Q1. What is meant by Accounting, also explain the attributes of Accounting?
Ans. According to the 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 financial character, and interpreting the results thereof.”

Following are the attributes of Accounting:
(1) Accounting is the process of recording, classifying and summarizing the business transactions. It also analysis and interprets the data and communicates the financial data to the users.
(2) Accounting records the business transactions by expressing them in terms of money.
(3) Accounting conveys economic information to various groups interested in them.
(4) Accounting records only those transactions and events that can be measured in terms of money.

Q2. Briefly explain the objectives of Accounting.
Ans. The objectives of Accounting may be listed as under:
(1) Maintain a systematic record: The primary objective of accounting is to maintain a systematic record of business transactions.
(2) Calculate profit or loss: Another objective of accounting is to determine whether the business has earned profit or loss during the accounting year. For this purpose, an income statement or profit or loss account is prepared at the end of financial year.
(3) Show financial position: One of the objectives of accounting is to show financial position of the firm. For this purpose, Balance sheet showing assets, liabilities and capital is prepared at the end of an accounting period.
(4) Communicate accounting information: Accounting also communicates the information and facts to various interested groups i.e. owners, creditors, employees, transaction authorities, etc.; who analyze them as per their individual requirements.
(5) Help management: Accounting provides financial information to management which helps in decision making, effective control, budgeting and forecasting.

Q3. “Only Financial Transactions are recorded in Accountancy.” Explain.
Ans. This is one of the most important attributes of accounting that it records only those transactions which can be measured in monetary terms. It means money is a common denominator of measurement. There are a large number of events and transactions which do not find any place in the accounting since they cannot be measured in terms of money. For example, if a business organization has hard working, honest and dedicated employees, it is definitely an asset but it is not shown in the books of account because it has no financial character, no economic value and no exchange value. Similarly, general health condition of the chairman of the company, working conditions, sales policy, quality of products are not recorded in the books.

Q4. Describe the nature of accounting.
Or
“Accounting is a science as well as an art”. Explain.
Ans. Accounting is both a science as well as an art. ‘Science’ is any organized body of knowledge based on certain principles. Accounting has been called as a ‘science’, since it lays down principles and rules for recording and classifying the business transactions and events. Accounting principles are the rules of action or conduct which are adopted by the accountants universally.
‘Art’ is the practical application of knowledge and principles. Accounting has been called as an art, because it enables us to achieve desired results by applying accounting principles. An accountant applies accounting principles to get results in a given situation.

Ans. Book-keeping is concerned with the recording of business transactions in a set of books of accounts regularly according to rules and regulations. Book-keeping involves recording of financial transactions and events in the books of accounts and posting them in the ledger. Thus, preparation of final accounts i.e. Trading and Profit and Loss Account and Balance sheet is not included in the book-keeping.

<table>
<thead>
<tr>
<th>Basis of Distinction</th>
<th>Book-Keeping</th>
<th>Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Scope</td>
<td>It includes recording of financial transactions and their classification.</td>
<td>It includes summarizing the recorded transactions, their interpretation and communicating the results to users.</td>
</tr>
<tr>
<td>(2) Stage</td>
<td>It is the primary stage and it is done first.</td>
<td>It is the secondary stage and begins after book-keeping.</td>
</tr>
<tr>
<td>(3) Skill requirement</td>
<td>Special knowledge and ability is not required. It is done by clerical i.e. junior staff.</td>
<td>Special knowledge and ability is required to analyse and interpret. It is done by qualified and senior staff.</td>
</tr>
<tr>
<td>(4) Interest of outsiders</td>
<td>Outsiders do not have any interest in it.</td>
<td>Various groups including outsiders have interest in it.</td>
</tr>
<tr>
<td>(5) Nature</td>
<td>It is complimentary to accounting.</td>
<td>It is not complimentary to book-keeping.</td>
</tr>
</tbody>
</table>

Q6. Explain the steps in accounting. / Explain the process of accounting.
Ans. Following are the steps in accounting:
(1) Identification of Financial Transaction – First of all, the transaction to be recorded are identified. Accounting records only those transactions which can be measured in terms of money.
(2) Recording of transactions – Accounting involves recording business transactions and events of financial nature in the books of accounts in a systematic way in Journal etc.
(3) Classification – Classifying is a process of grouping the transactions of same nature at one place. This is done by preparing a book known as Ledger which contains individual account heads. For example, all transactions relating to cash are recorded in the Cash Account.
(4) Summarising – Summarising involves presenting the classified data in a understandable manner. It involves preparation of trial balance and financial statements i.e. Profit and Loss Account and Balance Sheet.
(5) Analysis and Interpretation – The financial data is required to be analysed and interpreted so that the various users of accounting information can make a meaningful judgment about the profitability and financial position of the business organization.
(6) Communication- Finally, the financial data is communicated to the users.

