

FORMAN CHRISTIAN COLLEGE, LAHORE

(A CHARTERED UNIVERSITY)

DEPARTMENT OF COMMERCE

Class F.A(IT)

Subject: Commercial Practices

Chapter No. 01 Introduction

QNo.01 Define Accounting / Financial Accounting.

Ans. 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 the result thereof.

QNo.02 Define Bookkeeping.

Ans. Book-keeping is the art of recording monetary transactions in the books of accounts in a proper manner.

QNo.03 Define Business.

Ans. Any legal activity which is done for the sake of earning profit known as business.

QNo.04 Define Profession.

Ans. When a person provides his services to society based on his specialized knowledge and experience in a particular field, it is known as a profession.

QNo.05 Define Accountancy.

Ans. Accountancy is the main subject. The word accountancy is far extensive. It covers the entire body of theory and practice. E.g., Book-keeping, Accounting, Costing, Auditing, Taxation etc.

QNo.06 Write down kinds of Business.

Ans. There are three kinds of business. Manufacturing Concern, Trading Concern, Services concern.

QNo.07 Define Manufacturing Business.

Ans. A business which uses raw material to make finished goods is known as manufacturing business. E.g., Fan Industry, Automobile Industry.

QNo.08 Define Trading Business.

Ans. A business in which goods are purchased and sold without any changes to them is known as a trading business. For example, whole-selling and retailing etc.

QNo.09 Define Service Business.

Ans. A business in which services are purchased and sold is known as services business. For example, services of lawyers, services of doctors, services of teachers etc.

QNo.10 Define Proprietor.

Ans. A person who invests capital, gives his time and attention in a business is called a proprietor. He is entitled to receive the profit or bear the loss arising out of business.

QNo.11 What is Capital?

Ans. The amount of cash or value of goods with which the proprietor starts or expands his business is known as capital. E.g., business commenced at Rs.200,000. In this transaction Rs.200,000 is the amount of capital.

QNo.12 Define the term Drawings.

Ans. The cash and goods taken away by the proprietor from the business for his personal use are called drawings.

QNo.13 What is Merchandise / Goods / Purchases?

Ans. It refers to something which has been purchased by a trader for resale purposes or anything which has been manufactured for selling purposes.

QNo.14 Define Sales.

Ans. A function of selling the goods is called sales. It is also known as turnover. E.g., goods sold for cash Rs.5,000 are called sales.

QNo.15 Define Credit Sales.

Ans. When the goods are sold without receiving cash, they are called credit sales.

QNo.16 Define Sales Return / Return inwards.

Ans. If a customer to whom goods have been defective, unsatisfactory, below standards or not according to the specifications, he may return the goods to the seller. To the seller such return of goods is known as sale return.

QNo.17 What is meant by Purchases?

Ans. When goods or merchandise are purchased by a business, it is said that purchases have been made. E.g., Asim purchased goods from Yasir.

QNo.18 Define Credit Purchases.

When the goods are purchased without paying cash, they are called credit purchases.

QNo.19 Define Return Outwards / Purchases Returns.

Ans. When the goods purchased are found defective or unsatisfactory, they are returned to suppliers called purchases return or return outward.

QNo.20 Define Debtor / Account Receivable.

Ans. Debtors / Accounts Receivable is a person or customer to whom goods have been sold on credit basis and from whom the business is to receive money in the near future. It is also known as debtor.

QNo.21 Define Creditors / Accounts Payables.

Ans. The person with whom the credit purchase is made or the people with whom money is to be paid in the near future are called creditors or accounts payable.

QNo.22 Define Assets.

Ans. Assets are the things have certain value possessed by business and receivable by a business or Assets are economic resources that are owned by a business and are expected to benefit the future operations.

QNo.23 Define Equity.

Ans. Claim which can be brought against the assets of the business is called equity.

QNo.24 Define Owner Equity.

Ans. The total amount of debts payable by a business to its owner / owners is called owners' equity or internal equity.

QNo.25 Define Liabilities.

Ans. Liabilities are the debts of the business organization.

QNo.26 What is Discount?

Ans. Concession or rebate given by the seller to the buyer is known as discount. It is basically a reduction in the price of the product.

QNo.27 Define Cash Discount.

