SAMPLE CONTENT

SMART NOTES

Std. XI

Book Keeping and Accountancy

Target Publications® Pvt. Ltd.

SMART NOTES

BOOK-KEEPING & ACCOUNTANCY

F.Y.J.C.

MAHARASHTRA STATE BOARD

(As per the new textbook published by Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. w.e.f. Academic Year 2019-20)

Salient Features:

- Based on the new textbook
- Exhaustive coverage of theory
- All textbook solved & practice sums covered
- Ample sums provided for additional practice
- Type-wise bifurcation of sums for systematic study
- Illustrative solved examples for conceptual clarity
- 'Higher Order Thinking Sums (HOTS)' provided to challenge students
- All type of objective questions covered
- Final answers for all questions provided at the end of the book

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PREFACE

Book-Keeping & Accountancy 'Smart Notes' is a book curated to facilitate learning & instil conceptual understanding within students. This treasure trove of knowledge fosters robust conceptual clarity and inspires confidence within the nimble mind of young learners.

This book is a 'question book' developed with a view to enable students to get enough practice. We have covered the theory of each chapter in detail to enable the students to understand each concept of the chapter in greater depth. We have not only 'covered the problems given in the textbook' but have provided 'ample sums for students' practice'. The additional sums are at par with the sums given in the textbook. We have given 'illustrative solved examples' to help the students to get greater conceptual clarity. 'Higher Order Thinking Sums (HOTS)' give the students an opportunity to challenge themselves. The 'final solution' for all sums is provided at the end of the book for your reference.

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at : **mail@targetpublications.org**

From,
Publisher

Edition: First

Why to study Book-Keeping & Accoutancy?

Apart from the basic objective of doing well in your exams, there are various reasons for studying Book Keeping & Accountancy (BK):

1. BK is the fundamental subject of commerce. Most courses of commerce have BK as one of the primary subjects.
2. Finance is the core of any business. It is difficult to understand finance without the basic knowledge of accounts.
3. All organizations have to regularly maintain books of accounts and file income tax returns. All these organizations require qualified accountants to finalize their books of accounts.
4. Accounts is required everywhere from household budget to national budget.

How to study from this book ?

1. It is advisable that you begin by reading the theory of the chapter. This will help you to understand the basics & aid in solving sums.
2. We have placed illustrative solved examples at specific places in the chapter. These illustrative examples can be downloaded by scanning the QR code besides it. The illustrative examples will give you a good idea about solving a sum.
3. You can then proceed to solve "textbook problems". All problems in the book have been arranged type wise (as per the adjustments) to help you learn the chapter gradually step-by-step.
4. Solving the "homework problems" will help you gain perfection in solving sums.
5. Quickly study all the objectives, which you will now be able to solve easily considering you have fair knowledge of the entire chapter.

   You are now ready to go to the next level ☺

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Note:
i. Questions marked with (S) represent solved problems of textbook.
ii. Questions marked with (P) represent practice problems of textbook.
iii. All objective questions from the textbook are represented by (T) mark.
iv. The sums in the textbook are in a certain order. However, in order to enable the students to study the chapter in a systematic step-by-step manner, we have rearranged the sums type-wise on the basis of adjustments. A table for the same is provided at the start of some chapters. Therefore, the order of sums in textbook and this book for some chapters will not match.

1 Introduction to Book - Keeping and Accountancy

Introduction

We have often heard of the term '*hisaab – kitaab*'. Every business needs to keep '*hisaab*' or record of the transactions or else the businessman or businesswoman will never come to know how much they are earning (profit) at the end of a particular period. What we learn in commerce is systematic recording of financial transactions. Uneducated businessmen and shopkeepers maintain a record of their transactions in their record book or '*chopdi*'. In short, every business needs to maintain records of its transactions.

Book keeping is the activity of recording business transactions. All business enterprises and other organizations undertake activities in which money or money's worth is exchanged. These activities need to be recorded so that various important decisions such as: whether the activities are feasible and profitable, whether the activities should be continued or not etc. can be taken. The proprietors and managers of the business as well as other stakeholders such as the investors, customers, employees, government and researchers require information regarding the business enterprise or other organizations.

Evolution of Accounting

During Chandragupta Maurya's regime, some references of nature of accounting in India during this regime can be traced in a book name 'Arthashastra' authored by Minister Kautilya. Afterwards it was called as "Deshi Nama".

In earlier time of civilisation, the accounting was done by agents who managed the properties of wealthy people. They were responsible for preparing accounts periodically for the owners' of property. The records of debit and credit were found in as early as the 12th century itself.

In the year 1494, Luca De Bargo Pacioli, an Italian merchant introduced Double-Entry Book- keeping system. Industrial revolution started in England in 18th century. The size of organizations began to grow. With introduction of Joint Stock Companies, there was separation of ownership (shareholders) and management (board of directors). It was important to maintain proper books of accounts to protect interest of everyone. Hence, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.

Now, accounting is not only means for record keeping. The accounting data is now used for analysis and also help in decision making. The need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of Accounting. Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21st century. This is due to the vast growth in business activities as a result of development in various fields. Thus, accounting has become inevitable in the modern world for business.

Meaning of Book Keeping

Book keeping means recording of the business transactions in the books of accounts in a systematic manner.

In Book-keeping, the monetary transactions are recorded in the order of the dates. Accurate business results are generated from these records at the end of the accounting year.

Book-keeping is an art as well as a science. It systematically records, classifies and summarises the financial transactions of the business for a particular period generally a year.

Definitions:

Richard E. Strahelm: "The art of analyzing and recording business transactions, reporting results of business operations through periodic statements and interpreting such results for purposes of effective control of future operations."

J. R. Batliboi: "Book-keeping is an art of recording business dealings in a set of books."

Nocth Cott: "Book-keeping is an art of recording in the books of accounts the monetary aspects of commercial or financial transactions."

R.N. Carter: "Book-keeping is the science and art of correctly recording in the books of accounts, all those business transactions that result in transfer of money or money's worth."

Features of Book-Keeping

i. It is the method of recording day to day business transactions.
ii. It records financial transactions only.
iii. Transactions recorded for a specific period are presented for future reference.
iv. Book-keeping is a science since all the transactions are recorded as per rules and regulations.
v. Book-keeping is also an art as it records business transactions in a scientific manner.

Objectives of Book-Keeping

i. To keep a complete and accurate record of all financial transactions in a systematic, orderly and logical.
ii. To record business transactions date-wise and account-wise.
iii. To provide a permanent record of the monetary transactions of the business enterprise. It can serve as an evidence if need arises.
iv. To ascertain the Profit / Loss of the business during a financial period.
v. To keep a record of Total Assets and Liabilities of the business.
vi. To keep a record of the amount a business owes to others (*kitna dena hai*) and the amount receivable by the business from others (*kitna lena hai*).
vii. It facilitates the comparison of the financial performance of a business with previous year's performance or with the performance of other businesses in the same line of business.