Q7. Briefly explain the advantages of accounting.
Ans. Following are the advantages of accounting:
(1) **Helps to ascertain the profitability of business** – Accounting helps in the preparation of financial statements e.g. Profit and Loss Account and Balance Sheet which shows the profit and financial position of the business.

(2) **Provides assistance in management of business** – Accounting helps the management in making business plans, taking prompt decisions to run the business efficiently.

(3) **Helps to replace memory** – It is not possible for a businessman to remember all the transactions of business. Therefore, it is necessary to maintain a systematic and timely record of every transaction to prevent any misappropriation.

(4) **Proof in the court of law** – A systematic and correct record of accounts of business can be presented in the court of law for giving necessary documentary evidence.

(5) **Helps in Correct payment of taxes** – Proper accounting records helps in settlement of income tax, sales tax, VAT and excise duty liability of the business correctly. Taxation authorities insist that accounts are to be maintained according to the principles of accounting.

(6) **Helps in comparative study** – Systematic accounting records facilitates inter-firm and intra-firm comparisons to detect the strong and weak points of the business and to find significant factors leading to change, if any.

**Q8. Explain the limitations of accounting / financial accounting.**

Ans. Following are the limitations of accounting:

(1) **Records only monetary transactions** – In accounting, only those transactions are recorded which can be measured in terms of money. Qualitative elements like quality of staff, industrial relations etc. are ignored.

(2) **Recording of assets at historical cost** – In accounting, assets are recorded at their historical cost and not at their market price. It does not consider price level changes and consequently it will not show real worth of the business.

(3) **Window dressing / based on Personal Judgment** – Accounts may be manipulated so as to conceal vital facts and present the financial statements in a better situation than what is actually. Adoption of various accounting policies depends on the personal judgment of the accountant. As a result, financial statements may not be objective and comparable.

(4) **Not Exact** – In some cases, accounting information is based on estimates. For example: providing depreciation on the basis of estimated useful life of an asset, possible bad debts etc. Hence the financial statements do not reflect the true position of the business.

(5) **Not a good tool for management** – In accounting past facts are recorded which do not help the management for decision-making.

**Q9 What are the various branches of accounting? Explain briefly.**

Ans. Following are the three branches of accounting:

(a) **Financial Accounting**: It is that branch of accounting which records financial transactions, summarises and interprets them and communicates the result to users. Financial accounting involves preparation of financial reports which provide summaries of a firm’s financial condition. Its main task is to prepare Profit & Loss A/c and the Balance Sheet.

(b) **Cost Accounting**: It deals with the classification, recording, allocation, summarization and reporting of current and prospective costs involved. The main purpose of cost accounting is to ascertain the cost of production, to enable the management fix the price of the product and to ensure cost reduction.

(c) **Management Accounting**: It is the application of professional information in such a way as to assist the management in the formation of policies and in the planning and control of the operations of the undertaking. Its main purpose is to provide all the relevant information that may be required by the management to take decisions in respect of various aspects of running the business enterprise.

**Q10 Briefly describe the qualitative characteristics of accounting information.**
Ans.

(a) **Relevance:** Accounting information should be relevant for decision-making. To be relevant, information must be made available in time and must help in prediction and feedback.

(b) **Reliability:** Accounting information should be reliable in the sense that it should be free from error and bias and should represent what it should represent.

(c) **Understandability:** Accounting information should be clearly understandable by the users. It should be presented in simple form.

(d) **Comparability:** It means that the users should be able to compare the accounting information of an enterprise of the period either with that of other periods or with the accounting information of other enterprises.

**Q.11 Who are the various users of accounting information? Briefly explain.**

**Ans.** Users of accounting information may be categorized into Internal users and External users.

**Internal Users:**
1. Owners: Owners provide funds for the business and therefore they are having the maximum risk. They need accounting information to know the profit earned or loss incurred by the business as well as the safety of the funds invested by them.
2. Management: Management requires accounting information to operate the business efficiently. It has to take various decisions such as determination of selling price, cost controls, new investment projects etc.
3. Employees: These are interested in financial statements to claim increase in wages, bonus and other benefits since these are directly linked to the profit of the enterprise.

**External Users:**
1. Investors: Investors are those who want to invest money in the business. They are interested in financial statements to know the earning capacity of the enterprise and safety of their investments.
2. Banks and Financial institutions: They need financial information to know the creditability of the business enterprise and to know whether their loan will be repaid in time or not.
3. Creditors and lenders: Creditors supplies goods to the business enterprise on credit. They want to know the credit-worthiness of the business enterprise and to assess the paying capacity of the firm.
4. Government authorities: Govt. has to levy various taxes such as excise duty, service tax etc. These govt. authorities assess the correct tax dues from an analysis of financial statements.
5. Researchers: Researchers use accounting information in their research work and to study the financial operations of a particular firm or company.

**Q.12 Define briefly the various accounting terms.**

**Ans.**

1. **Assets:** Asset is anything that is owned by an individual or business which can be valued in terms of money. In other words, anything which will enable the firm to get cash or a benefit in a future is an asset. Example: land, building, machinery, furniture, stock, debtors and cash and bank balances etc.

