FINANCIAL ACCOUNTING – I

SHORT QUESTION & ANSWER TYPE

CHAPTER – 1 - Introduction to accounting

1. Mention two objectives of accounting?
   a. Recording the transactions in the primary books of accounts.
   b. Ascertaining the operating results and financial position of the entity.
2. State two differences between financial accounting and management accounting?

F.A.	M.A.
It is concerned with the recording of transactions in the books of accounts.	It deals with the presentation of accounting information to assist the management in day to day operations, planning etc.
It generates fresh information that is useful to management accounting.	It utilizes information generated by financial accounting & cost accounting.

3. What do you mean by accounting information?
   Accounting information refers to the information generated by the accounting system of an entity relating to a particular accounting period for disclosing the operating results and financial position of the entity to its stakeholders.
4. State two users of accounting information?
   a. Internal users: owners or promoters, management.
   b. External users: Investors or creditors, government.
5. State two uses of accounting information?
   a. Financial performance measurement.
   b. Financial analysis for decision making.
6. Mention two quantitative characteristics of accounting information?
   a. Reliability.
   b. Relevance.
7. What is comparability in accounting information?
   It is a quality of the relationship between two or more pieces of information which enables to understand the similarities in and difference between two sets of financial information.
8. What are the types of comparability of accounting information?
   a. Horizontal: for comparing two or more entities pertaining to the same accounting period.
   b. Vertical: for comparing single entity over different accounting periods.
9. Mention four different branches of accounting?
   a. Financial accounting,
   b. Cost accounting,
   c. Management accounting,
   d. Environmental accounting.

CHAPTER – 2- Double entry book-keeping system

1. State two difference between transaction and event?

Transaction	Event
Measurable in terms of money.	May or may not be measured monetarily.
All transactions are events.	All events are not transactions.

2. What do you mean by Double entry book keeping system?
   It is a system of accounting where both the aspects of every transactions are recognized and recorded in the accounts.
3. State two features of double entry system?
   a. It recognizes the records both aspects of transaction.
   b. Every debit has an equal amount of credit.
4. Mention two characteristics of assets?
   a. Assets are controlled by an entity as a result of past events.
   b. Future economic benefits are expected to flow to the entity from such assets.
5. What are intangible assets?
   An intangible asset is defined as an asset that is:
   a. An identifiable non-monetary assets,
   b. Without physical substance and
   c. Held for production / supply of goods & services, for rental to others or for administrative purpose.
6. Give two examples of tangible and intangible assets?
   a. Tangible – building, machinery.
   b. Intangible – goodwill, patent.
7. What are fictitious assets?
   These are items reflected in the asset side of a Balance Sheet that:
   a. Do not have any physical substance and
   b. Don not have any realizable value.
8. What is a contingent asset?
   An item is considered as a contingent asset if it has the following features:
   a. It is a possible asset that may arise out of past event.
   b. Its existence will be confirmed only by occurrence of future event. And
   c. Such future event is not wholly within the entity's control.
      Ex: amount involved in litigation in favour of the entity, damage claimed from customer forum.
9. What is contingent liability?
   It is not an actual liability as yet but may turn to an actual liability on the occurrence of some uncertain contingencies in near future. Ex – liability for bill discounting, liability as a guarantor.
10. Distinguish between revenue and gain?

Revenue	Gain
It means gross inflow of cash, receivable or other consideration arising in the course of ordinary activities of an entity.	It is referred as that profit which are not generated through regular business activities.
It is a gross concept.	It is a net concept.

11. What is accounting equation?
    The equality which represents the relationship between asset, liabilities and equity (capital) is known as accounting equation.
    ASSETS = LIABILITIES + EQUITY (CAPITAL)
12. What is accounting cycle?
    It is the complete sequence of recording, classifying and summarizing transactions that is repeated in the same order in each accounting period.
13. Why journal is called the book of original entry?
    All transactions are first recorded daily on a chronological order together with a short description in the journal so it is called the book of original entry.
14. What is journal proper?
    Journal proper / General journal / Residual book is a book of primary entry for those transactions that are recorded in any specific subsidiary books.
    Moreover the transaction for which no separate book of primary entry is maintained gets recorded in journal proper.
    Ex – opening entry, closing entry, adjustment entry and rectification entry.
15. What do you mean by balance of an account?
    The difference between two sides of a ledger account is its balance and the process of equalizing its two sides is called balancing.
16. Why ledger is called the book of final entry?
    After journal ledgers are prepared and it is the final destination of all accounts and hence it is the book of final entry.
17. What is a compound entry?
    A journal entry having more than two accounts it is known as compound entry.
18. Can real account show credit balance?
    Real account includes assets, liabilities and capital. Asset cannot show credit balance but liabilities can.
19. Mention two errors that are not disclosed by the Trial Balance?
    a. Error of commission and
    b. Error of principles.

CHAPTER – 3 – Basis of accounting

1. What is cash basis of accounting?
   Under this basis a transaction is recognize and recorded in the books of accounts only on their actual receipt or actual payment in cash.
2. What is accrual basis of accounting?
   Under this basis a transaction is recognized and recorded in the books of accounts on their occurrence. Here revenue is recognized when (time period) it is earned and expenses are recognized as they are incurred (time period).

CHAPTER – 4 – Concepts and convention

1. What is GAAP?
   GAAP is Generally Accepted Accounting Principles. It refers to the common set of accounting principles, standards and procedures that are used by accountants to prepare the financial statements.

CHAPTER – 5 – Revenue recognition

1. What is meant by revenue in accounting?
   According to AS-9, revenue is the gross inflow of cash, receivables, or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividend.
2. What is meant by recognition of revenue?
   It refers to the earning of income by an entity from its ordinary activities and recording it in the income statement when it is earned.
3. When should revenue be recognized in case of a concern engaged in rendering of services?
   Revenue from services is recognized as the service is performed. There are two methods of measuring such service performances:
   a. Complete service contract method
   b. Proportionate completion method.
4. State when revenue should be recognized in the following cases:
   a. Goods sold on approval basis
   b. Goods produced under special order?
      a. When confirmation from the buyer is received or the time period has expired.
      b. When the goods are identified and ready for delivery.
5. What do you mean by expenses in accounting?
   Expenses are outflow that result in benefits that are fully consumed, used or enjoyed during a particular accounting period. This is also known as expired cost.
6. What do you mean by recognition of expenses?
   The process of relating the expenses incurred to a particular accounting period is referred to as recognition of expenses.

   The expenses are required to be recognized and matched against the revenues recognized for proper ascertainment of income.