Importance of Book-Keeping

i. Record: Book-Keeping is recording transactions in a systematic manner. It may not be possible for a businessman to remember all the transactions over a period of time. Thus, Book-Keeping ensures that the record of all the transactions is kept on a permanent basis.

ii. Financial Information: Book-Keeping records the financial activities of a business. This financial record helps in generating financial information of the business regarding the Assets, Liabilities, Profit, Loss, Stock, Investment, etc.

iii. Decision Making: All the information provided by Book-Keeping helps the company, business or businessman to make decisions in successful business operations. In fact, a new branch of accounting called as Management Accounting is being developed to help businesses in taking decisions effectively.

iv. Controlling: Management uses the financial records of business to manage and control the business operations in a smooth manner. Such financial records are available from Book-Keeping.

v. Evidence: Book-Keeping records all the transactions of a business from source documents. Hence, these records can be used as legal evidence in Courts in case of any disputes.

vi. Tax Liability: Book-Keeping helps the businessman in ascertaining the amount payable for GST, Property Tax, Income Tax, etc.

Utility of Book-Keeping

Book-Keeping is vital for the below parties:

i. Owner: Book-Keeping helps to ascertain the financial information and position of the business at any time. Financial information includes Profits, Losses, Assets, Liabilities, etc.

ii. Management: The various Management functions such as Planning, Decision making, Organising, Directing and Controlling can be performed effectively and efficiently by the management based on the records and reports available through Book-Keeping.

iii. Investors: Investors are interested in the financial statements of a business before investments are made. It provides them with assurance about the safety of their investments.

iv. Customers: Customers are assured about the financial capacity of the business as well as the quality and quantity of goods supplied by the business, based on the information available through Book-Keeping.

v. Government: The various sources of information available through Book-Keeping facilitate the Government and the Tax Authorities to ascertain the tax liabilities of the business.

vi. **Lenders:** Book-Keeping provides financial information to the lenders. It helps them to judge the credit worthiness of the business. This in turn, helps the organization to secure funds easily.

vii. **Development:** Accounting helps the business enterprises in achieving the business growth.

Accountancy

Meaning:

Accountancy is a broad concept and Book-Keeping is a part of Accounting. It can be said that it is the primary stage in accounting. Accountancy includes recording of business transactions, classifying them in different books of accounts, summarizing the transactions in the form of reports. Accountancy helps management in decision making. There are basic norms and assumptions which have been developed as the basis of accounting system. These are the accounting principles. These principles are universally accepted and adopted by accountants.

Definitions:

Kohler: Accountancy refers to the entire body of the theory and process of accounting.

Prof. Robert N. Anthony: Nearly every business enterprise has an accounting system. It is a means of collecting, summarising, analysing and reporting in monetary terms information about the business transactions.

Difference between Book-keeping and Accountancy:

	Book-Keeping	Accountancy
	Meaning	
i.	Book-Keeping is recording and classifying the transactions in a systematic manner.	Accountancy records transactions, classifies, analyses, summarises and interprets the results thereof.
	Stage	
ii.	In Book-Keeping, recording of transactions is done at the first stage, immediately after any business transaction takes place.	Accountancy is the stage after book-keeping where the recorded and duly classified transactions are analysed, summarized and interpreted.
	Objectives	
iii.	Book-Keeping aims at maintaining a record of the transactions in systematic manner and provides primary information.	Accountancy aims at preparation of the financial statements and providing the information to the authorities. It refers to deriving the profits / losses of a business and analysing the financial position of the business.
	Outcome	
iv.	Book-Keeping results in the preparation of Journal and Ledger.	The results of Accountancy are seen in the Profit & Loss Account and Balance Sheet.
	Period	
v.	Book-Keeping provides details of the day to day transactions.	Accountancy provides the details for the whole accounting year.
	Responsibility	
vi.	Generally, the junior staff is responsible for keeping the records.	Generally, the senior staff is responsible for keeping the accounts.
	Analysis	
vii.	Book-Keeping as a process does not involve analysis.	Accountancy includes analysis and interpretation of the data and generating reports based on it.
	Decision Making	
viii.	This data is not useful for the management in taking decisions.	The management can take decisions based on the reports generated under this process.
	Skills Required	
ix.	Book-Keeping does not require analytical skills.	Accountancy requires analytical skills

Basis of Accounting

There are three methods for accounting as stated below:

i. **Cash Basis:** All the transactions of business which take place in cash are called Cash transactions. In Cash basis of accounting, only cash transactions are recorded. In this method, an expense is recognized only when it is actually paid in cash. Similarly, revenue is recognized only when it is actually received in cash. Thus, this method records the income and expense only when the actual receipt or payment takes place. Professionals such as Lawyers, Doctors, Chartered Accountants, Non-profit organizations, etc. follow this method of accounting.

ii. **Accrual Basis:** In the Accrual basis of accounting;

a. incomes are recorded when they are earned, irrespective of whether the cash has been received or not and

b. Expenses are recorded when they become payable, irrespective of whether they have been actually paid in cash or not.

Thus, the transactions that occur in the particular financial year are recorded even though the receipt or payment may not have taken place. Thus, this system records income earned whether received or not and expense incurred whether paid or not.

Example:

Ashok sold goods to Ramesh worth ₹ 5,000 on 28th March for which the payment was made on 2nd April.

As per cash basis of accounting, this transaction will be recorded on 2nd April.

However, as per accrual basis of accounting, this transaction will be recorded on 28th March.

iii. **Mixed or Hybrid basis:** This system is the combination of cash basis and accrual basis of accounting. It follows both cash basis and accrual basis. In this method, the revenues and assets are generally recorded on cash basis whereas expenses are generally recorded on accrual basis. However, in India, the laws prohibit the use of this method.

Qualitative Characteristics of Accounting Information

Accounting information recorded in books of accounts must possess the below mentioned qualitative characteristics:

i. **Reliability:** This is a very important characteristic of Accounting information. It is one of the two primary qualities (which are relevance and reliability). Accounting information can be useful for decision-making only if it is reliable. Accounting information is used to form a judgment about the earning capacity and the financial position of the business and hence its reliability is very crucial.

