CBSE Test Paper 03

Ch-1 Introduction to accounting

1. If the accounting information is not clearly presented, which of the qualitative characteristic of the accounting information is violated?
2. Do you agree with the statement that recording of financial transactions and preparing the financial statements is the only objectives of accounting?
3. A firm earns a revenue of Rs. 21,000 and the expenses to earn this revenue are Rs. 15,000. Calculate its income.
4. Distinguish between debtors and creditors.
5. What is meant by qualitative information?
6. Explain accounting as a source of information.
7. Briefly appreciate the exact nature of accounting.
8. Accounting process is a series of activities that begins with a transaction and ends with the closing of books. Explain accounting process with the help of a diagram.
9. Describe the role of accounting in modern world.
10. Give any three differences between book-keeping and accounting.

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Answer

1. If the accounting information is not clearly presented, it will violate the qualitative characteristic of 'understandability'.
2. No. Besides these two, accounting has the objective of providing useful information to the management and communication of financial information to the users
3. Income will be calculated in the following manner :

   Income = Revenue - Expense = ₹21,000 -₹15,000 =₹ 6,000.
4. A Debtor is that person or entity who owes money to the business, whereas, a Creditor is that person or entity who lends money to the business.
5. Qualitative characteristics or qualities necessary for information serve a major supporting role in the decision usefulness, decision model approach to accounting theory. Qualitative characteristics are the tributes that make the information provided in financial statements useful to users.
6. Accounting is regarded as the language of business. It is used as a means of communication between a business organization and its shareholders. The accounting process is a source of information, it uses business data and processes it to generate relevant information.

   A proper record is maintained of all assets and liabilities to show the value of the firm's possessions and the amount the firm is owing to others at the end of the particular period. With the help of systematic record, the accountant prepares the balance sheet of the firm which provides necessary information about the financial position. The owners came to know about the earnings, expenses, profit and loss, raw material, other goods etc.

   Potential investors came to know about the past and present performance of the concern revealed by the accounting statements. Creditors are interested in knowing whether an enterprise can settle its obligations on scheduled dates in time. The government has to collect sales tax, income tax and other taxes from the business. For this, it is necessary to prepare proper accounts.

Accounting information systems typically include the general journal and four types of special journals. These are the sales, cash receipts, cash disbursements, and purchases journals. Information systems also commonly include accounts receivable and accounts payable subsidiary ledgers.

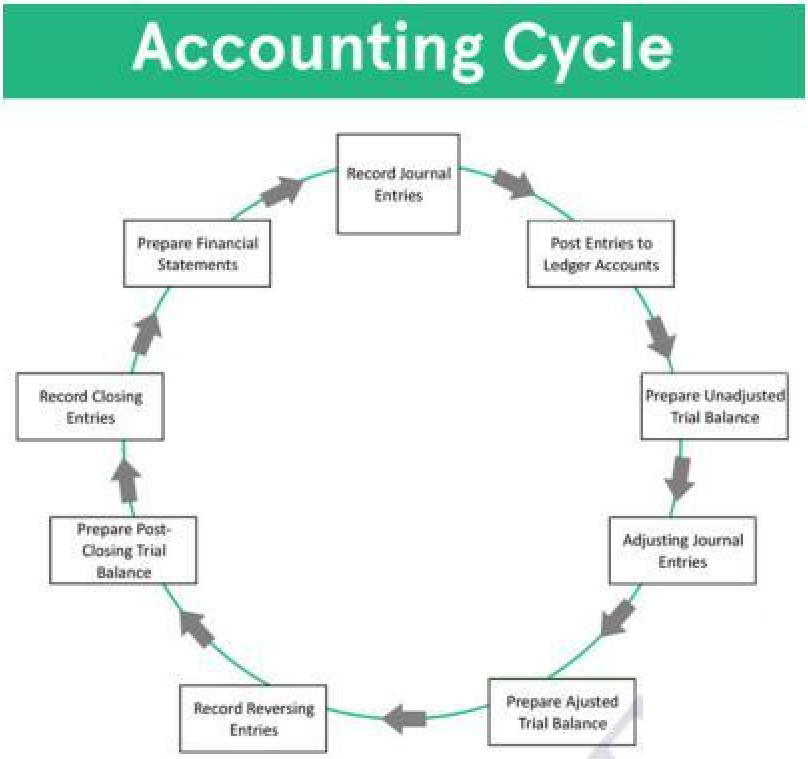
In this way, accounting works as a source of information for owners, management, creditors, employees and government.

