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**Concept based notes**

# **Fundamentals of Accounting**

[BCA]

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## **Preface**

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

**Author**

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# Chapter-1

## Accounting : An Introduction

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### Very Short: Question-Answer

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**Q.1. What is meant by Accounting? Give two objectives of Accounting.**

Ans. According to the American Institute of Certified Public Accountants (AICPA) in their Accounting Terminology Bulletin No. 1, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

**Two objectives of Accounting are:—**

- (i) **To keep systematic records:** Its main objective is to keep complete record of business transactions. It avoids the possibility of omission and fraud.
- (ii) **To calculate profit or loss:** Accounting helps to ascertain the net profit earned or loss suffered on account of business transactions during a particular period. To ascertain profit or loss at the end of each accounting period Trading and Profits & Loss of the business is prepared.

**Q.2. What do you mean by Accounting Concepts?**

Ans. Accounting Concepts provide a base for accounting process every enterprise has to consider basic concepts at the time of preparing its financial statements.

According to Kohler concept as, "A series of assumptions constituting the supposed basis of a system of thought or an organized field of an endeavour.

**Q.3. What is separate entity concept?**

Ans. According to this concept, the business and businessman are two separate and distinct entities. Business is treated as a unit separate and distinct from its owners, managers and others. Therefore, proprietor is treated as a creditor of the business

to the extent of capital invested by him in the business. It is applicable to all forms of business organizations, i.e., sole proprietorship, partnership or a company.

**Q.4. What do you understand by going concern concept?**

Ans. According to this concept it is assumed that the business will continue to exist for a long period in the future. According to this concept we record fixed assets at their original cost and full cost of the asset would not be treated an expense in the year of its purchase itself.

**Q.5. What do you understand by convention of consistency?**

Ans. According to this convention accounting principles and methods should remain consistent from one year to another. The rationale for this concept is that changes in accounting treatment would make the Profit & Loss and Balance Sheet unreliable for end users. For example there are several methods of providing depreciation on fixed assets i.e. fixed installment method, diminishing balance method etc., But it is expected that the business entity should be consistent to follow accounting method.

**Q.6. Explain Accounting Equation.**

Ans. Accounting equation is also termed as balance sheet equation. It signified that the assets of a business are always equal to the total of capital and liabilities.

It can be represented as:

Assets = Liabilities + Capital

Capital = Assets + Liabilities

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**Short: Question-Answer**

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**Q.1. Give advantages of Accounting.**

Ans. Advantages of accounting are:—

- (i) **Provides Complete and Systematic Record:** In business there are so many transactions therefore it is not possible to remember all transactions. Accounting keeps a systematic record of all the business transactions and summarized into financial statements.
- (ii) **Information Regarding Financial Position:** Accounting provides information about the financial position of the business by preparing a balance sheet at the end of each accounting period.

- (iii) **Helpful in Assessment of Tax Liability:** Accounting helps in maintaining proper records. With the help of these records a firm can assessed income tax of sales tax. Such records are trusted by income tax and sales tax authorities.
- (iv) **Information Regarding Profit or Loss:** Profit & Loss Account is prepared at the end of each accounting period to know the net profit earned or net loss suffered at the end of each accounting period.

**Q.2. Give limitations of Accounting.**

Ans. Limitations of Accounting are:—

- (i) **Possibilities of Manipulation:** Accounts can be manipulated, so that the financial statements may disclose a more favourable position than the actual position for example closing stock may be overvalued in accounts.
- (ii) **It includes only Economic Activities:** Non-monetary transactions are not recorded in accounts. Transactions which can not be expressed in money cannot find place in accounts. Qualitative aspects of business units like management labour relations, efficiency of management etc. are wholly omitted from the books of accounts.
- (iii) **Price Level Changes not Considered:** Fixed assets are recorded in accounts at their original cost. Sometimes assets remain undervalued particularly land and building. Effect of price level changes is not considered at the time of preparing accounts.
- (iv) **Influenced by Personal Judgments:** An accountant has to use his personal judgment in respect of many items. For example, it is very difficult to predict the useful life of an asset.
- (v)

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## Chapter-2

# Journal and Ledger

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### Very Short: Question-Answer

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**Q.1. What is Journal?**

Ans. A Journal is a book of original entry in which transactions are recorded in the order in which they occur i.e., in chronological order.

It is a basic book of original entry in which transactions are analyzed before they are posted in the ledger.

**Q.2. Give four advantages of Journal.**

Ans. Advantages of Journal:—

- (i) As transactions in journal are entered as and when they take place, the possibility of omission of a transaction in the books of accounts is minimized.
- (ii) Journal provides a chronological record of all transactions.
- (iii) Along with the entry in the journal, a complete explanation is written so that it is possible to understand the entry properly later.
- (iv) Journal facilitates cross checking of ledger accounts in case a trial balance does not agree.

**Q.3. Give two limitations of Journal.**

Ans. Limitations of Journal:—

- (i) When the number of transactions is large, it is not possible to record all the transactions in journal. Therefore, the usual practice is to have separate journals or books for different classes of transactions.
- (ii) Cash transactions are generally recorded in a separate book called Cash Book. Thus cash transactions need not be recorded in Journal.

**Q.4. What is Double Entry System of Book-Keeping?**

Ans. According to William Pickles, "The Double Entry System seeks to record every transaction in money or money's worth in its double aspect-The receipt of a benefit by one account and the surrender of a like benefit by another account, the former entry being to the debit of the account receiving and the latter to the credit of that account surrendering."



