NCERT SOLUTIONS

CLASS - 11th



aglasem.com

Class : 11th

Subject : Accountancy

Chapter : 1

Chapter Name : Introduction to Accounting

Q1 Define accounting.

Answer. The American Institute of Certified Public Accountants (AICPA) had defined accounting as 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 financial character, and interpreting the results thereof.

Page : 20 , Block Name : Short Answer

aglasem.com

Q2 State the end product of financial accounting.

Answer. The end product of financial accounting are trading account, Profit and loss account and Balance sheet. All these accounts are together known as Final account and prepared to find the profit and financial position of any business irrespective of their size, type and nature.

Page : 20 , Block Name : Short Answer

Q3 Enumerate main objectives of accounting.

Answer. The main objectives of accounting are:

- → Keep the systematic record of all transactions.
- → To find the profit and loss occurred during an accounting period.
- → To find the financial position of any business.
- → To help the management in taking decision.
- → To detect and remove error.
- → To communicate information to various people involved in business.

Page : 20 , Block Name : Short Answer

Q4 Who are the users of accounting information.

Answer. Different users of accounting are:-

- → Owner
- → Creditors (Suppliers)
- → Investors
- → Employees
- → Government
- → Public
- → Research Scholars / Agencies
- → Managers
- → Labour union
- → Trade association
- → Customers
- → Tax authorities
- → Financial institutes

Page : 20 , Block Name : Short Answer

Q5 State the nature of accounting information required by long-term lenders.

Answer. Long term lenders means people who provide loan for more than 5 year. Everyone who provide a loan wants to check the repaying capacity of the loan taker so that they can know the chances of failure in loan payment by the due date. They are also interested in finding the profitability, operational efficiency and potential growth of the business.

Page : 20 , Block Name : Short Answer

Q6 Who are the external users of information?

Answer. External user means the people or organization that have direct or indirect interest in the business but are not a part of business management. These users cannot access the records directly so they use reports or account which are published. Example of external user are-Government, Tax authorities, public, research agencies, labour union, trade association etc.

Page : 20 , Block Name : Short Answer

Q7 Enumerate information needs of management.

Answer. The informational need of management-

- → To plan- Management plan according to the financial position of the company which can be accurately computed through the financial accounting only.
- → For decision making- Management need information to take decision like setting up the selling price, profit margin, discounts etc. which can be provided using financial accounting only.
- → For controlling-Management takes care of every department and details like product is reasonable or not, also that no department is overspending and making the product costly and all these details are extracted by accounting.

Page : 20 , Block Name : Short Answer

Q8 Give any three examples of revenues.

Answer. Revenue means income. So anything that can make us earn is included in the revenue. Three examples of revenue are:-

- → Sales revenue
- → Interest received
- → Dividends

aglasem.com

Page : 20 , Block Name : Short Answer

Q9 Distinguish between debtors and creditors; profit and gain

Answer.

Basis of difference	Debtor	Creditor
Meaning	Person or organization that are liable to pay money to a firm	Person or organization to whom firm is liable to pay money
Nature	Have a debit balance to the firm	Have credit balance to the firm

Payment	Payment are received from them	Payments are made to them
Shown	Shown as asset	Shown as liabilities

Difference between Profit and Gain is given below.

Gain− Gain is incidental to the business. They arise from irregular activities or non-recurring transactions; for example, profit on sale of fixed assets, appreciation in value of assets, profit on sale of investment, etc.

Profit− This refers to the excess of revenue over the expense. It is normally categorised into gross profit or net profit. Net profit is added to the capital of the owner, which increases the owner's capital. For example, goods sold above its cost.

Page : 20 , Block Name : Short Answer

Q10 'Accounting information should be comparable'. Do you agree with this statement? Give two reasons.

Answer. Yes I agree that accounting information should be comparable because of the following reasons:-

- → We can compare to firms with each other and find who is performing well
- → Even a firm can compare to itself by comparing two different financial accounting period and find their growth
- → People and investors can compare two firms and find where to invest.
- → Supplier can compare to find that from which firm they can earn more profit.