Ans. It is a deduction or allowance given by a creditor to debtor if the amount is paid by them before the due date.

QNo.28 Define Trade Discount.

Ans. It is a rebate or allowance from the list price generated by the seller to the buyer. Whenever such a trade discount is allowed then purchases and sales are recorded at the net price paid and received.

QNo.29 Define Interest in Drawings.

Ans. Interest in charge in the business from the owners on drawings is known as an interest in drawings. It is revenue for the business and is credited to a profit and loss account.

QNo.30 Define Depreciation.

Ans. Gradual decrease in the monetary value of an asset due to usage in the business is known as depreciation. Depreciation is the expense of the business.

QNo.31 What is Revenue?

Ans. It is a price of goods sold and services provided by a business to its customer.

QNo.32 Define Invoice.

Ans. A document is given by the seller to the buyer for credit sales of goods called invoice.

QNo.33 Define Voucher.

Ans. Any written evidence in support of a business transaction is called voucher. E.g., when stationery is purchased from a shop. Shopkeeper gives a cash memo. This cash memo is a voucher for payment.

QNo.34 What is it meant by Cash Memo?

Ans. It is a voucher which is used for cash transactions, for cash purchases of goods etc.

QNo.35 Define Commission.

Ans. It is a remuneration for services rendered by a person (agent) to his principal. It is given on some percentage basis.

QNo.36 Define Formation Expenses / Preliminary Expenses?

Ans. An expense which is incurred in the initial stage of business known as formation expenses. E.g., legal fees, remuneration of promoters.

QNo.37 Define Cost Accounting.

Ans. The main object of cost accounting is to determine the cost of goods manufactured or produced by the business. It also helps the management of the business in controlling the cost by indicating avoidable losses.

QNo.38 Define Management Accounting.

Ans. The object of this accounting is to communicate the relevant information periodically to the management of the business to enable it to take suitable decision

QNo.39 Define Solvency.

Ans. A person is said to be solvent if his assets are sufficient to pay his amount of debt.

QNo.40 Define Insolvency.

Ans. A person is said to be insolvent if his assets are not sufficient to pay his debts.

QNo.41 What is Accounting Period Concept?

Ans. According to this concept, the life of the business is divided into appropriate segments for studying the results shown by the business after each segment.

QNo.42 Define Matching Principles.

Ans. The aim of every business is to earn profit. To ascertain the correct amount of profit the current year expenses must be matched with the current year's revenues is called matching principles.

QNo.43 What is the meaning of Going Concern Concept?

Ans. According to this concept, it is assumed that the business will continue to operate for an indefinite period.

QNo.44 What is Separate Entity Concept?

Ans. According to this concept, business is treated as separate entity from its owner.

QNo.45 Define Consistency Principle.

Ans. A business should consist in the way in which it applies the internal accounting principles.

QNo.46 Define Dual Aspect Concept.

Ans. Every financial transaction has a twofold effect on the position of the business as recorded in the books of account. It means that for every debit there is credit.

QNo.47 Define Cost Concept.

Ans. It means an asset is generally entered in the accounting record at the price to acquire it.

QNo.48 What is Conservatism Convention?

Ans. According to this convention accountants allow the rule, anticipates no profit but provide for all possible losses while recording business transactions.

QNo.49 What is Full Disclosure Requirement?

Ans. According to this convention the users of financial statement (Proprietors, Creditors, and Investors) are informed of any facts necessary for the proper interpretation of the statements

QNo.50 Define Materiality.

Ans. This convention allows the accountant to ignore other accounting principles with respect to items that are not material.

QNo.51 Define Money Measurement Concept.

Ans. According to this concept accounting records only those transactions or events which can be measured in terms of money.

QNo.52 Define Realization Concept.

Ans. According to this concept revenue should be recognized at the time when goods are sold, or services are rendered.

QNo.53 Define Accounting Concepts.

Ans. The term concepts include those basic assumptions or conditions on which the science of accounting is based.

QNo.54 Define accounting Conventions.

Ans. The term conventions include those customs or traditions which guide the accountants while communicating the accounting information.

QNo.55 What are Book-Keeping Objectives / Advantages?

Ans.

