b) credit balance
(c) either debit or credit balance
(d) Nil balance
30. The objective of preparing the Trial Balance is
(a) to provide a conclusive proof of accuracy
(b) to ascertain arithmetical accuracy of ledger accounts
(c) to disclose all the errors in book keeping work
(d) to record all transactions under single entry system
31. Trial Balance is
(a) a statement (b) a ledger
(c) a journal (d) an account
32. If the debit and credit column of trial balance do not agree, the difference is transferred to
(a) trading account (b) P/L account
(c) Suspense account (d) Book of accounts
33. A trial balance is prepared to locate
(a) error of principle
(b) error of complete omission
(c) compensating error
(d) error in computation of an account balance
34. Suspense account is
(a) a nominal account
(b) a real account
(c) a personal account
(d) an account without any double entry effect
35. Trial balance can be prepared by
(a) Balance method
(b) Total method
(c) Balance-cum-total method
(d) All of the above
36. All the liabilities, income and gains have
(a) debit balance
(b) credit balance
(c) either debit or credit balance
(d) both debit and credit balance
37. All the assets, losses or expenses have
(a) debit balance
(b) credit balance
(c) either debit or credit balance
(d) both debit and credit balance
38. In which case closing stock can appear in Trial balance ?
(a) Where it is adjusted in the purchase
(b) When trial balance is prepared after preparing trading account
(c) When "cost of goods sold" balance is given in place of purchase
(d) In all of the above cases
39. Trial balance can be prepared
(a) at any time during the accounting period
(b) at the end of the accounting period
(c) after passing and posting the adjusted entries
(d) at the beginning of the accounting period

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

Journal, Ledger, Subsidiary Books & Trial Balance

1. Name the term that narrates an entry in the journal.
2. Which account refers to the rule "Debit the receiver, credit the giver" ?
3. Which account refer to the rule "Debit what comes in, credit what goes out"?
4. Which account refer to the rule "Debit all losses & expenses, credit all income & gains" ?
5. What is the full form of L.F. ?
6. What is the name of the journal entry which involves more than one account either in debit or in credit or in both ?
7. What is the other name of purchase return account ?
8. Name the term when expenses are paid in advance.
9. Name the entry which is passed in the beginning of the accounting year by recording the balances of various assets and liabilities of the last year.
10. Which account is credited when goods are purchased on credit ?
11. Which account is debited when cash withdrawn from bank for personal use ?
12. Which account is debited when goods are returned by customer ?
13. Which account is credited for outstanding wages ?
14. What is the other name of ledger ?
15. What is the name of the ledger which contains the accounts of all customers to whom goods have been sold on credit ?
16. What is the name of the ledger which contains the accounts of all suppliers from whom goods have been purchased on credit ?
17. Name the process when debit and credit are transferred from journal to ledger.
18. Name the process that finds out the difference between debit and credit side amount of an account and the difference in the shorter side.
19. When debit total is more than credit total, the difference is recorded on credit side by writing with which word ?
20. When credit total is more than debit total, the difference is recorded in the debit side with which word ?
21. Which balance will be revealed by Cash Accounts and Asset Accounts ?
22. The balance of which accounts represent the amount to be received from a person or amount to be paid to a person.
23. In which subsidiary book, credit purchase of goods are dealt ?
24. In which subsidiary book, credit sales of goods can dealt ?
25. Name the book which records only cash transactions.
26. Name the cash book in which both cash ad bank transactions are recorded.
27. Which discount is allowed to encourage a debtor to pay off debt within a specific period ?
28. Name the discount allowed by the manufacturer to the wholesaler.
29. What is the name of cash book which records only petty payments ?

30. Name the entry which affects both cash and bank column of a cash book.
31. Name the book which contains detailed information regarding bills accepted by the firm.
32. In which book, adjustment entries are recorded ?
33. Which note is prepared by the customer while returning the goods ?
34. Which note is prepared by the supplier and sent to the customer who has returned goods ?
35. Name the statement where ledger accounts balance is transferred.
36. Which is not shown in Trial Balance ?
37. To which account, the difference between debit and credit column of trial balance is transferred ?

2. (b) Fill in the blanks :

Journal, Ledger, Subsidiary Books & Trial Balance

1. Journal is called a book of _____ entry.
2. The processes of recording transaction in journal is known as _____.
3. Brief explanation of each entry is known as _____.
4. "Debit the Receiver, Credit the giver" is the golden rule for _____ accounts.
5. "Debit what comes in and credit what goes out" is concerned with _____ Accounts.
6. According to modern approach, increase in assets _____.
7. Decrease in liability _____.
8. Increase in revenue _____.
9. _____ journal entry arises when two or more transactions of similar nature occur on the same day.
10. Debit and credit column of the journal are periodically totalled. Such totalling is known as _____.
11. The entry passed in the beginning of accounting year is known as _____.
12. When bad debt occurs, bad debt account is _____.
13. Interest on capital is treated as _____.
14. For outstanding salary, salary account is _____.
15. Ledger is called _____ book.
16. The process of transferring the transaction from journal to ledger is known as _____.
17. _____ is the process of finding out the difference between debit and credit side amount of an account.
18. _____ a/c deals with income and expenses.
19. Opening Debit Balance is written with the words _____.
20. Closing debit balance is written with the _____ words.
21. If the total of debit is more than the total of credit side, then the balance is called _____ balance.
22. Assets a/c have _____ balance
23. Liabilities accounts have _____ balance.
24. _____ Book is used to record all credit purchases of goods which are meant for resale.
25. _____ Book deals with goods returned by the customer.
26. _____ discount is a reduction in the list price.
27. _____ discount is not recorded in book.
28. _____ discount is allowed to encourage prompt payment within stipulated period.
29. _____ Note is sent by the seller to the customer informing him that his account has been credited.

30. Cash Book maintains record of cash receipts and cash _____.
31. _____ Book is both a primary and subsidiary book.
32. Cash book has _____ balance.
33. Triple column cash book deals with discount, cash and _____ column.
34. Discount columns are not _____.
35. The overdrawn amount by the customer from bank is known as _____.
36. Trial balance is a _____ which show debit and credit balances of all accounts.
37. _____ is not shown in Trial Balance.
38. The debit balance is either an asset or loss or _____.
39. The credit balance is either a liability or income or _____.

2. (c) Answer the following questions in one sentence each.

Journal, Ledger, Subsidiary Books & Trial Balance

1. What is journal ?
2. What are the common sources documents which provide financial information ?
3. What is narration ?
4. What is journalising ?
5. What is compound entry ?
6. Why is "Ledger Folio" column provided ?
7. Why is the proprietor represented by capital a/c ?
8. Which a/c will be credited and debited if machinery purchased for cash ?
9. How is "the bad debt recovered" treated ?
10. Why interest on capital is made due by crediting to the capital a/c ?
11. What is ledger ?
12. What is an account ?
13. What do you mean by posting ?
14. What do you mean by General Ledger or Main Ledger ?
15. What do you mean by Balancing of Accounts ?
16. What is "debit balance" ?
17. What is "Credit balance" ?
18. Which accounts are being balanced at the end of the year ?
19. What is the need for subsidiary book ?
20. What is a subsidiary book ?
21. What do you mean by "practical system of book keeping ?
22. What is a cash book ?
23. What is Sales Book ?
24. What is Purchase Book ?
25. What is Journal Paper ?
26. Why cash book shows debit balance ?
27. Why cash book is called a journalised ledger ?
28. What is petty cash book ?
29. What is cash discount ?
30. What is trade discount ?
31. What is Banker's discount ?
32. Give a transaction where contra entry arises.
33. What is double column cash book ?
34. What is Trial balance ?
35. What is the main objective of preparing trial balance ?
36. Is a Trial Balance indispensable ?
37. Is agreement of trial balance a conclusive proof of the accuracy of the books of accounts ?
38. Why closing stock donot appear in Trial balance ?
39. Explain the term "Cost of goods sold".

2. (d) Correct the underlined portion of the following sentences.**Journal, Ledger, Subsidiary Books & Trial Balance**

1. Journal is called a book of secondary entry.
2. The process of recording transaction is known as entries.
3. Narration gives detailed explanation of the entry.
4. The abbreviation "Cr" is recorded against the account to be debited.
5. In the transaction "Wages paid", two accounts involved are personal and real.
6. In the transaction "Received Cash from Ram", two accounts involved are real and nominal.
7. Nominal account signifies "Debit all losses and gains".
8. Personal account signified "Debit the receiver, credit the taker".
9. In the transaction "Cash Withdrawn by proprietor for personal use, cash a/c is debited.
10. For "Outstanding Salary", Salary a/c will be credited.
11. The entry passed in the beginning of the accounting year is known as closing entry.
12. Transferring the entry from journal to ledger is known as casting.
13. Ledger is main book of recording of all transactions of a business.
14. Ledger is called "Secondary Book".
15. Nominal accounts are balanced.
16. Cash a/c and Assets A/c always have credit balances.
17. The purchases a/c, sales a/c, wages a/c etc. are transferred to P/L a/c.
18. Cash purchase of goods are entered in purchase book.
19. Purchase book is part of ledger.
20. A reduction in the amount due to a debtor is known as trade discount.
21. When both Trade discount and cash discount are allowed to the customer, then cash discount will be allowed first.
22. Purchase Return Book is known as Return Inward Book.
23. While returning goods to the supplier, a letter is sent to him stating that his account has been debited. This letter is called Credit Note.
24. Entry in Sales Return Book is made from Debit Note.
25. The bill of exchange on which an amount is receivable, is called Bill Payable.
26. The subsidiary book containing detailed information regarding bills accepted by the firm is called Bills Receivable book.
27. The entries recorded the end of accounting year for closing the accounts are known a transfer entries.
28. Transactions of similar nature are recorded in General journal.
29. Cash book records only credit transactions.
30. Sales Book is both journal and ledger.
31. Cash book records cash receipts in credit side.
32. Cash book with cash, bank and discount column is known as Double columned cash book.
33. Discount column are balanced.
34. The word "Contra" is a French word which means the opposite side.
35. The word petty is a Latin word which means small.
36. Trial balance is can account.
37. For preparing Trial balance, assets, expenses and losses show credit balance.
38. For preparing Trial balance, income, gains & liabilities show debit balance.
39. Generally opening stock is shown outside the Trial Balance.
40. Drawings should have credit balance.

UNIT - II**GROUP - A : ANSWERS**

1. From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.

Journal, Ledger, Subsidiary Book and Trial Balance

- | | |
|---|---|
| 1. (d) Chronologically | 21. (d) if does not record the details of sales particular |
| 2. (a) Journal | 22. (d) Credit note |
| 3. (b) Simple journal entry | 23. (a) Sales Return Book |
| 4. (a) to asset maintenance of records | 24. (b) Debit Note |
| 5. (a) may require more than one debit or credit or both. | 25. (d) Purchae Return Book |
| 6. (b) secondary entry | 26. (c) either (a) or (b) |
| 7. (c) at regular interval | 27. (b) Double column cash book |
| 8. (d) helps i ascertaining the balance | 28. (d) all cash expenses |
| 9. (c) capital | 29. (a) debit balance |
| 10. (c) posting | 30. (b) to ascertain arithmetical accuracy of ledger accounts |
| 11. (d) all of the above | 31. (a) a statement |
| 12. (a) Nominal account | 32. (c) Suspense account |
| 13. (c) debit balance | 33. (d) error in computation of an account balance |
| 14. (a) Closing debit balance | 34. (d) an account without any double entry effect |
| 15. (d) Closing credit balance | 35. (d) All of the above |
| 16. (b) only one particular type of transaction | 36. (b) credit balance |
| 17. (d) all of the above | 37. (a) debit balance |
| 18. (b) Credit purchae of goods | 38. (d) In all of the above cases |
| 19. (d) All of these | 39. (a) at any time during the accounting period |
| 20. (c) a reduction in the list price of a product | |

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

Journal, Ledger, Subsidiary Books & Trial Balance

- | | |
|---|-----------------------------|
| 1. Narration | 18. Balancing |
| 2. Personal a/c | 19. By balance c/d |
| 3. Real a/c | 20. To balance c/d |
| 4. Nominal a/c | 21. Debit balance |
| 5. Leger Folio | 22. Personal account |
| 6. Compound journey entry | 23. Purchase Book |
| 7. Return Outward a/c | 24. Sales Book |
| 8. Prepaid expenses | 25. Cash book |
| 9. Opening entry | 26. Double column cash book |
| 10. Supplier of | 27. Cash discount |
| 11. Drawings a/c | 28. Trade discount |
| 12. Return onward a/c | 29. Petty cash book |
| 13. Outs fauling wages | 30. Contra entry |
| 14. Principal bank / Secondary bank of accounts | 31. Bills payable book |
| 15. Debtors ledger | 32. Journal proper |
| 16. Creditor's ledger | 33. Debit Note |
| 17. Posting | 34. Credit Note |
| | 35. Trial Balance |
| | 36. Closing Stock |
| | 37. Suspense Account |

2. (b) Fill in the blanks :

Journal, Ledger, Subsidiary Books & Trial Balance

- | | |
|---------------------|-------------------|
| 1. Original / Prime | 7. Debit |
| 2. Journalising | 8. Credit |
| 3. Narration | 9. Compound |
| 4. Personal | 10. Casting |
| 5. Real | 11. Opening entry |
| 6. Debit | 12. Debited |
| | 13. Debited |
| | 14. Expense |

- | | |
|----------------------------------|--------------------|
| 15. Main / Principal | 28. Cash |
| 16. Posting | 29. Credit Note |
| 17. Balancing | 30. Payment |
| 18. Nominal Accounts | 31. Cash book |
| 19. To balance b/d | 32. Debit |
| 20. By balance c/d | 33. Bank |
| 21. Debit | 34. Balanced |
| 22. Debit | 35. Bank Overdraft |
| 23. Credit | 36. Statement |
| 24. Purchase Book | 37. Closing stock |
| 25. Sales Return / Return Inward | 38. Expense |
| 26. Trade | 39. Gain |
| 27. Trade | |

2. (c) Answer the following questions in one sentence each.

Journal, Ledger, Subsidiary Books & Trial Balance

- | | |
|--|---|
| 1. Journal is called a book of original entry where all transactions are recorded first. | 8. Cash a/c will be credited and machinery a/c will be debited. |
| 2. Invoice, cash receipts, cheque etc. are the most common source documents which provide financial information. | 9. Cash a/c Dr
To Bad debt recovered a/c
Bad debt recovered is treated as income |
| 3. Narration is a brief explanation of a transaction. | 10. The interest on capital is not paid in cash to the proprietor. |
| 4. The process of recording a transaction in a Journal is called journalising. | 11. Ledger is a principal or primary book of accounts to which the transactions recorded in the books of journal are transferred. |
| 5. An entry having more than one debit and / or more than one credit is called compound entry. | 12. An account is a statement which records the transactions at one place relating to a particular subject. |
| 6. Ledger Folio Column is filled with the page number of ledger so that cross reference can be made in future. | 13. The procedure of writing up the accounts is known as posting. |
| 7. Business transactions are separate from owners. Owner's contribution is treated as capital. | 14. General Ledger contains all the accounts of business other than debtors and creditors. |

15. Balancing of Accounting means to find out the difference between the debit side and credit side of an account.
16. The excess of debit side over the credit side is called debit balance.
17. The excess of credit side over the debit side is called credit balance.
18. Personal and real accounts are balanced at the end of the year.
19. It is found to be convenient and economical to maintain separate book to record each particular class of transactions.
20. Subsidiary books are separate books maintained to record each particular class of transactions.
21. It is a system under which transactions of similar nature are entered in the relevant subsidiary book and then ledger is written.
22. A cash book records receipts and payments of cash including bank transactions.
23. A sales book records all credit sales of the goods in the business.
24. A purchase book records all credit purchase of goods meant for sale or for conversion into finished goods.
25. Journal proper records all those transactions not covered in other subsidiary books like Cash Book, Purchase Book, Sales Book, Return Inward Book, Return Outward Book, Bills Payable and Bills Receivable Book.
26. Cash book shows debit balance always because one cannot pay more than what one possesses.
27. Cash book is called a journalized ledger because it serves the purpose of both journal as well as ledger.
28. A separate book maintained to make smaller payments or petty amounts only is known as petty cash book.
29. Cash discount is an allowance given by the creditor to a debtor for prompt payment.
30. Trade discount is an allowance granted by producer to the wholesaler or by the wholesaler to retailer.
31. Banker's discount is the amount charged by the bank for discounting the bills.
32. A contra entry arises when cash is deposited or withdrawn.
33. Cash book having additional column for discount is known as double column cash book.
34. Trial balance is a list of the balances of various ledger accounts.
35. The main objective of preparing a trial balance is to ascertain the arithmetical accuracy of ledger accounts.
36. A Trial Balance is not indispensable if the book keeper is quite sure of the accuracy of books of accounts.
37. Agreement of trial balance is not the conclusive proof of the accuracy of the books because certain errors remain undetected.
38. The amount of closing stock is not ascertained from any ledger accounts but is calculated from physical verification of the goods unsold on the closing date.
39. $\text{Opening Stock} + \text{Purchase} + \text{Direct expenses} - \text{Closing Stock}$.