Page : 20 , Block Name : Short Answer

Q11 If the accounting information is not clearly presented, which of the qualitative characteristic of accounting information is violated?

Answer. When the accounting information is not clearly presented then it violates the qualitative characteristic of 'Reliability and Understandability' of accounting because if information is not clearly presented then it will not be reliable and also could not be understood easily by its varied users and may lead to faulty conclusions leading to disputes.

Page : 21 , Block Name : Short Answer

Q12 “The role of accounting has changed over the period of time”- Do you agree? Explain.

Answer.The role of accounting has now been shifted from that of a mere recording of business transactions to that of providing information to managers and other various interested parties in order to help them in making appropriate decisions. It now becomes an information system.

Page : 21 , Block Name : Short Answer

Q13 Giving examples, explain each of the following accounting terms:

• Fixed assets

• Revenue

• Expenses

• Short-term liability

• Capital

aglasem.com

Answer.

Fixed assets−These are held for long term and increase the profit earning capacity of the business, over various accounting periods. These assets are not meant for sale; for example, land, building, machinery, etc.

Revenue− It is the amount received from day to day activities of the business, i.e., the amount received from the sale of goods and services to customers; rent received, the commission received, dividends, royalties, interest received, etc. are items of revenue and are added to the capital.

Capital− It refers to the amount invested by the owner of a firm. It may be in form of cash or asset. It is an obligation of the business towards the owner of the firm, since business is treated separate or distinct from the owner.

Capital = Assets − Liabilities.

Expenses− Expenses are the costs incurred to maintain profitability of the business, like, wages, depreciation, interest, salaries, etc. These help in the production, business operations and generating revenues.

Short term liabilities− Those liabilities that are incurred with an intention to be paid or are payable within a year; for example, bank overdraft creditors, bills payable, outstanding wages, short-term loans, etc.

Page : 21 , Block Name : Short Answer

Q14 Define revenues and expenses?

Answer.

Revenues− Revenues refer to the amount received from day to day activities of the business, like sale proceeds of goods and rendering services to the customers. Rent received, commission received, royalties and interest received are considered as revenue, as they are regular in nature and concerned with day to day activities. It is shown in the credit side of the profit and loss account or trading account.

Expenses− Expenses refer to those costs that are incurred to earn revenue for the business. It is incurred for maintaining profitability of the business. It indicates the amount spent to meet short-term needs of the business. It is shown in the debit side of the profit and loss account or trading account. For example, wages, rent paid, salaries paid, outstanding wages, etc.

aglasem.com

Page : 21 , Block Name : Short Answer

Q15 What is the primary reason for the business students and others to familiarize themselves with the accounting discipline?

Answer. Every monetary transaction must be recorded in such a manner that various accounting users must understand and interpret these results in the same manner without any ambiguity. The reasons for why business students and others should familiarize themselves with the accounting discipline are given below.

- → It helps in learning the various aspects of accounting.
- → It helps in learning how to maintain books of accounts.
- → It helps in learning how to summarize accounting information.
- → It helps in learning how to interpret the accounting information with relative accuracy.

Page : 21 , Block Name : Short Answer

Q1 What is accounting? Define its objectives.

Answer. Accounting is a process of identifying the events of financial nature, recording them in the journal, classifying in their respective accounts and summarising them in profit and loss account and balance sheet and communicating results to users of such information, *viz.* owner, government, creditor, investors, etc.

According to *American Institute of Certified Accountants*, 1941, “Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events that are, in part at least, of financial character and interpreting the results thereof.”

In 1970, *American Institute of Certified Public Accountants* changed the definition and stated, “The function of accounting is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions.”

Objectives of Accounting:

- → Recording business transactions systematically− It is necessary to maintain systematic records of every business transaction, as it is beyond human capacities to remember such large number of transactions. Skipping the record of any one of the transactions may lead to erroneous and faulty results.
- → Determining profit earned or loss incurred− In order to determine the net result at the end of an accounting period, we need to calculate profit or loss. For this purpose trading

and profit and loss account are prepared. It gives information regarding how much of goods have been purchased and sold, expenses incurred and amount earned during a year.