1. Provide a permanent and systematic record of all business transactions.
2. Periodicals results as to profit and loss should be readily and accurately ascertainable.

To enable financial data to be supplied for management of the business.

Chapter No. 02 Transaction and Accounting Equation

QNo.01 What is Transaction?

Ans. A business event which can be measured in terms of money, and which must be recorded in books of account is called a transaction.

QNo.02 What is Cash Transaction?

Ans. If the value of a transaction is met in cash immediately, it is called cash transaction.

QNo.03 What is Credit Transaction?

Ans. If the value of a transaction is not met in cash immediately, it is called credit transaction.

QNo.04 Define Accounting Equation.

Ans. The expression of the equality of an entity asset with the claims against them is referred to as the accounting equation.

QNo.05 Write down the basic accounting equation.

- Ans.** The expression of the equality of an entity's assets with the claims against them referred to as the Accounting Equation.
Assets=Liabilities + Owners Equity
- QNo.06 Define Monetary Events.**
- Ans.** Events which are related to money i.e., which change the financial position of a person are known as Monetary Events.
- QNo.07 Define Non-Monetary Events.**
- Ans.** Events which are not related with money i.e., which do not change the financial position of a person are known as Non-Monetary Events.
- QNo.08 Define External Transaction.**
- Ans.** A transaction taking place with an outside person or organization is called external transaction. E.g., Furniture purchased on account or on credit.
- QNo.10 Define Internal Transaction.**
- Ans.** A transaction in which no outside person or organization is involved is called an internal transaction. E.g., Loss of Furniture by fire.
- QNo.11 Define Qualitative Change.**
- Ans.** This causes an increase or decrease in the different elements of assets and liabilities, but the value of total assets and liabilities remain unchanged.
- QNo.12 Define Quantitative Change.**
- Ans.** This change total value of assets and liabilities of a business concern E.g., Machinery or Rs.50,000 is destroyed this transaction reduced the total value of assets.

Chapter No. 03 Analysis of Business Transaction and Double Entry System

- Q No.01 Define Single Entry.**
- Ans.** A system in which sometimes both aspects of a transaction are recorded. Sometimes one aspect is recorded and sometimes no aspect of a transaction is recorded is called Single Entry System.
- Q No.02 Define Double Entry System.**
- Ans.** The system under which both the changes in a transaction are recorded. One change is debited while the other change is credited with an equal amount is called Double Entry System.
- Q No.03 Define Account.**
- Ans.** Account is an individual record of Assets, Liabilities, Capital, Revenue and Expenses.
- Q No.04 What is Real Account / Property Account?**
- Ans.** An account which keeps the record of Assets and Liabilities is Called Real Account.
- OR
- Account which keeps the record of properties or things owned by trader are called real or Property Accounts. E.g., Land account, Building Account, Furniture Account, Capital Account etc.
- Q No.05 Define Personal Account.**
- Ans.** Account which is related with person or institution is known as Personal Account. E.g., Habib Bank, Debtors Account and Creditors Account etc.
- Q No.06 Define Nominal Account.**
- Ans.** Account which is related with expenses, Losses and gains is known as Nominal Account. E.g.,
- Q No.07 Explain the rule of Debit and Credit for Assets and Expenses.**

Ans. Increase in Assets/Expenses is **DEBIT**
Decrease in Assets/Expenses is **CREDIT**

Q No.08 Explain the rules of Debit and Credit for Capital, Liabilities and Revenue/Sales.

Ans. Increase in Capital, Liabilities and Revenue/Sales is **CREDIT**
Decrease in Capital, Liabilities and Revenue/Sales is **DEBIT**

Q No.09 Define Impersonal Account.

Ans. Accounts which are not related to people or firms are called impersonal accounts. E.g., Salaries Account, Building Account, Furniture Account.

OR

Real / Property accounts and Nominal Accounts are also called Impersonal account.

Chapter NO. 04 Journal the Original Book of Entry

Q No.01 Define Journal.

Ans. It is a book of Original Entry to record the transaction chronologically (with respect to date) called Journal.

Q No.02 What is Journalizing?

Ans. The act / process of recording the transaction in a Journal is called Journalizing or Journal Entry.

Q No.03 Why is Journal called the Book of Original Entry?

