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## MGT211 Short Notes

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### Introduction

#### **1. Define business.**

Answer. Any legal activity undertaken for the purpose of earning profit is called business.

#### **2. What are different classes of business?**

Answer.

- (I) Trading
- (ii) Manufacturing
- (iii) Servicing

#### **3. Define manufacturing.**

Answer. A business in which goods are purchased and resold after some modification is called manufacturing. For example; Sugar mills and Textile Mills.

#### **4. Define Servicing.**

Answer. A business in which services are purchased and sold is called servicing.

For example, services of Doctor and lawyer etc.

#### **5. Define Trader.**

Answer. A person who performs trading is called trader.

For example: wholesaler, retailer.

#### **6. Define manufacturer.**

Answer. A person who performs manufacturing is called manufacturer.

For example, sugar producer, cloth producer.

Or

A person who converts raw material into finish goods is called manufacturer.

**. account**

An accounting record in which the results of transactions are accumulated; shows increases, decreases, and a balance.

**. account payable**

An amount owed to a supplier for good or services purchased on credit; payment is due within a short time period, usually 30 days or less.

**. account receivable**

A current asset representing money due for services performed or merchandise sold on credit.

**. account receivable turnover**

A measure used to determine a company's average collection period for receivables; computed by dividing net sales (or net credit sales) by average accounts receivable.

**. accounting**

A service activity designed to accumulate, measure, and communicate financial information about economic entities for decision-making purposes.

**. accounting cycle**

The procedures for analyzing, recording, classifying, summarizing, and reporting the transactions of a business.

**. accounting model**

The basic accounting assumptions, concepts, principles, and procedures that determine the manner of recording, measuring, and reporting an entity's transactions.

**. accounting system**

The set of manual and computerized procedures and controls that provide for identifying relevant transactions or events; preparing accurate source documents, entering data into the accounting records accurately, processing transactions accurately, updating master files properly, and

generating accurate documents and reports.

**. accrual basis**

Gross income is recognized when earned.

**. accrual-basis accounting**

A system of accounting in which revenues and expenses are recorded as they are earned and incurred, not necessarily when cash is received or paid.

**. accrued expenses**

Expenses that arise through adjusting entries when accounting for unrecorded expenses.

**. accrued liabilities**

Liabilities that arise through adjusting entries when accounting for unrecorded liabilities

**7. Define Transaction/ business transaction.**

Answer. Any activity which changes (effects) the financial position of a business is called transaction / business transaction.

For example, good purchased from Ali, Salary paid to employee.

**8. Define cash transaction.**

Answer. A transaction in which cash flows (paid or received) is called cash transaction.

For example, goods sold for cash.

**9. Define credit transaction.**

Answer. A transaction in which cash does not flow (neither paid nor receive) is called credit transaction.

For example, Goods sold on credit to Ali.

**10. Who is proprietor / owner?**

Answer. A person who invests money or things in a business is called proprietor. Proprietor bears loss or earns profit in the business. The term

'proprietor' is used for the owner of a business.

**11. Define the term Capital / owner's fund / owner's equity.**

Answer. Anything brought by the proprietor in the business is called capital. In simple words, owner's interest in the business is called capital. Capital may in the form of goods, cash or any other asset. Capital is also called owner's fund or owner's equity.

**12. Define drawing.**

Answer. Anything drawn by the owner for his personal use from the business is called drawings. Drawings may in the form of goods, cash or any other asset.

**13. Define purchases.**

Answer. Purchases while in manufacturing business purchases of raw material is called purchases

**14. Define cash purchases.**

Answer. To make purchases for cash is called cash purchases. In simple words, purchases whose payment is made at spot is called cash purchases.

**15. Define Credit Purchases.**

Answer. To make purchases without cash (on credit) is called credit purchases. In simple words, purchases whose payment shall be made in future is called credit purchases. It is also called purchases on account.

**16. What is purchases return / return outward / return to supplier?**

Answer. Return of goods to the person from whom they were purchased due to any reason is called purchases return.

**17. Define sales / turnover.**

Answer. Selling of goods by business to any person at particular price is called sales.

**18. What is cash sale?**

Answer. Selling good for cash is called cash sales.

**19. What is Credit sale?**

Answer. To make sales without cash (on credit) is called credit sales. It is also called sales on account. In simple words, a sale in which receipt will be made in future is called credit sales.

