

MAA OMWATI DEGREE COLLEGE

HASSANPUR

NOTES

CLASS:- BBA 1st Sem

SUBJECT: BASIC OF ACCOUNTING (MC)

BASIC of Accounting (BBA-Ist)

Date: / /

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Ques:-1 Write brief notes on the following:-

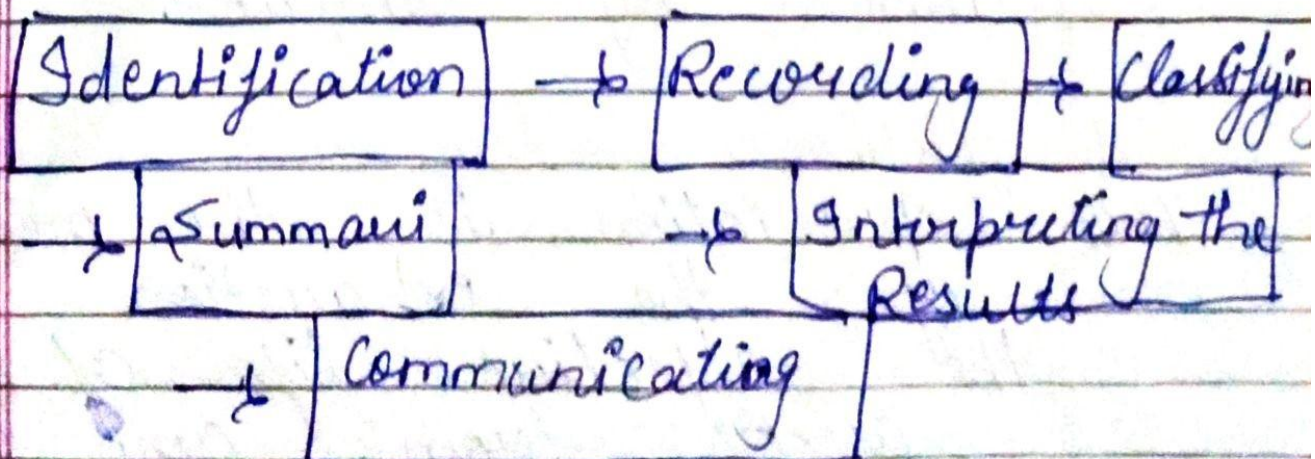
a: Define Accounting.

Ans:-1 "Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transaction and events which are in part at least, of a financial character and interpreting the result thereof.

American Institute of Certified Public Accounts

(b) What is Accounting process.

Ans Here's the Chart of Accounting Process.



(c) Explain Book Keeping in brief.

Ans:- Book Keeping is an art of recording business dealings in a set of books of books.
J.K. Batlibal.

It is mainly concerned with record keeping or maintenance of books of accounts.

The Book Keeping function is written and clerical in nature and can be performed by persons having limited knowledge of accounting. As practice this function is increasingly done by computers.

d. Define depreciation?

Ans:- "Depreciation is the measure of the exhaustion of the effective life of an asset from any cause

during a given period"
→ Spices & people.

e. What is real accounts explain with examples.

Ans:- The accounts of all those things whose value can be measured in terms of money and which are the properties of the business are termed as Real accounts. Such as Cash, The furniture account, Machinery account, Building account, Goodwill etc.

Rule:- Or what comes in. Or what goes out.

For example * Purchased for furniture for Cash.

* Furniture Dr Cr. Sundry Dr Cr. Sundry
10 Cash Dr Sundry

furniture etc should be debited according to the rule of Debit and what comes in " and Cash etc should be credited according to rule credits according to rule credit what out."

f. What is trade discount? Give an example.

Ans:- A trade discount is defined as a type of discount that is cut off the retail or published price of an item and is usually for customers like purchase of goods in large quantities. The larger the purchase, the bigger the discount.

g. Distinguish between Journal and ledger.

Ans:- There are main difference between Journal and ledger.