Ans. Transaction first is recorded in Journal, so it is called Original Book of Entry.

Q No.04 Define Entry.

Ans. Recording a transaction in the appropriate place of the concerned book of account is called entry.

Q No.05 Define Simple Entry.

Ans. An Entry in which one account is debited and one account is credited is called Simple Entry.

Q No.06 What is Compound Entry?

Ans. An entry in which more than one account is debited and more than one account is credited is called Compound Entry.

Q No.07 Define Narration.

Ans. A short / brief explanation of each transaction which is written under each entry is called Narration.

Q No.08 What is meant by Ledger Folio?

Ans. The page number of ledgers where the two accounts concerned have been posted are mentioned in this column. This will help in locating the entry in ledger easily. It is used in Journal

Q No.09 What is meant by term 2/10, n/30?

Ans. It means two percent discount will be given if the payment will be made within Ten days. No discount will be given if the payment is made after Ten days, and maximum credit limit is thirty days.

Q No.10 Draw a Format of Journal.

Ans.	Date	Details / Particulars	L/F	Debit Rs.	Credit Rs.

Chapter No. 05 Ledger (King of All the Books Of Accounts)

Q No.01 Define Ledger.

Ans. Ledger is the book, which contains a classified record of all business transactions, posted from the books of original entry. It is also called book of final entry and king of all the book of accounts.

Q No.02 Define Posting.

Ans. It is the process of recording transactions from journal to concerned accounts (Ledger).

Q No.03 Define Journal Folio.

Ans. The page number of Journal from where the transaction has been posted is mentioned in this column. This will help in locating the entry in the journal easily. It is used in Journal.

Q No.04 Stages / sketch of an accounting cycle.

Ans. Transaction----Journal----Ledger----Trial Balance ----- Final Account

Q No.05 Difference between Journal and Ledger

Journal	Ledger
● In Journal transaction are first recorded.	● In Ledger transactions are finally recorded.
● Journal is a book of Original Entry.	● Ledger is a book of final entry.

Q No.06 Why is the ledger called "King of all the Book of Accounts"

Ans. Ledger is a book, which contains classified records of all business transactions, posted from the books of original entry. It is also called book of Final Entry and King of all the books of Accounts.

Q No.07 What is Trial Balance?

Ans. A trial balance is a statement or list of balances of all accounts in the ledger, which is prepared by taking out the debit and credit balances of all accounts appearing in the ledger.

Q No.08 What is Balance?

Ans. It means the difference between the two sides of an account (Ledger).

Q No.09 What is Debit Balance?

Ans. If the debit side of an account is heavier than its credit side. It's a balance known as debit balance.

Q No.10 What is Credit Balance?

Ans. When the credit side of an account is heavier than its debit side. Its balance is known as credit balance.

Q No.11 What is Zero Balance?

Ans. If the two sides of an account are equal in amount, then it is said to be the zero balance.

Chapter No. 07 Special Journals

Q No.01 Define Subsidiary.

Ans. Under double entry system transactions are first of all recorded in journal and thereafter posted to the ledger. The book which additional help to the ledger is called subsidiary book.

Q No.02 Define Cash Book / Cash Journal.

Ans. A book in which all the transactions belongs to cash is involved (whether the business has paid cash or received cash) are recorded is called cash book or cash journal.

Q No.03 Define Purchase Book / Purchase Journal.

Ans. A book in which all credit purchases of goods are recorded is called purchase book or purchase journal.

Q No.04 Define Sales Book / Sales Journal.

Ans. A book in which all credit sales of goods are recorded is called sales book or sales journal.

Q No.05 Define Purchases Returns Journal / Purchases Returns Book.

Ans. The goods we have bought on credit if subsequently returned by us to the supplier for some solid reasons are recorded in this book. This book also known as Returns Outward Book.

Q No.06 Define Sales Returns Journal / Sales Returns Book.

Ans. The goods we have sold on credit if subsequently returned by the customers to us for some solid reasons are recorded in this book. This book is also known as Sales Return Inwards Book.

Q No.07 Define Bills Receivable Book.

Ans. Sometimes debtors pay by means of accepting a bill of exchange instead of cash. All the bills (acceptances) received from debtors are recorded in this book.

Q No.08 Define Bills Payable Book.