Reliability may be different for different items. E.g. As the level of uncertainty in the realization of a current asset and a plant and machinery is different, the reliability regarding the information pertaining it also may differ.

ii. **Relevance:** The relevant accounting information is the information that is required by a decision maker to predict about the results of various events in past, present and future. Any information which if disclosed changes the result or outcome of the business and impacts the decision-making, is said to be relevant. All the accounting information which is useful and relevant should be included in the books of accounts. At the same time, any irrelevant or unnecessary information should be ignored. Accounting information should have timelessness, dedicative & feedback value. E.g. If there is a customer who owes a very large sum to the business has made default in payment then this information is very important and relevant since it will affect the profits of the business. However, a default of a very small or negligible amount is not relevant as it will not have impact on the profit percentage of the business.

iii. **Understandability:** Accounting information is used by various users such as management, shareholders/owners, banks giving loan to the business. It will become useful only if it is understandable. When the accounting information is presented in the form and using terminology that is easily understood by the users of the information then its significance and benefits increase. It becomes useful for wider circles of users. Accounting information should therefore have the quality of understandability so that it can be understood easily by all its users.

iv. Comparability of Accounting Information: Decision makers take decisions after comparing the various alternatives that are available to them. E.g. Two firms or two different periods of same firm etc. For this purpose, they compare the Accounting information of these alternatives. For facilitating the comparison, the accounting information needs to be comparable.

E.g. The decision maker can make his decision by comparing the financial strength and weaknesses of two firms. The accounting information will become useful to him if it is comparable.

Basic Accounting Terminologies

Following Accounting is a vital system which is used by the modern business world. There are many terminologies used in Accountancy and to understand the accountancy, it is necessary to be familiar with the same. Below mentioned are the basic accounting terminologies:

1. Transactions: Exchange of goods and services between two persons or parties for money or money's worth is known as Transactions.

There are two main types of Transactions:

i. Monetary Transactions: The transactions which involve an exchange of money or money's worth, directly or indirectly, are called as Monetary Transactions. Here, only monetary transactions are recorded in books of accounts.

These can be further classified into two types:

a. Cash Transactions: Cash transactions are those business transactions in which cash is paid or received immediately. E.g. the business has purchased goods by paying the money on the spot.

b. Credit Transactions: Credit Transactions are those transactions where the payment / receipt of cash takes place after a specified period of time. E.g. goods are purchased from M/s Nishad, however the payment shall be done after 3 months.

ii. Non-Monetary Transactions: The transactions carried out without the involvement of money or money's worth, directly or indirectly, are called Non-Monetary transactions. These transactions are not recorded in the books of accounts. Barter System is said to be followed when goods and/or services are exchanged against other goods and/or services. E.g. exchange of rice against vegetables.

2. Entry: Entry is a first record of a business transaction in the books of accounts. To pass an entry means to record a transaction in a proper form by using the correct technique in the books of accounts.

3. Narration: Narration is a short explanation of the business transaction for an entry. It starts with the word 'Being' and is written in brackets below the entry.

4. Goods: Goods are commodities, merchandise, articles or things bought or sold by a businessman with the motive to earn profit. The businessman may manufacture the goods himself or he may purchase them for the purpose of sale. E.g. for a furniture mart, the chairs, tables, cabinets, etc. are goods. For a stationery shop, the pens, books, notebooks, etc. are goods.

5. Capital and Drawings:

i. Capital: Total amount of funds invested by proprietor in the business is called capital. In accounting sense, the excess of assets over Liabilities is called capital. Capital is a liability of the business as the amount is repayable to the owner or the business unit. Given below is the equation for the calculation of Capital:

Capital = Assets – Liabilities

E.g. A businessman requires ₹ 5,00,000 to buy the machinery and stock of goods for running the business. He will raise the money by taking a bank loan and by putting his own money. He has taken loan of ₹ 2,00,000 and balance ₹ 3,00,000 is the money that he has put in.

Here, Assets = ₹ 5,00,000, Liabilities = ₹ 2,00,000

Capital = Assets – Liabilities = ₹ 5,00,000 – ₹2,00,000 = ₹ 3,00,000

ii. Drawings: Any goods or amount withdrawn by the proprietor from the business for his personal use is called Drawings. E.g If the businessman pays the electricity bill of his residence using the cash in the business, then it amounts to drawings.

6. Debtors and Creditors:

i. Debtors: A person who has to pay money to the business for goods and services purchased by him on credit is called a Debtor. A Debtor is basically a person who owes money to the business. E.g. A customer, M/s Divya, has purchased goods of ₹ 10,000 from M/s Radhika Traders but has not paid for the same, then that customer M/s Divya owes ₹ 10,000 to Radhika Traders and hence M/s Divya is the debtor.

ii. Creditors: A person to whom money is payable for goods and services purchased or received by the business is known as a Creditor. A creditor is a person to whom business owes money. E.g. Radhika Traders has purchased goods of ₹ 25,000 from a supplier M/s Khanna but has promised to pay after 2 months. It means that Radhika Traders owes ₹ 25,000 to M/S Khanna and hence the M/s Khanna is his creditor.

iii. Bad Debts: An amount that is irrecoverable from the debtor is called Bad Debt. Since the amount will not be recovered, it is a revenue loss for the business organization. E.g. If the debtor Divya owes 10,000 to M/s Radhika Traders, but is able to pay only ₹ 9,000, then the balance ₹ 1,000 is not recoverable and is called bad debts.

7. Expenditure: The amount paid by a business to receive any consideration is called Expenditure. When a consideration is received against a payment, the amount paid is known as Expenditure.

i. Capital Expenditure: The amount paid to acquire a Fixed Asset or to increase the value of Fixed Assets is called Capital Expenditure. This type of expenditure is non-recurring in nature and the benefits can be availed over a longer period of time. It increases the earning capacity of a business. E.g. The factory purchased by a company is a non-recurring expenditure and its benefits will be availed for many years to come. Hence purchase of factory is a capital expenditure. If an additional machine is installed in the factory then that adds to the production capacity of the factory and again the benefits are availed for a long period. Hence, it amounts to capital expenditure.

ii. Revenue Expenditure: Revenue Expenditure is expenditure from which the benefit is received immediately or for a short term, generally less than one year. It is the expenditure incurred on operating expenses / day to day expenses of a business which are recurring in nature. Such expenses do not increase the profit earning capacity of a business. Revenue expenditures appear on the debit side of the Trading Account or Profit & Loss Account. E.g. Wages paid for the production of goods are of recurring nature. They are to be paid regularly, say every month. Also the benefits arising from the wages paid are limited only to the production of that batch of goods. For production of next batch of goods again we have to incur wages. That means the benefits are short term and hence wages are revenue expenditure.

iii. Deferred Revenue Expenditure: Expenditure incurred which is revenue in nature but provides benefit for more than one year is called Deferred Revenue Expenditure. This expenditure is written off in Profit and Loss A/c over a period of time. Amount written off is shown in debit side of Profit and Loss Account and amount which is not written off yet is shown in the Balance sheet – Asset side. E.g. Payment made for an advertising campaign. Its benefits are availed for more than one year.