**20. What is sales return or return inward / return to seller?**

Answer. Return of goods by the customer to business due to any reason is called sales return.

**21. Define discount.**

Answer. Reduction in the written price / face value / original price of any item at the time of sale in decided amount at the time of receipt is called discount. There are two major types of discount.

(I) Trade discount.

(ii) Cash discount.

**22. Define trade discount and what will be its accounting treatment?**

Answer. A concession or allowance or rebate that is given by a seller to the buyer on list price (written price) of goods at the spot of selling is called trade discount. There is no journal entry of trade discount. In simple words there is no accounting treatment of trade discount.

**23. Define cash discount.**

Answer. A discount which is allowed at the time of receipt on credit sales or payment of credit purchases is called cash discount.

**24. What are the types of cash discount?**

Answer. There are two types of cash discount.

(I) Discount allowed

(ii) Discount received

**25. What is Discount allowed?**

Answer. A discount which is given by seller to buyer at the time of receipt against credit is called discount allowed. It may be given due to early receipt or to raise the goodwill of a business.

**26. What is Discount received?**

Answer. A discount which is received by buyer from seller at the time of payment against credit purchases is called discount received. It may be received due to early payment etc.

**27. Who is creditor?**

Answer. A person from whom business purchases goods on credit is called creditor.

**28. Who is debtor?**

Answer. A person to whom business sells goods on credit is called debtor.

**29. What is freight?**

Answer. The charges which are paid by business on transportation of goods and assets are called freight.

30. What is freight outward?

Answer. A freight paid on sales is called freight outward or freight on sales.

**31. Define salary.**

Answer. A fixed remuneration for services performed by one person to another fixed period is called salary.

**32. Define wages.**

Answer. A remuneration which is normally paid daily or weekly on the basis work performed by one person for another is called wages.

**33. Define commission**

Answer. A remuneration for services performed by one person to another normally on the percentage basis is called commission.

**34. Define expense.**

Answer. A part of expenditure whose benefit is received or enjoyed during a particular accounting period is called expense.

Or

Cost that is allocated to current period is called expense.

**35. Define income / revenue.**

Answer. A revenue received against expense is called income.

Or

A part of earning which is allocated to current period is called income.

**36. What are assets?**

Answer. Assets are:

Tangible or intangible resources (having certain value) from which expected future economic benefits are obtained are called assets.

Or

Resources which are expected to be used for more than one accounting periods are called assets.

Or

Resources which are held by an enterprise for use in the production of further goods or services are called assets.

**37. Give any two types of assets.**

Answer. (I) tangible assets (ii) Intangible assets

38. Define tangible assets and give two examples.

Answer. Assets having physical form are called tangible assets.

For example, building, land.

**39. Define Intangible assets and give two examples.**

Answer. Assets having no physical form are called intangible assets.

For example, Good will, design.

**40. What are liabilities?**

Answer. The debts or obligation / responsibilities due by business to others are called liabilities.

**Book-Keeping, Accounting and types of Accounting**

**1. Define Book-keeping.**

Answer. An art of recording business transactions in the books of accounts in a systematic manner are called book-keeping.

**2. Give any three objectives of book-keeping.**

- Answer. (i) To keep written record of a business  
(ii) To provide financial data for managerial decision making  
(iii) To provide periodic results

**3. Write two benefits of book keeping.**

- Answer. (i) It provides record of a business  
(ii) It provides data for managerial decision making

**4. Define Accounting / define accountancy.**

Answer. An art of recording, analyzing, classifying, summarizing, reporting, interpreting and projecting business information is called accounting.



**5. Give any three objectives of accounting.**

Answer. (I) To provide information about the accounting period results.

(ii) To provide information about financial position of business

(iii) To provide information to management for future planning

**6. Write ant two limitations of accounting.**

Answer. (I) It deals only with past transactions.

(ii) Accounting Statements do not show the effect of inflation.

**7. Give any two advantages of accounting.**

Answer. (I) It provides useful information for making economic decision.

(ii) It helps investors and creditors.

**8. Writes names of accounting systems.**

Answer. (a) On the basis of record:

(I) Single entry accounting system

(ii) Double entry accounting system

(b) On the basis of recognition of transaction:

(I) Cash basis accounting system

(ii) Accrual basis accounting system

**9. Differentiate between accounting and Book keeping**

Answer.

Accounting:

It is the summarizing phase of the accounting system

Book keeping:

It is the recording phase of the accounting system

Accounting:

It requires special skills and knowledge.