→ Ascertaining financial position of the firm− Ascertaining profit earned or loss incurred is not enough; proprietor also interested in knowing the financial position of his/her firm, i.e. the value of the assets, amount of liabilities owed, net increase or decrease in his/her capital. This purpose is served by preparing the balance sheet that facilitates in ascertaining the true financial position of the business.

→ Assisting management− Systematic accounting helps the management in effective decision making, efficient control on cash management policies, preparing budget and forecasting, etc.

→ Assessing the progress of the business− Accounting helps in assessing the progress of business from year to year, as accounting facilitates the comparison both inter-firm as well as intra-firm.

→ Detecting and preventing frauds and errors− It is necessary to detect and prevent fraud and errors, mismanagement and wastage of the finance. Systematic recording helps in the easy detection and rectification of frauds, errors and inefficiencies, if any.

→ Communicating accounting information to various users− The important step in the accounting process is to communicate financial and accounting information to various users including both internal and external users like owners, management, government, labour, tax authorities, etc. This assists the users to understand and interpret the accounting data in a meaningful and appropriate manner without any ambiguity.

aglasem.com

Page : 21 , Block Name : Long Answer

Q2 Explain the factors which necessitated systematic accounting.

Answer. The factors that necessitated systematic accounting are given below.

→ Only financial transactions are recorded− Those events that are financial in nature are only recorded in the books of accounts. For example, salary of an employee is recorded in the books but his/her educational qualification is not recorded.

→ Transactions are recorded in monetary terms− Only those transactions which can be expressed in monetary terms are recorded in the books. For example, if a business has two buildings and four machines, then their monetary values is recorded in the books, i.e. two buildings costing Rs 2,00,000, four machines costing Rs 8,00,000. Thus the total value of assets is Rs 10,00,000.

→ Art of recording− Transactions are recorded in the order of their occurrence.

- → Classification of transaction− Business transactions of similar nature are classified and posted under their respective accounts. For example, all the transactions relating to machinery will be posted in the Machinery Account.
- → Summarising of data− All business transactions are summarised in the form of Trial Balance, Trading Account, Profit and Loss Account and Balance Sheet that provides necessary information to various users.
- → Analysing and interpreting data− Systematic accounting records enable users to analyse and interpret the accounting data in a proper and appropriate manner. These accounting data and information are presented in form of graphs, statements, charts that leads to easy communication and understandability by various users. Moreover, these facilitates in decision making and future predictions.

Page : 21 , Block Name : Long Answer

Q3 Describe the informational needs of external users.

Answer. There are various external users of accounting who need accounting information for decision making, investment planning and to assess the financial position of the business. The various external users are given below.

- → Banks and other financial institutions− Banks provide finance in form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.
- → Creditors− These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and receiving services; hence, the creditors require information about credit worthiness of the business.
- → Investors and potential investors− They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.
- → Tax authorities− They need information about sales, revenues, profit and taxable income in order to determine the levy various types of tax on the business.
- → Government− It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policies measures and to address various economic problems like employment, poverty etc.
- → Researcher− Various research institutes like NGOs and other independent research institutions like CRISIL, stock exchanges, etc. undertake various research projects and the accounting information facilitates their research work.

- → Consumer− Every business tries to build up reputation in the eyes of consumers, which can be created by the supply of better quality products and post-sale services at reasonable and affordable prices. Business that has transparent financial records, assists the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products and thus helps in repo building of the business.
- → Public− Public is keenly interested to know the proportion of the profit that the business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc. This information is also revealed by the profit and loss account and balance sheet of the business.

Page : 21 , Block Name : Long Answer

Q4 What do you mean by an asset and what are different types of assets?

Answer. Any valuable thing that has monetary value, which is owned by a business, is its asset. In other words, assets are the monetary values of the properties or the legal rights that are owned by the business organisations.

Fixed Assets− These are those assets that are hold for the long term and increase the profit earning capacity and productive capacity of the business. These assets are not meant for sale, for example, land, building machinery, etc.