2. (d) Correct the underlined portion of the following sentences.**Journal, Ledger, Subsidiary Books & Trial Balance**

1. Prime/original
2. Journalising
3. Brief
4. "Dr."
5. Nominal
6. Personal
7. Expenses
8. Giver
9. Credited
10. Outstanding salary
11. Opening
12. Posting
13. Accounts
14. Main Book / Principal Book
15. Totalled
16. Debit balance
17. Trading a/c
18. Credit
19. Journal
20. Cash
21. Trade
22. Return outward
23. Debit Note
24. Credit Note
25. Bills Receivables
26. Bills Payable
27. Closing
28. Special
29. Cash
30. Cash
31. Debit
32. Triple
33. Totalled
34. Latin
35. French
36. Statement
37. Debit
38. Credit
39. Closing Stock
40. Debit

UNIT - II**GROUP - B : SHORT TYPE QUESTIONS****3. Short Questions to be answered within 30 words****Journal, Ledger, Subsidiary Books & Trial Balance**

1. Write two important features of Journal.
2. Give the format of journal.
3. Write any two advantages of journal.
4. Write any two limitations of journal.
5. What are the rules of journalising ?
6. What is the rule of debit and credit for real accounts ?
7. What is the rule of debit and credit for nominal accounts ?
8. What is the rule of debit and credit for personal accounts ?
9. What is opening entry ?
10. Why purchase a/c is credited when goods are given as charity ?
11. Why is "cash received for a bad debt written off last year" credited to bad debt recovered a/c ?
12. What is the need for dividing a journal ?
13. What is the utility of a ledger ?
14. What is the use of the Folio column in the ledger and journal ?
15. Why are the ledger accounts balanced ?
16. Name the subsidiary books used in the business.
17. Give any two advantages of subsidiary books.
18. Mention three important features of a cash book.
19. Give any two advantages of cash book.
20. Name the various types of cash books used in business.
21. What do you mean by cash voucher or cash memo ?
22. What is the advantage of cash discount to the seller ?
23. Calculate cash discount, if cash is paid to 'A' Rs. 9800 and discount received 2%.
24. Give the proforma of Triple Column Cash Book.
25. What is "Contra entry" ?
26. What is the need to maintain a petty cash book ?
27. What is the rule of recording discount in cash book ?
28. Distinguish between purchase book and purchase accounts on two points.
29. Distinguish between Sales Book and Sales Account.
30. Distinguish between Debit Note and Credit Note.
31. Distinguish between Bill Receivable and Bills Payable.
32. Write any two objectives of preparing a Trial balance.
33. Give any two limitations of Trial Balance.
34. Give any two reasons for which Trial balance may not agree.
35. What are the various methods of preparing a Trial balance ?
36. Write any two advantages of Trial balance.
37. Name four accounts which show debit balance.
38. Name four accounts which show credit balance.
39. Explain the balance method of preparing Trial balance.
40. What is the utility of suspense account ?

4. Answer the following questions within 50 words each.

Journal, Ledger, Subsidiary Books & Trial Balance

1. State any four features of Journal.
2. Write any four advantages of Journal.
3. Write the steps followed for journalizing.
4. Give an example of a journal entry with an illustration.
5. Explain the compound journal entry with an example.
6. Explain the rules of Double Entry system under traditional approach.
7. Explain rules of Double entry system under modern approach.
8. Why is Goods account not opened in the books ?

9. Pass a journal entry on 1.1.2020 to record the following balances appeared in the books on 31.12.2019.

Cash	-	20,000	Bills Payable	-	10,000
Stock	-	25,000	Sundry Creditor	-	20,000
Building	-	50,000	Loan from Bank	-	40,000
Debtor	-	10,000			
Furniture	-	5000			

10. Pass the correct journal entry from the following assuming that the narration is correct.

A Dr 800
 To purchase a/c 800
 (Being goods purchased on credit)

11. Give the journal entry corresponding to the given narration.

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
	xxx Dr		8000	
	To xxx			xxx
	To xxx			xxx

(Being A's account settled, Cash discount 10%)

12. What do you mean by Ledger ? Mention its three important features.
13. Write any four advantages of Ledger.
14. Distinguish between Journal and Ledger on four points.
15. Give a standard form of Ledger account.
16. What do you mean by 'debit balance' and 'credit balance' ?
17. What is the necessity of balancing an account ?
18. What is the need for maintaining a cash book ?
19. Why cash book is called a journalized ledger ?
20. Explain the need of a Triple Column cash book with its standard form.
21. What do you understand by Petty Cash book ? Write its three important features.
22. What do you mean by imprest system of petty cash ?
23. What is the need of subsidiary books ?
24. Show the difference between purchase book and Sales Book.
25. What transactions are recorded in journal proper ?
26. Explain the purchase return book.
27. Explain the sales return book.
28. Distinguish between sales day book and sales account ?
29. Prepare a Purchase Book from the following particulars. January 1, 2020 Bought from A Bros. 5 chairs at ₹ 1000 each, January 5, 2020, purchased from 'B' Bros 12 tables at ₹ 1250 each. January 12, Brought for cash 3 chairs at ₹ 1000 each.
30. Prepare a sales day book from the following transactions. January 1, 2020 sold to 'A' trader 100 radios at 1000 each less trade discount, 5%. Jan 10, 2020, sold to B 200 radios at ₹ 1200 each less trade discount at 10%.
31. What are the utilities of a purchase day book ?
32. What are the utilities of a sales day book ?
33. Write any three advantages of providing trade discount.
34. Give any three differences between trade discount and cash discount.
35. Give any three difference between debit note and credit note.
36. State any three features of Trial Balance.
37. Give any three objectives of Trial Balance.
38. Give any three limitations of Trial Balance.
39. Give any three advantages of Tribal Balance.
40. Give a proforma of a Trial Balance with five imaginary items and amount.
41. How is closing stock treated in Trial balance ?
42. Explain different methods of preparing trial balance.

UNIT - II

GROUP - B : ANSWERS

3. *Short Questions to be answered within 30 words*

Journal, Ledger, Subsidiary Books & Trial Balance

1. Journal is the book of original entry where transactions are recorded first. It records the transactions according to the principles of double entry system.

2. Format of Journal

Date	Particulars	LF	Debit Amount	Credit Amount

3. Journal acts as an evidence in case of possible dispute as it is supported by documents. Systematic recording of journal entry reduces the possibility of error.

4. In a big concern, where the number of transactions is large, recording of transaction in journal becomes difficult. Secondly it does not provide required information at once.

5. Every business transaction involves at least two accounts. One aspect is debited and the other is credited. This is done on the basis of certain rules known as rules of journalising.

6. Real account deals with assets. The rule of debiting and crediting the real account is as follows "Debit what comes in, credit what goes out."

7. Nominal accounts deal with expenses or losses and incomes or gains. The rule for recording income and expenses is as follows :

"Debit all expenses and losses, credit all incomes and gains."

8. Personal accounts deal with person (natural, artificial, representative). The rule of debiting and crediting the personal account is as follows :

"Debit the receiver, Credit the giver."

9. Opening entry is a journal entry where the balances of assets, liabilities and capital of the previous year are brought forward in the current year. The entry is passed by debiting all assets and crediting all liabilities & capital.

10. Goods given as charity must have been charged at cost price. So they will reduce purchase. That is why, purchase account is credited.

11. Recovery of bad debt written of last year is a gain. Therefore it is credited to Bad debt recovered account.

12. If every transaction is recorded in one journal, it becomes voluminous if the firm is moderate or big. So for convenience, a journal is divided on a suitable basis. Ex. - Cash book.

13. Ledger is the principal book of accounts which provides all the information regarding business. It is very difficult to prepare final accounts in the absence of ledger.

- 14. The Folio column is used to list the page number of the journal in which transaction is recorded. Thus it becomes possible to trace ledger entries back to their source i.e. journal.
- 15. Balance means the difference between debit and credit sides of an account. Balancing is done to ascertain the cumulative effect of entries on the account.
- 16. Generally the following subsidiary books are used in the business. They are cash book, purchase book, Return outward Book, Sales Book, Return inward Book, Bills Receivable Book, Bills Payable Book and journal proper.
- 17. Sub-division of journal reduces the size of the journal to different parts thus making it convenient to handle. Secondly it leads to specialization in respect of maintaining that subsidiary book.
- 18. Cash book records only cash / bank transactions. Cash book acts both as journal

and ledger. All receipts are recorded in debit side and payments on the credit side.

- 19. Cash book shows daily cash and bank balance. It helps to disclose the frauds at the early stage. Cash book also ensures control over cash inflow and outflow.
- 20. The various types of cash books used are single column cash book, double column cash book. Triple column cash book, Bank Cash book and petty cash book.
- 21. Voucher is prepared to certify the receipt or payment for every cash transaction. It is serially numbered date wise. The voucher supporting debit entry and credit entry are known as debit voucher and credit voucher respectively.
- 22. The seller gets cash within stipulated time so that he can use it for other purpose. Secondly the possibility of bad debt is avoided.
- 23.
$$\text{Discount} = \text{Amount paid} \times \frac{\text{Rate}}{100 - \text{rate}}$$

$$= 9800 \times \frac{2}{100 - 2} = ₹ 200$$

24. Dr. Triple Column Cash Book Cr.

Date	Particulars	L.F.	Discount	Cash	Bank		Date	Particulars	L.F.	Discount	Cash	Bank

- 25. "Contra" is a Latin word which means the other side. The transaction which are related to cash and bank account and affect them simultaneously, are passed through an entry known as contra entry.
- 26. All petty expenses are recorded in petty cash book. The main cash book is not used for these transactions. Thus it relieves the head cashier from the burden of recording a large number of small value transactions.
- 27. Discount columns are not balanced but merely totaled. The total of discount column on the debit side is posted to the debit of "Discount allowed a/c". The total of discount column of credit side is posted to the credit of "Discount Received a/c".

4. Answer the following questions within 50 words each.

Journal, Ledger, Subsidiary Books & Trial Balance

1. (a) Journal is the book of original entry where the transactions are recorded first.
 - (b) It contains day-to-day transactions in chronological order.
 - (c) It records both debit and credit aspects of a transactions by following the principles of double entry system.
 - (d) Every entry in the journal is followed with narration, which describes briefly the nature of the transaction.
2. The advantages of journal are as follows :
 - (a) Journal share the necessary information regarding a transaction.
 - (b) It provides chronological record of transactions.
 - (c) It help to locate and prevent errors.
 - (d) Journal entries help cross checking for transactions posted in to the ledger in case of any discrepancy.
 3. The steps for journalising are as follows :
 - (a) The accounts involved in the transaction are identified.
 - (b) The nature of the accounts involved are determined i.e. personal, real and nominal.
 - (c) The rule for debit and credit in respect of involved accounts is applied.
 - (d) The transaction is recorded with narration in the format of a journal.
 4. Suppose "a furniture is purchased for office use for 1000 on 1.1.2000. Here the accounts involved are furniture and cash. Furniture a/c will be debited and cash a/c will be credited by applying the rule "debit what comes in and credit what goes out". The entry in the journal is as under.

Date	Particulars	L.F.	Amount (Dr)	Amount (Cr)
1.1.2000	Furniture a/c Dr To cash a/c (Being furniture purchased for cash)		1000	1000

5. A journal entry which contains more than one debit or more than one credit entry or both is called a Compounded Journal entry. Example on 1.1.2020 wages 1000 and salaries 2000 paid. The journal entry is recorded as

Date	Particulars	L.F.	Amount (Dr)	Amount (Cr)
1.1.2000	Wages a/c Dr Salarie a/c Dr To cash a/c (Being wages and salalries paid)		1000 2000	3000

6. Under traditional approach, accounts are divided into three categories i.e. personal account, real account and nominal account. The rules for different accounts are as follows :

Personal accounts : "Debit the receiver, Credit the giver."

Real accounts : "Debit what comes in, Credit what goes out."

Nominal accounts : "Debit all expenses and Losses and Credit all incomes and gains."

7. Under modern approach, accounts are divided into five categories i.e. assets, liabilities, capital, expenses and losses, income and gains. The rules are as follows :

Assets account : Increase in assets debit decrease in asset credit.

Liabilities account : Increase in liabilities credit, decrease in liabilities debit.

Capital - Increase in capital credit, decrease in capital debit.

Expenditure : Increase in expenditure and losses debit, decrease in expenditure and losses credit.

Income and gains : Increase in income / gain credit, decrease in income / gain debit.

8. Goods are the items in which the business deals. These are frequently bought and sold. Goods are divided into five account while passing journal entries

(a) Purchase account - used for purchase of goods for cash or on credit.

(b) Sales account - used for earning revenue from sale of goods.

(c) Purchase return account - when goods purchased are returned.

(d) Sales return account - When goods sold have been returned.

(e) Stock account - Unsold stock of raw material work-in-progress and finished goods lying at the end of the accounting period.

9. **Journal**

Date	Particulars	L.F.	Amount (Dr)	Amount (Cr)
1.1.2000	Cash a/c Dr		20,000	
	Stock a/c Dr		25,000	
	Building a/c Dr		50,000	
	Debtor a/c Dr		10,000	
	Furniture a/c Dr		5,000	
	To Bills payable a/c			10,000
	To Sundry Creditor a/c			20,000
	To Bank Loan a/c			40,000
	To Capital a/c			40,000
	(Being the opening entry as per balances)		1,10,000	1,10,000

10. Purchase a/c Dr 800
 To A 800
 (Being the goods purchased on Credit)

Date	Particulars	L.F.	Amount (Dr)	Amount (Cr)
1.1.2000	A To Cash a/c To Discount Received a/c (Being A's a/c settled, cash discount 10%)		8,000	7200 800
			8,000	8,000

12. Ledger is also known as principal book of accounts. It is the most important book which contains accounts. The principal features of a ledger are as follows :

- Ledger provides a permanent record of all financial transactions.
- All journal entries are posted to appropriate accounts in the ledger.
- Trial balance and financial statements are prepared from ledger accounts.

13. The advantages of ledger are as follows :

- Ledger provides information regarding amount due to creditors and amount due from debtors.
- The balance of cash can be known at any point of time by balancing the concerned account.
- The amount of income and expenses can be ascertained through ledger.
- Ledger helps preparing Trading a/c, P/L a/c and Balance sheet.

14. The distinction between Journal and Ledger may be stated as follows :

Journal

- It is a book of original entry.
- Each transaction is recorded with a narration.
- In journal, entries are recorded on a day-to-day basis.
- Ledger is prepared on the basis of journal.

Ledger

- It is a book of final entry.
- Each transaction is recorded in a summarised manner.
- In ledger, entries are posted at regular interval.
- Trial balance is prepared on the basis of ledger.

15. Ledger accounts are represented by 'T' form account. 'T' account is divided into two sides. The left hand side represents debit side and right hand side represents the credit side. Each side has three columns i.e. date, particulars, folio and Amount.

The specimen 'T' form account is as under :

Dr				Cr			
Date	Particulars	F	Rs.	Date	Particulars	F	Rs.

16. The difference between the total of debit side and credit side of an account is called balance. The excess of debit side amount over credit side is called debit balance. All expenses, losses, assets and customer's account have debit balance. The excess of credit side amount over the debit side is called "Credit balance". All liabilities, capital and income have credit balances.
17. The need for balancing an account arises due to following reasons.
- (a) Balancing helps to ascertain the cumulative effect of entries on the account.
 - (b) The balance of nominal account helps in the preparation of Trading and Profit & Loss account.
 - (c) The balance of real and personal account are used to prepare the balance sheet at the end.
18. In a business, a large number of transactions, relates to cash and bank. If every transaction is recorded in journal, then it will take much labour in posting them to ledger. Maintenance of cash book removes the necessity of having cash and bank accounts in the ledger. The cash book helps us to know the balances of cash in hand and at bank.
19. Cash book is a combination of journal as well as ledger. It is a journal because all cash transactions are recorded in the cash book. Cash book is also called as ledger because it serves the purpose of cash account and bank account. No separate cash account is opened where cash book exists.
20. Now-a-days, bank transactions are more than the cash transactions. So it has necessitated to have an additional column in each side of the Cash Book for recording money deposited in bank and withdrawn from bank. So there is no need to maintain a separate bank account in the ledger.

Dr.

Triple Column Cash book

Cr.