Book keeping:

It doesn't require any special skills or knowledge

Accounting:

It is the language of the business

Book keeping:

It is the basis of accounting

### **10. Define account.**

Answer. A summarizing record of transactions relating to a particular person or thing is called an account.

### **11. Define voucher.**

Answer. Any written evidence in support of a business transaction is called a voucher.

### **12. What is invoice?**

Answer. A document given by the seller to the buyer for credit sales of goods are called invoice. It also includes list and description of items / services sold.

13. Define cash memo?

Answer. A voucher which is used at the time of cash sales to the customer. It includes name and address of the customer, quantity, description, price of the product, discount and taxes thereon normally.

14. What are the stages of the accounting cycle?

Answer. There are different opinions about stages of accounting cycle. However, following stages are discussed frequently.

(i) Analyzing

(ii) Journalizing

(iii) Posting

(iv) Preparation of trail balance

(v) Preparation of final account

15. Explain Account cycle.

Answer. An accounting process that starts from analysis of a transaction and ends with preparation of final accounts is called accounting cycle.

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Accounting Concepts

1. What do you know about 'Entity Concept' / "business entity concept"?

Answer. Any entity concept means that a business has a separate entity from its owner or proprietor.

2. What are basis of accounting.

Answer. There are two bases of accounting.

(i) Cash basis accounting

(ii) Accrual basis accounting

3. Define Cash basis accounting system.

Answer. A system of accounting in which transaction is recorded, when cash is actually paid or received is called Cash Basis Accounting System.

4. Define Accrual basis accounting system.

Answer. A system of accounting in which transaction is recorded, when it is occurred, is called Accrual Basis Accounting System.

5. Define Double entry system of accounting.

Answer. A system of accounting in which both aspects of every transaction is recorded and It effects at least two accounts is called double entry accounting system.

6. Differ b/t single entry accounting system and

double entry accounting system.

Answer. Single entry accounting system

(I) It provides the incomplete record of a business transaction.

(ii) It is normally used in sole trader ship.

(iii) Under the companies Ordinance, company cannot maintain its accounts under single entry accounting system.

Double entry accounting system

(I) It provides the complete record of a business transaction.

(ii) It is used in all level of businesses like sole trader ship, partnership and company.

7. What is mean by 'Dual aspect Concept' of accounting?

Answer. Dual aspect of accounting means that "For every debit, there is a credit"

8. Define Realization concept.

Answer. An accounting concept which says that revenue should be recorded when It is earned is called realization.

9. What is accounting period/ what is accounting period concept?

Answer. A period of time which is determined for determination of profit & loss of a particular business is called accounting period.

Generally, it consists of twelve months

10. What is matching concept / matching principle?

An accounting concept which requires that revenue of a particular accounting period should be matched against expenses of that period is called matching concept.

11. What do you know about "Going Concern concept"?

Answer. An accounting principle which assumes that business will be continue for more than accounting period is called going concern concept.

12. What is difference between cost and expense?

Answer. An expense is expired portion of cost. So, cost is a wider term than expense. Cost may in the form of asset or expense.

13. Define cost accounting.

Answer. The application of costing and cost accounting principle, methods and techniques to the society, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived there for the purpose of managerial decision making.

14. What is differ b/t financial accounting and cost accounting?

Answer. Financial accounting is the reporting of financial information to the people outside of the business, e.g., shareholders, creditors etc. while cost accounting is done primarily for management and it consists of determining the cost of a product or service.

15. What is meant by GAAP in accounting?

Answer. The common set of accounting principles, standards and procedures that different business use to prepare their financial statements especially companies are called GAAP.

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## Accounting Equation

1. Define accounting equation.

Answer. A method by which the financial position of a business can be checked at glance is called accounting equation.

Or

A statement which shows the equality of business assets and liabilities is called accounting equation. It is presented as Assets = Liabilities + Owner's equity

2. Mr. Aslam invested Rs. 240,000 in his business.

His assets are valued at 300,000. Calculate his liabilities.

Answer.

Assets = liabilities + owner's equity

Rs. 300,000 = ? + 240,000

300,000 – 240,000 = Liabilities

60,000 = Liabilities

Define owner's equity / define the term equity / equities.

Answer. Capital invested by the proprietor is called owner's equity.