Current Assets− Assets that can be easily converted into cash or cash equivalents are termed as current assets. These are required to run day to day business activities; for example, cash, debtors, stock, etc.

Tangible Assets− Assets that have physical existence, i.e., which can be seen and touched, are tangible assets; for example, car, furniture, building, etc.

Intangible Assets− Assets that cannot be seen or touched, i.e. those assets that do not have physical existence, are intangible assets; for example, goodwill, patents, trade mark, etc.

Liquid Assets− Assets that are kept either in cash or cash equivalents are regarded as liquid assets. These can be converted into cash in a very short period of time; for example, cash, bank, bills receivable, etc.

Fictitious Assets− These are the heavy revenue expenditures, the benefit of whose can be derived in more than one year. They represent loss or expense that are written off over a period of time, for example, if advertisement expenditure is Rs 1,00,000 for 5 years, then each year Rs 2,00,000 will be written off.

Page : 21 , Block Name : Long Answer

Q5 Explain the meaning of gain and profit. Distinguish between these two terms.

Answer.

Profit− Excess of revenue over expense is known as profit. It is normally categorised into gross profit or net profit. It increases the owner's capital as it is added to the capital at the end of each accounting period. For example, goods costing Rs 1, 00,000 is sold at Rs 1,20,000, then the sale proceeds of Rs 1,20,000 is the revenue and 1,00,000 is the expense to generate this revenue. Hence, accounting profit of Rs 20,000 (i.e. Rs 1,20,000 − Rs 1,00,000) is the difference between the revenue and expense that is earned by the business.

Gain− It arises from irregular activities or non-recurring transactions. In other words, a gain is a result of transactions that are incidental to the business, other than operating transactions. For example, an old machinery of book value Rs 20,000 is sold at Rs 25,000. Hence, the gain is Rs 5,000 (i.e. Rs 25,000 − Rs 20,000). Here, the sale of the old machinery is an irregular activity; so, the difference is termed as gain

Thus, in other words the only difference between profit and gain is that profit is the excess of revenue over expense and gain arises from other than operating transactions.

aglasem.com

Page : 21 , Block Name : Long Answer

Q6 Explain the qualitative characteristics of accounting information.

Answer. The following are the qualitative characteristics of accounting information:

- → Reliability− It means that the user can rely on the accounting information. All accounting information is verifiable and can be verified from the source document (voucher), *viz.* cash memos, bills, etc. Hence, the available information should be free from any errors and unbiased.
- → Relevance− It means that essential and appropriate information should be easily and timely available and any irrelevant information should be avoided. The users of accounting information need relevant information for decision making, planning and predicting the future conditions.

- → Understandability− Accounting information should be presented in such a way that every user is able to interpret the information without any difficulty in a meaningful and appropriate manner.
- → Comparability− It is the most important quality of accounting information. Comparability means accounting information of a current year can be comparable with that of the previous years. Comparability enables intra-firm and inter-firm comparison. This assists in assessing the outcomes of various policies and programmes adopted in different time horizons by the same or different businesses. Further, it helps to ascertain the growth and progress of the business over time and in comparison to other businesses.

Page : 21 , Block Name : Long Answer

Q7 Describe the role of accounting in the modern world.

Answer. The role of accounting has been changing over the period of time. In the modern world, the role of accounting is not only limited to record financial transactions but also to provide a basic framework for various decision making, providing relevant information to various users and assists in both short run and long run planning. The role of accounting in the modern world are given below.

- → Assisting management− Management uses accounting information for short term and long term planning of business activities, to predict the future conditions, prepare budgets and various control measures.
- → Comparative study− In the modern world, accounting information helps us to know the performance of the business by comparing current year's profit with that of the previous years and also with other firms in the same industry.
- → Substitute of memory− In the modern world, every business incurs large number of transactions and it is beyond human capability to memorise each and every transaction. Hence, it is very necessary to record transactions in the books of accounts.
- → Information to end user− Accounting plays an important role in recording, summarising and providing relevant and reliable information to its users, in form of financial data that helps in decision making.

Page : 21 , Block Name : Long Answer