Journal or Books of original Entry

ledger

1) As the name indicates all the transaction all the transaction are entered in journal first of all recorded or subsidiary books in these books i.e are transferred to Journal or subsidiary ledger. As such books such as petty the ledger is also book. Sales book etc. called a book of final

2) Full details of a full details of a transaction are recorded in ledger. In ledger a in these books are recorded in the ledger.

3) Final accounts cannot be prepared with the help of books of original entry. Final accounts can be prepared with the help of ledger balance.

4) These books are considered as more authentic and reliable in comparison to the ledger since these are the books

5) The process of recording entries in the books of original entry is called posting.

h. What is G.S.T

Ans: Goods and Services Tax (G.S.T)

It is an indirect tax levied on every supply of goods and services accept self consumption and also for human consumption supply of goods and supply of services. It is a nation

wide tax. According to unity several united taxes and is based on the principle of 'one nation one tax'.

1) Explain trial balance in brief.
Ans: "Trial balance is a statement prepared with the debit and credit balance of ledger accounts to test the arithmetical accuracy of the books"

Definition of Trial Balance:-

According to Causton, "Trial balance is list of debit and credit balance taken out from the ledger."

k. Distinguish between share and debentures.

Shares

Debentures

1) Shareholder owns a portion of the company

2) Shareholder owns a portion of the company

2) shareholder having no right of voting in company

3) In the event of company shareholder are paid after all payment of dividend shares can not be converted.

Higher risk due to market fluctuation

Lower risk as have priority in case of Bankruptcy.

Ques-2 Define Depreciation

Ans:- Depreciation may be defined as the permanent and continuing decline in the quality or value of an asset

Cause of Depreciation

- 1) By constant use.
- 2) By expiry of legal rights.
- 3) By Accident.
- 4) By Depletion
- 5) By permanent fall in market prices.

Ques-2 What is Accounting? What are the main objectives? In what ways is it useful in the management of a business?

Ans:-> Meaning of Accounting = Accounting is often called the language of business. Accounting communicates the result of the business to the users of accounting information to enable them to make reasoned decision

Definition of Accounting

Accounting is the act of recording classifying and summarising in a significant manner and in terms of money transaction and events

which are in part atleast of a financial character and interpreting the result there of. - AICPA)

Accounting is the science of recording and classifying business transaction and events, primarily of financial character and art of making significant summaries, analysis and interpretation of those transaction and events communicating to persons who must take decisions or form judgement

- Smith and Ashburne.

There are main objectives Accounting.

- (i) Maintenance of systematic record of business transaction = The main objectives of accounting is to maintain complete record of business transaction. complete record of business transaction helps.

to avoid the possibility of omission and fraud.

- (2) calculation of profit and loss = The main objective of accounting is to ascertain the net profit earned or loss suffered on account of business transaction during a particular period. In addition business is able to get following information with the help of preparing trading and profit & loss a/c.

- (i) How much goods have been purchased during a particular period?
- (ii) How much goods have been sold?
- (iii) How much goods have remain unsold and what is its value

3. To know the exact means leading to net or loss -

4. To portray the liquidity position: Another objective of accounting is provide information about how a enterprises is able to obtain and spends cash?

5. Communicating accounting information to various users :-

At is the main objective of accounting is to communicate information to various interested parties. like owners, investors, creditors, shareholder employees, authorities etc. This helps to take decision about business entity.

(1) There are many ways in which accounting is useful in management of business.

11. Evaluate business performance - Owners determine precise how much profit or loss the company has generated over time. It help to measure the business performance.

(a) Create budget projection: Due to budget business managers can spend less time worrying about pressing issues like selling a product at a loss.

Budget provide for distribution of funds to objection that promote business expansion and in everyones understanding of organization aims for better success.

(3) Maintain financial statements :- financial statements are

Maintained with the aid of accounting for tax filing purposes every business must file its financial statements.

Ques-23 What is Accounting explain its function and characteristics.

Ans Meaning of Accounting:

Accounting is often called

the language of business.

The basic function of any language is to communicate.