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Journal

1. Define journal.

Answer. A book of original entry to record a business transaction in detail and chronologically is called journal

2. What is meant by "General journal."

Answer. A journal in which all types of transactions may be entered is called General Journal. In simple words, a journal other than specified journals are called General journal.

3. Give any three characteristics of journal.

Answer.

- (I) A transaction is recorded originally in the journal.
- (ii) A transaction in journal on the same day when it takes place
- (iii) In journal, narration is given for each entry.

4. Give any two advantages / benefits of journal.

Answer.

- (I) Journal provides all necessary information about a transaction.
- (ii) Journal helps to locate and remove errors.

5. What is it said that journal is the original book of entry?

Answer. Journal is called a book of original entry because a transaction is originally / firstly recorded in journal. Further, it shows the real and detail form a transaction.

6. Is it true that the journal is called the day book?

Answer. Yes, it is true that journal is called the day book because every transaction is recorded in the journal on the same day when it takes place. For example, if purchases are made on 10th may 2017, its entry will be made on 10th may that's why it is called the day book.

7. Define Journalizing.

Answer. The Process of recording Transactions in journal is called journalizing.

8. What is meant by "entry"?

Answer. A record of business transaction in the journal (in debit and credit form) is called entry. There are two major types of entry (I) Simple entry (ii) Compound Entry.

9. Define narration.

Answer. A short explanation of each transaction in journal which is written below each entry is called narration.

10. Define compound entry.

Answer. The entry in which more than one accounts are debited or more than one accounts are credited is called compound entry.

Wages Rs. 300 and Rent Rs. 200 paid.

Wages A/c 300

Rent A/c 200

To cash A/c 500

(Wages & rent paid)

11. Differ b/t Simple entry and Compound entry.

Answer. An entry in which two accounts are affected is called Simple entry while an entry in which more than two accounts are affected is called compound entry.

12. Pass journal entry, Salary paid for the month of March 2017 R.s 5000 to Mr. Akmal.

Answer. Salary A/c 5000

To cash A/c 5000

(Salary paid to Mr. Akmal)

13. Pass journal entry, rent paid for building R.s 4000 to MR. Ali

Answer. Rent A/c 4000

To Cash A/c 4000

(Rent paid for building to Mr. Ali)

14. Pass journal entry, goods sold for cash R.s 5000

Answer. Cash A/c 5000

To Sales A/c 5000

(Goods sold for cash)

15. Pass journal entry, rent received R.s 2000.

Answer. Cash A/c 2000



To rent A/c 2000

(Rent received)

16. Pass journal entry, Machinery purchased for cash R.s 15000

Answer. Machinery A/c 15000

To cash A/c 15000

(Machinery purchased for cash)

17. Pass journal entry, repair expenses paid for machinery R.s 15000 which increase the production capacity of machinery

Answer. Machinery A/c 15000

to Cash A/c 15000

(Repair charges paid for machinery)

18. Pass journal entry, repair expenses paid for machinery R.s 3000.

Answer. Repair Charges A/c 3000

To cash A/c 3000

(Repair charges paid for machinery)

19. Transport Charges paid to Azad Goods Transport Company for transport of Furniture for office use R.s 2000.

Pass journal entry.

Answer. Furniture A/c 2000

To cash A/c 2000

(Transport charges paid on furniture for office use)

20. Pass journal entry, goods purchased on credit R.s 8000

Answer. Purchased A/c 8000

To Creditor A/c 8000

(Goods purchased on credit)

21. Pass journal entry, Mr. NAWAZ started business with cash R.s 50,000

Answer. Cash A/c 50,000

To Capital A/c 50,000

(NAWAZ started business with cash)

22. Pass journal entry, Goods given away as charity R.s 500

Answer. Charity A/c 500

To purchase A/c 500

(Goods given away as charity)

23. Pass journal entry, goods lost by fire R.s 1000

Answer. Loss by fire A/c 1000

To purchase A/c 1000

(Goods loss by fire)

24. Give sketch format of the General journal.

Answer.

Date Particulars L.F Debit

Amount

Credit

Amount

Accounts to be debited

To A/c to be

credited

(Narration)

YYY

ZZZ

Ledger

1. Define Ledger.

Answer. The books in which all business transactions are finally

recorded in the concerned accounts in a summarized and classified form us called ledger.

2. Name any three classes / types of Ledger.

Answer.

(I) Debtor's ledger

(ii) Creditor's Ledger

(iii) General Ledger

3. Name any three advantages of ledger.

Answer.