**Q.5. Give two advantages of Ledger.**

Ans. Advantages of Ledger:—

- (i) It is difficult to prepare the final accounts in the absence of a ledger as it provides necessary information regarding various accounts.
- (ii) All the transactions related to an account are collected at one place, which will provide a complete information of all the transactions related to a particular account.

**Q.6. Differentiate between Journal and Ledger.**

- Ans. (i) Journal is the book of original entry while a ledger is the book of secondary entry because all transactions are recorded first in the journal and then posted to the ledger.
- (ii) The process of recording transactions in a journal is termed 'Journalizing' while the process of recording transactions in a ledger is called a posting'.

**Q.7. Distinguish between Cash Discount and Trade Discount.**

Ans. Difference between Cash Discount and Trade Discount are:—

Basic of Difference	Cash Discount	Trade Discount
1. Meaning	Cash discount is allowed when payment is received and cash discount is received when payment is made.	Trade discount is allowed at the time of sale to the customers at a fixed percentage on the marked price.
2. Purpose	The purpose is to encourage prompt payment from customers.	The purpose is to increase sales and to enable retailers to sell the goods to their customers at list price.
3. Recording in the books	It is recorded in the books of accounts.	It is not recorded in the books of accounts.
from Invoice	from the invoice.	

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## Chapter-3

# Subsidiary Books

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### Very Short: Question-Answer

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**Q.1. Define subsidiary books and give names of subsidiary books.**

Ans. Subsidiary book is meant for recording all the transactions of a similar nature. They are also known as special journals.

It may be defined as books where the transactions are entered first and then ledger accounts are prepared on their basis.

Journal is divided into a number of subsidiary books. These are:—

- |                        |                            |
|------------------------|----------------------------|
| (i) Cash Book          | (ii) Purchase Book         |
| (ii) Sales Book        | (iii) Purchase Return Book |
| (iv) Sales Return Book | (iv) Bills Receivable Book |
| (v) Bills Payable Book | (vi) Journal Proper        |

**Q.2. Why Cash Book is called a book of original entry?**

Ans. The number of cash transactions in a firm is generally larger, therefore, it becomes inconvenient to record all cash transactions in the journal. Since all cash transactions are recorded for the first time in the cash book, it is therefore called a book of original entry. Only cash transactions are recorded in the cash book.

**Q.3. Give four advantages of Petty Cash Book.**

- Ans.
- (i) It saves the time of chief cashier.
  - (ii) Maintenance of petty cash book does not require any specialized knowledge of accounting.
  - (iii) It provides control over small payments.
  - (iv) It minimizes the chances of fraud.

**Q.4. What is a purchase book?**

Ans. It is a subsidiary book which records transactions of credit purchases of goods. Cash purchases are not recorded in the purchases book since they are recorded in the cash book.

**Q.5. What is a sales book?**

Ans. It is a subsidiary book which records transactions of credit sales of goods. Cash sales will be recorded in the cash book and not in the sales book. Sale of assets is not recorded in the sales books.

**Q.6. Define purchase return book.**

Ans. Purchase return or return outward book is maintained to record the goods or materials returned to the suppliers that have been purchased on credit. When the goods are returned, a debit note is prepared and is sent to the supplier with the returned goods.

**Q.7. What is a credit note?**

Ans. When the goods are received back, a credit note is prepared in duplicate and the original copy of the same is sent to the party from whom goods were received. A credit note contains details relating to the name of the customer, details of the goods received back and the amount of return.

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### Short: Question-Answer

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**Q.1. State the four advantages of sub-dividing a Journal.**

Ans. Advantages of sub-dividing a Journal are:—

- (i) **Division of Work:** There are eight subsidiary books, in place of one journal, accounting work can be divided among a number of persons. Different persons do the accounting work in different books, therefore, the work will be completed in a very short time.
- (ii) **Time Saving:** Various accounting processes can be undertaken simultaneously because of the use of number of books. This leads to the work being completed quickly.
- (iii) **Increase in Efficiency:** Work of a particular book is handled by a particular person, therefore he acquires full knowledge of it and becomes efficient in handling it.
- (iv) **Flexible:** Maintenance of all the eight books is not necessary for every business firm. Any business firm can increase or decrease the number of books according to the needs of the business.

**Q.2. Explain the meaning of Imprest System of Petty Cash Book.**

Ans. Under this system, a definite sum of money is given to the petty cashier at the beginning of a period. The petty cashier goes on paying all petty expenses like expenses on telegram, newspaper, taxi fare etc. Out of this amount and records them in the petty cash book maintained by him. At the end of the certain period, the petty cashier submits the account to the chief cashier who, after having examined the petty cash book, reimburses the amount actually spent by the petty

cashier. Thus, petty cashier will again have the fixed amount at the beginning of the new period. Such a system is known as the 'Imprest System of Petty Cash'.

**Q.3. What is Journal Proper?**

Ans. In journal proper only those transactions are recorded which cannot be recorded in any other subsidiary book. For example, if fixed asset is purchased on credit, it can neither be recorded in cash book nor in purchase book, it will be recorded in the journal proper.

Following types of transactions are recorded in journal proper:

- (i) Opening Entry
- (ii) Closing Entries
- (iii) Adjustment Entries
- (iv) Transfer Entries
- (v) Rectifying Entries
- (vi) Entries for dishonour of bills (not discounted with the bank)

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