8. Cash Discount and Trade Discount: Discount is a concession on payment given by the seller to the purchaser.

i. Trade Discount: Trade Discount is an allowance or concession given to the buyer on catalogue price or list price of goods. It is allowed at the time of sale. Trade discount is not recorded in books of accounts. The value of goods sold or purchased is recorded at the net value i.e. after deducting the amount of trade discount. E.g. The catalogue price of a dress is ₹ 1,000, however it is sold to the customer at a discount of 10% i.e. ₹ 100.

ii. Cash Discount: Cash discount is an allowance or concession provided to customers for prompt payment of debt. It is deducted from the final amount receivable or payable at the time of payment and is given for either spot payment or payment made within a specified time period. Cash discount is given on the price calculated after the deduction of Trade Discount. Cash Discount is a loss to seller and gain for the buyer and hence, it is always recorded in books of accounts. E.g. A furniture of ₹ 10,000 has been sold to M/s Priya. At the time of payment, she was offered a cash discount of ₹ 500 so that she makes the payment immediately.

Distinction between Trade Discount and Cash Discount

	Trade Discount	Cash Discount
	Meaning	
a.	Trade discount is an allowance on the catalogue price or list price of the goods.	Cash discount is an allowance on the amount to be paid in cash.
	Calculation	
b.	Trade discount is calculated on Gross Price or List Price.	Cash discount is calculated on the Net Price.
	Given by	
c.	Trade discount is provided by manufacturers or wholesalers to the retailers.	Cash discount is given by the person receiving cash payment to the person making the cash payment.
	Purpose	
d.	Trade discount allows businessmen to sell goods at the list price and yet earn profit.	Cash discount is given to encourage buyers to make early and prompt payment.
	Recording	
e.	Trade discount is not recorded in the books of accounts.	Cash discount is recorded in the books of accounts.

9. Solvent and Insolvent:

i. Solvent: A Solvent person is someone who is financially sound and is in a position to pay off all his debts. The Assets of a Solvent person are equal to or more than his Liabilities. E.g. Mr. A has a house worth ₹ 50,00,000 and he has taken a loan worth ₹ 35,00,000. Here if we observe, he can repay his loan by selling off his house. Hence, he is considered solvent.

ii. Insolvent: An Insolvent person is someone who is not in a position to pay off his Total Debts from his Total Assets and who is not in a financially sound position. The Assets of an Insolvent person are less than his Liabilities. E.g. Mr. B has factory of ₹ 40,00,000 and land of ₹ 5,00,000. His dues amounts to ₹ 50,00,000. Hence, he cannot pay off his loan even if he sells all his assets. Hence, he is insolvent.

10. Accounting Year: In order to find out the financial position and performance of the Business, preparation of financial statements is essential. Financial statements are prepared for a period of 12 months. In earlier times, businessmen were allowed to prepare or close the accounts as per their traditional calendars. However, now, in India, as per the Income Tax rules, an accounting year should be of 12 months starting from 1st April to 31st March. A businessman is required to prepare the Trading Account, Profit & Loss Account and Balance Sheet to ascertain the financial position of the business.

11. Trading Concern and Not for Profit Concern:

i. Trading Concern: A business or a firm established to perform trading activities, with the objective of earning profit, is called a Trading Concern. A Trading Concern is also known as a Profit Making Organization or Commercial Organization.

ii. Not for Profit Concern: An organization which is established for rendering services to the society and does not operate with the objective of earning profit is known as a Not for Profit Concern. A Non Trading Concern may be formed with the objective of promoting a useful object such as art, science, sports, culture, charity, etc.

E.g. A crèche that takes care of the kids in return of the charges is a Trading concern. However, an orphanage that takes care of kids without receiving any payment against that, is a Not for Profit Concern.

12. Goodwill: Goodwill is the reputation of the business in the market, valued in terms of money. It is an Intangible Asset. Goodwill is the attribute or inherent quality of the business enterprise due to which it can earn better returns in the business as compared to the normal rate of return. In simple words, Goodwill is the name established by the business in the market, measured in monetary terms. It can be due to the factors such as the favourable location of the enterprise, the quality of products/services, specific skills of the employees, etc. that give advantage to the enterprise.

13. Profit, Loss, Income, Revenue:

i. Profit: The excess of Income over Expenses during an accounting year is known as 'Profit'. When the selling price of goods is more than the cost price then it gives profit. The profit results in increase in the capital of the business. E.g. M/s A purchased wood of ₹ 20,000 and spent wages and other expenses of ₹ 5,000 to make a chair. He sold the chair for 30,000. In this case, M/s. A has earned a profit of ₹ 5,000.
(30,000 – 20,000 – 5,000)

ii. Loss: The excess of Expenses over Income during an accounting year is known as 'Loss'. When the cost of goods is more than the selling price of the goods then loss is incurred. The loss reduces the capital of the business. E.g. M/s B purchased wood of ₹ 20,000 and spent wages and other expenses of ₹ 5,000 to make a chair. He sold the chair for 22,000. In this case, M/s. B has incurred a loss of ₹ 3,000. (his cost is ₹ 25,000 and he has earned only ₹ 22,000)

iii. Income: Income is the revenue that arises from the business transactions. It includes the amount that is received or receivable for the services rendered, interest, dividend, commission, etc.

iv. Revenue: It is the income earned by the business from its normal business activities such as sale of goods and providing services.
E.g. Mr. C is in the business of selling mobile phones and he has made a profit of ₹ 5,00,000 from this activity. This is his revenue. He has also earned an interest from bank of ₹ 25,000. His income shall be ₹ 5,25,000. (5,00,000 + 25,000)

Difference between Profit and Income

	Profit	Income
	Meaning	
a.	Profit is the amount of income earned over and above the expenses incurred.	Income is the amount received from the sale of goods or services rendered or any other revenue receipt.
	Formula	
b.	Profit = Selling price – Cost price	No formula is required to calculate Income.
	Example	
c.	Goods costing ₹ 10,000, sold to Raj for ₹ 12,000. Profit earned = ₹ 2,000	A section of office is given on Rent for ₹ 2,000 per month. ₹ 24,000 will be the income for the year on account of Rent received.