7. The nature of Accounting can be ascertained from the points mentioned below:

   i. Accounting is a process that aims at **communicating economic information** to its users. It relies on a set of previously agreed concepts, conventions and rules.
   ii. **Accounting is a process** which involves gathering, compacting, interpreting and disseminating economic information in a systematic way.
   iii. Its basic goal is to **report on the resources and obligation** of the entity to the owners.
   iv. Accounting is **more of an art than a science**; its logical foundation is not deeply embedded in scientific or natural law. It is essentially and fundamentally utilitarian in nature.
   v. Accounting is **an important tool for management** as it helps them in decision making for the organisation.

8. The **accounting cycle** is the holistic process of recording and processing all financial transactions of a company, from when the transaction occurs, to its representation on the financial statements, to closing the accounts. One of the main duties of a book keeper is to keep track of the full accounting cycle from start to finish. The cycle repeats itself every fiscal year as long as a company remains in business.

   The accounting cycle incorporates all the accounts, journal entries, T accounts, debits and credits, adjusting entries over a full cycle.



Steps in accounting cycle are as follows :

i. Transaction: Financial transaction starts the process.
ii. Journal Entries: With the transaction set in place, the next step is to record these entries in the company's journal
iii. Posting: After that the journal entries are posted to the general ledger.
iv. Trial Balance: After the end of the accounting period, a total balance is calculated for the accounts.
v. Worksheet: When the debits and credits on the trial balance don't match the book keeper must look for errors and make corrective adjustments that are tracked on a worksheet.
vi. Adjusting Entries: At the end of the accounting period, adjusted entries must be posted to accounts for accruals and deferrals.
vii. Financial Statements: The Balance sheet, Trading and P/L A/c and cash flow statement can be prepared using the correct balance.
viii. Closing the Books: The revenue and expense accounts are closed and zeroed out for the next accounting cycle. Balance Sheet accounts are not closed because they show the company's financial position at a certain point of time.

9. The modern business environment has changed drastically in a short time. Business technology has advanced business functions and operations to levels not previously believed possible. The role of accounting and business is perhaps one of the most reliable functions in business. While a few basic procedures or methods have changed, the purpose of accounting remains the same. Business owners often use accounting to measure their company's financial performance and make business decision:

   Facts: The goal of most businesses is to make a profit. Accounting allows business owners to record, report and analyze their company's financial information. Accounting provides information relating to income, cost of goods sold, expenses, assets, liabilities and owner's equity. Business owners often rely on this information to provide them with information on how money was spent in the business. Financial statements are usually the final output of accounting. These statements include a company's aggregate financial information for accounting period.

   Features: Accounting provides business owners with potential benchmarks for comparing their company with the industry standard. Business owners and managers often use financial ratio analysis to break down their company's financial performance. These ratios provide indicators or percentages to compare against a competing company in the business industry. Companies with financial indicators or percentages worse than the industry standard usually need to improve business operations. Ratios provide focal points so business owners know where to start when making improvements.

   Function: Small business owners often use accounting information to secure bank loans or investor financing for their business. Many small businesses require startup capital when beginning business operations. Entrepreneurs and business owners will often prepare pro forma financial statements to provide banks and investors with information relating to the business' expected financial return. Business owners needing additional financing during business operations often provide banks and investors with a track record of their company's financial accounting information.

   Significance: Accounting is often called the language of business. This statement refers to the analysis methods used to measure different companies using the same measuring stick. Comparing one company with another is often difficult because each company has different operations. Accounting boils down a company's operational performance to a basic financial analysis. Accounting may also provide individuals with an analytical comparison of international companies.

Expert Insight: The accounting industry has seen significant growth over the past several years. Public accounting firms and individual certified public accountants offer professional accounting services to small and large businesses. The growth in accounting is often attributed to increasing government regulations, the number of new businesses in the economic environment and increasingly complex financial situations. Small business owners typically use professional accountants to prepare business tax returns

10.

Basic	**Book-keeping**	**Accounting**
Scope	Book-keeping involves identifying financial transactions, measuring them in money terms, recording them in the books of accounts and classifying them.	Accounting involves summarising the recorded transactions, interpreting them and communicating the results.
Objective	Its objective is to maintain systematic records of financial transactions.	Its objective is to ascertain net results of operations and financial position so as to communicate such information to various interested parties.
Special Skills	Book-keeping does not require special skills.	Accounting requires special skills and ability to analyse and interpret.