Ans. Sometimes creditors are paid by means of accepting the bills drawn by them instead of cash. All the bills (acceptances) given to the creditors are recorded in this book.

Q No.09 Define Special Journal.

Ans. By special journal we mean, a journal in which transaction relating to a certain special group are recorded. Special Journal is again subdivided into eight journals e.g. Cash Journal, Sales Journal, Purchase Journal etc.

Q No.10 Define General Journal.

Ans. The transaction which do not fall within the scope of Special Journal are recorded in this journal. E.g. Purchase of an assets on credit, depreciation on assets.

Q No.11 Define Debit Note.

Ans. If goods bought on credit are returned to the seller for any solid reason, the buyer debit the seller account and informs the seller through a note. This note is called Debit Note.

Q No.12 Define Credit Note.

Ans. If goods sold on credit are returned by the buyer, the seller credit the buyer account and inform the buyer through a note. This note is called Credit Note.

Q No.13 Name four subsidiary books

Ans.

1. Purchases Book
2. Purchases Returns Book
3. Sales Book
4. Sales Returns Book

Q No.14 What is petty Cash Book?

Ans. The book in which petty items of expenses are recorded is termed as petty cash book. For this purpose the owner advances a sum of money to cashier to meet the petty expenses.

Chapter No. 08 Cash Book and Bank Reconciliation Statement

Q No.01 Define Single Column Cash Book.

Ans. It is a Cash Book in which only cash transactions are recorded.

Q No.02 Define Double Column Cash Book.

Ans. In Double Column Cash Book two columns of amount are provided on each side of cash book. One for Cash Column and other for Bank Column.

Q No.03 Define Treble Column Cash Book.

Ans. In treble column cash book, three columns of amount are provided on each side of cash book i.e. Cash, Bank and Discount.

Q No.04 Define Contra Entry.

Ans. An entry in which cash account and bank account are involved and it is recorded on both side of cash book is called contra entry.

Q No.05 Define a Bank.

Ans. An institution, which accepts deposits for investing and lending to the needy people for certain rate of interest and for certain time period.

Q No.06 How many types of Bank Account?

Ans.

1. Current Account
2. Saving Bank Account or Profit & Loss Saving Account
3. Fixed Deposit Account

Q No.07 Define Current Account.

Ans. In Current account, a customer is allowed to deposit or withdraw the money from the bank according to his own will. Generally, bank allows no interest on current account.

Q No.08 Define Saving Account or Profit & Loss Saving Account.

Ans. An account in which deposits can be made only up to certain limit and the customer is not allowed to withdraw the amount from such account twice or thrice a week is called PLS saving account. The bank allows interest on this account.

Q No.09 Define Fixed Deposit Account.

Ans. In Fixed Deposit Account, the amount can be withdrawn from bank after fixed determinable period of time. The bank allows Interest on fixed accounts.

Q No.10 define bank overdraft.

Ans. The amount a bank allowed to work customer to withdraw in excess of his deposits for the sake of depositors goodwill is known as bank overdraft.

Q No.11 define cash account.

Ans. Cash account is an account in a Ledger in which posting of only cash transactions are made from journal.

Q No.12 define voucher.

Ans. Any written evidence in support of a business transaction is known as voucher.

Q No.13 define bank passbook / Bank Statement.

Ans. Passbook is a copy of the depositor account in the bank's Ledger which is provided to the depositor this book is prepared by bank kept with the depositor.

Q No.14 Define cheque book.

Ans. Cheque book is used to withdraw the amount from the bank

Q No.15 Define the term endorsement of the cheque.

Ans. The holder of the check may transfer the cheque in favor of his creditor for the clearance off his debts this process is known as endorsement of the cheque.

Q No.16 Define dishonor of a cheque.

