CBSE Test Paper 04

Ch-1 Introduction to accounting

1. Briefly explain intangible assets.
2. State, whether the huge loss occurred due to strike by employees, will be recorded or not?
3. Which qualitative characteristics of accounting information is reflected when accounting information is clearly presented?
4. Name the external user of accounting information from whom the firm purchases goods on credit.
5. Name the branch of commerce, which keeps a record of monetary transactions in a set of books.
6. State the activities covered under book-keeping.
7. List any five users who have an indirect interest in accounting.
8. The definition of accounting brings to light various attributes of accounting. In context to this, define accounting and discuss any three attributes of accounting.
9. Describe the informational needs of external users.
10. Briefly define the following terms

    i. Entity
    ii. Liabilities
    iii. Prepaid expense
    iv. Deferred revenue expenditure

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Answer

1. An intangible asset is an asset that is not physical in nature. Goodwill, brand recognition and intellectual property, such as patents, trademarks and copyrights, are all intangible assets.

2. No, because it cannot be measured is terms of money.

3. It is understandability characteristic.

4. Supplier.

5. The branch of commerce, which keeps a record of monetary transactions in a set of books is Book-keeping.

6. Book-keeping is a part of accounting. It is mainly concerned with the record-keeping or maintenance of books of accounts. This function is of routine and clerical in nature.

   Major Activities covered under book-keeping are as follows :
   a. **Identifying** the transactions and events of financial nature.
   b. **Measuring** the identified transactions and events in a common measuring unit i.e. money.
   c. **Recording** the identified and measured transactions and events in proper books of accounts i.e., the books of original entry.
   d. **Classifying** the recorded transactions and events into the ledger.
7. The indirect users of accounting information are as follows:
   i. Trade associations
   ii. Social responsibility groups
   iii. Registrar of companies
   iv. Government
   v. Other regulators
8. Accounting is the art of recording, classifying and summarising in terms of money

transactions and events of a financial character and interpreting the results thereof.
The attributes of accounting are as follows:-

i. **Relevance**:- Relevance is closely and directly related to the concept of useful information. Relevance implies that all those items of information should be reported that may aid the users in making decisions and/or predictions. In general, information that is given greater weight in decision-making is more relevant.
ii. **Reliability**:- Reliability is described as one, of the two primary qualities (relevance and reliability) that make accounting information useful for decision-making. Reliable information is required to form judgements about the earning potential and financial position of a business firm. Reliability differs from item to item. Some items of information presented in an annual report may be more reliable than others. For example, information regarding plant and machinery may be less reliable than certain information about current assets because of differences in uncertainty of realisation. Reliability is that quality which permits users of data to depend upon it with confidence as representative of what it purports to represent.
iii. **Understandability**:- Understandability is the quality of information that enables users to perceive its significance. The benefits of information may be increased by making it more understandable and hence useful to a wider circle of users. Presenting information which can be understood only by sophisticated users and not by others, creates a bias which is inconsistent with the standard of adequate disclosure. Presentation of information should not only facilitate understanding but also avoid wrong interpretation of financial statements. Thus, understandable financial accounting information presents data that can be understood by users of the information and is expressed in a, form and with terminology adopted to the user's range of understanding.

9. External users are the persons outside the organisation, who are interested in knowing the accounting information of the business due to present or future interest in the business enterprise. They access such information through published reports such as Profit & Loss account, Balance Sheet, Cash Flow Statement etc.
The various external users and their informational needs are as follows:

i. **Investors and Potential Investors:** They require information on the risks, profitability, and return on investment.

ii. **Unions and Employee Groups:** They require information on the stability, profitability and distribution of wealth within the business.

iii. **Lenders and Financial Institutions:** They require information on the creditworthiness of the company and its liquidity i.e., its ability to repay loans and to pay interest.

iv. **Suppliers and Creditors:** They require information on whether amount owed to them will be repaid when due, and on the continued existence of the business.

v. **Customers:** They require information on the continued existence of the business and thus, the probability of a continued supply of products, parts and after sales service etc.

vi. **Government and Other Regulators:** They require information on the allocation of resources and the compliance to regulations.

vii. **Social Responsibility Groups:** Social responsibility groups such as environmental groups require information on the impact of business activities on environment and its protection.

viii. **Competitors:** They require information on the relative strengths and weaknesses of their competitors and for comparative and benchmarking purposes.
The competitors require the accounting information mainly for strategic purposes.

10. i. **Entity:-** In accounting, a business (or the organisation) and its owners are considered as two different parties or separate entities. This is called the 'entity concept'. It means business is a separate legal entity apart from its owners.

ii. **Liabilities:-** It means the amount owed (payable) by the business to outsiders and to owners. Liabilities to outsiders are called external or outside liabilities or simply liabilities. For example, Creditors, bank overdraft, etc

iii. **Prepaid Expense:-** It is an expense that has been paid in advance and its benefit will be available in the future years. For example, Insurance and rent paid in advance for next years are prepaid expenses.

iv. **Deferred Revenue Expenditure:-** Some expenditures are revenue in nature but provide benefits for more than one accounting period, are called as 'deferred revenue expenditure'. For example, heavy advertising expenditure to promote a new product will give benefit for more than one accounting period and hence, is a deferred revenue expenditure.