



**Solutions [Set A]**

**Very Short Type Questions (Each carry 2 marks)**

**2 x 5 = 10**

**1. State the objects of accounting. (Any two)**

- Identification and recording of transactions
- Ascertainment of financial affairs
- Ascertainment of results
- Control over assets and liabilities
- Testing the arithmetical accuracy of accounts

**2. What is meant by convention of consistency?**

Convention in consistency is a principle that the same management accounting principles should be used for preparing financial statements over a number of time periods. This enables the management to draw important conclusions regarding the working of the concern over a longer period. It allows a comparison in the performance of different periods. If different accounting procedures and processes are used for preparing financial statements of different years then the results will not be comparable because these will be based on different postulates.

**3. State the names of different users of accounting.**

There are two types of users of accounting information:

**Internal users** (primary users)– If a user of the information is part of the business itself then he/she is considered as one of the internal or primary users of accounting information. For example, management, owners, employees, etc.

**External users** (secondary users)– If a user of the information is an external party and is not related to the business then he/she is considered as one of the external or secondary users of accounting information. For example, potential investors, lenders, vendors, customers, legal and tax authorities, etc.

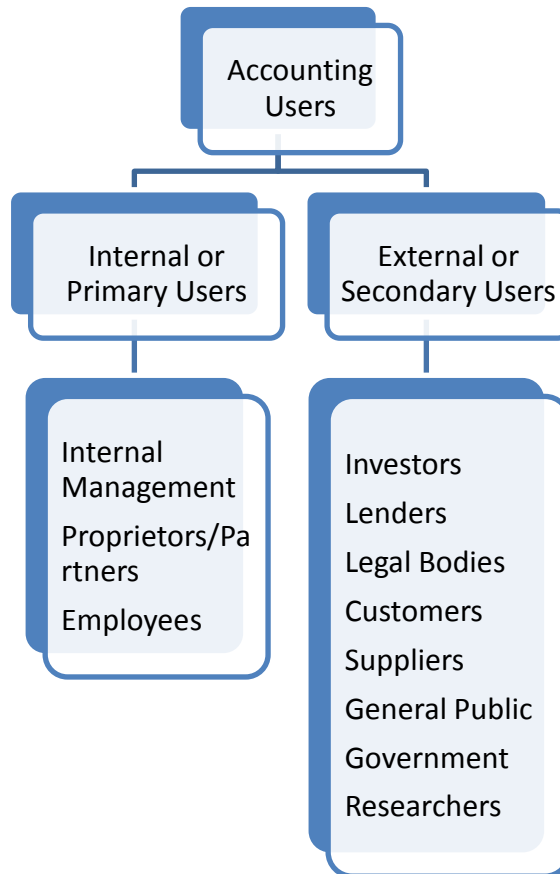


Figure 1: Users of Accounting.

4. ` 5,000 of a debtor which were earlier written off as bad-debts, now realized. Pass necessary journal entry for this transaction.

**Journal Entry:**

Cash a/c Dr.	5000	
To Bad Debts Recovered a/c		5000

5. State the difference between Book-keeping and Accounting?

BASIS	BOOKKEEPING	ACCOUNTING
Meaning	Bookkeeping is an activity of recording the financial transactions of the company in a systematic manner.	Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period.
What is it?	It is the subset of accounting.	It is regarded as the language of business.
Decision Making	On the basis of bookkeeping records, decisions cannot be taken.	Decisions can be taken on the basis of accounting records.
Preparation of Financial Statements	Not done in the bookkeeping process	Part of Accounting Process

**Short Type Questions (Each carry 4 marks)**

**5 x 2 = 10**

**1. Write the rule of journal entries for personal accounts. Give two examples.**

They are also known as the traditional rules of accounting or the rules of debit and credit.

