

CBSE Test Paper 01
Ch-1 Introduction to accounting

1. Confidence and trust that the reported information is a reasonable representation of the actual items and events, that have occurred, indicate which qualitative characteristic of accounting information.
2. State whether a large order of supply of goods received by the firm be recorded in books.
3. Appointment of a new managing director is not recorded in the books of accounts. Why?
4. What is a person to whom money is owed by a firm called?
5. Mr Raj, an electronic goods dealer, gifted a microwave of value Rs. 30,000 to his friend Rohan and recorded it in books as drawing. Is he correct?
6. Is accounting an art or a science?
7. Accounting information refers to financial statements. The information provided by these statements can be categorised into various types. Briefly describe them.
8. Distinguish between financial accounting, cost accounting, and management accounting.
9. Distinguish between book-keeping, accounting, and accountancy.
10. Basic objective of accounting is to provide useful information to various users. Besides these, there are many other objectives of accounting. Explain any four of them.

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Answer

1. It indicates the qualitative characteristics of reliability.
2. No, it is not a transaction.
3. It cannot be recorded because it is impossible to measure it in monetary terms.
4. The person to whom the firm owes money is called 'Creditor'.
5. Yes, Mr Raj is correct because personal expenses are treated as drawings and it will be recorded in the books.
6. Accounting is both an art as well as a science. It can be seen in the following points :
 - **Accounting as an Art** : As an art it is the technique of achieving some pre-determined objectives. Accounting is an art of recording, classifying and summarising financial transactions of the business. It helps us in ascertaining the net profit and financial position of the business enterprise.
 - **Accounting as Science**: Science is an organised body of knowledge based on certain basic principles. Therefore, accounting is also a science as it is an organised body of knowledge based on certain accounting principles.
7. **Types of Accounting Information** Accounting information refers to the information provided in financial statements of the business, generated through the process of book keeping and summarising. By using the accounting information, the users are in a position to take the correct decision. The financial statements so generated are the income statement i.e., profit and loss account and the position statement i.e., balance sheet and a Cash Flow Statement. The information made available by these statements can be categorised into the following categories:
 - i. **Information Related to Profit or Loss during the year**: Information about the profit earned or loss incurred by the business during an accounting period is made available through the income statement of the business i.e., the profit and loss account. Trading account provides information about gross profit or gross loss

whereas the profit and loss account provides information about the net profit or net loss during the year. It also gives details of all the expenses and incomes during the year.

- ii. **Information Related to Financial Position of the business :** Information about the financial position of the enterprise is determined through its position statement i.e., the balance sheet.

It provides information about the assets and liabilities of a business on a particular date. The difference between the two is represented by capital i.e., amount due to owners. In the case of not-for-profit organisation, difference between assets and liabilities is termed as general fund.

- iii. **Information about Cash Flow during the year :** Cash flow statement is a statement that shows inflow and outflow of cash during a specific period. It helps in making various decisions such as payment of liabilities, payment of dividend and expansion of business, etc., as all these are based on availability of cash. It gives a clear picture of the liquidity of the business.

8.

Basis	Financial Accounting	Cost Accounting	Management Accounting
Meaning	Financial accounting is a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and	Cost accounting is an accounting method that aims to capture a company's costs of production by assessing the input costs of each step of production as well as fixed costs, such as depreciation of capital equipment. Cost accounting will first measure and record these costs individually,	Management accounting, also called managerial accounting or cost accounting, is the process of analyzing business costs and operations to prepare internal financial report, records, and account to aid managers' decision making process in achieving business goals. In other words, it is the act of

	presented in a financial report or financial statement such as an income statement or a balance sheet.	then compare input results to output or actual results to aid company management in measuring financial performance.	making sense of financial and costing data and translating that data into useful information for management and officers within an organization.
Objects	Record transaction and determine financial position & profit or loss	Ascertainment, allocation, accumulation and accounting for the cost	To assist the management in decision making & policy formulation
Nature	Concerned with historical data	concerned with both past and present recorded(historical in nature)	Deals with a projection of data for the future(futuristic in nature)
Principle followed	Governed by GAAP	certain principles followed for recording cost	No set principles are followed in it
Data Used	Qualitative aspects are not recorded	Only quantitative aspects are recorded	Uses both qualitative and quantitative concepts

9. Bookkeeping is the activity of recording the financial transactions of the company in a systematic manner while Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period while accountancy is to summarize, classify and accordance of every financial activity into a system. Book-keeping is a primary and basic function in the process of accounting and concerned with recording and maintenance of books of accounts only. Accounting is the secondary function and it starts where function of book-keeping ends. Accountancy is a study of systematic knowledge and contains those rules, regulations, procedures,

principles, concepts, conventions and techniques, which are to be applied in the process of accounting. In this sense, we can say that accountancy is a broader term that acts as a guide for the preparation of books of accounts, summarisation of information and communicating the results to all the concerned parties.

10. The objectives of accounting are as follows:-

- i. **Identification and recording of the transactions of the business:** Accounting enables business firms to maintain systematic records of all financial transactions. Various properties and possessions, as well as obligations, are also recorded. As a result, the true nature of each and every transaction is known without much exercise of memory. With this end in view, the transactions are primarily recorded in general and in a special journal and later on permanently various accounts are kept in the ledger. So that there is no unauthorised use or disposal of property of business.
- ii. **Calculation of Profit or Loss:** A businessman would be interested in knowing at periodical intervals the net result of business operations, i.e. how much profit has been earned or how much loss has been incurred. The amount of profit or loss for a particular period of a business concern can be ascertained by preparing income statement with the help of ledger account balances of revenue nature. Surplus or deficit of revenue for a particular period of a non-trading concern can also be ascertained by preparing income and expenditure account or statement.
- iii. **Depiction of position:** 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 this systematic record, the accountant prepares the balance sheet of the firm which provides information about the financial position.
- iv. **Comparison of results:** Systematic maintenance of business records enables the accountant to compare profit of one year with those of earlier years to know the significant facts about the changes. This helps the business to plan its future affairs accordingly.