14. Assets, Liabilities and Net Worth:

i. Assets: An Asset is any physical thing or a right which has a monetary value and which is owned by a business unit. E.g. Land and building, Computers, Patents, Goods, etc. Assets can be classified in three types:

a. Fixed Assets: Assets which are purchased for the purpose of long term use and are not usually sold until they are worn out are called Fixed Assets. They provide long term benefits to the Business. They can be tangible or intangible. E.g. Factory building, machinery, vehicles, goodwill, etc.

b. Current Assets: Current Assets are the assets which remain in the business for the operating year and can be converted into cash easily. E.g. Books in case of a book seller are current assets. He expects to sell them during the operating year and also it can be quickly converted into cash on sale.

c. Fictitious Assets: Fictitious Assets are intangible in nature. They are imaginary assets and generally do not have any realisable value. E.g. Promotional expenses of a company or expenditure on advertisement campaign paid for more than one year. In this case, the expenditure is already incurred. The benefits of this expenditure are expected to be received in the next years also. Hence, this is an asset. However, it is not possible to sell off the same and convert it into money. Hence, it is termed as fictitious asset.

ii. Liabilities: The amount payable by business to outsiders is known as Liability. It is the amount due from the business to various parties for the benefits received by the business unit. The types of liabilities are as follows:

a. Fixed Liabilities: Fixed Liabilities, also known as Long Term Liabilities, are funds made available to business units from various sources for long term use. They are the major source of funds for the business. They are in the form of capital, long term loans from banks/financial institutions, etc.

b. Current Liabilities: Liabilities which are payable in a short period of time (generally within a year) are called Current Liabilities. These are sources of short term finance for business units. They arise in the regular course of business activities. Generally, they are unsecured in nature. E.g. creditors for purchase of goods, bank overdraft (when bank lets the customer withdraw more money from his current account than his balance)

iii. Net Worth / Owners' Equity or Capital: Capital is the funds invested by the proprietor of a firm in the business. It may be in cash or kind.

a. 'Capital' of a business is also termed as Owner's equity or 'Net Worth' of a business.

Net worth = Owners' Equity = Capital

b. It can also be expressed as the excess of the Assets over Liabilities.

Total Assets = Fixed Assets + Current Assets

E.g. A business owns Machinery of ₹ 8,00,000 and stock of ₹ 2,00,000
Total Assets = ₹ 8,00,000 + ₹ 2,00,000 = ₹ 10,00,000

c. Now, the owner has funded the assets through a loan of ₹ 6,00,000 and balance is the money he has invested from his pocket (capital/equity).
Thus, we can put this in the form of following equation

Capital = Total Assets – Total Liabilities

Owner's Equity = Total Equity (Assets) – Creditors' Equity (Liabilities)

Hence, Owner's Capital/Equity = ₹ 10,00,000 (total assets) – ₹ 6,00,000 (outside liabilities/creditor's equity)

d. The Net worth includes Capital as well as the reserves. Reserves means the profits of the business which are again invested in the business by the owner instead of taking them home.
E.g. A business was started with a capital of ₹ 5,00,000. In the first year, profit of ₹ 1,00,000 was earned. The owner retained ₹ 80,000 in the business. Hence, now his Net Worth or Capital is ₹ 5,80,000 (5,00,000 + 80,000)

Net Worth = Capital + Reserves

15. Contingent Liabilities: Contingent Liability is a liability which may have to be paid at a future date, depending upon the happening or non-happening of a certain event. It does not affect the financial position of a business and hence it is not recorded in the books of accounts till the event actually occurs. A contingent liability is stated as a foot note to the Balance sheet, simply for information. E.g. a decision regarding payment to be made to workers is pending in the court of law. If the decision is in the favour of the workers then the liability to pay the workers may arise. Since this liability is dependent on the decision of the court, it is a contingent liability.

Accounting Concepts, Conventions and Principles

Meaning of Accounting Concepts:

Accounting is the language of business and this language needs to be consistent for all businesses else it would be difficult for the various interested parties to interpret the accounts of a business. In order to standardise this language, accounting concepts have been developed over the years. Accounting Concepts are general guidelines for sound accounting practices. Accounting concepts are the general rules of accounting to be followed and practiced by an accountant while preparing the accounts of a firm.

Importance of Accounting Concepts:

i. **Reliability:** The Financial statements adhering to the Accounting concepts are reliable in nature.

ii. **Uniformity in presentation:** Since all the business entities of the same nature are following the same Accounting concepts, their presentation shows uniformity and hence become comparable.

iii. **Generally acceptable basis of measurement:** Financial statements prepared by adhering to Accounting Concepts the basis of measurement of financial performance is accepted by all.

iv. **Proper information to all:** The financial statements based on the Accounting concepts being more reliable and accurate are in a position to provide proper information to all its users.

v. **Valid and appropriate assumptions:** The accounting concepts facilitate making the valid and appropriate assumptions and hence the reliability and accuracy of the financial statements increases.

Key Accounting Concepts:

i. **Business Entity:** The concept of Business Entity states that a Business and its Owner/ owners (the persons supplying capital) are two separate entities. According to this concept, the accounts are maintained from the point of view of the business entity and not the owner. Hence the capital provided by the owner is the liability for the business enterprise.

As per this concept, a business should record transactions only related to business. Proprietor's personal transactions are not to be recorded in the books of the business. However, if there is any capital contribution by the owner or there is any withdrawal from business by the owner for his personal use then such transactions are required to be recorded.

For e.g.:

Transaction	Effect on the business	Recorded as
Payment of the Electricity bill for the residence of the owner paid by him	Does not affect	Not recorded in the books of accounts of business
Payment of electricity bill made by the business on the proprietor's behalf	Payment is made by the business, hence affects business	Not recorded as expense of the business as it is his personal expense. Recorded as drawings of the owner.

ii. **Money Measurement Concept:** According to this concept, only those transactions which can be expressed in terms of money are recorded. Business transactions need to be recorded in a common unit of measurement. Money is used as a common measurement unit to record all the business transactions. The currency of the country is used for expressing the same. In India, transactions can only be recorded in Indian currency i.e. 'Rupee' (₹).

The transactions which do not involve money are not recorded.

For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.

It helps understanding of the state of affairs of the business as money serves as a common measure by means of which heterogeneous facts about the business are recorded.