2. **Liabilities:** Liabilities mean the amount which the business owes to outsiders, that is, the business is liable to pay to the outsiders excepting the proprietors.

3. **Capital:** Capital is the amount invested by the proprietor in the business. It may be in the form of money or assets having money value.

4. **Expense:** Expense is a value which has expired during the accounting period. Example – salaries, wages, rent, etc.
5. **Expenditure:** Expenditure is the amount spent or liability incurred for acquiring assets, goods or services.

6. **Revenue:** Revenue means the amount, which as a result of day to day operations, i.e., sale of goods or services, is added to the capital.

7. **Debtor:** A person who owes amount to the enterprise generally on account of credit sales of goods or services is called a debtor. For Example: when goods are sold to a person on credit that person is called a Debtor.

8. **Creditor:** A person to whom an enterprise owes amount on account of credit purchases of goods or services is called a Creditor.

9. **Stock:** Stock is the tangible asset held by an enterprise for the purpose of sale in the ordinary course of business or for the purpose of using it in the production of goods meant for sale.

10. **Purchases:** The term purchase is used only for purchase of goods. Goods are those things which are purchased for resale or for producing the finished products which are also to be sold. The term ‘Purchases’ includes both cash and credit purchases of goods.

11. **Sales:** This term is used for the sales of only those goods that are dealt by the firm. The term ‘Sales’ include both cash and credit sales.

12. **Loss:** A loss is excess of expenses of period over its related revenues which may arise from normal business activities. It decreases the owner’s equity.

13. **Profit:** It is the surplus of revenues of a business over its costs. Profit is normally categorized into gross profit and net profit.

14. **Drawings:** It is the amount of money or the value of goods which the proprietor takes for his domestic or personal use.

Q 13. Give the meaning and features of accounting principles.

Ans. Accounting principles are the rules of action adopted by accountants universally while recording accounting transactions. Features of accounting principles:

1. Accounting principles are man made.
2. Accounting principles are flexible.
3. Accounting principles are generally accepted.

Q 14. Briefly explain the various accounting concepts.

Ans.

1. **Business Entity Concept:** As per this concept, business is considered separate from its owners. Transactions are recorded in the books of accounts from the point of view of business only. Since owners are considered separate from the business that is why they are creditors of the business to the extent of their capital.

2. **Money Measurement Concept:** As per this concept, only those transactions and events are recorded in the books of accounts that can be measured in the terms of money. Transactions and events that cannot be measured in money terms are not recorded, howsoever important they may be to the enterprise.

3. **Going Concern Concept:** This concept means that the business will continue for an indefinite period in the future and there is not any intention to close the business. Following is the significance of this concept:
   
   a. A distinction is made between capital and revenue expenditure.
   
   b. Stock is valued at cost or market value whichever is lower.
   
   c. Prepaid expenses are treated as an asset.
   
   d. Fixed assets are valued at cost less depreciation and not a market price.

4. **Accounting period concept:** According to this concept, the life of a business enterprise is broken into smaller periods so that its performance can be measured at regular intervals. Various users of accounting
information need to know the income of the business. Therefore, accountants choose some shorter and convenient time for the measurement of income. Such a period is known as accounting period.

5. **Cost Concept**: As per this concept, all the assets are recorded in the books at their historical cost, i.e. at the price paid to acquire it and it is the basis for all subsequent accounting of the asset. It does not mean that asset will always be shown at cost. It means that asset is recorded at cost at the time of purchase but its value is systematically reduced by charging depreciation.

6. **Dual Aspect concept**: This concept means that every transaction has two aspects, a debit and a credit of equal amount. The whole accounting cycle is based on this concept only. That is why double entry system of accounting came into existence. For every debit there is a credit of equal amount in one or more accounts. Amount debited will always be equal to amount credited in a transaction.

7. **Revenue recognition concept**: According to this concept, revenue is considered to have been realized when a transaction has taken place and the obligation to receive or pay the amount has arisen.

8. **Matching concept**: According to this concept, the expenses should be matched with the revenue generated in the relevant period. It implies matching of expenses of an accounting period against related revenues.

9. **Accrual concept**: As per this concept, a transaction is recorded at the time when it takes place and not when the settlement takes place. Under this concept, profit is regarded as earned at the time the goods or services are sold to a customer, i.e. the legal title is passed to the customer.

10. **Verifiable Objective concept**: this concept holds that accounting should be free from personal bias. It means that all accounting transactions should be evidenced and supported by business documents.

**Q 15. Give the meaning of accounting standards.**

**Ans.** The accounting standards are a set of guidelines issued by ICAI. It provide the norms on the basis of which financial statements should be made. It also ensure uniformity. It also helps auditors to audit the accounts.

**Q 16. What is IFRS?**

**Ans.** IFRS are a set of accounting standards developed by the international accounting standards board. These are principles based accounting standards.