- Ans.** Sometime there may be a mistake in writing a cheque Or the amount off deposit in bank account may be less than the amount of the check drawn in in such a case the bank will refuse honor the cheque and the cheque is called dishonored cheque.
- Q No.17 Define petty cash book.**
- Ans.** The book in which small payments which are not convenient to record in the main cash book like hey Cortana play postage travelling expenses purchase of stationary are recorded is called petty cash book.
- Q No.18 Define imprest system.**
- Ans.** A system in which a fixed sum of money is given to cashier to cover the party expenses for the month is called imprest system.
- Q No.19 Define unrepresented cheque.**
- Ans.** All those checks is that issued by the customer for payment but not presented for payment in the bank are called unrepresented checks or checks issued but not presented for payment
- Q No.20 Define uncredited cheques**
- Ans.** All those checks which are deposited in the bank by the customer but the bank has not credited the amount of these checks to the customers bank account call uncredited checks or uncollected checks or checks deposited but not collected by the bank.
- Q No.21 Define omitted cheques.**
- Ans.** Checks which are recorded in cashbook but omitted to be sent to the bank.
- Q No.22 What are two major functions of bank.**
- Ans.** Accepting Deposits and Advancing Loans.
- Q No.23 Define bank account.**
- Ans.** Bank account is a sort of agreement between bank and account holder in which not only the amount but also the valuables and documents can be deposited into the bank.
- Q No.24 Which books are issued by the bank to its customer at the time of opening bank account?**
- Ans.** The bank gives two types of books to the customer at the time of first deposit
1. Pay in slip
 2. Cheque book
- Q No.25 Define Bank Charges.**
- Ans.** Charges charged by the bank for recording services to account holders are called bank charges.
- Q No.26 Name the kinds of Cash Book.**
- Ans.**
1. Single Column Cash Book
 2. Double Column Cash Book
 3. Treble Column Cash Book
- Q No.27 Define Pay in slip.**
- Ans.** It means a slip to deposit the amount in the bank.
- Q No.28 Does cash book always have debit balance?**
- Ans.** As one cannot pay more than what he actually receives, the cash book recording cash only and can never show the credit balance.
- Q No.29 Define Bank Reconciliation Statement.**
- Ans.** A bank reconciliation statement is prepared to find out the reasons for the disagreement between the bank statement balance and bank balance of cash book.
- Q No.30 Explain two causes of disagreement of pass book and cash book.**
- Ans.**
1. Unpresented Cheques
 2. Uncredited Cheques
- Q No.31 What is meant by blank cheque?**
- Ans.** A cheque that is signed by the payer but with no specific amount indicated, is called blank cheque.
- Q No.32 Define Cross Cheque.**
- Ans.** When two parallel lines are drawn across the face of a cheque on left side corner, it is said to be a crossed cheque. It cannot be en-cashed at the counter of the bank.
- Q No.33 What is ATM Card?**

Ans. An unattended computer terminal that performs teller functions when a card holder inserts a card in Automated Teller Machine and enters correct Pin code on 24 hours basis. We can draw cash from it.

Chapter No. 09 Journal Proper and Summary of Book Keeping to the Trial Balance

Q No.01 Define Opening Entries.

Ans. At the beginning of every year, new books of accounts are opened. The closing balances of all the accounts (Assets A/C, Liabilities A/C, and Capital A/C) will be the opening balances of the new year. Entries are necessary to bring these balances in the books of accounts of the new year these entries are known as opening entries and are passed in proper journal.

Q No.02 Define closing entries.

Ans. At the end of every accounting. All accounts relating to expenses and revenues are closed by transferring their balances to trading and profit lost account. Entries are necessary for such transfer which are known as closing entries.

Q No.03 Define adjustment entries

Ans. At the end of the accounting. When final accounts are prepared some items of revenue and expenses require adjustments for example outstanding expenses prepaid expenses accrued revenue depreciation etc entries are necessary to record these adjustments and are known as adjustment entries

Q No.04 Define rectifying entries.

Ans. If there is any error in the books of accounts, it must be rectified but errors are not rectified by erasing them wrong figures all errors are rectified by passing fresh journal entries these entries are known as rectification entries

Q No.05 Define transfer entries.

Ans. Any transfer of amounts from one account to another account is done through journal entry such entry is known as transfer entry

Q No.06 Define rear transactions or residuary entries.

Ans. All the remaining transaction except those mentioned above which cannot be recorded in any special journal are known as residuary transactions and are recorded in journal proper, for example credit sale or purchase of asset depreciation on assets goods given away as a free sample etc.

Chapter No. 10 and 11 Final Accounts:

Completion of Accounting and Cycle and Adjustments and their Effect on Final Accounts

Q No.01 Define Accounting Cycle.