For example, if a business has 5 computers, 2 tables and 3 chairs, the assets cannot be added to give useful information, unless, they are expressed in monetary terms ₹ 1,50,000/- for computers, ₹ 15,000/- for tables and ₹ 2,500/- for chairs.

iii. **Cost Concept:** The Cost concept states that all the assets purchased should be recorded at the historical cost i.e. the cost paid for the acquisition of the asset. It will be the base for further accounting. Market price of an asset keeps fluctuating. Hence, it becomes necessary to record the transactions at cost price. At the time of purchase, the asset is recorded at the cost and gradually depreciation is charged on the asset which reduces its book value. E.g. a furniture purchased from a friend for ₹ 20,000 may be having a market value of ₹ 25,000. However, it is still recorded at ₹ 25,000 only.

iv. **Consistency Concept:** The consistency concept states that any policy adopted for accounting should not change frequently unless it is the demand of the changing circumstances. Policies adopted for accounting should be consistent and continuous. This concept does not prevent introduction of any new techniques or the improvement of any existing techniques but any deviations from the existing methods should be disclosed separately as a note. E.g. if a company is following accrual basis of accounting for one year, it cannot keep on changing it every year. It is important that the company continues to follow the same method in coming years as well.

v. **Conservatism Concept:** In accounting, a business should not anticipate future profits but anticipate future losses and make provisions for all the possible expenses. This helps create some reserves in the books of accounts which can absorb the unexpected expenses, if any. The Profit & Loss Account may show lower income and Balance sheet may overstate the Liabilities and understate the Assets. This policy of recording means asking the accountant 'to play safe' while recording transactions in the books of accounts. E.g. A company is expecting that a particular customer is likely to make a default in paying his dues then, the company can make a provision for the default even if the actual default has not occurred. This will reduce the profits of the earlier year but it follows the 'play safe' way.

vi. **Going Concern Concept:** Going Concern Concept assumes that a business will function for a long period of time. It is expected to continue operations for future and is not to be closed down in a short period of time. This concept has impact on the accounting policies regarding the valuation of assets, depreciation, treatment of outstanding/prepaid expenses etc.

vii. **Realization:** This concept states that an income is realized only when it is received or earned. Sales are recorded only when goods are sold or services are provided. Sales revenues are considered as recognized when sales are effected during the accounting period, irrespective of whether the payment has been received or not. E.g. The value of land to be sold has increased from ₹ 1,00,00,000 (recorded value) ₹ 1,20,00,000 (market value). However, unless and until the actual sales has taken place, the profit of ₹ 20,00,000 cannot be recorded in the business.

viii. **Accrual:** Expenses are recorded when they are accrued i.e. when they become payable. Similarly, Income is also recorded when it is accrued i.e. when it becomes receivable. Actual payment and receipts are not concerned with recording of the expenses or incomes. As per the Accrual concept, Incomes and Expenses related to the specific accounting period should be recorded in the books of accounts, irrespective of the fact the revenues are received in cash or not or expenses are paid in cash or not.

E.g. a. Rent for the month of March is paid on 5th April. However, it will be recorded as an expense of March when it is accrued even if it is not paid.

b. In case of credit sales, the Sales are recorded in the books as and when they take place even if the customer is yet to make the cash payment for the same.

ix. **Dual Aspect Concept:** Every business transaction has two effects and involves exchange of benefits. Benefit received and benefit given, both the aspects should be recorded in the books. The system which records such dual aspects in the books of accounts is the basis of the Double Entry System.

This principle is also referred to as the Debit and Credit concept.

Debit the account	Increase in Assets and expenses
	Decrease in Liabilities and Income
Credit the account	Decrease in Assets and Expenses
	Increase in Liabilities and Income

This gives rise to the basic accounting equation: Capital + Liabilities = Assets.

x. **Disclosure:** This concept states that the accounts must disclose all the material information. Accounts should disclose true, fair and complete information to all the related parties. The Balance Sheet and the Profit & Loss Account should present the true picture of the financial performance and the financial position of the business. The information disclosed should possess the qualities of relevance, reliability, comparability and it should be easy to understand for all the concerned authorities.

xi. **Materiality Concept:** This concept states that all significant and important monetary matters which may influence the decision of the users of financial statements the need to be disclosed in the books of accounts. As per this concept, it would not be very economical for a business to record all the small details in accounting. The utility of the transaction and information should be related to the time, efforts and the cost involved in accounting of such transactions. The term materiality is subjective and depends upon the nature of business, the value of the transaction, requirements of users of the financial statements etc.

E.g. The expenses having significant amount need to be classified under that particular head say, salary, electricity etc. However, expenses having very small or insignificant amount may be clubbed together under miscellaneous expenses.

xii. **Matching Principle:** Matching principle states that all the income received or earned in an accounting year should be matched with the expenses incurred in that accounting year. This concept considers the accrual basis of accounting and periodicity concept. Periodicity provides the time frame for measuring the financial performance and status. The expenses pertaining to the relevant accounting period are taken into account. Therefore, it includes all the adjustments related to Outstanding/Prepaid Expenses, Outstanding/Pre-received Income. Depreciation provision for the relevant accounting period is made.

This way the revenues earned are matched with the expenses incurred for that accounting period and then the profit or loss is derived.

Accounting Standards, Concepts and Objectives

Accounting is the way of communicating the results of the business organizations. It is necessary to have standardized norms for preparation of the financial statements of all entities so that they become comparable. It is also beneficial for auditors to check accounts of various organizations as the basic concepts followed while preparing the accounts are standardised.

The Accounting Standards provide such framework and norms to be followed for accounting. The standardization of accounting principles is necessary for consistency, comparability, adequacy and reliability of financial statements.

The objective of Accounting Standards is to standardize the diverse accounting policies and practices with a view to eliminate the non-comparability of financial statements and add reliability to the financial statements.

In the words of **Kohler**, "Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally."

Accounting Standards are written policy documents issued by the expert accounting body or by Government or other regulatory body covering following aspects regarding accounting transactions and events in the financial management:

a. Recognition b. Measurement c. Treatment d. Presentation

e. Disclosure

Need for Accounting Standards:

i. For promoting better understanding of the financial statements.

ii. For guiding accountants in following uniform procedures and practices.

iii. For facilitating meaningful comparison of financial statements of different entities.

iv. To enhance reliability of financial statements.

v. For meeting the legal requirements effectively.

International Financial Reporting Standards (IFRS):

International Financial Reporting Standards (IFRS) are the International Accounting Standards. Their objective is to state the manner of reporting particular types of transactions and other events in financial statements. They are issued with the aim of improving financial reporting internationally through worldwide accepted accounting standards.

They are issued by International Accounting Standards Board (IASB).

Accounting Standards in India:

Institute of Chartered Accountants of India (ICAI) is the regulatory body that issues Standards of Accounting in India. The council of Institute of Chartered Accountants of India has constituted the Accounting Standards Board (ASB) for this purpose. ASB formulates Accounting Standards (AS) after considering the relevant laws, customs, usage, business environment. It also takes into consideration the International Accounting standards.

Due to globalisation, the accounts prepared in India have to be compatible with accounts prepared in other countries. This has resulted in the existing AS being converged with the IFRS. This convergence has resulted in what is known as Ind AS. Ind AS are basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions. Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS. In future, it is expected that all business entities in India will migrate to Ind AS.