Date	Particulars	L.F.	Discount	Cash	Bank	Date	Particulars	L.F.	Discount	Cash	Bank

21. Petty cash book is a separate cash book which records the small cash expenses. The main features of this book are as follows.
- (a) The amount received from the head cashier is recorded on the left hand side column of the book.
 - (b) All petty expenses are recorded in respective columns in right hand side columns.
- (c) Cash payments will never exceed the cash receipts. So it will have always a debit balance.
22. Under impreset system, a fixed sum or float is given to meet petty cash expenditure for an agreed period of time. At the end of the period, the petty cashier submits the account of an amount spent by him. Finally, the petty cashier is reimbursed so as to make the balance same as before.

23. The need of the subsidiary books are as follows :

- (a) When transactions are numerous, journal cannot act as sole book of original entry. So subdivision of journal is a must for big organisation.
- (b) As the transactions of similar nature are recorded in a particular book, the information regarding these can be available easily.
- (c) It leads to specialisation and increases the efficiency of the employee.
- (d) Transactions are posted easily from the subsidiary books to the ledger.

24. The difference in Purchase Book and Sales Book are as follows :

Purchase Book		Sales Book	
(a)	It records only credit purchase of goods in which the business deals.	(a)	It records only credit sale of goods in which the business deals.
(b)	It ignores cash purchase of goods as they are recorded in cash book.	(b)	It ignores cash sale of goods as they are recorded in cash book.
(c)	It records the entries on the basis of invoice received from supplier.	(c)	It records the entries on the basis of invoice issued to customers.

25. Journal proper is used to record those transactions for which no other subsidiary book has been kept. The usual entries recorded in this book are as follows : (a) Opening entries, (b) Closing entries, (c) Rectification entries, (d) Transfer entries, (e) Adjusting entries, (f) Entries for dishonor of bills, (g) Miscellaneous entries such as credit purchase of things other than goods in which the business deals etc.

26. The purchase return book is known as return outward book. It is used to record all return of goods by the business to the supplier. These entries in this book are recorded on the basis of debit note issued to supplier. The proforma of purchase return book is given as under :

Purchase Return Book

Date	Particulars	Debit Note No.	L.F.	Details (₹)	Total (₹)	Remarks

27. The sales return book is otherwise known as return inward book. It records all return of goods by the customers to the business. The entries in this book are recorded on the basis of credit note issued to customer or debit note issued by the customer. The proforma of sales return book is given as under.

Sales Return Book

Date	Particulars	Debit Note No.	L.F.	Details (₹)	Total (₹)	Remarks

28. The difference in Sales Day Book and Sales Account are as follows :

Sales Day Book	Sales Account
(a) It records only credit sale of goods.	(a) It records both cash and credit sales.
(b) It is a journal.	(b) It is a ledger.
(c) It is prepared from outward invoice.	(c) It is prepared from sales day book and cash book.
(d) It helps in preparation of sales accounts.	(d) It helps in preparation of final accounts.

29. **Purchase Book**

Date	Particulars	L.F.	Invoice No.	Amount
Jan. 1	M/s 'A' Bros. 5 chairs at 1000 each		1	5000
Jan. 5	M/s 'B' Bros. 12 tables at 1250 each.		2	15000
Total				

(Note : Chairs purchased for cash will not be taken)

30. **Sales Day Book**

Date	Particulars	L.F.	Outward Invoice No.	Details	Total Amount
Jan. 1, 2020	A Traders : 100 radios at 1000 each Less T.D at 5%		1	1,00,000 5000	95,000
Jan. 10, 2020	B Traders 200 radios at 1200 each Less T.D. at 10%		2	2,40,000 24,000	2,16,000
Total					

31. The utilities of a purchase day book are given as follows :

- (a) It does not require to pass journal entry for each credit purchase. As a result, the volume of work reduces.
- (b) That the goods purchased are in accordance with the purchase order.
- (c) Ledger posting becomes easier as all the credit purchase are recorded in a single book.
- (d) Periodical total of credit purchases become possible.

32. The utilities of sales book are as follows :

- (a) It does not require to pass journal entry for each credit sale. Thus it reduces the volume of work.
- (b) It can be checked that the goods have been actually delivered and the price is charged as per the catalogue.
- (c) Ledger posting becomes easier as all the credit sales are recorded in a single book.

33. The advantages of allowing trade discount are as follows :

- (a) It is a method of changing price without changing the printed price of the goods :
- (b) Different prices can be charged to different class of customers.
- (c) The buyer (wholesaler and retailers) get the idea, about the upper and lower limit of the price in which they can sell the goods.

34. Distinction between Trade Discount and Cash Discount is given as below :

Trade Discount	Cash Discount
(a) It is a reduction in the list price of product granted by manufacturer to wholeseller or retailer.	(a) It is a reduction in the amount due from a debtor granted by the creditor to the debtor.
(b) Trade discount is given to promote sales.	(b) Cash discount is allowed for prompt payment within a stipulated time.
(c) It is not shown in the books of accounts.	(c) It is shown in the books of accounts.

35. The difference between debit note and credit note are as given below :

Debit Note	Credit Note
(a) It is prepared by the customer and sent to the seller while returning the goods.	(a) It is prepared by the supplier and sent to the customer who has returned the goods.
(b) Purchase return book is maintained on the basis of debit note.	(b) Sales return book is maintained on the basis of Credit Note.
(c) Debit note provide information to the supplier that his account is debited.	(c) Credit Note provides information to the customer that his account is credited.

36. Trial balance has the following features :

- (a) Trial balance is a statement but not an account.
- (b) It is a list of balances of all accounts and cash book.
- (c) It checks the arithmetic accuracy of the books of accounts and reduces the possibility of errors.

37. A trial balance is prepared with the following objectives.
- (a) Trial balance checks the arithmetic accuracy of the ledger accounts.
 - (b) It facilitates the preparation of Trading, Profit & Loss Accounts and the balance sheet.
 - (c) It helps in detecting some of the errors which is being rectified before preparation of final accounts.
38. A trial balance has the following limitations.
- (a) It is prepared only by those concerns which follow the double entry system of book keeping.
 - (b) It is not a conclusive proof of arithmetical accuracy of the books of accounts as some errors are not detected by the trial balance.
 - (c) Faulty preparation of trial balance leads faulty preparation of final accounts.
39. The advantages of a trial balance are as follows :
- (a) Trial balance indicates complete recording of transactions.
 - (b) It summarises all the business information and serves as reference to all ledger account balances.
 - (c) It acts as an evidence of arithmetic accuracy of books of accounts.
40. Proforma of Trial Balance

Trial Balance of Mrs. 'A' Ltd. as on 31.12.2019

Sl. No.	Particulars	L.F.	Debit Balance (₹)	Credit Balance (₹)
1.	Capital a/c			30,000
2.	Stock at 1.1.2019		15,000	
3.	Cash a/c		5,000	
4.	Furniture		6,000	
5.	Purchases a/c		4,000	
	Total		30,000	30,000

41. Generally closing stock does not appear in the Trial balance. However, closing stock appears in trial balance if "adjusted purchases" or "adjusted sales" or "cost of goods sold" is given in the questions.
42. There are three methods of preparing a trial balance. These are explained below :
- (a) Total method - The total of debit sides of all accounts and the total of credit sides of all accounts are placed in debit column and credit column of the trial balance.
 - (b) Balance method : A trial balance is prepared by taking the balances of all the accounts i.e. debit balance and credit balance in respective columns.
 - (c) Compound method :It presents both the balance and total method.

UNIT - II

GROUP - C : LONG TYPE QUESTIONS

Journal, Ledger, Subsidiary Books & Trial Balance

1. What is journal ? What are its characteristics and advantages ?
2. Give the rules of journalising under traditional approach and modern approach with examples.
3. Journalise the following transactions.

2020

Jan 1	Ram commenced business with cash	20,000
Jan 2	Paid into bank	11,000
Jan 3	Purchase goods	1000
Jan 4	Drew cash from bank for office use	2000
Jan 5	Sold goods to Hari on Credit	1500
Jan 6	Purchased goods from Gopal	3000
Jan 7	Cash sales	4000
Jan 8	Paid to Gopal Discount received	2800
Jan 9	Paid rent	600
Jan 10	Paid Salary	1000

4. Journalise the following :
 - (a) Received Rs. 1000 from Dinesh in full settlement against the amount due from him 1050.
 - (b) Provide depreciation on building valued at 4,75,000 at $2\frac{1}{2}\%$ for three months.
 - (c) Dutta, who owed us Rs.1000 is declared insolvent and 60 paise in the rupee is received as final dividend from his estate.
 - (d) Paid 200 to the Petty Cahier.
(CHSE, Orissa Supplementary 1994)

5. Define Ledger. Explain its necessity and usefulness.
6. Distinguish between Journal and Ledger.
7. What do you mean by balancing of accounts ?
8. Post the transactions given in Q.3 into the Ledger.
9. State the advantages of dividing the journal into subdivisions.
10. What is cash book ? What are the types of Cash book ? How is it balanced ?
11. What do you understand by imprest system of petty cash ? Explain with illustration.
12. Prepare a three column cash book

Jan 1	Cash in hand	5000
Jan 1	Bank overdraft	1000
Jan 2	Paid wags	1500
Jan 3	Deposited into bank	2000
Jan 4	Cash sales	7500
Jan 5	Sold goods for cheque which was deposited in bank	5000
Jan 6	Purchase goods from Hari on Credit	4000
Jan 7	Drew from bank for percent	1000
Jan 8	Paid to Hari in full settlement	3500
Jan 9	Received from Ram who owes 5000, 2000 only on account.	

(All India, adopted)
13. Is Trial balance a complete proof of arithmetical accuracy of accounts ? Discuss the errors not detailed by a Trial balance. (CHSE, Orissa)

14. What is a trial balance ? Discuss its advantages and limitations.
15. Explain the different methods of preparing a Trial Balance.
16. What are the errors disclosed and not disclosed by the Trial balance ?
17. Correct the following Trial Balance

Trial Balance as on 31.03.....

Debit balance	Amount	Credit balance	Amount
Return Outwards	48,000	Debtors	45,000
Opening Stock	1,02,600	Carriage outwards	15,000
Salaries	36,000	Capital	1,65,000
Creditors	84,000	Machinery	54,000
Bank	1,35,000	Return Inwards	9000
Carriage Inwards	18,000	Discount Received	12,000
Rent received	9,000	Trade Expenses	18,000
Discount allowed	6000		
Purchases	3,00,000	Sales	4,20,00
Bill Payable	60,000	Building	60,000
	<u>7,98,000</u>		<u>7,98,000</u>

UNIT - II

GROUP - C : ANSWER

Journal, Ledger, Subsidiary Books & Trial Balance

1. Meaning, definition of Journal, main features to be mentioned. Advantages to be explained briefly.
2. Traditional approach :
Rules for
(a) Personal a/c -
(b) Real a/c -
(c) Nominal a/c -
Modern approach :
Rule for
Assets a/c -
Liability a/c -
Capital a/c -
Income a/c -
Expenditure a/c -
Loss a/c -
3. Journal entry to be passed in its proper format along with narration. Lastly the debit column and credit column to be totalled.
4. (c) Rs. 400 is to be treated as bad debt.
5. Definition and meaning of ledger, advantages of ledger are to be detailed.
6. Distinction between the two should be made with respect to their meaning, process, types of transaction, time and utility etc.
7. Balancing is done after posting the transactions into ledger. Balancing helps to find out the net position of ledger accounts. Debit balance and credit balance are to be explained.
8. Separate account for each head is to be maintained in the format of account i.e. 'T' form with debit and credit side.
9. It is difficult to record large number of transactions in only one book of prime entry. For convenience, the journal is divided into a number of subsidiary books.
(a) Cash Book
(b) Purchase Book
(c) Sales Book
(d) Purchase Return Book
(e) Sales Return Book
(f) Bills Receivable Book
(g) Bills Payable Book
(h) Journal Proper
10. Cash and bank transactions are recorded in cash book. Cash book may be of three types.
(a) Simple Column Cash Book
(b) Double Column Cash Book
(c) Triple Column Cash Book
11. The system is useful if an analytical petty ash book is used. The book will have one column to record receipt of cash and payments are recorded in other columns.
12. Cash in hand - 7500, Bank balance 5,000.

13. In spite of agreement of Trial balance, some of the errors may not be detected. Errors which are not detected by Trial balance are error of omissions, error of principle, compensating error, recording wrong amount in journal book, recording both aspects of transactions more than once in the books of accounts and errors of recording on the correct side of a wrong account.
14. Meaning, definition of Trial balance. Then various advantages and disadvantages are to be written.
15. Three methods (a) Balance method, (b) Total method, (c) Compound method.
16. Errors disclosed by trial balance are : Omission to post an amount into ledger, debit and credit entries not posted at all or posted twice, debit is wrongly posted as credit and vice versa, wrong totalling of subsidiary book. Wrong computation of account balance, etc.
Errors which are not disclosed by trial balance is written in Question No. 13.
17. Corrected Trial Balance Total Rs. 7,98,000.
The items like Return outwards, creditors, Rent received Bills payable, capital, discount received, sales will appear in Credit balance side and the rest will appear in Dr balance side.

UNIT-III

KEY CONCEPTS

BILLS OF EXCHANGE, COMPUTERISED ACCOUNTING

(A) Bills of Exchange

- **Bills of Exchange** - According to Negotiable Instrument Act 1881, "a bill exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument."
- **Parties to a bill of exchange** - Drawer, Drawee and Payee are the parties to a bill of exchange.
- **Drawer** - The person who draws the bill of exchange. He is the creditor for selling goods on credit or advancing money on loan.
- **Drawee** - The person on whom the bill of exchange is drawn. He is the debtor in the transaction for value received.
- **Payee** - The person to whom the payment is to be made under bill of exchange on the date of maturity.
- **Promissory Note** - According to Negotiable Instrument Act 1881, "a promissory note is defined as "an instrument in writing containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person.
- **Treatment of bills of exchange and promissory note in accounting** - In accounting, the treatment of bills of exchange and promissory note stands on the same line. A promissory note is treated as a bill receivable for the person who is entitled to receive the amount.
- **Types of Bill** - Bill at sight, Bill at demand, Time bill, Trade bill, Demand bill, and accommodation bill are the different types of bill.
- **Tenure of the bill** - The time period from the date of drawing to the date of maturity is called as tenure of the bill.
- **Due date** - The date on which the payment of the bill becomes due. It is reached after adding three extra days to the tenure of the bill.
- **Days if grace** - The three extra days added to the tenure of the bill in order to calculate due date.
- **Noting charge** - The process of writing the fact of dishonour is called noting and the charge charged by the notary for the service is known as noting charges.
- **Protest** - The formal certificate issued by the notary. The certificate certify the dishonour of a bill.
- **Renewal of bill** - When the drawee is unable to honour the bill on the due date, he approaches the drawer with a request of cancelling the old bill and drawing a new bill with an extended period.
- **Discounting a bill** - The process in which the holder of the bill payments the bill to a bank to meet its cash requirement. Here the bank charges some discount for the unexpired period of the bill.
- **Retirement of Bill** - What the drawee makes an offer to pay the bill before the due date and the drawer accepts it, then it is called as retirement bill.

- **Retirement of bill under rebate** - When the drawee is allowed to pay the bill before the due date. The drawee is allowed some rebate. This is known as retirement of bill under rebate.
- **Endorsement** - The process of signing the bill on the back side of it with an intention of transferring the bill is known as endorsement. The person to whom the bill is endorsed is called as endorsee and the person who endorses is called as endorser.
- **Insolvency of Drawee** - When the liability of drawee is more than the realisable value of the asset, then the drawee is said to be insolvent. When the bill is dishonoured because of insolvency, the drawer gets some amount as a full settlement.
- **Accommodation Bill** - A bill drawn to accommodate a person requiring finance for a short period of time is known as accommodation bill. The parties to such bills are known as "accommodating parties." These bills are drawn and accepted without any considerations. These bills are also known as kite bills or finance bills.

(B) Computerised Accounting

- **Computers** - Computers are electronic devices that accept data (Input), process that data, produce output and store (storage) the results.
- **Components of Computer** - The functional components of computer system consist of three units, i.e., Input Units, Central Processing Unit and Output Unit.
- **Input devices** - The various input devices are - keyboard, Mouse, Punch Card, Touch Pad, Joy Stick and Tracker Ball.
- **Central Processing Unit (CPU)** - The three main units are - Memory Unit, Arithmetic and Logic Unit (ALU)s and Control Unit.
- **Output Units** - The units of output are - Visual display unit, printers and plotters.
- **Computerised Accounting System** - Computerised Accounting system is an accounting information system that processes the financial transactions and events as per GAAP to produce reports as per user requirements.
- **Commercial Softwares Used in Business** - Electronic spread sheet, word processor and data base management.
- **Need for Computerised Accounting System** - Economical, quick reporting, accuracy, on-line facility, scientific research and flexible reporting.
- **Accounting Information System (AIS)** - An accounting information system is a system of collecting, processing, summing and reporting information in monetary terms. AIS is the oldest and most popular information systems.
- **Sub-system of AIS** - The sub-system of AIS are Input, Process, Output and Control.
- **Purpose of Accounting Information System** - Sales order processing, Inventory control, Accounts Receivables, Payrolls Accounts payable and General Ledgers are the various purposes of AIS.
- **Management Information System (MIS)** - MIS is an information system that generates accurate and timely organised information to help managers in making decisions, controlling processes, solving problems. Supervening activities and tracking progress.