(I) It provides guarantee of successful application of double entry accounting system

(ii) It provides summarized record of every A/c separately

(iii) It helps in preparation of final accounts.

4. Define General Ledger.

Answer. A ledger in which all accounts can be posted is called general Ledger.

5. Define Debtor's ledger.

Answer. The book in which only the customers / debtor's a/c of business are posted is called debtor's ledger.

6. Define Creditor's ledger.

Answer. The book in which only all the creditor's or supplier's A/c of business is posted is called creditor's ledger.

7. Define posting.

Answer. The process of transferring the record of business transactions from journal to ledger is known as posting.

8. Name any three rules of posting.

Answer.

(I) Recording the relevant a/c on the left-hand side of the a/c which according to journal is to be debited.

(ii) Recording the proper a/c on the right-hand side of the a/c which according to journal is to be credited.

(iii) Putting the "To" on the debit side before first transaction and word "by" on the credit side before first transaction. After this, we use sign of ditto on both sides.

9. What is balancing an account?

Answer. The process of equalizing the two sides of an account is called balancing.

10. Name different rules of balancing of an account.

Answer.

- (i) To add both sides of an account
- (ii) To find the different in a separate paper
- (iii) To write the difference in separate paper
- (iv) To add up both sides again
- (v) Wind up

11. Define balance.

Answer. The difference b/t the two sides of an account is called balance.

12. Define debit balance.

Answer. A situation on closing of an account where debit side of an account is greater than its credit side, the difference between both sides is called debit balance.

13. Define credit balance.

Answer. A situation on closing of an account where credit side of an account is greater than its debit side, the difference between both sides is called credit balance.

14. Define zero balance.

Answer. A situation which shows the equality of both sides of a particular account is known as zero balance.

15. What is meant by opening balance?

Answer. A balance of any account that is brought forward from the previous accounting period in present accounting period or something at the start of business is called opening balance.

18. What is closing balance?

Answer. The balances on debit or credit side on the closing of any account is called closing balance.

19. What is folioing?

Answer. The process of entering the ledger page number in the "ledger folio column" of the journal and journal page number in the "journal folio column" of the ledger is called folioing.

20. Define journal folio?

Answer. A reference of journal page number in the ledger is called journal folio. A separate column is prepared in a ledger account for journal folio.

21. Define ledger folio?

Answer. A reference of ledger page number of in the journal is called ledger folio. A separate column is prepared in a journal for ledger folio.

22. Why we divide ledger into subsidiary ledger?

Answer. When the size of a business organized is very large and numbers of transactions are very large and it becomes necessary to maintain a separate ledger for Customer's, Supplier's and other accounts.

23. Why ledger is called "king of all the books"

Answer. Ledger is called the king of all books of accounts because all the entries from the books of original entry must be posted to the different accounts in the ledger.

24. Name the three differences in the journal and ledger.

Answer.

### Journal

- (i) It is the first book of account.
- (ii) Recording in the journal is called journalizing.
- (iii) Unit of data in journal is called entry.

### Ledger

- (i) It is the second book of accounts.
- (ii) Recording in the ledger is called posting.
- (iii) Unit of data in ledger is called accounts

Q. Give sketch / format of the ledger account / standard form of the ledger account.

Answer.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
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### Trial balance

1. Define Trail balance

Answer. Statement which is prepared by taking out the debit and credit balances of all accounts appearing in ledgers in order to check the arithmetical accuracy of the ledger is called trial balance.

2. What are the two methods of preparation of trail balance?

Answer.

- (i) Total method
- (ii) Balance Method

3. Which method of preparation of trail balance is better and why?

Answer. The balance method of preparing trail balance is better due to the following two reasons:

- (i) It shows small figures through balance.
- (ii) We can check balance easily.

4. Does trial balance represents whole accuracy of all

accounts?

Answer. No, Trail balance only represents arithmetical accuracy.

5. Write any two advantages of trial balance.

Answer.

(I) Trail balance provides the proof of arithmetical accuracy of accounting entries.

(ii) Trail balance facilitates the preparation of final accounts by providing data in summarized form.

6. Describe the main objectives of preparing a trail balance.

(I) To check the arithmetical accuracy of ledger accounts.

(ii) To get help in locating errors.

(iii) To get help in the preparation of final accounts.