Some Accounting Standards (AS):

The Council of the Institute of Chartered Accountants of India has so for issued thirty one accounting standards. Some of these accounting standards are explained below:

i. **AS-1 Disclosure of Accounting Policies: (1-4-1991 for companies and 1-4-93 for others)**
As per this standard, the accounting policies followed in the preparation and presentation of financial data should form a part of the financial statement and normally be disclosed in one place.

ii. **AS-2 Valuation of Inventories: (1-4-1999)**
As per this standard, inventories in general should be valued at lower of historical cost and net realisable cost.

iii. **AS-3 Cash Flow Statements: (1-4-2001)**
As per this standard, a cash flow statement is prepared and presented for the period for which the Profit & Loss A/c is prepared.

iv. **AS-6 Depreciation Accounting: (1-4-1995)**
As per this standard, the depreciation amount of an asset should be allocated on a systematic basis for each accounting period during the useful life of an asset.

v. **AS-8 Accounting for Research and Development: (1-4-1991 for companies and 1-4-93 for others)**
As per this standard, the amount of research and development costs should be charged as an expense of the period in which they are actually incurred.

vi. **AS-9 Revenue Recognition: (1-4-1991 for companies and 1-4-93 for others)**
This standard deals with the basis required for recognition of revenue items in the Profit & Loss A/c of an enterprise. It lays down conditions to recognize revenues that arise from the various transactions of an enterprise.

vii. **AS-10 Accounting for Fixed Assets: (1-4-1991 for companies and 1-4-93 for others)**
As per this standard, the cost of fixed assets should comprise of the purchase price and any attributable cost of bringing the asset to its working conditions for its intended use. The fixed assets should be eliminated from the financial statement on disposal or when no further benefit is expected from their use.

viii. **AS-12 Accounting for Government Grants: (1-4-1994)**
As per this standard, government grants should be recognised when there is an assurance that the enterprise will comply with the conditions attached to them.

ix. **AS-13 Accounting for Investments: (1-4-1995)**
As per this standard, an enterprise should disclose the current and long-term investments distinction in its financial statements. Current investments should be carried in the financial statements at the lower cost or fair value. However, long-term investments should always be carried in the financial statement at the cost price.

x. **AS-22 Accounting for Taxes on Income: (1-4-2001)**
As per this standard, tax expenses for the period comprising current tax and deferred tax should be included in the determination of the net profit or loss for the period.

Objective Type Questions

1. Answer in One Sentence:

i. What is Book-keeping? (T)

Ans: Book-Keeping means recording of the business transactions in the books of accounts in a systematic manner.

ii. What does Accountancy include?

Ans: Accountancy includes recording of business transactions, classifying them in different books of accounts, analyzing and summarizing the transactions in the form of reports.

iii. What is a Transaction?

Ans: Exchange of goods and services between two persons or parties for money or money's worth is known as a Transaction.

iv. What is meant by Goods? (T)

Ans: Goods are commodities, merchandise, articles or things bought or sold by a businessman with the motive to earn profit.

v. What is Capital? (T)

Ans: Total amount of funds invested by the proprietor in the business is called capital.

vi. What is Drawings? (T)

Ans: Any goods or amount withdrawn by the proprietor from the business for his personal use is called Drawings.

vii. What is Goodwill? (T)

Ans: Goodwill is the reputation of the business in the market, valued in terms of money. It is an Intangible Asset.

viii. What is Income?

Ans: The revenue arising from the sale of goods or services is called Income. It also includes revenues from other sources, common to most businesses such as Interest on Investments, Dividend, Rent, Commission etc.

ix. What is Accrual Concept?

Ans: Accrual concept is the Accounting Concept which states that, Incomes and Expenses related to the specific accounting period should be recorded in the books of accounts, irrespective of the fact the revenues are received in cash or not or expenses are paid in cash or not.

x. What is Dual Aspect Concept?

Ans: Dual Aspect Concept is the Accounting concept which states that, every business transaction has two effects i.e. benefit received and benefit given and both the aspects should be recorded in the books.

2. Give the word, term or phrase which can substitute each of the following statements:

i. Recording of business transactions. **(T)**	Book-Keeping
ii. Book-keeping is providing all required financial information to the businessman for the purpose of. **(T)**	Decision Making
iii. Method of accounting in which the revenue is recognised when earned and expense is recognized when incurred irrespective of actual receipt or payment.	Accrual Basis
iv. Amount invested in business by the proprietor. **(T)**	Capital
v. Exchange between two persons. **(T)**	Transaction
vi. Business transaction in which cash is not paid or received immediately.	Credit Transaction
vii. A person to whom amount is payable. **(T)**	Creditor

viii. Allowance is given on catalogue price of goods. **(T)** — Trade Discount

ix. A person whose assets are sufficient enough to meet business obligations. **(T)** — Solvent

x. Excess of expenses over income. **(T)** — Loss

xi. Property of any description owned by Proprietor. **(T)** — Assets

xii. Assets which remain in the business only for short time and can be converted into cash very easily. **(T)** — Current Assets

xiii. A liability which may have to be paid at a future date, depending upon the happening or non-happening of a certain event. — Contingent Liability

3. Select the most appropriate alternatives from those given below and rewrite the statements.

i. In _____ basis of accounting, actual cash receipts and actual cash payments are recorded. **(T)** — Cash

(A) Accrual (B) Hybrid
(C) Cash (D) Mercantile

ii. An act of exchange of things or services between the two parties is termed _____. **(T)** — Transaction

(A) Ledger (B) Transfer
(C) Transaction (D) Business

iii. A commodity in which a trader deals is known as _____. **(T)** — Goods

(A) Goods (B) Income
(C) Property (D) Expenditure

iv. Brief explanation of an entry is called as _____. **(T)** — Narration

(A) Folio (B) Narration
(C) Posting (D) Journalising

v. Amount which is not recoverable from customer is known as _____. **(T)** — Bad Debts

(A) Bad Debts (B) Debts
(C) Debtors (D) Doubtful debts

vi. Expenditure incurred on purchase of Fixed Asset is _____. — Capital Expenditure

(A) Revenue Expenditure (B) Capital Expenditure
(C) Deferred revenue expenditure (D) None of these

vii. _____ means a reputation of a business valued in terms of money. **(T)** — Goodwill

(A) Trademark (B) Assets
(C) Patents (D) Goodwill

viii. _____ plus of income over expenses is _____. **(T)** — Profit

(A) Profit (B) Deficit
(C) Loss (D) Financial Statements

ix. _____ concepts are general guidelines for sound accounting principles. — Accounting

(A) Materiality (B) Accounting
(C) Consistency (D) Revenue Recognition

x. The immediate recognition of loss is supported by principle of _____. **(T)** — Conservatism

