

CBSE Test Paper 02
Ch-1 Introduction to accounting

1. How is accounting influenced by personal judgements?
2. Accounting information should be verifiable and free from personal bias. Which qualitative characteristic of accounting information support this statement?
3. State what is the end product of financial accounting?
4. What do you understand by accounting information?
5. What is a person who owes money to a firm called?
6. Protecting the assets of business is one of the functions of accounting. Explain.
7. There are various number of functions performed by accounting. Describe any three such functions.
8. Define accounting and state its objectives.
9. Name the term associated with the following
 - i. The articles in which a business deals.
 - ii. The amount invested by the owner in the business.
 - iii. The person who owes amount to the business on account of credit sales of goods or services.
 - iv. The person to whom amount is owed on account of credit purchases of goods or services.
10. State the steps involved in the process of accounting.

CBSE Test Paper 02
Ch-1 Introduction to accounting

Answer

1. Accounting is sometimes influenced by the personal Judgement of the Accountant known as 'Window Dressing'. It means manipulation of accounts in order to conceal the vital facts and present the financial statements in such a way so as to present the business in a better financial position.
2. It is reliability characteristic.
3. Financial statements are the end product of financial accounting i.e., trading and profit and loss a/c and balance sheet.
4. The information provided by the books of accounts is called Accounting Information. In other words, Accounting is a service activity. Its function is to provide qualitative information primarily financial in nature, about the economic entities that are intended to be useful in making economic decisions'.
5. The person who owes money to firm is known as 'Debtor'.
6. Yes, this is true that protecting the assets of the business is amongst one of the key roles of Accounting. An Accountant has to design such system of accounting as protects its properties from unjustified and unwarranted use. He performs this function by recording all the assets or properties of the business properly in the books of accounts so that the property can be protected.
7. **The main functions of accounting are as follows :**
 - i. **Maintaining Systematic Records:** The primary or the main function of accounting is to maintain the systematic and complete records of business transactions, post them to the ledger and to prepare the final accounts.
 - ii. **Communicating the Financial Results to various users:** Accounting is used to communicate the financial information to its various interested users for rational decision-making.

- iii. **Meeting Government Regulation:** The accounting system should comply with legal requirements. The various governing laws such as Companies Act, Income Tax and Sales Tax Act requires the submission of statements or returns i.e. annual accounts, income tax return, sales tax returns, etc. So accounting performs this function by providing proper information to the government agencies.
 - iv. **Protecting the Business Assets:** Accounting helps the management to exercise proper control over the assets of the business by maintaining proper records of various assets such as Cash, bank balance, inventory etc.
 - v. **Assistance to Management:** Accounting assists the management in the task of planning, controlling and coordination of business activities.
 - vi. **Stewardship or Trusteeship:** The management is entrusted with the resources of the enterprise, in case of companies. The management is expected to act as the trustee of the company's funds and accounting helps to achieve the same.
8. Accounting can be defined, as the process of identifying, measuring, recording and communicating the required information relating to the economic events or an organisation to the interested users or such information.

The objectives of accounting are as follows:

- i. **To keep the Systematic Records of Business Transactions:** The main objective of accounting is to keep the proper and systematic record of all business transactions. In other words, Accounting systematically records all financial transactions and events of the enterprise in the books of accounts. It classifies the recorded data under relevant accounts and summarises them into financial statements. Accounting is done to keep a systematic record of all financial transactions, assets and liabilities. The recorded information enables verifiability and acts as evidence.
- ii. **To Calculate Profit or Loss:** Another main objective of accounting is to ascertain the profit earned or loss sustained by a business during an accounting period. For this purpose, a statement called the income statement or the trading and profit and loss account is prepared at the end of each financial year. In this account, the revenue and the expenses incurred in the accounting period are recorded, and the comparison of the two shows whether the business has earned profit or incurred loss.

- iii. **To Ascertain the Financial Position of business:** Accounting also aims at ascertaining the financial position of the business by preparing a position statement called as balance sheet. Balance sheet is a systematic record of various assets and liabilities of the business on a particular date. It is like a screen picture of the financial position of the business showing its all the assets and liabilities.
 - iv. **To Provide Accounting Information to Its Users for Decision-making:** Another important objective of accounting is to provide accounting information to its user. Users are generally of two types internal and external. Internal users include management, owners etc. and external users include creditors, investors, government etc. The accounting information is communicated in the form of reports, statements, graphs, charts, etc. to these users. This information helps them for financial planning and controlling.
9. i. The articles in which the business deals are known Goods that are those materials that satisfy human wants and provide utility, for example, to a consumer making a purchase of a satisfying product.
- ii. The amount invested by the owner in the business is known as Capital which includes facilities, including buildings used to produce and store manufactured goods.
- iii. Debtors owe amount to the business on account of credit sales of Goods or services.
- iv. The person to whom amount owed by the enterprise on account of credit purchase of goods and services is known as Creditors. A debtor is the opposite of a creditor – it refers to the person or entity who owes money.
10. The steps involved in the process of accounting are as follows:
- i. Identifying the financial transactions.
 - ii. Recording these transactions in the books of accounts.
 - iii. Classifying the recorded entries in separate accounts.
 - iv. Summarising the classified records.
 - v. Analysis and interpretation of financial statements.
 - vi. Communicating the accounting information to the users