UNIT - III**GROUP - A : OBJECTIVE TYPE QUESTIONS**

1. *From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.*

(A) Bills of Exchange

1. An unconditional order signed by the maker, directing a person for payment is called as :
 - (a) Promissory Note
 - (b) Bills of Exchange
 - (c) Cheque
 - (d) Accommodation Bill
2. Number of parties involved in Bills of Exchange are :
 - (a) 2
 - (b) 4
 - (c) 3
 - (d) 5
3. In bills of exchange, acceptance on the part of Drawee indicates :
 - (a) Draft
 - (b) Liability
 - (c) Income
 - (d) Expenses
4. A bill, before the acceptance of the drawee is known as :
 - (a) Draft
 - (b) Bills of exchange
 - (c) Cheque
 - (d) Promissory note
5. Addition of some conditions to the bill by the drawee is known as :
 - (a) General Acceptance
 - (b) Normal Acceptance
 - (c) Draft
 - (d) Qualified Acceptance
6. The three extra days added to the specified period of the Bill is known as :
 - (a) Additional days
 - (b) Days of Grace
 - (c) Both (a) & (b)
 - (d) Holidays
7. An instrument containing an express undertaking is known as :
 - (a) Promissory Note
 - (b) Bills of exchange
 - (c) Cheque
 - (d) Draft
8. Bills of Exchange and promissory note must have :
 - (a) A condition
 - (b) Revenue stamp
 - (c) Undertaking
 - (d) Order
9. The number of parties involved in a promissory note are :
 - (a) 2
 - (b) 4
 - (c) 3
 - (d) 5
10. A credit instrument where the buyer assures the seller for payment on some agreed terms and conditions is known as :
 - (a) Bills of Exchange
 - (b) Hundies
 - (c) Cheque
 - (d) Promissory Note
11. In Accommodation Bills, the drawer is called as:
 - (a) Accommodating Party
 - (b) Payee
 - (c) Accommodated Party
 - (d) Debtor

12. A bill drawn and payable within one country is termed as :
- (a) Foreign Bill
(b) Accommodation Bill
(c) Trade Bill
(d) Inland Bill
13. For the discounting of bill, no entry is passed in the book of
- (a) Drawee (b) Drawer
(c) Payee (d) Bank
14. The act of transferring the right to receive money of the bill by the holder is known as :
- (a) Endorsement (b) Negotiation
(c) Noting (d) Protest
15. Bank for collection account is treated as :
- (a) Real a/c (b) Nominal a/c
(c) Personal a/c (d) Asset a/c
16. An authenticated proof of the dishonour of a bill is termed as :
- (a) Notary (b) Protest
(c) Endorsed (d) Noting
17. Noting charge is finally paid by :
- (a) Holder of the bill (b) Drawer
(c) Payee (d) Drawee
18. The bill which is not legally enforceable :
- (a) Accommodation Bill
(b) Trade Bill
(c) Time Bill
(d) Demand Bill
19. Cancellation of old bill and drawing a new bill with extended time period is termed as :
- (a) Time Bill (b) Trade Bill
(c) Demand Bill (d) Renewal of Bill
20. The person to whom final payment is made :
- (a) Drawer (b) Drawee
(c) Payee (d) Debtor
21. Negotiable Instrument Act was enacted in the year.
- (a) 1881 (b) 1991
(c) 2001 (d) 1771

(B) Computerised Accounting

1. A device that operates upon information or data is known as :
- (a) Calculator (b) Mobile
(c) Computer (d) Printer
2. The facts and figures fed to computer for further processing is known as :
- (a) Data (b) Information
(c) Programme (d) Results
3. The term used to describe the amount of data handled by a computer is known as :
- (a) Memory chip
(b) Volume and frequency
(c) Live-ware
(d) CPU
4. A computer can store and recall any amount of information because of :
- (a) Primary storage
(b) Secondary storage
(c) Memory chips
(d) Output unit
5. The intelligence quotient of a computer is :
- (a) 100% (b) 50%
(c) 75% (d) 0%

6. The memory located inside the computer is called as :
- (a) Internal Memory
 - (b) Primary Memory
 - (c) Secondary Memory
 - (d) Both (a) & (b)
7. The unit that directs the computer, what to do and the sequence is termed as :
- (a) Control Unit
 - (b) Output Unit
 - (c) Arithmetic Unit
 - (d) Input Unit
8. Palmtop is more commonly known as :
- (a) Personal Computers
 - (b) Hybrid Computers
 - (c) Mini-Computers
 - (d) Personal Digital Assistants
9. Which accounting performs all its function through computers ?
- (a) Financial Accounting
 - (b) Management Accounting
 - (c) Computerised Accounting
 - (d) Cost Accounting
10. The first application for which Information Technology (IT) infrastructure is created in business enterprise :
- (a) Management Information System
 - (b) Accounting Information System
 - (c) Financial Information System
 - (d) Manufacturing Information System
11. The system that provides information for managing organisation efficiently & effectively.
- (a) Management Information System
 - (b) Accounting Information System
 - (c) Financial Information System
 - (d) Manufacturing Information System

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

(A) Bills of Exchange

1. Name the negotiable instrument containing an unconditional order signed by the maker.
2. Name the negotiable instrument containing an unconditional undertaking signed by the maker.
3. Name the term used before the bill is accepted by the drawee :
4. The bill of exchange which is not payable on demand.
5. The date on which actual terms of a bill expires.
6. Name the bill drawn and payable within one country.
7. Name the term used when a formal certificate is issued to certify the dishonor of a Bill.
8. Name the person to whom the bill is endorsed.
9. Name the bill which cannot be legally enforceable.
10. Which bill requires the acceptance of the drawee ?
11. In which negotiable instrument, drawer and payee are one person ?
12. What is the other name of Date of Maturity ?
13. Name the term used for three extra days added to the bill date.
14. Name the liability, which arises to pay an amount in the future.
15. Name the bill which is drawn for the accommodation of the both drawer and drawee.
16. Name the term when a bill is presented to the bank for payment before the due date.

(B) Computerized Accounting

1. Name the machine in which a lot of information can be stored for future use.
2. The word from which computer has been derived ?
3. What is the meaning of the word computer ?
4. Name the oldest input device of a computer.
5. Name the pointing input unit that is used for playing games.
6. Name the hardware where the arithmetic & logic operations are carried down.
7. What is the other name of Visual Display Unit ?
8. Name the most popular output device.
9. On which concept Modern Computerised Accounting system is based on ?
10. Name the software used for calculating wages and salaries.
11. Name the software where the information is stored in columns & rows.
12. Which software enables the user to draft letters, reports & text ?
13. Which software helps a business in taking decisions relating to various areas ?
14. Which is the oldest and most popular information system ?
15. Name the formal process of collecting data, processing the data into information and distributing the information to users.
16. What is the other name of general ledger ?
17. Name the term used for connecting two or more computers for sharing information.

2. (b) Fill in the blanks :**(A) Bills of Exchange**

1. The written order issued by the creditor to his debtor is called _____.
2. A bill of exchange contains an unconditional _____.
3. A bill of exchange facilitates _____ sales.
4. Bill of exchange is a written and signed by _____.
5. _____ is an indication of accepting liability by the drawee.
6. The date on which a bill becomes payable is called _____.
7. The three extra days are known as _____.
8. The written undertaking drawn by the creditor is called _____.
9. A promissory note expresses _____ to pay.
10. _____ means transfer of title of instrument to another person.
11. _____ is a bill, payable on demand.
12. _____ a/c is debited in the books of drawee, when a bill is accepted.
13. In accounting, the treatment of bill of exchange and promissory note is _____.
14. _____ bills do not require acceptance of drawee.
15. Discount is a _____ to the drawer.
16. Bank for collection account is treated as a _____ account.
17. Noting charges is a loss for the _____.
18. The process of cancellation of old bill and drawing a new bill is known as _____.
19. Interest paid on a renewal of a bill is an _____ for the acceptor.
20. In case of insolvency of drawee 'Deficiency Account' is _____.

(B) Computerized Accounting

1. The facts and figures fed to computer for further processing is termed as _____.
2. The term used to describe the amount of data handled by a computer system are _____.
3. The I. Q. level of a computer is _____.
4. _____ is input device consisting of alphabetical, numerical, functions and special character keys.
5. CPU stands for _____.
6. The memory located inside the computer is also called as _____.
7. _____ are digital computers.
8. _____ type of computers are used in banks or in companies.
9. Invoices, cheques received and issued, debit note, credit note etc. are the examples of _____ documents.
10. In computerised accounting _____ entries are not paused.
11. In computerised accounting the scope of reporting is _____ as compared to manual accounting.

12. In _____ method, data generated by one application is automatically transferred to the other application.
13. Concurrent recording is possible in _____ accounting.
18. Computerised Accounting programmes are built on the concept of dividing the _____ on some basis.
19. _____ facilitates sensitivity analysis where the effect under various changed circumstances is studied.
20. The processing of _____ data on computers is more easy than the text data.
14. _____ means the firms accounting applicabtions.
15. _____ is the manipulation of symbols such as numbers and letters for the purpose of increasing their usefulness.
16. _____ processing is done to prepare trial balance, P&L account and balance sheet.
17. _____ is a part of data processing.

2. (c) Answer the following questions in one sentence each.

(A) Bills of Exchange

1. What is bill of Exchange ?
2. Who are the parties of bills of exchange ?
3. Who is a payee ?
4. What is promissory note ?
5. Give one characteristic of a promissory note.
6. Name the two types of time bill ?
7. What do you understand by the term days of grace ?
8. When dishonor of bills occur ?
9. What do you mean by after sight bill ?
10. What is accommodation bill ?
11. When a bill is said to be retiring under rebate ?
12. What is endorsement ?
13. What is demand bill ?
14. Name the types of acceptance ?
15. What is the treatment of noting charges ?

(B) Computerized Accounting

1. Define Computer ?
2. Name the three components of a micro computer system ?
3. What do you mean by hardware ?
4. What do you mean by humanware ?
5. Mention two limitations of a computer system ?
6. Define information system ?
7. Mention two purposes of Accounting Information System ?
8. Mention two qualities of a good report ?
9. Name the three units of CPU ?
10. Name the basis on which computers are classified ?
11. Mention some commonly used software in business ?
12. What is word procession in computers ?
13. What is data base management ?
14. Mention two examples of accounting software ?
15. Give an example of operating software ?

2. (d) Correct the underlined portion of the following sentences.**(A) Bills of Exchange**

1. Promissory Note is an unconditional order to drawee.
2. Endorser is entitled to collect the money.
3. A contingent liability is an obligation to pay an amount in present.
4. Discounting means the transfer of a bill from one person to another.
5. Bills Receivable Account is a nominal account.
6. Promissory Note is a written promise made by a creditor.
7. Drawee is the person who drawee the bill.
8. Discounting of a bill means the non-payment of a bill.
9. Retiring of Bill under rebate is an income for a drawer.
10. Trade bills are drawn and accepted for mutual assistance.
11. Two days of grace is allowed in case of Bill of exchange.
12. Drawer and Drawee can be the same person.
13. There are three parties in a promisory note.
3. Accounting Information System s a non-transaction based information system.
4. Accounting Information System uses mainly the future data.
5. Sales order processing system deals with payment of wages and salaries.
6. Keyboard and Monitors are input devices.
7. Grouping of Accounts is the first stage in the accounting automation process.
8. Generation of Reports is the essence of automated accounting process.
9. The books of account are maintained at high-cost under computerized accounting system.
10. MIS is a key department of an organization as it is helpful in handling of financial matters.
11. Operating softwares are designed to perform highly specialized task.
12. The persons who design data processing system are operators.
13. Monitor is the brain of the computer.
14. The accounting information system performs five processing functions.

(B) Computerized Accounting

1. The main circuit board of a computer system is known as ALU.
2. Secondary Storage Devices are known as internal memory.

UNIT - III

GROUP - A : ANSWERS

1. From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.

(A) Bills of Exchange

1. (b) Bills of Exchange
2. (c) 3
3. (b) Liability
4. (a) Draft
5. (d) Qualified Acceptance
6. (b) Days of Grace
7. (a) Promissory Note
8. (b) Revenue stamp
9. (a) 2
10. (b) Hundies
11. (c) Accommodation Party
12. (d) Inland Bill
13. (a) honoured
14. (b) Negotiation
15. (c) Personal a/c
16. (d) Noting

17. (d) Drawee
18. (a) Accommodation Bill
19. (d) Renewal of Bill
20. (c) Payee
21. (a) 1881

(B) Computerised Accounting

1. (c) Computer
2. (a) Data
3. (b) Volume and frequency
4. (b) Secondary storage
5. (d) 0%
6. (d) Both (a) & (b)
7. (a) Control Unit
8. (d) Personal Digital Assistants
9. (c) Computerised Accounting
10. (b) Accounting Information System
11. (a) Management Information System

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

(A) Bills of Exchange

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Bill of Exchange 2. Promissory Note 3. Draft 4. Time Bill 5. Nominal Due Date | <ol style="list-style-type: none"> 6. Inland Bill 7. Protest 8. Endorsee 9. Accommodation Bill 10. Time Bill 11. Bill of Exchange |
|--|---|

- | | |
|--------------------------|----------------------------------|
| 12. Due Date | 6. Arithmetic & Logic Unit (ALU) |
| 13. Days of Grace | 7. Monitor |
| 14. Contingent Liability | 8. Printers |
| 15. Accommodation Bill | 9. Database |
| 16. Discounting of Bill | 10. Pay Roll |

(B) Computerized Accounting

- | | |
|----------------|-----------------------------------|
| 1. Computer | 11. Electronic Spread Sheet |
| 2. Compute | 12. Word Processor |
| 3. Calculate | 13. Data Base Management |
| 4. Punch Cards | 14. Accounting Information System |
| 5. Joy stick | 15. Accounting Information System |
| | 16. Nominal Ledger |

2. (b) Fill in the blanks :**(A) Bills of Exchange**

1. Bill of Exchange
2. Order
3. Credit
4. Drawer
5. Acceptance
6. Due date
7. Days of grace
8. Promissory Note
9. Undertaking / Promise
10. Negotiation
11. Demand Bill
12. Drawer's a/c
13. Same
14. Demand
15. Loss
16. Personal
17. Acceptor / drawee
18. Renewal of a bill
19. Expenses
20. Credited

(B) Computerized Accounting

1. Data
2. Volume & Frequency
3. Zeno
4. Keyboard
5. Central Processing Unit
6. Primary Memory
7. Mini Computer
8. Main frame Computers
9. Source
10. Adjustment
11. Flexible
12. Data Sharing
13. Computerised
14. Accounting Information System (AIS)
15. Data processing
16. Annual
17. Data Manipulation
18. Single ledger
19. Computerised Accounting
20. Numeric

2. (c) Answer the following questions in one sentence each.**(A) Bills of Exchange**

1. Bill of Exchange is an unconditional order in writing signed by the maker, directing a person to pay on demand or on a future time, a certain sum of money only to order or to bearer.
2. There are three parties to a bill of exchange. They are (a) Drawer, (b) Drawee, (c) Payee.
3. The person who has a right to get payment of a bill on due date.
4. Promissory note is an instrument in writing containing an unconditional undertaking signed by the maker to pay a certain sum of money to a certain person or to the bearer.
5. The promissory note contains the promise of a debtor to pay to his creditor.
6. There are two types of time bill after sight and bill after date.
7. The three extra days added to the date of the bill to find out date of maturity or due date is known as days of grace.
8. Dishonour of a bill occurs when the drawee is not able to make the payment on due date.
9. It is a bill where the date of maturity is calculated from the date of acceptance of the bill by the drawee.
10. Accommodation bills are drawn without any consideration for financial assistance.
11. It is a process where the drawee pays the bill before its due date. For this he is provided with some rebate.

12. Endorsement means signing on the back side of the bill for the purpose of transferring the title of the bill to another person.
13. Demand bill is a type of bill, which is payable on demand.
14. There are two types of acceptance i.e. general acceptance and qualified acceptance.
15. Noting charges is a loss for the drawee of the bill and the amount is debited to Noting Charge a/c.