Accounting communicates the results of the business to

the users of accounting information to enable them

to make reasoned decisions

to communicate information accounting

follows a systematic process of

recording classifying and summarizing

Definitions of Accounting:

11) Accounting is an Art as a well as Science:

Art is the technique of

attaining same pre-determined

objectives Accounting is an

art of recording, classifying

and summarising business

transaction a view to ascertain the net profit and financial position of business.

12) Recording of transaction of financial character: only those transaction and events are recorded in accounting which are of financial character.

13) Recording in terms of money: Each transaction is recorded in books of accounts which can be express or measured in terms of money.

4. Classifying

After recording the transaction in journal or subsidiary book the transaction are classified the book in which various accounts are opened is called 'Ledger'.

5. Summarizing

It is the art of presenting the classified data in a which is understandable and useful to management and other user of such data. It involves balance of ledger accounts and trial balance.

Main functions of Accounting:

- (1) Maintaining Complete and Systematic Record.
- (2) Preparation of financial Statements.
- (3) communicating the financial results to various parties.
- (4) Protecting the asset of business.
- (5) Providing assistance to management.

Ques-What do you mean by double entry system. Define its features. Discuss also its advantage and disadvantages.

Ans Every business transaction has a two fold effect and that its affect two account in opposite direction and if a complete record were to be made of each such transaction it would be necessary to debit one account and credit another account.

Main characteristics of double entry system

- (1) Every business transaction affect two or more of them is debited and other is credited certain transaction may affect more than two accounts but the amount dr and cr always equal.

(a) Recording of both personal and impersonal aspects.

Both personal and impersonal aspects of a transaction are recorded in double entry. It is possible that both the aspects of a transaction may be personal or both may be impersonal.

(3) Preparation of Trial Balance: Since one account is debited and other is credited, total of all debit always equal to the total of all credits. This helps to find arithmetical accuracy of the accounting records.

Advantages of Double Entry System:

1) Scientific System: Under this system the transaction are recorded according to

certain specified rules and as such the system is more scientific as compared to any other system of Book Keeping.

(2) Complete Record of every transaction: In double entry all the accounts are divided into these parts i.e. personal, real, both the debit and credit aspects of transaction are recorded in these.

3. Preparation of Trial Balance: In double entry system, the amount recorded of the debit sides of various accounts will always be equal to the amounts recorded on the credit sides of various accounts. As such a trial balance can be prepared to check arithmetical accuracy of the accounts.

(4) Preparation of trading and profit & loss etc.

With the help of the trial balance a trader can prepare a trading account to find out the amount of gross profit or gross loss.

5. Knowledge of various informations:

An double entry system the accounts are maintained in such a way that the information regarding-

(i) What is the amount of sales, purchase and closing stock.

(ii) How much amount has been paid on account of each head of expense separately?

Disadvantages of double entry system.

(i) A number of books are to be kept under this system, as such the system is quite expensive.

(ii) It is quite difficult to apply the rules of debit and credit. Proper education & practical knowledge and training is required in order to have command over the rules of double entry system.

(iii) What is ledger? Discuss the different rules for journalising the business transaction with appropriate example.

Ans. The book which contains a classified and permanent records of all the transactions of a business is called the ledger - T.C. Cooper.

A ledger may be kept in the form of a bound register or cards or punched sheets in loose leaf binder.

format of ledgers

Name of account		Particulars		Amount	
Particulars	IF	Amount	Date	Particulars	IF
—	—	***	—	—	***

Rules of Posting

Posting is the process of transferring entries from journal or subsidiary books to ledger.

- (1) All transaction relating to an account should be entered at one place. In other words, two separate should not be same accounts.

- (2) The word "To" is used before the accounts which appear on side of an accounts. Similarly "By" word is used before appear credit side of an a/c.

- (3) If an account has been debited in the journal entry the posting in the ledger also be had debit side or vice versa.

- (4) Similarly amount has been posted on the debit side of an account it should also be posted on credit side of another account.

- (5) Let take an example of posting journal to ledger

Example:- on 1st April 2013 sold 1000 cash ₹ 2000 pass journal entry and posting into ledger.

ques - 17

what is trial balance? what is

To Sales acc 2000

Sold goods 60.7
cash)

Ans

According to William Pickles "

The statement prepared with the help of ledger balances at the end of financial year is called any other date to find called trial balance.

any other date to find
called trial balance.