<i>3 Golden Rules of Accounting</i>	Real Account	Personal Account	Nominal Account
Debit >	What Comes In	The Receiver	Expenses and Losses
Credit >	What Goes Out	The Giver	Incomes and Gains

**Examples – Three Golden Rules of Accounting**

- Purchased furniture for 10,000 in cash.**

Accounts Involved	Debit/Credit	Rule Applied
Furniture A/C	10,000	Real a/c – Dr. what comes in
To Cash A/C	10,000	Real a/c – Cr. what goes out

- Paid 15,000 cash to Real Pvt Ltd.**

Accounts Involved	Debit/Credit	Rule Applied
Real Pvt Ltd. A/C	15,000	Personal a/c – Dr. the receiver
To Cash A/C	15,000	Real a/c – Cr. What goes out

2. Explain convention of conservatism. How the closing stock is valued under this convention?

The **convention of conservatism**, also known as the **doctrine of prudence**, is a policy of anticipating possible future losses but not future gains. This policy tends to understate rather than overstate net assets and net income, and therefore lead companies to "play safe". When given a choice between several outcomes where the probabilities of occurrence are equally likely, you should recognize that transaction resulting in the lower amount of profit, or at least the deferral of a profit.

**Closing Stock** is **always** calculated at cost price or market price, whichever is **less**.

**Essay Type Questions (Each carry 7 marks)****10 x 2 = 20**

1. Give journal entries in the books of Graha-Sangraha trade:

**2019**

Jan 1 Graha-Sangrarha Trade started business with cash ` 20,000 and goods ` 15,000.

Jan 2 Purchased goods from Hari for cash ` 4,000 and on credit ` 3,000.

Jan 5 Sold goods to Sushil ` 10,000 for cash and ` 5,000 on credit.

Jan 8 Opened a current account in Bank ` 10,000.

Jan10 Paid shop rent ` 1,500

Jan 15 Goods returned to Hari ` 500.

Jan 18 Received ` 4,500 from Sushil in full settlement.

Jan 22 Paid to hari by cheque in full settlement ` 2,650.

Jan 29 Received commission ` 200.

Jan 31 Paid salary by cheque ` 800.

Ans.

**Journal of Graha-Sangrah**

Date	Particulars	L.F.	Amount	
			Debit	Credit
2019 Jan, 1	Cash a/c Dr. To Stock a/c To Capital a/c  (Started business with cash rs. 20,000 and goods rs. 15,000.)		35000	15000 20000
Jan, 2	Purchase a/c Dr. To Cash a/c To Hari's a/c  (Purchase goods from hari)		7000	4000 3000
Jan, 5	Sushil's a/c Dr. Cash a/c Dr. To Sales a/c  (Goods sold to Sushil)		5000 10000	15000
Jan, 8	Bank a/c Dr. To Cash a/c  (Current account opened)		10000	10000
Jan,	Rent a/c Dr.		1500	

10	To Cash a/c (Rent paid)			1500
Jan, 15	Hari a/c Dr. To Sales Return a/c (Goods return to Hari)		500	500
Jan, 18	Cash a/c Dr. Discount Allowed a/c Dr. To Sushil's a/c (Received from sushil)		4500 500	5000
Jan, 22	Hari's a/c Dr. To Cash a/c To Discount Received a/c (Paid to Hari)		2500	2450 50
Jan, 29	Cash a/c Dr. To Commission a/c (Commission received)		200	200
Jan, 31	Salary a/c Dr. To Cash a/c (Salary Paid)		800	800
	<b>TOTAL</b>		<b>77500</b>	<b>77500</b>

2. What do you mean by accounting principles? Explain accounting principles in brief.

**Accounting Concepts:**

1. **Business entity concept:** A business and its owner should be treated separately as far as their financial transactions are concerned.
2. **Money measurement concept:** Only business transactions that can be expressed in terms of money are recorded in accounting, though records of other types of transactions may be kept separately.
3. **Dual aspect concept:** For every credit, a corresponding debit is made. The recording of a transaction is complete only with this dual aspect.
4. **Going concern concept:** In accounting, a business is expected to continue for a fairly long time and carry out its commitments and obligations. This assumes that the business will not be forced to stop functioning and liquidate its assets at “fire-sale” prices.
5. **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are

recorded minus depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.

6. **Accounting year concept:** Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
7. **Matching concept:** This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.
8. **Realization concept:** According to this concept, profit is recognised only when it is earned. An advance or fee paid is not considered a profit until the goods or services have been delivered to the buyer.

### **Accounting Conventions:**

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

1. **Conservatism** is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.
2. **Consistency** prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.
3. **Materiality** means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.
4. **Full disclosure** entails the revelation of all information, both favorable and detrimental to a business enterprise, and which are of material value to creditors and debtors.