(B) Computerized Accounting

1. It is a device capable of solving problems by accepting data and supplying result of these operations.
2. The three main components of a micro computer system are : Hardware, Software and Humanware.
3. Hardware is one of the main components of a computer system that has a physical existence. Example - motherboard.
4. Humanware refers to the users of the computer hardware and software.
5. The two limitations of a computer system are lack of decision making and lack of intelligence.
6. Information system is an integrated set of components for collecting, storing and processing data and for providing information.
7. The two purpose of Accounting Information System are inventory control and pay roll.

8. The two qualities of a good report are relevance and accuracy.
9. The three units of CPU are
 - (i) Arithmetic / Logic Unit
 - (ii) The Control Unit
 - (iii) The Memory Unit.
10. The Computers are classified on the basis of storage, electronic and usage capacity.
11. The most commonly used software in business are Electronic spreadsheets, Word processor, Data Base Management.
12. A word processor is a software or a device that allows users to create, edit and print documents.
13. Database Management records all the useful and relevant information relating to a business at one centralised place.
14. The two example of accounting software are Excel and Tally.
15. Windows software is an example of operating software system.

2. (d) Correct the underlined portion of the following sentences.

(A) Bills of Exchange

1. Undertaking
2. Endorsee
3. Future
4. Endorsement
5. Real
6. Debtor
7. Drawer
8. Dishonour
9. Loss
10. Accommodation
11. Three
12. Payee
13. Two

(B) Computerized Accounting

1. Motherboard
2. External
3. Transaction
4. Historical
5. Payroll
6. Output
7. Planning
8. Grouping of Account
9. Low
10. AIS
11. Utility
12. System Analysts
13. CPU
14. Four

UNIT - III**GROUP - B : SHORT TYPE QUESTIONS****3. Short Questions to be answered within 30 words****(A) Bills of Exchange**

1. Define Bill of Exchange ?
2. What is a draft in Bills of Exchange ? Can acceptance be conditional ?
3. Explain days of grace.
4. Explain the term Bill after date.
5. What is promissory note ?
6. What is Endorsement ?
7. What is Retiring a Bill under Rebate ?
8. What is protest ?
9. What is noting charges ?
10. What is accommodation bills ?
11. What is Bill on demand ?
12. Write three characteristics of it. Promissory note.
13. When the bill is said to be dishonoured ?

(B) Computerised Accounting

1. Name the five basic components of a digital computer.
2. What is Computerised Accounting ?
3. What are the basic outputs of computerised accounting ?
4. What is Data Processing ?
5. What is data manipulation ?
6. What is spread sheet ?
7. Name some output of payroll system ?
8. What is Accounting Information System ?
9. Name the sub-systems of Accounting Information System ?
10. Name the two types of processing in Accounting Information System (AIS).
11. What is data sharing ?
12. Write three limitations of Computerised Accounting.
13. What is the objective of Accounting Information System ?
14. What is MICR in Computer ?
15. What is Management Information System (MIS) ?

4. Answer the following questions within 50 words each.**(A) Bills of Exchange**

1. Distinguish between Bill of Exchange and Cheque.
2. Distinguish between Bill of Exchange and promissory note.
3. What are the methods of dealing with Bills of exchange by the drawer ? Write down the treatment in the books of drawer. When the bill is discounted and endorsement for bill.
4. Distinguish between Discounting Charges and Noting Charges ?
5. Distinguish between Trade Bills and Accommodation Bill.
6. What is retiring of a bill ?
7. What are the effects of dishonor of a bill ?
8. Mention some important characteristics of Bill of exchange.
9. What is promissory note ? Draw a specimen of promissory note.
10. Who is a holder in due course ?

(B) Computerised Accounting

1. Mention some elements of a computer system? Explain the live-ware element.
2. What is computerized accounting system ?
3. What are the basic requirements of a Computerised Accounting System ?
4. Name some functions of Computerised Accounting System.
5. Mention some advantages of Computerised Accounting System.
6. Explain the term scalability.
7. Name some main parts of hardware components.
8. What is Accounting Information System ?
9. What steps are involved in designing an accounting report ?
10. What is a spread sheet ?
11. What is tailor - made software ?
12. What is ready-made software ?

UNIT - III**GROUP - B : ANSWERS****3. Short Questions to be answered within 30 words****(A) Bills of Exchange**

1. Bill of Exchange is an instrument in writing, containing an unconditional order, signed by the maker directing a person to pay a certain amount on a future date. There are three parties to a Bill of Exchange. They are Drawer, Drawee and Payee.
2. A Bill of Exchange before it is accepted and signed by the drawee is known as draft. Yes, acceptance can be conditional. Such acceptance is known as qualified acceptance.
3. For the calculation of Due Date or Date of Maturity three extra days are added to the tenure of the bill. These extra days are known as Days of Grace. If the due date falls on a public holiday, the bill will be due on the preceding day.
4. It is a type of bill which is payable after particular time period or happening of a certain event. The three extra days are also added to find the due date.
5. Promissory Note is an instrument in writing, containing an unconditional undertaking, signed by the maker, to pay a certain amount. There are two parties of a promissory note i.e. Drawer and Payee.
6. Endorsement means signing on the back side of a bill with the object of transferring the bill to another person. The person who transfers the bill is known as endorser and the person to whom it is transferred is known as endorsee.
7. Retiring a bill under rebate is a process where the acceptor of a bill offers to pay the bill amount before the due date. The drawer allows rebate to the drawee for the unexpired period.
8. When a bill is dishonoured, the drawer approaches the court to collect documentary evidence for the fact of dishonour. The notary issues a certificate to this effect known as letter of protest.
9. When a dishonoured bill is noted by a notary, the act is known as noting. For this the notary charges some fees known as noting charges. The noting charges are ultimately borne by the drawee.
10. Accommodation bill is drawn without any consideration to help financially one person (Drawer). Before the due date the drawer sends the amount to the drawee who meets the bill on due date.
11. It is a type of bill which is payable on demand on presentment. Days of grace are not allowed on such bills as time period is not mentioned.
12. The characteristics of promissory notes are :
 - (a) It must be in writing containing an unconditional undertaking.
 - (b) There are two parties known as promisor and promisee.
 - (c) It must be properly stamped.
13. If the acceptor (drawee) of a bill fails to make payment of bill on due date, the bill is said to be dishonoured. Generally the bill is dishonoured when there is insufficiency of funds in the drawee's account.

(B) Computerised Accounting

1. The architectural design differs from one system to another. However, the basic components remain same for all computer system. An electronic digital computer has five basic component parts i.e. input unit, the storage or memory unit, arithmetic or logic unit, control unit and output unit.
2. When the various accounting stages like recording, classification, and summarising etc. are done with the help of the computers, it is known as computerised accounting. The manual system of book-keeping is replaced by computerised system with the help of certain accounting package.
3. The basic outputs of computerised accounting are trading and profit and loss account and balance sheet. It is prepared as and when required in the prescribed format as per the guidelines.
4. Data processing means collection and manipulation of items of data to produce meaningful information for decision making. The data processing system is applied in some areas of business like payroll, accounting, office automation, decision-making, inventory management, sales analysis and stock broking and insurance.
5. Data manipulation is a part of data processing, which includes classification of accounts, sorting of data, arithmetic and logical operations. It also summarises the data into totals and subtotals.
6. Spreadsheet is an electronic document in which data is arranged in the rows and columns of a grid. Spread sheet programmes are much faster, accurate and easier to use than traditional accounting techniques.
7. Generally payroll system is not a part of standard computerised accounting. It is integrated as an additional component of the system. The output of payroll system are Payslips, Bankslips, summary reports of all the salary details of all employees, Form 16 of each employees and employee details.
8. Accounting Information System (AIS) is a Computer-based method for tracking accounting activity. Accounting Information System is the first application for which Information Technology (IT) infrastructure is created in a business enterprise.
9. The sub-system of Accounting Information System (AIS) of a firm are order processing system, inventory control sub-system, accounts payable sub-system, payroll system and accounts receivable sub-system. Many companies rely on advanced software programs to integrate all sub-systems into cohesive accounting system.
10. There are two types of process in Accounting Information System (AIS). They are :
 - (a) Regular processing - It may be either on-line or batch processing.
 - (b) Annual processing - It is done to prepare financial statements to measure the impact of transactions during the period of one year.

11. The ability to share the same data resources with multiple users is known as data sharing. In computerised accounting data generated by one application is automatically transferred to the other applications.
12. The three limitations of computerized Accounting are :
 - (a) Costly - The computerised accounting is a costly system as it requires number of facilities and attachments to set up the system.
 - (b) Loss of data - Data can be lost because of hardware or software damage.
 - (c) Obsolescence of technology - Information technology industry follows the culture of 'here today, gone tomorrow'.
13. The objective of Accounting Information System (AIS) are :
 - (a) To provide reliable information to different users.
 - (b) To meet the requirements of statutory reporting of the organisation.
 - (c) To protect the organisation from the misuse of the information.
14. The full form of MICR is Magnetic Ink Character Recognition. MICR is a technology used in the recognition of originality of the document with the help of special ink and characters.
15. A Management Information System (MIS) is an information system used for decision-making and for the coordination, control, analysis and visualisation of information in an organisation.

4. Answer the following questions within 50 words each.

(A) Bills of Exchange

1. Bill of Exchange

- i) It is drawn by a creditor.
- ii) It requires an acceptance.
- iii) It can be drawn on any person including a bank.
- iv) It cannot be crossed.
- v) It requires a stamp.
- vi) It is entitled to three days of grace.

2. Bill of Exchange

- i) It is an unconditional order.
- ii) It is drawn by a creditor on a debtor.
- iii) It requires an acceptance.
- iv) A bill may be accepted conditionally.
- v) The drawer and payee may be the same person.
- vi) There are three parties - drawer, drawee and payee.

Cheque

- i) It is drawn by a debtor.
- ii) It doesn't require an acceptance.
- iii) It is always drawn on a bank.
- iv) It can be crossed.
- v) It doesn't require a stamp.
- vi) It is not entitled to three days of grace.

Promissory Note

- i) It is an unconditional promise.
- ii) It is drawn by a debtor on a creditor.
- iii) It doesn't require an acceptance.
- iv) A promissory note cannot be made conditionally.
- v) The maker and payee cannot be the same persons.
- vi) There are two parties - maker and payee.

7. The effects of dishonor of a bill are :-

- When the bill is dishonoured, it becomes valueless and the original position is restored between drawer and drawee.
 - The drawer has a right of action against the drawee.
 - When an endorser makes payment to the endorsee, he can sue the previous drawer.
 - Expenses incurred for establishing dishonor of a bill i.e. noting charge are paid by the drawer, which is recovered from the drawee.
8. The important characteristics of bill of exchange are :
- (a) It must be in writing
 - (b) It must have unconditional order.
 - (c) The order must be signed by the maker
 - (d) It must be accepted by the drawee
 - (e) The money must be payable to a certain person
 - (f) The money payable must be certain
9. A promissory note is an unconditional undertaking, signed by the maker, to pay a certain amount to a certain person.

SPECIMEN OF PROMISSORY NOTE

Rs. 30,000

Bhubaneswar

STAMP

24th April 2019

Three months after due date, I promise to pay to Mr X or order the sum of rupees thirty thousand with an interest of 10% per annum for value received.

Sd/- Mr Y

10. A person who acquires a bill of exchange in good faith, before the due date of maturity is called holder in due course. The holder of a bill acquires a good title even if the title of the transferor is defective.

(B) Computerised Accounting

1. The elements of a computer system are hardware, software, live-ware, firmware, procedure, data and connectivity. Live-ware consists of users of a computer who make a computer system to work behind the scenes. The users may be system analyst, system programmer and system operator.
2. A computerised Accounting System is an accounting information system that process the financial transactions and events as per GAAP and IFRS to produce reports as per the requirement of the user. The various stages of accounting process like recording, classification and summarising are done with the help of computers by the help of accounting packages.
3. The basic requirement of every Computerised Accounting System are :
 - (a) Accounting Framework - It is a combination of a set of accounting standard and principles, coding and grouping the structure of accounting.
 - (b) Operating procedure - It should be well-defined and blended as per the operating environment.
 - (c) Front-ended interface - An interactive link between the user and data based oriented software.
 - (d) Back ended database - It is the system of data storage.
 - (e) Data processing - Sequential action to transform the data into information for decision making.
 - (f) Reporting - It is an integrated set of objects to constitute accounting reports.
4. The functions of Computerised Accounting System are :
 - (a) Recording and posting business transaction
 - (b) Storing of data.
 - (c) Maintaining pay rolls

- (d) Maintaining record of human resources
- (e) Keeping stock records
- (f) Preparation of bills
5. Computerised accounting system has a number of advantages over the manual accounting system. Some of them are :
- (a) Speed - data are processed faster.
- (b) Accuracy - The degree of accuracy is high and consistent.
- (c) Real time user interface - information is available to users at the same time.
- (d) Reliability - work by computer is highly reliable.
- (e) Upto - date information - automatically updated.
- (f) Efficiency - increases efficiency of employees.
6. In Computerised Accounting System, the requirement of additional manpower is confined only to data entry operators for entering and storing additional data, information, and vouchers. As a result this system is scalable or affordable.
7. The main components of a computer system are :
- (a) Motherboard - main circuit board.
- (b) Central Processing Unit (CPU) - arithmetic, logical and control operations.
- (c) Arithmetic & Logical Unit (ALU) - Arithmetical operations like addition, subtraction etc.
- (d) Keyboard - used to feed data and programme.
- (e) Monitor - known as computer screen.
- (f) Printer - device that prints paper documents.
8. Accounting Information System is the oldest and most popular information system. It gathers information, maintains the financial record of operations of the organisation and makes it available to the users. It is used by both profit making and non-profit making organisation.
9. The steps involved in designing an accounting report are :
- Step 1 : Define the objectives clearly
- Step 2 : Content and format of the report should be complete and clear.
- Step 3 : The report should be able to manipulate the database in a positive way.
- Step 4 : It should have proper analysis and suggestions.
- Some of the accounting reports are :-
- (a) Debtors' Report
- (b) Creditors' Report
- (c) Financial Statements
- (d) Other Reports
10. Spreadsheet is a type of programme in which data are arranged in the rows and columns of a grid. These data can be manipulated and used in calculations. The columns in the spreadsheet can be increased or decreased in numbers and size according to the needs.
11. Tailor - made softwares are designed and developed to meet the needs and specifications of the users. These softwares are developed after a discussion with the users. These softwares are expensive in nature as compared to the readymade softwares available in the market.
12. Softwares which are designed and developed to meet the needs of users at a large scale is known as readymade software. These softwares are not for specific user and these are developed by experienced professionals. These are easily available in the market. Some of the examples of readymade software are - Tally, Ex and Busy.

UNIT - III**GROUP - C : LONG TYPE QUESTIONS****(A) Bills of Exchange**

1. Define Bill of exchange. Explain the important features of Bills of Exchange.
2. What is retiring a bill under a rebate ? Give entries in the books of acceptor and the holder.
3. What is discounting of a bill ? Pass the entries in the books of the drawer and the drawee.
4. What is accommodation bill ? Pass accounting entries in the books of drawer and drawee.
5. Distinguish between Bill of Exchange and promissory note ?
6. Mr. x sold goods to Mr. y for Rs.30,000 on 1st January 2020 and on the same day he drew a bill on B at three months for the amount. The Bill is duly accepted by B but it was dishonoured on the due date. Mr. X pays Rs.2000 as noting charges. Record these transactions in the books of x and y.
7. On 1st January 2020 Rakesh sold goods to Iravan for Rs. 10,000. On the same day Rakesh drew a bill and it was accepted by Iravan for two months Rakesh discounted the bill on 4th January with his bank @6% p.a. Before the due date Iravan requested Rakesh for its renewal for a further period of 3 months. Rakesh agreed with a condition that the bill should include interest @10% pal. Pass journal entries in the books of Mohan and Iravan.
8. A draws a three month is bill of exchange for Rs.20,000 on his debtor B. B accepted the bill on 1st January 2020. The bill was discounted on 4th January, 2020, the discount rate was 10% p.a. On the due date the bill was

dishonoured and the noting charges was Rs.50. On 4.4.2020 B makes an offer to Mr A to pay him Rs. 6000 by cash, one bill of exchange of 1 month for Rs. 6000 and the rest for 3 months with 12% interest on both the bills. A accepts the offer, the first bill was met on time but before the maturity of second bill and B becomes insolvent. Only 50% of the bill was recovered. Pass necessary entries in the books of A and B.

9. On 1st January 2020 A and B draw on each other a bill for Rs.20,000 for three months for their mutual benefit. On 4th January 2020 they discounted the bill at 18% per annum. On the due date both A and B met their acceptance. Pass Journal entries in the books of A and B.