Need of preparing a Trial balance.

41,

To ascertain arithmetical accuracy of the ledger accounts.

20

To help in locating errors:

3

To obtain a summary of ledger account

5

The help in preparation of final

There are three methods of preparing a trial Balance.

1) Balance method

ii) Total amount method

iii) Total - cum - Balances method

Let us take a post-balance

Particular	Amount	Particular	Amount
Stock on 1-4-2022	28800	Capital	
Purchase	82000	Drawing	
Sales	160000	Return Inward	
Wages	16160	Return outward	
Salary	6400	Carriage inward	
Repair charges	500	Carriage outward	
Commission Received	1800	Furniture	
Sundry debtors	24800	Motor car	
Sundry creditors	7300	Cash in hand	
Bank overdraft	25400	Investment	
		Ant on investment	

Ques: 8 Prepare a trial balance from the following balances as 31st mar

2022:

Name of accounts	L.F	Dr Amount	Cr Amount
opening stock		28800	
Purchases		82000	
Sales			160000
Wages		16160	
Salary		6400	
Repair charges		500	
Commission Received			1800
Sundry debtors		24800	
Sundry Creditors			7300
Capital			90000
Drawing		4400	
Return inward		7500	
Return outward			5600
Carriage inward		1640	
Carriage outward		3800	
Furniture		13000	
Motor car		80000	
Cash in hand		4700	
Bank overdraft			25400

Investment	2000	
Interest on investment		2400
Total	291500	291500

Total of trial Balance = 2915000

Ques 9 What is bank reconciliation Statement? why is it prepared?

Ans Meaning of bank reconciliation Statement.

Usually all the firms open a current account with a bank and in order to record the bank column in the cash book All the transaction with the bank are recorded in both the books shown by the cash book and the pass book.

'Bank statement is a statement prepared mainly to reconcile the difference between the bank cash book and bank pass book'

Ques 10 At is essential to prepare a bank reconciliation statement due to following reasons:

1) A bank reconciliation statement locates the error or omission that may have been committed either on the part of customer or the bank.

2) By preparing a BRS the customer become sure of correctness of the bank balance shown by the cash book. It helps him in making transaction with bank.

3) It facilitates the revised cash book. For example

interest allowed on charge by bank will be recorded in the pass book which no entry in cash book.

4 A reconciliation statement help in unnecessary delay in the cheque by the bank

5 It also help in keeping track of cheques which have been sent to bank for collection.

Ques 11 Define computerized accounting system which help in manual and computerized accounting systems.

Ans:- A computerized accounting system is that accounting system that helps in processing the financial transaction and events as per generally accepted Accounting principle (GAAP)

and leads to generation of reports as per the require of the users.

An accounting system whether manual or computerized has two parameters namely.
1) It has to follow the well defined concept known as Accounting principle
2) It has to maintain the user defined structure for maintain of records and generation of reports.

Ques 12 Comparison Between manual and computerized Accounting system.

Difference between manual Accounting system and computerized Accounting system	Comparison between manual and computerized Accounting system
1) Identification of financial transaction	1) In this system also identification of financial transaction is done manually
2) Recording of financial transaction	2) In this system also identification of financial transaction is done manually

Recording In this system the recording of transaction in books of original entry and related calculated

Storing the data in data and all calculated done by computer.

Classification In this system classification i.e posting to ledger Accounts is done manually

In this second stored data are processed by software to give ledger

Financial In the manual Statement process prep. of trial balance of trial balance, it essential to provide the financial statement

Financial Statement are generated by software itself

Diff: Differentiate with suitable examples between straight line method and diminishing balance methods of charging deprec.

Ans There are main difference between straight line method and diminishing method.

Basis of difference

1. Amount of equal depreciation is Depreciation goes on decreasing year. on decreasing year.

2. Basis of calculation Depreciation is charged on original cost of the asset. Depreciation is charged on the reducing balance of the asset.

