Chapter 1.

ACCOUNTING

TOPIC: 1 ACCOUNTING

- Accounting is a language of Business.
- The Committee on terminology of American Institute Of Certified Public Accounting (AICPA) has define accounting as Follows:-

  "Accounting is an art of
  - Recording
  - Classifying
  - Summarizing in a significant manner & in term of money, transaction & events, which are, in part at least of a Financial nature&,
  - Interpreting the result thereof".

Process of accounting.

- Transaction & events of financial nature
- Original entry (Recording)
- Classification (Ledger)
- Summarizing (Final A\C)
- Analysis & Interpretation (Ratio & Trend)
- Communication (Reporting)

Question Hour

1) Financial statement are part of :-
   a. Accounting
   b. Book keeping
   c. Recording
   d. Both a & b

2) Which document shows the financial position of a business house?
   a. Cash book
   b. Trial
   c. Profit &Loss a/c
   d. Balance sheet

3) In accounting which type of dealing are recorded?
   a. Financial transaction
   b. Non-financial transaction
   c. Non-financial events
   d. Both a & b

4) The information provided by the financial accounting system is –
   a. Significant
   b. Sufficient of smooth, orderly & efficient concept of business
   c. Not Sufficient of smooth, orderly & efficient concept of business
   d. Both a & c

5) Accounting is generally understood as -
   I. Summarizing of business transaction
   II. Language of business
   III. Source of business information
   IV. Mean of communication

   a. 1 Only

b. 1 & 2

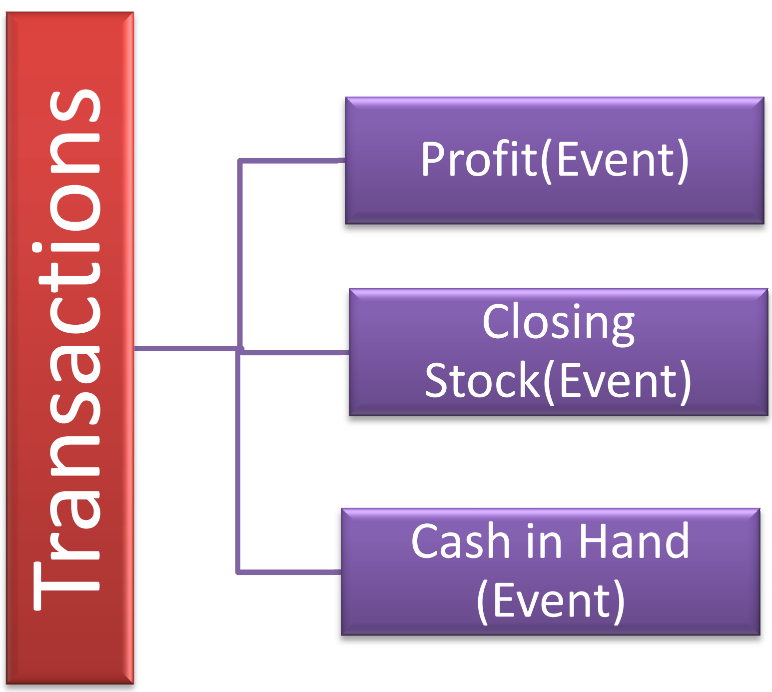
c. 2 & 3

d. 1,2,3 & 4

Answer:-

1) a
2) d
3) a
4) d
5) d

TOPIC: - 2 TRANSACTION V/S EVENTS



- Transactions are used to mean “A Business performance of an act, an agreement”. (change economic position)
- Event is used to mean “A happening as a consequence of transaction, a result”. (result of transaction)

Example: - Suppose Mr. Sah started business with cash Rs. 100 cr. and earned Rs. 5 cr. His purchases wereRs. 350 cr. while his sales wereRs. 500 cr. and at the end of the year his cash balance is Rs. 125 cr. and stock Rs. 25 cr. debtors Rs. 30 cr.

- Transaction :

  i. Starting business with cash Rs. 100 cr.
  ii. Purchase Rs. 350 cr.
  iii. Sales Rs. 500 cr.

- Events :

  i. Cash in hand Rs. 125 cr.
  ii. Profit Rs. 5 cr.
  iii. Closing stock Rs. 25 cr.
  iv. Debtors Rs.30 cr.

Question Hour

1) Which of the following is financial transaction?
   a. Qualification, talent, skill, etc. of owner
   b. Qualification, talent, skill, etc. of staff
   c. Sales of good of Rs. 10 thousand
   d. Both a & b

2) On 31st march, 2015, Mr. sah after sales of good worth Rs. 150 thousand, his left with closing stock of Rs. 8 thousand. This is –
   a. An event
   b. A transaction
   c. Both a & b
   d. Non-of the above
3) Which of the following is non-financial transaction?
   a. Purchase of good for Rs. 10 thousand
   b. Purchase of goodwill for Rs. 10 lack
   c. Sales of business for Rs. 50 thousand
   d. death of key manager

Answer: -

1) c , 2) a , 3) d

TOPIC: -3 BOOK KEEPING V\S ACCOUNTING

- Book keeping is activity concerned with the recording to business operation is a significant and orderly manner. Book keeping is recording phase while accounting is concerned with the summarizing phase of an accounting system. Book keeping provide necessary data foraccounting and accounting start where book keeping end.