(B) Computerised Accounting

1. What is computer ? Write the characteristics of a computer ?
2. Briefly explain the components of a computer ?
3. What is Computerised Accounting System. What are the commonly used softwares in business.
4. What is the need for Computerised Accounting System ?
5. Write the advantages and disadvantages of Computerised Accounting ?
6. What is accounting information system ? Write down the principles for the reliability of AIS.
7. Explain the sub-system and purpose of AIS.
8. How Management Information System and Accounting Information system are dated ?

UNIT - III

GROUP - C : ANSWER

(A) Bills of Exchange

1. Write the definition of Bills of Exchange with proforma. The features are to be explained.
2. Meaning of retiring a bill. Journal entries are to be passed in the books of drawer and drawee,
3. Write the process of discounting, effects of discounting a bill, calculation of discount, entries in the books of drawer and drawee.

Notes relating to calculation of discount and Effect of discount are given below :

Calculation of discount

Discount on Bill = Face value of the bill x

Rate of interest x $\frac{\text{Un expired days of the bill}}{365}$

6. x's Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	y a/c Dr To Sales a/c (Being goods sold on credit)		30,000	30,000
Jan 1	B/R a/c Dr To y a/c (Being acceptance received)		30,000	30,000
April 4	y a/c Dr To B/R a/c To Cash a/c (Being the bill dishonoured and noting charges paid)		32,000	30,000 2,000
			92,000	92,000

Effects of discount a Bill

- i) The discount is an expenses for the drawer and revenue for the bank.
 - ii) When a discounted bill is honoured, no journal entry is required to be passed in the books of drawer.
 - iii) The discounting of a bill doesn't affect the position of a drawee.
4. Write the meaning of accommodation bill, main objective of accommodation bill.

Pass required entries for accommodation of both drawer and drawee.
 5. Write the difference between Bill of Exchange and Promissory Note.

y's Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	Purchase a/c Dr To x's a/c (Being goods purchased on credit)		30,000	30,000
Jan 1	x's a/c Dr To Bills payable a/c (Being acceptance given)		30,000	30,000
April 4	Bills payable a/c Dr Noting Charges a/c Dr To A (Being the bill dishonoured and noting charges)		30,000 2,000	32,000
			92,000	92,000

7.

Rakesh Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	Iravan a/c Dr To Sales a/c (Being the goods sold to Iravan)		10,000	10,000
Jan 1	B/R a/c Dr To Iravan a/c (Being a bill dawn on Iravan)		10,000	10,000
April 4	Bank a/c Dr Discount a/c Dr To B/R a/c (Being the bill discounted @6%)		9,900 100	10,000
March 4	Iravan a/c Dr To Bank a/c (Being the bill dishonoured)		10,000	10,000
March 4	Iravan a/c Dr To Interest a/c (W.N.-2) (Being interest charged to Iravan @10% p.a for 3 month)		250	250
March 4	B/R a/c Dr To Iravan a/c (Being a new bill drawn on Iravan)		10,250	10,250
Jun 7	Bank a/c Dr To B/R a/c (Being bill honoured on maturity)		10,250	10,250

8.

A's Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	B/R a/c Dr To B's a/c (Being bill drawn on B for 3 months)		20,000	20,000
Jan 4	Bank a/c Dr Discount a/c Dr To B/R a/c (Being a bill discounted)		19,500 500	20,000
April 4	B's a/c Dr To B/R a/c (Being bill dishonour and noting charge of Rs. 50)		20,050	20,050
April 4	Cash a/c Dr To B's a/c (Being part payment in Cash)		6,000	6000
April 4	B/R a/c Dr To B's a/c (Being a new bill drawn for 1 month)		6,000	6,000
April 4	B's a/c Dr To Interest a/c (W.N. 1) (Being interest charged on the new bill)		302	302
April 4	B/R a/c Dr To B's a/c (W.N.-2) (Being bill drawn for rest amount)		8,352	8,352
May 7	Bank a/c Dr To B's a/c (Being bill honoured on maturity date)		6,000	6,000
	B's a/c Dr To B/R a/c (Being bill dishonour before maturity date)		8,352	8,352
July 7	Bank a/c Dr Bad debt a/c Dr To B's a/c (Being 50% of the amount due from B received)		4,176 4,176	8,352

B's Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	A's a/c Dr To B/P a/c (Being the acceptance of bill)		20,000	20,000
April 4	B/P a/c Dr Noting Charges a/c Dr To X a/c (Being bill dishonoured and noting charges (payable))		20,000 50	20,050
April 4	A's a/c Dr To Cash a/c (Being part payment in cash)		6,000	6,000
April 4	A's a/c Dr To B/P a/c (Being the acceptance of a new bill)		6,000	6000
April 4	A's a/c Dr To B/P a/c (Being a bill accepted for rest amount)		8,352	8,352
April 4	Interest a/c Dr To X a/c (Being interest payable to HRA)		302	302
May 7	B/P a/c Dr To Bank a/c (Being the honour of 1 st new bill)		6,000	6,000
	B/P a/c Dr To A's a/c (Being bill dishonour due to insolvency)		8,352	8,352
July 7	A's a/c Dr To Bank a/c To Dificiency a/c (Being 50% of the last bill honoured)		8,352	4,176 4,176

Working Notes

WN 1 - Interest Calculation

$$\left(6000 \times \frac{12}{100} \times \frac{1}{12}\right) + \left(8050 \times \frac{12}{100} \times \frac{3}{12}\right) = 60 + 241.50 = 302$$

WN 2 - Bill drawn on rest amount

$$20,000 - (6000 + 6000) + 50 + 302 = 8352.$$

9.

A's Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	B/R a/c Dr To B a/c (Being bill accepted)		20,000	20,000
Jan 1	B's a/c Dr To B/P a/c (Being acceptance given)		20,000	20,000
Jan 4	Bank a/c Dr Discount a/c Dr To B/R a/c (Being the bill discounted)		19,100 900	20,000
April 4	B/P a/c Dr To Cash a/c (Being acceptance honoured)		20,000	20,000

B's Journal

Date	Particulars	LF	Dr. Amount	Cr. Amount
2020				
Jan 1	A a/c Dr To B/P a/c (Being bill accepted)		20,000	20,000
Jan 1	B/Rs a/c Dr To A a/c (Being acceptance given)		20,000	20,000
Jan 4	Bank a/c Dr Discount a/c Dr To B/R a/c (Being the bill discounted)		19,100 900	20,000
April 4	B/P a/c Dr To Cash a/c (Being acceptance honoured)		20,000	20,000

(B) Computerised Accounting

1. Write down the definition of the computer, then write down the characteristics of computer.
2. Write in detail about the five components of a computer given below :
 - (a) The input unit
 - (b) The storage or memory unit
 - (c) Arithmetic or logic unit
 - (d) The control unit
 - (e) The output unit
3. Write the meaning of computerised accounting, the six basic requirements. The commonly used softwares are : Electronic spreadsheet, Word Processor and Database Management.
4. Write down the need for computerised accounting along with definition.
5. Write down the advantages and disadvantages of computerised accounting along with definition.
6. Write the meaning of AIS, features and the five principles for the reliability of AIS.
7. Write briefly the four sub-systems and the purposes of AIS.
8. Write the relationship between MIS and AIS with the help of the diagram.

UNIT-IV

KEY CONCEPTS

RECTIFICATION OF ERRORS, BANK RECONCILIATION STATEMENT

(A) Rectification of Errors

- **Accounting Errors :** Errors or mistakes are committed at various stages of accounting process i.e. in journal and ledger through non-recording, violation of accounting principles or recording wrong amount, wrong totalling, wrong balancing etc. These errors need to be located and rectified to ascertain true profit or losses and financial position of the business.

Types of errors :

- (i) Error of Omission : (a) Complete, (b) Partial
- (ii) Error of Commission
- (iii) Compensating Error
- (iv) Error of Principle

All the errors can be broadly categorised into two types :

- (i) Errors disclosed by Trial balance. They are also called one sided errors. The rectification is done by putting required amount in debit or credit side of concerned accounts.
 - (ii) Errors not disclosed by trial balance. These are called two sided errors. These two sided errors are rectified by passing journal entries.
- **Suspense account** - Some errors are identified only after trial balance is prepared. In such case the difference arising out of errors are transferred to suspense account. The rectification is done by using suspense account. If the credit side of trial balance is less, the suspense a/c will be credited and if the debit side is less, suspense a/c will be debited.

(B) Bank Reconciliation Statement

- **Bank Reconciliation Statement :**

This is a statement which reconciles the bank balance of the cash book with balance as per bank pass book. Various causes of disagreement between these two balances are :

- (i) Cheque issued but not presented for payment

- (ii) Cheque deposited but not yet collected
- (iii) Bank charges not entered in cash book
- (iv) Interest credited by bank not entered in cash book.
- (v) Amount directly deposited into the bank by debtor.
- (vi) Payment through standing instruction or direct debit
- (vii) Credit transfer from various sources into the bank account

- **Preparation of Bank Reconciliation Statement :**

Bank Reconciliation statement can be prepared either by taking the balance as per cash book as the starting point or the balance as per pass book as the starting point.

UNIT - IV**GROUP - A : OBJECTIVE TYPE QUESTIONS**

1. *From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.*

(A) Rectification of Ersons

1. Which is not a clerical error ?
 - (a) Error of Omission
 - (b) Error of Commission
 - (c) Compensating Error
 - (d) Error of principle
2. Error of commission includes :
 - (a) Error of recording
 - (b) Error of totalling
 - (c) Error of posting
 - (d) All of these
3. When a capital expenditure is treated as revenue or vice-versa, it is an error of
 - (a) Commission
 - (b) Omission
 - (c) Principle
 - (d) Compensating
4. Which of the following error is not disclosed by the Trial Balance ?
 - (a) Error of principle
 - (b) Compensating error
 - (c) Error of complete omission
 - (d) All of the above
5. Sales book under cast by ₹ 100 refers to :
 - (a) one sided error
 - (b) two sided error
 - (c) no error
 - (d) compensating error
6. Rs. 1000 paid as wages for erecting a machine should be debited to :
 - (a) Machinery account
 - (b) Wages account
 - (c) Cash account
 - (d) Capital account
7. Goods worth ₹ 100 given as charity should be credited to
 - (a) Charity account
 - (b) Cash account
 - (c) Sales account
 - (d) Purchase account
8. An error in nominal account or goods account affects :
 - (a) Profit & Loss Account
 - (b) Balance Sheet
 - (c) Both P / L account & B / S
 - (d) None of these
9. Commission received is omitted to be posted to the credit of commission account. The error will
 - (a) increase loss
 - (b) decrease profit
 - (c) either increase loss or decrease profit
 - (d) no change in profit & loss

10. Suspense account is credited when the credit side of the trial balance
- (a) is less
 - (b) is more
 - (c) may be more or less
 - (d) none of these
11. Suspense account is a
- (a) personal account
 - (b) representative personal account
 - (c) real account
 - (d) nominal account
12. Suspense account is shown in Trial Balance as well as in
- (a) manufacturing a/c (b) trading account
 - (c) P/L account (d) B/S
13. A was paid cash ₹ 2000 but B was debited by ₹ 1000. For rectification, the suspense account will be credited by
- (a) 2000 (b) 1000
 - (c) 3000 (d) 4000
14. The utility of suspense account is
- (a) to facilitate preparation of financial statements
 - (b) to locate error affecting trial balance
 - (c) to pass rectifying entries
 - (d) all of these
15. Sale of furniture has been credited to sales account for ₹ 3000. In the rectifying entry, which account will be debited?
- (a) Cash account
 - (b) Furniture account
 - (c) Sales account
 - (d) None of these
16. Purchase of stationery for ₹ 300 has been recorded in the Cash Book as ₹ 30. How much amount will be credited to cash account in rectifying entry?
- (a) Rs. 30 (b) Rs. 270
 - (c) Rs. 330 (d) Rs. 300
17. Goods have been sold to A for ₹ 245. His account should be debited but his account has been credited by ₹ 425. To rectify this error A account should be debited by
- (a) ₹ 425 (b) ₹ 245
 - (c) ₹ 670 (d) ₹ 180
18. Cash paid by A ₹ 650 was posted ₹ 560 in his account. To rectify, the suspense account will be debited by
- (a) ₹ 1210 (b) ₹ 90
 - (c) ₹ 650 (d) Nil
19. Purchase of furniture debited to purchase account will affect
- (a) Gross profit only
 - (b) Net profit only
 - (c) B/S only
 - (d) All of these
20. A credit sale of old plant amounting ₹ 400 was passed through the sales day book. The rectifying entry will be
- (a) Cash account Dr to Sales a/c
 - (b) Sales a/c Dr to P/M a/c
 - (c) Plant a/c Dr to Cash a/c
 - (d) Sales a/c Dr to Cash a/c

(B) Bank Reconciliation Statement

1. Pass book is issued for
 - (a) Current a/c
 - (b) Savings a/c
 - (c) Recurring Deposit a/c
 - (d) All of the above
2. The preparation of Bank Reconciliation statement is
 - (a) a part of double entry book keeping system
 - (b) not a part of double entry book keeping system
 - (c) prepared by the customer
 - (d) updated continuously like cash book
3. Which is not a utility of Bank Reconciliation Statement ?
 - (a) it reflects actual bank balance position
 - (b) detects any mistake in cash book and pass book
 - (c) explaining any delay in collection of cheques
 - (d) identifies valid transactions recorded by both parties
4. A Bank statement is a copy of
 - (a) A customer's account in the Bank Book
 - (b) Cash Column of Cash Book
 - (c) Bank Column of Cash Book
 - (d) None of these
5. A debit balance in the depositor's cash book will be shown as :
 - (a) a debit balance on the Bank Statement
 - (b) a credit balance on the Bank statement
 - (c) either debit or credit balance in Bank statement
 - (d) none of these
6. The cause which does not lead to the difference in cash book and pass book is
 - (a) entries made in cash book but not in pass book
 - (b) entries made in pass book but not in cash book
 - (c) entries made both in cash book and pass book
 - (d) none of these
7. Credit balance in cash book is
 - (a) a liability
 - (b) an asset
 - (c) loss
 - (d) profit
8. Debit balance as per pass book is
 - (a) an asset
 - (b) an liability
 - (c) loss
 - (d) profit
9. Interest collected by bank will
 - (a) increase the pass book balance
 - (b) increase the cash book balance
 - (c) decrease the pass book balance
 - (d) decrease the cash book balance
10. Cheque deposited but not yet credited will
 - (a) decrease the pass book balance
 - (b) decrease the cash book balance
 - (c) increase the pass book balance
 - (d) increase the cash book balance
11. A cheque of Rs.200 received on 20.12.2019 was recorded in discount column of cash book but was not banked. Does it affect the reconciliation of two balances ?
 - (a) yes
 - (b) no
 - (c) affects only
 - (d) affects only cash book balance

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

(A) Rectification of Error

1. Which type of error occurs when a transaction is not recorded according to accounting principles ?
2. Name the type of error, the effect of which nullifies another error.
3. Name the account where the differences in Trial Balance is temporarily placed.
4. Where will the debit balance of suspense account appear in B/S ?
5. Which a/c will be credited in the rectifying entry when goods returned to 'A' 4,000 were posted to 'B'.
6. Which a/c will be debited in rectifying entry, when Rs. 4,000 spent in installation of machinery is wrongly debited to wages a/c.
7. Which a/c will be credited in rectifying entry when Rs. 1000 paid as wages were posted twice in the wage a/c.
8. Which error is rectified with the help of journal entry ?
9. Which error is rectified by debiting or crediting the concerned a/c instead of passing journal entry ?
10. Which account will be credited in rectifying entry when purchases of machinery is entered in purchase book ?

(B) Bank Reconciliation Statement

1. Name the statement prepared to reconcile the difference between the balance as per Cash Book and Pass Book.
2. In which side of the pass book, the debit entries of the cash book are recorded ?
3. What do you mean by debit balance of cash book ?
4. What do you mean by credit balance of cash book ?
5. What do you mean by debit balance of pass book ?
6. What do you mean by credit balance of pass book ?
7. Mention an item when debited by bank reduces the pas book balance.
8. Mention an item when credited by bank increases the pass book balance.
9. Name the book which is merely a copy of customer's account in the books of bank.
10. Who maintains / prepares a Bank Reconciliation statement ?
11. A cheque deposited into bank but dishonoured How will it be treated (add or less) in Bank Reconciliation statement if debit balance of cash is there ?
12. Payment side of cash book has been under cast. How will it be treated (add or less) in Bank Reconciliation statement if debit balance of cash book is there ?

