CBSE Test Paper 05
Ch-1 Introduction to accounting

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1. Give two examples of intangible assets.
2. Name the qualitative characteristic of accounting information which requires the use of common unit and common format of reporting.
3. 'The role of accounting has changed over a period of time'. Do you agree?
4. What is accounting cycle?
5. What is the amount invested by the proprietor in a business called?
6. What is the primary reason for business students and others to study accounting discipline?
7. Explain three important branches of accounting.
8. Explain the qualitative characteristics of accounting information.
9. What do you mean by an asset and what are different type of assets?
10. Users of accounting information are categorised into internal and external users. State any four external users and their information needs.

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Answer

1. Patents and trademarks are two examples of intangible assets.
2. It is the comparability characteristic.
3. Yes, I agree that the role of accounting has undergone tremendous change. Earlier the role of accounting was limited only to the recording of transactions. But, now it has shifted to providing information to managers and other interested parties, to help them take appropriate decisions. It is now regarded as an information system.
4. An 'accounting cycle' or 'Process of Accounting' is a complete sequence beginning with the recording of the transactions then classifying these transactions and ends with the preparation of final accounts of a business.
5. The amount invested by the owner is called 'Capital'.
6. As accounting information is presented and communicated in the form of financial statements, reports, graphs, charts, etc. to various interested parties. Therefore, the primary reason for business students and others to study accounting discipline is to acquire that knowledge, which is helpful in understanding and using this accounting information. In other words, to study the financial statements and to derive results from them, it is essential to study Accounting discipline.
7. **Branches of Accounting**

   The economic development and technological improvements have resulted in an increase in the scale of operations and the advent of the company form of business organisation. This has made the management function more and more complex and increased the importance of accounting information. This gave rise to the special branches of accounting.

   These are briefly explained below :

i. **Financial Accounting:** The process of identifying, measuring, recording, classifying, summarising, analysing, interpreting and communicating the financial transactions and events is known as financial accounting. The main purpose of this branch is to ascertain the profit or loss of the business by preparing final accounts.
ii. **Cost Accounting:** It is the process of ascertaining and controlling the cost of a product, operation or function. The purpose of cost accounting is to analyse the expenditure, so as to ascertain the total cost and per unit cost of various products manufactured by the firm and fix the prices. It also estimates the costs in advance,so it helps in controlling the costs and providing necessary costing information to management for decision-making.
iii. **Management Accounting:** It is concerned with the use of accounting techniques to present the accounting information in such a way as to assist all the levels of management in planning and controlling the activities of business and to enable decision-making. The purpose of management accounting is to assist the management in taking rational policy and to evaluate the impact of its decisions and actions by using various techniques and concepts to make the accounting data more meaningful to them. Management accounting not only includes cost accounting but also covers other areas such as capital expenditure decisions, capital structure decisions, dividend decisions.
iv. **Social Responsibility Accounting:** It is the process of identifying, measuring and communicating the social contributions of business to the society. It helps its various users to enable judgements and decision-making by them. It is accounting for social costs and social benefits.

8. The qualitative characteristics of accounting information are as follows:

i. **Reliability:** It means the accounting information must be reliable i.e., the users must be able to depend on the information. It must be factual and verifiable. A reliable information should be free from errors and bias.
To ensure reliability, the information disclosed must be credible, verifiable by independent parties, must use the same method of measuring and be neutral and faithful.
ii. **Relevance:** Accounting information presented by financial statements must be

relevant to the decision making needs of the users. It means Unnecessary and irrelevant information should not be included. To be relevant, the information must be available on time, must help in prediction and feedback, and must influence the decisions of users.

iii. **Understandability:** It implies that the information provided in the financial statements must be prepared in such a manner that it is understandable by the its users. Understandability implies that the accounting information provided to the decision-makers must be interpreted by them in the same sense as it was prepared and conveyed to them. This can be done by giving proper explanatory and working notes to explain the information.

iv. **Comparability:** It means that the users should be able to compare the accounting information. To be comparable, accounting reports must belong to a common period and use common unit of measurement and format of reporting.

9. **Assets:-** Assets are property (moveable or immoveable) or legal rights owned by an individual or business. These are the economic resources of an enterprise that can be expressed in monetary terms. In other words, anything which is in the possession or is the property of a business enterprise is called its asset. It also includes the amount due to it by others. For example Cash, bank balance, debtors, investments, machinery etc.

   Assets can be classified into two categories which are explained as follows:

   i. **Current Assets:** These are the assets which are purchased to convert them into cash within a short period of time i.e., one year or even less than one year e.g., debtors, stock etc.

   ii. **Non-current Assets:** The assets purchased by the business for investment or long term use are called fixed assets. These are the assets held by the business not with the purpose to resell but are held either as investment or to facilitate business operations i.e., held for long-term.
   For example, Fixed assets such as land, building, machinery, long-term investments, etc. Fixed assets can be further categorised as :

      a. **Tangible Assets:** These are the assets which have a physical existence i.e., they can be seen or touched e.g., land, buildings, furniture, vehicle, etc.

      b. **Intangible Assets:** These are the assets which do not have physical existence i.e., they cannot be seen or touched e.g, trademarks, copyrights, patents, goodwill, etc.

c. **Fictitious Assets:** These are the unexpired losses and expenditures. These are basically not assets because they do not have a realisable value e.g., deferred revenue expenditure, discount on issue of shares, loss on issue of debentures, etc.

10. i. **Researchers**: Researchers are interested in interpreting the financial statements of the concern for a given objective. Accounting information helps research scholars who want to make a study into the financial operation of a particular firm.

ii. **Government**:- Government has to collect sales tax, income tax, excise duty, and other taxes from the business. For this, it is necessary that proper accounts are made available to the government. The government wants to know earnings or sales for a particular period for the purpose of taxation. Income tax returns are examples of financial reports which are prepared with information taken from accounting. The government ensures that a company's disclosure of accounting information is in accordance with the regulations that are in place to protect the interest of various stakeholders who rely on such information informing their decisions

iii. **Creditors**:- Creditors are those parties that provide a firm with raw material, goods, services and financial resources by either extending credit or making loans. They are interested in knowing whether an enterprise can settle its obligations on a scheduled date in time. As a result, the existing cash position, outstanding debts, present and future earnings of an enterprise are of utmost concern.

iv. **Potential Investors**: The prospective investors are in need of detailed information about the progress of the concern because on the basis of the information revealed by the accounting statements they make decisions regarding the investment to be made in that particular business. They would like to know the data relating to the past and present performance of the business and details of the decisions taken for future programmes.