7. Give sketch (format) of the trial balance or standard form of the trail balance.

S.no Account

name

Account no. Debit Credit

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Sub-Division of Journal

1. Define subsidiary books.

Answer. The books of original entry in which transactions of similar nature is recorded at one place and in chronological order are called subsidiary books. These are specialized journals which are prepared in large organization to split the data. These are subsidiaries of general journal.

2. Define purchases day book / purchases book / purchases journal?

Answer. A book of original entry in which only credit purchases are recorded chronologically is called purchases day book.

3. What is sales day book / sales book / sales journal?

Answer. A book of original entry in which only credit sales are recorded chronologically is called sales day book.

4. What is return outward book / purchases return day book / purchases return book / purchases return journal?

Answer. A book of original entry in which only purchases return are recorded chronologically order is called return outward book.

5. What is sales return book / sales return day / return inward book?

Answer. A book of original in which only sales return is recorded according to data is called sales return book.

6. What is bills receivable book?

Answer. A book of original in which only bills receivable are recorded chronologically is called bills receivable book.

7. What is bills payable book?

Answer. A book of original in which only bills payable are recorded to the data is called bill payable book.

8. Define debit note.

Answer.

A document issued by customer to seller (supplier) to claim allowance on goods returned is called debit note. It serves as an intimation of goods returned. It also informs to seller that buyer has debited him in his accounts with claimed amount.

9. Define credit note.



Answer. A document issued by a seller of goods or services to the buyer, reducing the amount that the buyer owes to the seller under the terms of an earlier invoice is called credit note. It is also credit memorandum or credit memo. It is normally prepared at the time if sales return. It is also called the acknowledgement of allowance claimed by the customer.

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Cash book,

Petty Cash Book

1. Define cash book.

Answer. A book of original in which all cash receipts are recorded chronologically is called cash boo.

2. Write any two characteristics of cash book.

Answer.

- (I) Only cash transactions are recorded
- (ii) It serves for both journal and ledger simultaneously

3. What are the various kinds of cash book?

Answer.

- (I) Single column cash book
- (ii) Double column cash book
- (iii) Three column cash books

4. Define single column cash book?

Answer. A cash book in which only receipts & payments are recorded is called single column cash book.

5. Give sketch or format of single column cash book (simple cash book) or standard form of simple cash book.

Answer.

Data

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Particular

Rs

V.

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Data

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Particular

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Amour

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6. Define double column cash book.

Answer. A cash book in which cash as well as discount transactions are recorded is called double column cash book.

7. Give sketch of double column Cash book.

Answer.

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8. Define three column cash books.

Answer. A cash book in which cash, bank and discount transactions are recorded is three column cash books.

9. Give sketch of three column Cash book.

Answer.

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10. Write any three points of importance of cash book.

Answer.

(i) It shows the actual bank balance position.

(ii) It prevents misrepresentation in recording the bank transaction.

(iii) It helps in detecting any mistake in banking Transaction.

11. Write any two advantages of cash book.

Answer.

- (I) Daily cash receipts and cash payments may be easily ascertained.
- (ii) Any defalcation of money can be detected through verification of cash book.

12. Write any two differences b/t cash book and cash account.

Answer.

Cash book

- (I) It is a book
- (ii) Cash transactions are directly recorded in it.
- (iii) Narration is given in cash book

Cash Account.

- (I) It is an account.
- (ii) Posting is made from journal in it.
- (iii) Narration is not given in cash account.

12. Define petty cash book.

Answer. A cash book in which petty items of expenses are recorded is called petty cash book.

13. Write any three systems of petty cash book.

Answer.

- (I) Open system of petty cash book.
- (ii) Impress system of petty cash
- (iii) Fixed advanced system of petty cash

14. What is important system of petty cash?

Answer. A system of petty cash in which total petty expenses for a particular period is estimated and that amount is issued by the chief cashier to the petty cashier is called impress system of petty cash.

15. What is the open system of petty cash/

Answer. A system of petty cash in which a cashier receives from the chief cashier a fixed sum of money for petty expenses, after spending it,

he receives again required sum of money

16. Define contra entry/

Answer. An entry which is recorded on both sides of three columns cash is called contra entry.

Or

An entry in which both cash and bank are involved is called contra entry.

17. Which type of discount is recorded in cash book?

Answer. Cash discount is recorded in the cash book.

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Final Accounts

1. What are final accounts?

Answer. Accounts which are prepared to show the profit & loss and financial position of the business for whole accounting period are called final accounts.

2. Define trading account.

Answer. An account which is prepared to determine the gross profit or loss for an accounting period is called trading account.