2. (b) Fill in the blanks :

(A) Rectification of Error

1. A transaction not recorded according to Accounting principles is known as error of _____.
2. An error which nullifies another error of equal amount is known as _____ error.
3. A receipt of ₹ 100 from a credit customer has not been recorded in the cash book is an error of _____.
4. Error arising due to wrong recording, wrong posting, wrong casting, wrong balancing etc. relates to error of _____.
5. Error that affect only one side of an account is called _____ error.
6. "Sales Book overcast by 200." posting of 200 to the _____ side of Sales Account will rectify this error.
7. Credit purchase of ₹ 1000 from A was posted to the debit side of his account. To rectify the erro of posting, ₹ 2000 should be posted to the _____ side 'A' a/c.
8. The account opened temporarily to carry forward the difference of short balance in Trial Balance arising out of undetected error known as _____ Account.
9. Two sided errors have no effect on _____.
10. Furniture purchased was wrongly debited to purchase a/c - Rectification will be made by _____ furniture a/c.
11. If the credit side of the Trial balance is less, the suspense account will be _____.
12. If suspense account can not be closed, the balance is taken to B/S on the assetide if there is _____ balance.
13. Rent paid to landlord has debited to his personal a/c. In the rectifying entry, _____ a/c will be debited and land lord a/c is credited.
14. Mistakes in _____ accouts will affect net profit.
15. Mistakes in real or _____ account will affect Balance sheet.

(B) Bank Reconciliation Statement

1. Bank Reconciliation statement is a statement to reconcile the difference between the balance as per bank column of the _____ and pass book on any given date.
2. Withdrawals and issue of cheque are recorded on the _____ side of the Triple Column Cash Book.
3. The _____ balance of cash book are recorded in the credit side of pass book.
4. Prepration of Bank Reconciliation statement does not require the principle of _____ system of Book keeping.
5. A debit balance in the Bank Pass Book means an asset for the bank and _____ for the customer.
6. If the Bank Reconciliation statement is started with balances as per bank column of the cashbook, the ansewr arrived will be the balance as per _____.
7. The balance as per cash book may be debit or _____.

8. Debit balance as per pass book shows the amount has been withdrawn in excess of _____.
9. Debiting an item in the cash book _____ the balance of cash book.
10. Debiting an item in the pass book decreases the pass book balance or _____ the overdraft balance.
11. Debit balance of cash book known as _____ balance.
12. Debit balance as per pass book shows _____ balance.
13. Cheque deposited in the bank but not credited". The amount will be _____, if balance as per cash book is given for preparation of Bank Reconciliation statement.
14. "Bank charges debited in pass book". The amount will be _____, if balance as per cash book is given for preparation of Bank Reconciliation statement.
15. "Cheque is directly deposited by a customer". The amount will be _____ if credit balance of pass book is given to preparation of Bank Reconciliation Statement.

2. (c) Answer the following questions in one sentence each.

(A) Rectification of Error

1. What do you mean by Error of Omission ?
2. What is Error of Commission ?
3. What is compensating error ?
4. What is Error of principle ?
5. What is one-sided error ?
6. Does two sided error affect trial balance ?
7. What is two sided error ?
8. What do you mean by rectifying entry ?
9. What is "Suspense Account" ?
10. Pass the rectification entry for "Purchase book undercast."
11. Pass the rectification entry for "Rs. 600 received from A was posted to his account Rs. 60."
12. Pass the rectification entry for "Credit purchase of goods from A was posted to the credit of B".
13. Where is the suspense account with debit balance shown ?
14. Where is the suspense account with credit balance shown ?
15. Does the rectification entry affect the profit and loss of the period ?

(B) Bank Reconciliation Statement

1. What is a Bank Reconciliation statement ?
2. What is a pass book ?
3. What do you mean by debit balance in cash book ?
4. What do you mean by credit balance in cash book?
5. What do you mean by debit balance in pass book ?
6. What do you mean by credit balance in pass book ?
7. What happens to cash book balance when a cheque is issued but not presented for payment ?
8. What happens to cash book balance when a cheque is deposited but not cleared ?
9. Give an example where difference arises due to a transaction recorded by bank.
10. What will happen to pass book balance if a cheque is dishonoured ?
11. Does credit balance of cash book mean credit balance of pass book ?
12. Give an example of an error in cash book which causes difference in the balance of cash book and pass book.

2. (d) Correct the underlined portion of the following sentences.**(A) Rectification of Error**

1. Error arising due to non-recording of business transaction wholly or partially are called error of commission.
2. Error of Totaling or casting is an error of Omission.
3. Purchase of machinery being recorded in purchase book is an error of Omission.
4. Rs. 500 paid to A is recorded 5000 and Rs. 5000 paid to B is recorded as 500. This is an error of omission.
5. In two sided error, the rectification is done by debiting or crediting the concerned account instead of passing journal entry.
6. Error affecting two accounts simultaneously are called one sided error.
7. "Cash Sale 2000 were posted to commission a/c". In the rectifying entry sales a/c will be debited.
8. If the total of debit side of trial balance is short suspense a/c will show credit balance.
9. "Rs. 100 were entered in B/R a/c instead of 300". In the rectifying entry suspense a/c will be credited by Rs. 400.
10. Suspense account is a real a/c.

(B) Bank Reconciliation Statement

1. Bank pass book is merely a copy of banker's account.
2. "Cheque issued but not presented payment". The entry in the Cash book increases cash book bank balance.
3. "Interest Credit by Bank". It increases his bank balance in the cash book.
4. Bank charges and interest charged by bank are credited to customer's a/c.
5. Debit balance as per cash book is a liability for the firm.
6. Credit balance as per cash book is known as favourable balance.
7. Credit balance as per pass book is known as unfavourable balance as per pass book.
8. Overdraft balance as per pass book is given. Insurance premium paid by bank will decrease the overdraft balance.
9. A Bank Reconciliation statement is prepared to know the causes for the difference between the balance as pr cash column of cash book and the pass book.
10. A Bank Reconciliation statement is prepared by the bank.

UNIT - IV

GROUP - A : ANSWERS

1. From the alternatives given under each bit write serially the correct answer along with its serial number against each bit.

(A) Rectification of Ersons

1. (d) Error of principle
2. (d) All of these
3. (c) Principle
4. (d) Wrong totalling of subsidiary books
5. (a) one sided error
6. (a) Machinery account
7. (d) Purchase account
8. (c) Both P / L account & B / S
9. (c) either increase loss or decrease profit
10. (a) is loss
11. (d) nominal account
12. (d) B/S
13. (b) 1000
14. (d) all of these
15. (c) Sales account
16. (b) Rs. 270
17. (c) ₹ 670

18. (b) ₹ 90

19. (d) All of these

20. (b) Sales a/c Dr to P/M a/c

(B) Bank Reconciliation Statement

1. (d) All of the above
2. (b) not a part of double entry book keeping system
3. (d) identifies valid transactions recorded by both parties
4. (a) A customer's account in the Bank Book
5. (b) a credit balance on the Bank statement
6. (c) entreis made both in cash book and pass book
7. (a) a liability
8. (b) an liability
9. (a) increase the pass book balance
10. (d) increase the cash book balance
11. (b) no

2. Do as Directed Questions

2. (a) Answer the following questions in one word / term each.

(A) Rectification of Error

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Error of Principle 2. Compensating Error 3. Suspense Account 4. Asset Side | <ol style="list-style-type: none"> 5. 'B' a/c 6. Machinery a/c 7. Wages a/c 8. Two sided error 9. One sided error 10. Purchase a/c |
|--|--|

(B) Bank Reconciliation Statement

1. Bank Reconciliation Statement
2. Credit side
3. Favourable balance
4. Unfavourable balance / overdraft
5. Unfavourable balance
6. Favourable balance

7. Bank charge /
Interest charge Commission Charge
8. Interest / dividend collected
9. Pass book
10. Customer
11. Less / deduct
12. Less / deduct

2. (b) Fill in the blanks :**(A) Rectification of Error**

1. Principle
2. Compensating
3. Complete
4. Commission
5. One sided
6. Debit
7. Credit
8. Suspense
9. Trial Balance
10. Debiting
11. Credited
12. Debit Balance
13. Rent
14. Nominal
15. Personal

(B) Bank Reconciliation Statement

1. Cash book
2. Credit
3. Debit
4. Double entry
5. Liability
6. Pass Book
7. Credit
8. Deposit
9. Increases
10. Increases
11. Favourable
12. Unfavourable
13. Deducted / less
14. Less / deducted
15. Deducted / less

2. (c) Answer the following questions in one sentence each.

(A) Rectification of Error

1. An error of a Omission is an error when a transaction is completely or partially Omitted from being recorded in the books of accounts.
2. Error of Commission is that error which arises due to wrong recording, wrong totaling, wrong balancing and wrong carry forwarding etc.
3. An error, the effect of which is neutralized by another error of equal amount is known as compensating error.
4. When a transaction is not recorded according to accounting principles, it is known as Error of Principle.
5. When an error affects only one side of an account either debit or credit, is known as one sided error.
6. Trial balance is not affected by two sided errors.
7. Error that affects two or more accounts with equal debit and credit amount are known as two sided error.
8. The rectifying entry is passed to rectify the erroneous journal entry passed earlier.
9. Suspense account is an account to which the difference in the Trial balance is put temporarily.
10. Purchase a/c Dr.
To Suspense a/c
(Being undercast of purchase book rectified)
11. Suspense a/c Dr 540
To A a/c 540
12. B a/c Dr
To A a/c
13. Suspense account with debit balance is shown on the asset side of the B/S.

14. Suspense account with credit balance is shown on the liabilities side of the B/S.
15. Yes, the rectification entry also affects the profit and loss of the period in which the error is detected and rectified.

(B) Bank Reconciliation Statement

1. Bank Reconciliation statement is a statement prepared to reconcile the difference between the balance as per bank column of the cash book and pass book on a given date.
2. Pass book is a copy of the account of customer maintained by the bank.
3. Debit balance in cash book means cash at bank and it is the asset of the business.
4. Credit balance in cash book means overdraft and it is a liability of the business.
5. Debit balance in pass book means overdraft and it is a liability to the business.
6. Credit balance in pass book means cash at Bank and it is an asset to the business.
7. It reduces the cash book balance.
8. It increases the bank balance of cash book.
9. Interest Credited by bank / interest charged by bank causes difference in cash book balance & pass book balance.
10. Pass book balance will not be affected.
11. Credit balance of cash book means pass book debit balance of pass book.
12. Under cast / overcast in the bank column of cash book causes difference in the balances of two books.

2. (d) Correct the underlined portion of the following sentences.

(A) Rectification of Error

1. Omission
2. Commission
3. Principle
4. Compensating Error
5. One-sided error
6. Two-sided
7. Credited
8. Debit
9. 200
10. Nominal

(B) Bank Reconciliation Statement

1. Customer's Account
2. Reduces / decreases
3. Pass Book
4. Debited
5. An asset
6. Unfavourable
7. Favourable
8. Increase
9. Bank
10. Customer / firm

UNIT - IV**GROUP - B : SHORT TYPE QUESTIONS****3. Short Questions to be answered within 30 words****(A) Rectification of Errors**

1. Is an agreed Trial Balance a conclusive proof of the accuracy of records ?
2. Why does error happen ?
3. What are the clerical error ?
4. Explain the Error of principle with an example.
5. Give an example of Compensating error.
6. What do you mean by one sided errors ?
7. Give two cases of one sided errors.
8. What do you mean by two sided error.
9. Write down the procedure for rectifying two sided profit.
10. What will be the effect of rectification entries on profit ?
11. The errors of which accounts affect the profit / loss ?
12. Give an example of partial omission and complete omission.
13. Rectify the error - Wages paid was wrongly debited to salary a/c.
14. Pass the rectifying entry. - "Credit sale of ₹ 700 to 'A' was recorded in the purchase book.
15. Pass the rectifying entry - "Credit Sale of furniture to A for ₹ 300 was entered in the Sales Book as ₹ 450."

(B) Bank Reconciliation Statement

1. Give two reasons for preparing Bank Reconciliation statement.
2. Give a format of a bank pass book.

3. Write any two advantages of Bank Reconciliation statement.
4. State two features of Bank Reconciliation statement.
5. Name two transactions which the bank has earlier knowledge but that have not been intimated to customer.
6. Name two transactions where there is a time gap between recording of transaction in cash book and pass book.
7. State the methods of preparing Bank Reconciliation statement.
8. What do you mean by debit balance and credit balance as per pass book ?
9. What do you mean by debit balance and credit balance as per cash book ?
10. Pass the journal entry for "direct deposit in the bank by the customer."
11. Pass the journal entry for "dishonor of cheque".
12. While preparing Bank Reconciliation statement from the balance of cash book, what will happen to the followings ?
 - (a) Cheque issued but not presented
 - (b) Bank charges debited in pass book but not recorded in cash book
13. How will the following items affect the balance of pass book ?
 - (a) Direct payment by the customer into our bank
 - (b) Interest on investment collected by the bank.

4. Answer the following questions within 50 words each.**(A) Rectification of Errors**

1. What are the causes of accounting errors ? Mention any three.
 2. Write three steps for managing the errors.
 3. State three objectives of rectification of errors.
 4. Give a brief classification of accounting error.
 5. Give three examples of errors that affect one side of one account only.
 6. Explain the procedure of rectification of two sided errors.
 7. "A machine is purchased for ₹500 from A has been entered in the purchase book". Pass the rectifying entry following the procedure.
 8. What kind of errors would the trial balance fail to disclose ?
 9. Give three examples of errors not disclosed by Trial balance.
 10. Explain the error of principle with an example.
 11. Why suspense account is opened ?
 12. Why does the error in nominal account affect the profit and loss account ? Give an example.
 13. How is suspense account disposed ?
 14. How does an error in nominal account affect the B/S ?
- (B) Bank Reconciliation Statement**
1. What is Bank Reconciliation statement ?
 2. Why is Bank Reconciliation statement prepared ?
 3. Define a book pass book.
 4. Distinguish between cash book and pass book.
 5. Write any three causes for the difference between Cash book and pass book balance.
 6. Write any three items that frequently cause difference between the cash book and pass book balances.
 7. Why is the item "cheque issued but not yet presented" will be added to favourable balance of cash book ?
 8. Give four transactions which are recorded by the bank first.
 9. Give examples of three items which are added to the cash book at the time of reconciliation.
 10. Give examples of three items which are subtracted from favourable balance of the cash book ?
 11. State whether following items are added or subtracted when overdraft as per cash book is given at the time of reconciliation.
 - (a) Cheque drawn but not cashed before the end of the period.
 - (b) Cheque paid but not credited.
 - (c) Interest on investment collected by bank.
 12. State whether following items are added or subtracted when balance as per pass book is given at the time of reconciliation.
 - (a) Cheque directly deposited by a customer.
 - (b) Cheque issued but not presented for payment.
 - (c) Interest credited by bank.
 13. What are the methods of preparing bank reconciliation statement ?