3. Zero level. The book value of the asset can be reduced to zero. The book value of the asset can never be reduced to zero.

4) Combined Depreciation and separate Depreciation. Combined method of on account of depreciation and separate will be lighter in earlier years. Combined method of on account of depreciation and separate will be almost equal over different years.

Rate of depreciation is kept low in comparison to diminishing balance method.	Rate of depreciation is kept high in comparison to original cost method.
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Ques:- Explain the provision relation to buy back of Share. Explain the advantages of provisions and accounting entries with suitable examples.

Ans:- The Companies Act 2013 gives companies the power to buy back their own shares. This is a strategic move as it increases the value of their shares, improves the financial position and more.

The provision to Section 68(1) specifies that "no buy back of any kind of shares or

Ans:-

other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Legal provisions of buyback of share:-

The following are the provisions of buy back of shares.

Sources of Buyback of shares:-

- 1) free reserves
- 2) security premium etc

Time :-

The buyback should be completed within one year from the date of passing the resolution.

Compliance with Regulation.

Rate of depreciation is kept low in comparison to diminishing balance original cost method.	Rate of depreciation is kept high in comparison to diminishing balance original cost method.
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Ques:- Explain the provision relating to buy back of Share. Explain the advantages, disadvantages and accounting entries wth suitable examples.

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Ques:- Legal provisions of buyback of share. The following are the provisions of buy back of shares.

- Sources of Buyback of Shares:-
- 1) free reserves
 - 2) security premium A/c

Time :-
The buyback should be completed within one year from the date of passing the resolution.

Compliance with Regulation

Compliance with SEBI Regulations is required of company is listed

Ques:-16 Accounting Requirements:-

1) Accounting treatment:- The buyback of shares affects various accounts including

- Equity Share Capital Account
- Decrease by the nominal value of shares bought back

- Security Premium Account:- If shares are bought back at a premium

2) Journal Entry.

When the buyback is executed

- For shares bought back:-
- Equity Share Capital also

Q7. ~
Security Premium Res A/c Dr
General Reserve A/c Dr
To Bank A/c -xx

2) For cancellation of shares:- No additional entries are required as the shares are already cancelled upon buyback

Ques:-17 Write Share not on the following:-

1) Reserve Capital is calls in advance in forfeiture of shares

2) Subscribed Capital of Book Building is issue of eight shares in one person company

3) Reserve Capital is not to be used for a portion of the company's issued shares of the company

4) Company is not to meet future financial needs. Unlike general reserve which

Can only be called upon in specific situations such as when a company is facing financial distress or needs additional funds for expansion. Reserve Capital typically disclosed in the company financial statement and is part of its overall equity structure.

2) Calls in shares:- It refers to the amounts owed by the shareholder who have not fully paid for their shares when a company has made a call for payment on issued.

3) Forfeiture of shares:- forfeiture of shares refers to the process by which a

Shareholder who has failed to pay the call on those shares when a shareholder defaults on payment after a specific period the company may forfeit the shares as means of protecting its financial interests.

BOP Building:-

It is a process used by companies to generate interest and determine the price of an initial public offering or a new issue of shares.

One person company:- One person company is a type of business entity that allows a single individual to

operated company with limited

Ques:-18 Distinguish between equity share and preference share Capital and explain its over subscription and under subscription

Ans:-18 Equity share Capital pref. Share Capital

Holders have equal rights in the company ownership right and voting right and usually do not have any dividend right in corporate dividend

Dividend are not fixed and paid out of profit

3) Risk lower risk company as they last in preference share line during

Ques:-19 Distinguish between Capital Reserve and Revenue Capital

Ans:-19 Basic of Revenue Capital Capital reserve.

Revenue Capital It is a portion of the company's profit that is not yet distributed as dividend. It is not available for immediate use equity on the and is only called balance sheet and upon when necessary

It is not available for immediate use equity on the and is only called balance sheet and upon when necessary

Specified purpose as determined by company.

States Not included in

the company's

included in company

total paid up Capital until

paid up reserve and utilized for strategic needs

called