3. Define profit and loss account.

Answer. An account which is prepared to determine the net profit or loss for an accounting period is called profit and loss account.

4. Define Income statement.

Answer. A financial statement that reports a business financial performance over a specific accounting period is called income statement. This is also called a substitute of trading account as well as profit and loss account.

5. Define balance sheet

Answer. A statement of assets and liabilities which is prepared on the last date of an accounting period shows the financial position of the business is called balance sheet.

6. In final accounts, what is the purpose of preparing trading, profit and loss account?

Answer. In financial accounts, trading account is prepared to determine the gross profit / loss of the business while profit and loss accounts are prepared to determine the net profit or loss of the business.

7. Why balance sheet is prepared?

Answer. A balance sheet is prepared to show the financial position of the business at a particular point of time. In other words, it is prepared to know about the assets and liabilities of a business.

8. Define marshaling.

Answer. An order in which assets and liabilities are presented on the balance sheet is called marshaling.

9. Differentiate between trading account and trial balance.

Trading account is prepared to find out gross profit / loss but trial balance is prepared for checked arithmetical accuracy of accounts.

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## **(Basics of Accounts and Accounting Equation)**

### **Meaning of Accounting**

Accounting is the process of recording of recording a systematic manner, in thermophone and analyzing the results

thereof. Accounting is needed to maintain records of all money related transaction of an organization in a very systematic way.

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According to American Institute of Certified Public Accountants "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 results thereof.

Basic Accounting Terms

### **(1) Assets:**

results thereof any valuable thing which is owned by the enterprise or any benefit which will come in future to it.

It includes Cash, Bank Balance, Furniture, Machine, Building, Goods, sum due on customers (Debtors), Expenses paid in

advance (Prepaid Expenses) etc.

### **(2) Liabilities:**

It refers to all the sums which the enterprise owes to the outsiders. It is the sum which will required to be paid out.

It includes money due to suppliers (Creditors), Expenses due but not paid (Outstanding Expenses), Loan taken from others

etc.

### **(3) Capital:**

It is the amount invested by the owner in the business. For running any business owner have invest some money.

For example, if you want to start a retail shop which need an investment of Rs.8,00,000 and you invest Rs.1,00,000 in cash, uses

your own house worth Rs.5,00,000 as the shop and borrow Rs.2,00,000 from the bank then your capital will be

Rs.6,00,000 which is the total amount invested by you from your side in the business as an owner.

### **(4) Drawings:**

Any cash or other valuable thing which is withdrawn by the owner, from the business, for his personal use or for

the use of his family, friends and relatives is called drawings. It includes cash withdrawn for private use, payment of home

electricity bill, payment of children's school fees, goods used for home consumption etc.

### **(5) Debtors:**



It represents those persons or enterprises to whom goods have been sold or services have been rendered but full

payment has not yet received. They will remain debtors till the full payment is not received from them or any settlement

is not made.

**(6) Creditors:**

It represents those persons or enterprises from whom goods have been purchased or services have been received

but full payment has not yet made. They will remain creditors till the full payment is not made to them or any settlement is

not made.

**Expenses:**

It represents value of services used for the purpose of generating revenues/profits. It includes Rent, Interest,

Commission, Brokerage, Fees, Wages, Salaries, Depreciation, Printing Stationery, Electricity Bill, Telephone Bill etc.,

if paid or payable.

**(7) Incomes: \**

It represents increase in the economic benefits due to increase in assets or decrease in liabilities. It includes

Rent, Interest, Commission, Brokerage, Fees, Discount etc., if received or receivable.

**(8) Business Transaction:**

Happening of an event with someone which result a change in the composition of the financial position of an enterprise is a Business Transaction. It may be like started business with cash, sale of goods, loan taken,

payment of salary, cash paid to supplier and fees received etc.

**Double Entry System of Accounting**

The modern system of accounting is based on the duality nature of the transactions. Every financial transaction always has a

double effect on the financial position of the enterprise. For example, if you buy Goods for Rs. 10,000 then it affects twice: first

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effect is on the cash balance as it decreases and second effect is that the stock in hand is increased. Or if you take a loan from a

Bank of Rs.50,000 not only you get an asset in form of cash but also a liability that you have to pay the debt. Similarly, all the

transactions always have two aspects. Therefore, in modern accounting system all the transactions are recorded in two parts

one is Debit and other is Credit.

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