UNIT - IV

GROUP - B : ANSWERS

3. *Short Questions to be answered within 30 words*

(A) Rectification of Errors

1. No, an agreed Trial Balance is not a conclusive proof of the accuracy of records. Even if the Trial Balance agrees, errors of omission or compensating error remain undetected.
2. Errors happen due to ignorance, carelessness or lack of knowledge about the principle of accounting or because of oversight.
3. All other errors except the Errors of Principle are known as clerical errors. They are :
 - (a) Error of Omission
 - (b) Error of Commission
 - (c) Compensating error
4. Errors of principle arise when a capital expenditure is treated as revenue expenditure and vice versa. For example : Wages paid for erection of a new machinery. In this case machinery a/c will be debited instead of wages a/c.
5. 'A' account was debited with ₹ 50 instead of ₹ 500, While 'B' account was debited with ₹ 500 instead of ₹ 50. In this case, ₹ 450 less in debit of 'A' is compensated by ₹ 450 excess in debit of 'B'.
6. One sided error affects only one account. These errors affect the agreement of the Trial balance. They are rectified by debiting or crediting the concerned account.
7. Two cases of one sided errors are :
 - (a) Posting a journal entry to the wrong side of an account.
 - (b) Wrong totaling or balancing of a ledger account.
8. Errors that affect two or more accounts with equal debit and credit are known as two sided errors. Such errors are not disclosed by Trial Balance.
9. Rectification is done as follows :
 - (a) Pass the correct entry for the transaction.
 - (b) Write the wrong entry below it which is actually passed.
 - (c) Compare the correct with the wrong and arrive at the rectification entry.
10. Error affects the profit for the period in which it is undetected. Similarly, the rectification entries also affect the profit for the period in which the error is rectified.
11. The undetected errors relating to nominal accounts, sale and purchase accounts affect the profit/loss of a business. The profit or loss also changes with the rectification of such errors.
12. Error of complete omission : An amount paid to 'A' is not recorded in the books at all.
Error of partial omission : In the above example if 'A' a/c has not been debited but cash a/c has been credited.
13. Wages a/c Dr
To Salaries a/c
(Salary a/c being wrongly debited instead of wages a/c now rectified)

- | | |
|--|--|
| <p>14. A's a/c Dr 1400
 To purchase a/c 700
 To sales a/c 700
 (Credit sale being recorded in purchase book now rectified)</p> | <p>15. Sales a/c Dr 450
 To furniture a/c 300
 To A's a/c 150
 (Being furniture for 300 sold to 'A' entered in Sales Book as 450, now rectified)</p> |
|--|--|

(B) Bank Reconciliation Statement

- To find out the accuracy of entries made and balances shown in the cash book and pass book. Secondly to complete the cash book since there are many transactions not recorded in cash book but recorded in pass book.
- Format of Bank Pass Book

Date	Particulars	Withdrawals Dr ₹	Deposits Cr ₹	Balance		Initial
				Amount ₹	Dr or Cr ₹	

- It helps to detect any mistake in Cash book and Pass Book. Secondly it explains any delay in collection of cheques.
- The Bank Reconciliation statement is prepared whenever a book statement is received. Secondly, it is prepared on a given date.
- Interest credited by bank and bank charges debited by bank. Here the customer comes to know of these transactions only when he receives the Bank statement.
- (a) Cheque issued but not presented for payment.
(b) Cheque deposited but not credited by the bank.
- Bank Reconciliation statement is prepared in the following methods.
 - Taking the balance as per Cash book as starting point.
 - Taking the balance as per pass book as starting point.
- Debit balance as per pass book means overdraft made by the customer.
Credit balance as per pass book means that there is deposit of amount with the bank.
- Debit balance as per cash book means so much amount is in the bank.
Credit balance as per cash book means overdraft i.e. there is an excess withdrawal.
- Bank a/c Dr
 To Customer's personal a/c
 (Being amount deposited in to bank by customer)
- Customer's personal a/c Dr.
 To Bank a/c
 (Being Cheque dishonoured by the bank)
- When Balance of Cash book is given, the item under
 - Will be added
 - Will be deducted.
- The balance of pass book meant favourable balance / credit balance as per pass book. So the item under
 - will be subtracted
 - will be subtracted

4. Answer the following questions within 50 words each.**(A) Rectification of Errors**

1. The following are the causes of accounting error.
 - (a) Accounting error arises due to lack of knowledge of accounting principles concepts and rules.
 - (b) Carelessness and dishonesty on the part of book keeper leads to accounting error.
 - (c) Ineffective internal check system also causes accounting error. It does not prevent occurrence of errors.
2. The three steps involved in error management are.
 - (a) Prevention of error - error can be prevented by introducing effective internal check system.
 - (b) Detection of error - Error of Omission, Compensating error and error of principle cannot be easily detected as they do not affect trial balance. But the error of commission can be detected.
 - (c) Rectification of error - Errors can be rectified by removing wrong figures or passing an rectifying entry etc.
3. The three objectives of rectification of errors are as follows :
 - (a) It ensures that the accounting process is complete and accurate.
 - (b) Rectification of error helps to avoid any wrong or discrepancies in accounting process so that financial statements can be prepared correctly to give free and fair view of the financial result and position.
 - (c) Presentation of correct financial statements increases the reliability of the accounting information and financial results.
4. Accounting error can be classified as under :
 - (a) Error of Omission - It arises due to non recording of transaction either wholly or partially. These are of two types i.e. error of complete omission and error of partial Omission.
 - (b) Error of Commission - These errors arise due to wrong recording, wrong posting, wrong casting and wrong balancing etc.
 - (c) Compensating error - An error, the effect of which counter balanced by another error.
 - (d) Error of principle - These errors arise due to not following the accounting rules and principles.
5. Three examples of one-sided errors are given below :
 - (a) Sales book undercast by Rs. 200.
 - (b) Purchase book overcast by Rs. 300.
 - (c) Commission paid to agent Rs. 100 not posted to commission account.
6. Rectification of two sided errors is done in the following manner.
 - (a) Write down the correct entry of the transaction
 - (b) Write down the wrong entry
 - (c) Correct entry is compared with the wrong entry and the effect of wrong entry suitably adjusted by passing a rectifying entry.

7. The Rectifying entry is passed through three steps
- (a) Correct entry :
- | | | | | | |
|---------------|------|-----|-----|--|--|
| Machinery a/c | Dr | 500 | | | |
| | To A | | 500 | | |
- (b) Wrong Entry :
- | | | | | | |
|--------------|------|-----|-----|--|--|
| Purchase a/c | Dr | 500 | | | |
| | To A | | 500 | | |
- (c) Rectifying entry
- | | | | | | |
|---------------|-----------------|-----|-----|--|--|
| Machinery a/c | Dr | 500 | | | |
| | To purchase a/c | | 500 | | |
8. The following errors are not disclosed by trial balance ?
- (a) Error of complete omission
- (b) Error of posting to wrong account but on the correct side.
- (c) Making an entry in wrong subsidiary book
- (d) Error of principle
- (e) Compensating error
9. Three examples of errors not disclosed by Trial balance are given below :
- (a) ₹ 2000 paid to A has not been recorded in the books of original entry.
- (b) ₹ 5000 paid to A has been recorded as 500 and ₹ 5000 received from B has been recorded as ₹ 5000.
- (c) Purchase of office furniture is wrongly debited to office expense account.
10. An error of principle arises when a transaction is not recorded as per accounting rule and principles. This error does not affect the trial balance. When the purchase of an asset is treated as an expense, it is an error of principle. For example - Wages paid for an erection of machinery will be debited to machinery account instead of wages account.
11. Sometimes the accountant is unable to locate the reason for difference in the total of the trial balance. He is in hurry to close the books of accounts. In this case, he puts the difference in trial balance to a newly opened account known as Suspense Account." Opening of suspense account does not mean error is rectified or forgotten. It is just a temporary arrangement to make the trial balance agree.
12. An error in nominal account will either increase or decrease the profit. The reason is that all the nominal accounts are transferred to trading account or profit and loss account. For example - Salary paid to an employee is wrongly posted to his personal account. In this case the amount of salary is not transferred to P/L a/c. So the profit will increase.
13. Suspense account is disposed off when error is located and rectifying entry is passed to correct it. If suspense account shows debit balance, it will be shown on the asset side of the balance sheet. If the suspense account shows credit balance, it will be shown on the liabilities side of the balance sheet.
14. An error in nominal account leads to either increase or decrease in profit. Profit is ultimately transferred to capital account. That means profit increases capital and loss decrease capital. Capital is shown on the liability side of the balance sheet. Thus any error in nominal account also affects the balance sheet.

(B) Bank Reconciliation Statement

1. A bank reconciliation statement is a statement prepared to reconcile the difference between the balance of the pass book and balance of the bank column of the cash book on a particular date. The bank maintains the accounts of the customer in the form of a statement which is known as pass book. Sometimes the two balances donot tally because of an error either in cash book or in pass book. So it is required to reconcile the two balance so as to correct the error committed or recorded.
2. The bank reconciliation statement is prepared because of following reasons.
 - (a) To locate the error committed either in cash book or pass book.
4. The distinnction between cash book and pass book is as follows :

Cash Book	Pass Book
(a) This book is maintained by the business.	(a) This book is maintained by the bank.
(b) It is updated continously.	(b) It is updated at regular intervals i.e. weekly, monthly etc.
(c) Some transactons like bank charge, bank interest etc. are recorded with the help of pass book.	(c) It is maintained not with the help of cash book.
(d) It records transaction following double entry system.	(d) It is not a part of double entry system.

3. Bank pass book is a copy of the accounts of the customer. It helps to compare the balances of cash book and pass book and accordingly errors are rectified. The debit balance in pass book means a liability to the customer. Similarly the credit balance of pass book means an asset of the customer.
5. The difference in the two balances arise from the following three reasons.
 - (a) Timing : There is always a time gap between recording transactions in cash book and pass book. For Example - Cheque deposited but not cleared and cheques issued but not presented for payment.
 - (b) Transactions - Some transactions like bank charge, the bank has prior knowledge than the business.
 - (c) Errors : Errors may be committed either by the bank or by the cashier.
6. The three items that frequently cause difference are
 - (a) Cheque issued but not presented for payment.
 - (b) Cheque deposited but not yet collected
 - (c) Bank change, interest allowed by the bank but not entered in cash book.
7. When a cheque is issued it is immediately recorded in the credit side of cash book. Thus the cash book balance decreases. If the cheque is not presented, then the pass book balance will remain same. So the amount of this item is added to the cash book balance in order to make it equal to pass book balance.

8. The transactions those are recorded first by the bank are :
- (a) Interest credited by the bank.
 - (b) Bank charges and interest charged by the bank.
 - (c) Payment made by the bank on behalf of the customer.
 - (d) Collection made by the bank on behalf of the customer.
9. When favour balance of cash book given, the three items to be added are :
- (a) Cheque issued but not yet presented for payment.
 - (b) Interest allowed by the bank.
 - (c) Direct deposit by customers into the bank.
10. The three items to be subtracted are :
- (a) Cheque sent for collection but not credited by bank.
 - (b) Bank change, interest charge, commission debited by bank.
 - (c) Direct payment made by bank as per standing instructions.
11. Overdraft as per cash book :-
- Add cheque drawn but not cashed.
 - Less cheque paid but not credited by bank
 - Add Interest on investment collected by bank.
12. Balance as per pass book :-
- (a) Less cheque directly deposited by customer.
 - (b) Less cheque issued but not presented for payment.
 - (c) Less interest collected by bank.
13. There are four methods by which bank reconciliation statement is prepared
- (a) Statement starting with cash book balance (Debit)
 - (b) Statement starting with overdraft of Cash book (Cr balance)
 - (c) Statement starting with balance as per pass book (Cr balance)
 - (d) Statement starting with overdraft as per pass book (debit balance)

UNIT - IV**GROUP - C : LONG TYPE QUESTIONS****(A) Rectification of Errors**

1. What are the different types of errors that usually write in accounts and explain them with examples ?
2. How would you rectify the errors in accounting ?
3. What is suspense account ? When is it opened ? Prepare a suspense account with the help of imagine any figure and example.
4. Rectify the following errors :
 - (a) The sales book has been undercast by 2000.
 - (b) A payment of 200 for rent has been posted twice to rent account.
 - (c) Rs. 400 received from Ram were debited to his account 4,000.
 - (d) Credit purchase of 1500 from A was posted to the debit side of his account.
 - (e) Purchase Return book has been overcast by 100.
 - (f) Dividend paid 3000 was not posted to dividend account.
5. Give necessary entries to correct the following transactions :
 - (a) Rs. 10,000 paid for the purchase of the machinery has been charged to purchase a/c.
 - (b) Rs. 500 spent on repairs was debited to building a/c.

- (c) Rs. 1000 received from 'A' has been wrongly entered as from 'B'.
- (d) Wages 500 paid to worker has been wrongly debited to the personal account.
- (e) Goods sold to 'A' for 3750 has been wrongly entered in sales book at 6250.

(B) Bank Reconciliation Statement

1. What is Bank Reconciliation Statement and why is it prepared ? (CHSE, Orissa Annual 1997).
2. What is Bank Reconciliation Statement ? Explain the true purpose of preparing such a statement.
3. Under what circumstances, the bank balance shown in cash book does not tally with balance shown in the Bank Pass Book ? (CHSE, Orissa, Annual 1997)
4. From the following particulars, prepare a Bank Reconciliation Statement as on 31.03.1991.
 - (i) Balance as per cash book on 31.3.91 was 12,000.
 - (ii) Cheque deposited into bank on 27.3.91 was 6,000 credited in pass book on 5.4.91.
 - (iii) Interest Rs. 14 credited by bank on 31.3.91 was not entered in cash book.
 - (iv) Cheques worth Rs. 8000 issued prior to 31.3.91 were not presented to the bank till 31.3.91.

- (v) Bank charges Rs. 18 recorded in pass book only. Rs. 17 was not recorded in the cash book. (Delhi, SSCE, Adopted).
- (vi) Cheque issued to a creditor for Rs.500 was through mistake entered in the cash column of cash book. The cheque has not been presented for payment. (CHSE, Orissa, Annual 1992).
5. On 31st December, 1997, the pass book of Mr. Menon's current account showed a credit balance of Rs.10,000. Prepare a Bank Reconciliation statement with the following information :
- (i) Mr Menon issued a cheque of Rs. 300 on 25.12.97 but not presented for payment whereas this was recorded twice in Cash book.
- (ii) A cheque of Rs.200 drawn on his Saving Deposit Account has been shown as drawn on Current Account.
- (iii) A cheque of Rs. 285 issued on 28.12.97 was taken in cash column.
- (iv) In the pass book, a bank charge of Rs. 25 was recorded twice while another bank charge of
6. Prepare a Bank Reconciliation statement on 30.6.2019 from the following information.
- (i) Bank overdraft as per cash book on 30.6.2019 was 2953.
- (ii) A cheque of Rs. 750 was debited in the cash book but omitted to be banked.
- (iii) A cheque of 1200 was deposited into bank on 20.6.19 but returned dishonoured.
- (iv) Two cheques of 300 and 500 were drawn in June but presented at the bank in July 2020.
- (v) According to standing order, bank has collected dividend 200 and has period premium on insurance policy of 175. These were not entered in Cash book.
- (vi) A bill of 400 received from A was discounted with the bank for 380 but the cash book has been debited with full amount of the bill.
7. Prepare a Bank Reconciliation statement as on 31.12.2019.
- | | |
|--|--------|
| (i) Bank overdraft as per pass book | 16500 |
| (ii) Cheque issued but not presented for payment | 8750 |
| (iii) Cheque deposited but not collected by bank | 10,000 |
| (iv) Payment received from customers direct by the bank | 3500 |
| (v) Bank charges debited in pass book | 2000 |
| (vi) Premium on life policy paid by the bank for the owner on standing order | 150 |

UNIT - IV

GROUP - C : ANSWER

(A) Rectification of Errors

1. Classification of Errors :

(a) Clerical Errors :

(i) Error of Omission :

(1) Partial Errors

(2) Complete Errors

(ii) Error of Commission

(iii) Compensating Errors

(b) Error of Principles

2. Rectification of error is done in two stages :

(i) Rectification of error before the preparation of Trial Balance.

(ii) Rectification of error after the preparation of Trial Balance.

Rectification of error can be done in following manner :

(i) Rectification of error before preparation of Trial Balance

(a) One sided error - relating to one side of account. Rectification is done by debiting or crediting or crediting the concerned account.

(b) Two sided errors - affecting two accounts. Rectification is done by passing journal entries.

(ii) Rectification of Error after preparation of Trial balance. The amount of difference in Trial balance is transferred to suspense account. Next year when such errors are located, they are rectified there.

3. Meaning of suspense account. Its utility is to be written. Then how is it disposed will be explained through suitable example. The part (ii) of Question No. 2 may be followed :

4. These are one sided errors. It will not require journal entry for rectification. Let us understand the (i) question.

The sales book has been under cast by 2000. That means sales account has been credited less by Rs.2000. There is no error in the accounts of customers. So only the sales account is to be corrected. This can be done by making an entry for 2000 on the credit side of sales a/c. "By undercasting of sales book for 2000". The rest of the answers will be written accordingly.

5. Rectifying journal entries for the (i) is explained as below :

Wrong entry :

Purchase a/c	Dr	10,000
To Cash a/c		10,000

The correct entry :

Machinery a/c	Dr	10,000
To Cash a/c		10,000

The rectifying entry :

Machinery a/c	Dr	
To purchase a/c		

(correction of wrong debit to purchase a/c for machinery purchased)

Similarly the rectifying entries for the rest of questions may be done.

(B) Bank Reconciliation Statement

1. Meaning of definition of Bank Reconciliation Statement.

The importance and utilities of Bank Reconciliation Statement are to be explained. The causes of difference may be mentioned.

2. The answer is same as that of Q.1.
3. Meaning and definition of Bank Reconciliation Statement. The items that cause a difference are to be detailed. The items are cheque issued but not presented for payment, cheque deposited but not yet collected, Bank charge not entered in cash book interest collected by bank but not entered in cash book etc.
4. To the cash Book balance, the items no (ii), (iv) will be added (i) & (v) will be deducted. The item no. (vi) will not be dealt as : it is still

not sent to the bank. Balance as per pass book Rs. 13,996.

5. Here the balance as per pass book is given as 10,000. Add to this, the item No. (ii), (iii) & (iv) Rs. 42 (25+17). Twice the amount of (i) transaction will be deducted i.e. Rs. 600 will be deducted. The balance as per cash book Rs. 9,927.
6. Item No. (ii), (iii), (v) only premium amount, (vi) only discount charge of Rs. 20 will be added. Therefrom the item No. (iv), and (v) dividend amount 200 will be deducted, Bank overdraft as per pass book Rs.4098.
7. Overdraft as per pass book is 16,500. To this overdraft amount item No. (ii), (iv) will be added and therefrom (iii), (v) and (vi) will be deducted. Overdraft as per cash book 18,150.