Question Hour

1) Book keeping is concerned with -
   a. Recording of financial transactions
   b. Classification of financial transaction
   c. summarizing of financial transaction
   d. Both a & b
2) Which of the following statement are true?
   a. Accountancy=Book keeping
   b. Accountancy=Accounting
   c. Accountancy=Book keeping

d. Non of this

3) Which of the following statement is correct?
   a. Fixed assets must be shown at market price
   b. Book keeping and accounting are different terms
   c. Owners equity=Assets + Liability
   d. Partners is an example of current assets

Answer: -

1) d , 2) a , 3) c

TOPIC: -4 OBJECTIVE OF ACCOUNTING

- ❖ Systematic record of transaction i.e. book keeping
- ❖ Ascertainment of result i.e. trading, profit & loss a\c
- ❖ Ascertainment of financial position i.e. Balance sheet
- ❖ Providing information to users i.e. financial report
- ❖ To know the solvency position i.e. liquidity

Question hour

1) Which of the following is the main objective of accounting
   a. Ascertainment of the result of record transaction.
   b. Ascertainment of the financial position of the business.
   c. Communication the interpreting result to the users of account.
   d. All of the above

Answer:-

1) d

TOPIC: - 5 FUNCTIONS OF ACCOUNTING

- ❖ Measurement i.e. measures the past performance.
- ❖ Fore casting i.e. help in fore casting by using past data.
- ❖ Decision making i.e. provide information for decision making.

- Comparison and evaluation i.e. comparison of own performance against others.
- Control i.e. identify weaknesses of operating system and provide feedback.
- Government regulation and taxation i.e. provide information to government as well as collector of tax revenue.

Question hour

2) All the following are the function of accounting except-
    a. Decision making
    b. Measurement
    c. Fore casting
    d. Ledger posting

Answer:-

1) d

TOPIC: -6 SUB-FIELDS / BRANCHES OF ACCOUNTING

- Financial accounting
- Management accounting
- Cost accounting
- Social responsibility accounting
- Human resource accounting

Question hour

1) Which of the following is not a sub-field of accounting?
    a. Management accounting
    b. Cost accounting
    c. Financial accounting
    d. Book keeping

2) Social obligation of accounting refers to-
    a. The completion of journal entry
    b. The preparation of final account
    c. Cost recording
    d. Serving the need of various stack holders

Answer:-

1) d
2) d

TOPIC: -7 USERS OF ACCOUNTING INFORMATION

i. Internal i.e. Management and owner
ii. External i.e. Out siders

- Investors i.e. owner ;Internal
- Employee ; i.e. Internal
- Lenders i.e. External
- Supplier and Creditors, i.e. External
- Government and their agencies i.e. External
- Public i.e. External
- Management i.e. Internal
- Researchers i.e. External

Question hour

1) Following is the example of external users-
    a. Government

b. Owner
c. Management
d. Employees

2) Users of accounting information can be classified as-
   a. Useful users and non- Useful users
   b. Internal users and External users
   c. Gainer and losers
   d. Interested users and dis-interested users

Answer:-

1) a
2) b

TOPIC: -8 ADVANTAGE OF ACCOUNTING

- Maintenance of business recorders
- Preparation of financial statement
- comparison of result
- Decision making
- Evidence in legal matters
- provide information to interested parties
- Help in taxation matters
- Valuation of business

TOPIC: -9 LIMITATION OF ACCOUNTING

- Accounting information is expressed in term of money.
- Accounting information is based on estimates.
- Accounting information may be biased.

- Fixed assets are recorded at original cost.
- Accounting can be manipulated.
- Money as a measurement unit changes in value.

TOPIC: - 10 ROLE OF ACCOUNTING

- Maintenance of books of accounting
- Statutory audit
- Internal audit
- Taxation
- Management accounting & consultancy services
- Financial advice
- Budgeting
- Investigation

TOPIC: -11 CHARACTERISTIC OF ACCOUNTING INFORMATION (C.S) OR QUALITATIVE CHARACTERISTIC OF ACCOUNTING INFORMATION (C.P.T)

- Understandability
- Relevance
- Reliability
- Comparability
- Materiality
- Faithful representative
- Substance over form
- Neutrality
- Prudence
- Full, fair and adequate discloser
- Completeness
- Timeliness
- Cost benefit
- Verifiability

Question hour

1) Two primary qualitative characteristic of financial statement are: -
   a. Understandability & Materiality
   b. Relevance & Reliability
   c. Relevance & Understandability
   d. Materiality & Reliability

Answer:-

1) B