(A) Conservatism (B) Objective
(C) Matching (D) Consistency

xi. Accounts must be honestly prepared and they must disclose all material information is known as _____. **(T)**

(A) Entity Concepts (B) Dual Aspect Concept
(C) Disclosure Concept (D) Cost Concept

Disclosure Concept

xii. Cash flow statement is prepared and presented for the period for which the profit and loss account is prepared. **(T)**

(A) AS-3 (B) AS-10
(C) AS-6 (D) AS-2

AS-3

4. State whether the following statements are true or false with reasons:

i. In civilization, accounting was done by owners. (T)

Ans: False

Reason:

In the earlier time of civilisation, accounting was done by agents who managed the properties of wealthy people.

ii. Book-keeping is useful to find out all tax liabilities. (T)

Ans: True

Reason:

Book-keeping maintains the records of all the business transactions. Hence it becomes possible to ascertain the tax liabilities rightly through Book-keeping.

iii. Book-keeping and accounting are one and the same thing. (T)

Ans: False

Reason:

Book-Keeping is recording and classifying the transactions in a systematic manner whereas Accountancy records transactions, classifies, analyses, summarises and interprets the results thereof. Hence Accountancy is a broader concept than Book-keeping.

iv. Accounting is the language of business. (T)

Ans: True

Reason:

Accounting records transactions, classifies, analyses, summarises and interprets the results thereof. Thus, it communicates the information regarding the business to various users such as owners, managers, investors, customers, etc. Hence it is the language of the business.

v. Reliability is considered a primary quality of Accounting Information.

Ans: True

Reason:

Accounting information is used by various users for forming a judgment about the financial status, earning capacity etc. of a business and for taking a decision. Hence the reliability of Accounting information is a primary quality.

vi. A transaction is concerned with money or money's worth. (T)

Ans: True.

Reason:

Money serves as the medium of exchange and for recording a transaction it is necessary that its value in terms of money is ascertained.

vii. Cash discount does not appear in the books of accounts. (T)

Ans: False

Reason:

Cash Discount is the concession allowed for prompt or timely payment and it is allowed at the time when the actual payment is made. It is a loss to the seller and gain to the buyer. Hence it is recorded in the books of accounts.

viii. Solvent person is a person whose assets are more than his liabilities. (T)

Ans: True

Reason:

A person whose assets are more than his liabilities is in a position to pay off all his debts. Hence, he is called a solvent.

ix. Bank overdraft is an asset of the business. (T)

Ans: False

Reason:

Bank Overdraft is the amount that is payable to the bank. Thus, it is a liability and not an asset.

x. Business is liable to the owner for the capital contributed by him.

Ans: True

Reason:

As per the Business entity concept, a Business and its Owner/owners (the person supplying capital) are two separate entities. The accounts are maintained from the point of view of the business entity and not the owner. Hence the business is liable to the owner for the capital contributed by him.

xi. Conservatism means to follow safe side. (T)

Ans: True

Reason:

Concept of Conservatism says that, a business should not anticipate future profits but anticipate future losses and make provisions for all the possible expenses. Hence it means to follow safe side.

xii. The double entry system is based on "Dual Aspect" concept. (T)

Ans: True

Reason:

In double entry system, both the aspects of a transaction i.e. for every debit there is a corresponding and equal credit and both are recorded in the books of accounts. Hence it is based on Dual Aspect concept.

5. Do you agree or disagree with the following statements:

i.	Accounting is useful only to the owner. **(T)**	Disagree
ii.	Book-keeping is an art, science and profession. **(T)**	Agree
iii.	In Book-keeping and Accountancy, only non monetary transactions are recorded. **(T)**	Disagree
iv.	Trading concerns established for rendering services to the society.	Disagree
v.	Profit = Cost Price – Selling Price	Disagree
vi.	Bills Payable is an asset of the business. **(T)**	Disagree
vii.	Totalling of Journal or Ledger is called as casting. **(T)**	Agree

6. Complete the following sentences:

i.	A person to whom business owes money for the goods or services is known as _____. **(T)**	Creditor
ii.	An expenditure which is basically revenue in nature but benefit of which is not exhausted within one year is called as _____. **(T)**	Deferred Revenue Expenditure
iii.	The amount deducted by the seller from the list price of goods at the time of sale is _____. **(T)**	Trade Discount
iv.	Revenue arising as a result of business transactions is known as _____. **(T)**	Income
v.	Excess of gross profit over operating expenses is _____. **(T)**	Operating Profit

vi. Capital = Total Assets – _____.

vii. As per _____ concept, an asset is recorded in the books of accounts on the basis of historical cost.

Total Liabilities
Cost

7. Correct and rewrite the following statements:

i. Accountancy is the primary stage in Book-keeping.

Ans: Book-keeping is the primary stage in Accountancy.

ii. Goodwill is tangible in nature.

Ans: Goodwill is intangible in nature.

iii. A person who has to pay to the business for goods/services received is creditor.

Ans: A person who has to pay to the business for goods/services received is debtor.

iv. Networth includes Capital and Liabilities.

Ans: Networth includes Capital and Reserves.

8. Find the odd one:

i. Land, Machinery, Stock, Furniture

Ans: Stock

Reason:

Stocks are current assets whereas all others are Fixed assets.

ii. Purchase of furniture, Salary paid, Purchase of Machinery, Purchase of Computer

Ans: Salary paid

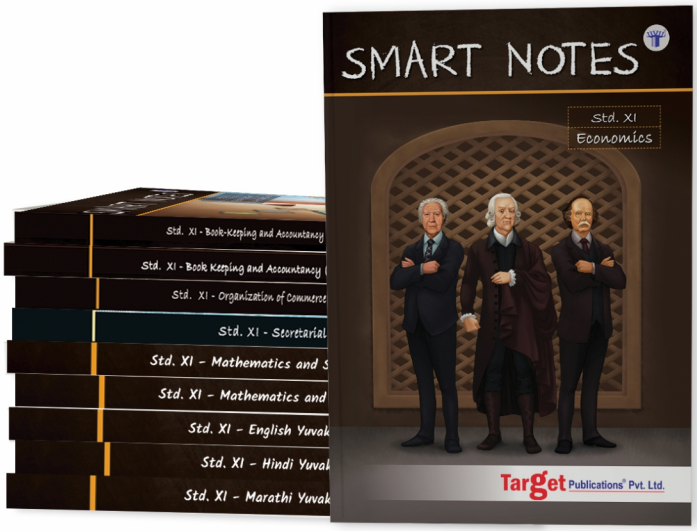
Reason:

Salary paid is revenue expenditure whereas all others are capital Expenditures.

Std. XI

SMART NOTES

COMMERCE



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