Ans. Transactions, Journal, Ledger, trial balance and final accounts

Q No.02 Define trading account

Ans. trading account shows the gross result gross profit or gross loss of the business

Q No.03 Define gross profit.

Ans. It is calculated by deducting cost of goods sold all direct expenses like purchasing carriage custom duty octroi duty etc. from sales.

Q No.04 Define profit and loss account .

Ans. profit and loss accounts shows the net result net profit or net loss of the business

Q No.05 Define net profit.

Ans. It is calculated by deducting all indirect expenses the expenses incurred for running the business and selling the goods from the gross profit net profit is equal to gross profit minus all indirect expenses.

Q No.06 Define balance sheet.

Ans. It is the statement of assets it is a statement of assets, liabilities and owners equity it shows the financial position of the business on a particular date it is also called the position statement and statement of financial condition.

Q No.07 Define fixed assets.

Ans. Is this because long life and bought for use in business for long period of time are called fixed assets for example land, building, furniture etc.

Q No.08 Define Fixed Liabilities.

Ans. Fixed liabilities which are repayable after a long period of time, for example common law on mortgage capital etcetera

Q No.09 Define real assets.

Ans. Assets which have some market value are called real assets for example building machinery stock letters cash goodwill

Q No.10 Define Tangible Assets

Ans. Assets which have physical existence, and which can be seen touched or felt are called tangible assets for example land building machinery etc.

Q No.11 Define Intangible Assets.

Ans. assets which have no physical existence antiques cannot be seen that's the OR felt are called intangible assets goodwill patent right trademark etc.

Q No.12 Define current assets.

Ans. assets which have short life, and which can be converted into cash quickly to meet the short term liabilities, are called current assets, for example stock, debtors, cash etc. These are also called circulatory or floating assets.

Q No.13 Define Current Liabilities.

Ans. The debts, which are repayable within a short period of time, are called current or short term liabilities.

Q No.14 Define Contingent Liabilities.

Ans. Contingent liabilities is not a liability at present but may or may not become the liability in future it depends upon certain future event.

Q No.15 Define Fictitious Assets.

Ans. Which have no market value are called fictitious assets. E.g., Preliminary Expenses, Loss on issue of shares or debentures.

Q No.16 Define Deferred Liabilities.

Ans. Debts, which are repayable in the course of less than one year but more than one month are called Deferred Liabilities. E.g., short term loan.

Q No.17 Define Liquid or Quick Liabilities.

Ans. Debts, which are repayable in the course of one month, are called Quick or Liquid liabilities. E.g., Bank Overdraft, Outstanding Expenses, Creditors.

Q No.18 Define Liquid or Quick Assets.

Ans. Assets which can be converted into cash very quickly or which are already in the form of cash are called Liquid or Quick Assets. E.g., Debtors, Cash in hand, Cash at bank.

Q No.19 Define Wasting Assets.

Ans. Those assets whose value gradually reduce on account of use and finally exhausted completely are called wasting assets. E.g., Mines, Forest etc.

Q No.20 Define Internal Liabilities.

Ans. The total amount of debts payable by a business to its owners are called Internal Liabilities. E.g., Capital etc.

Q No.21 Define External Liabilities.

Ans. The total amount of liabilities or debts payable by a business to the outsiders (other than the owners) are called External Liabilities. E.g., Creditors, Bills Payables etc.

Q No.22 Define Capital.

Ans. The amount of cash or goods or assets invested by the owner or owners in a business unit is known as Capital or Owners Equity.

Q No.23 Define Direct Expenses.

Ans. Expenses connected with the purchase of goods or manufacturing of the goods are known as direct expenses. E.g., freight, wages, carriage inward.

Q No.24 Define Indirect Expenses.

- Ans.** All those expenses other than direct expenses are known as indirect expenses. E.g., rent, salaries, legal charges etc.
- Q No.25 Define Direct Revenue.**
- Ans.** The revenue earned in routine business activities is known as Direct Revenue. E.g., Sales etc.
- Q No.26 Define Indirect Revenue.**
- Ans.** Any revenue arising from source other than normal business activities is known as indirect revenue. E.g., Interest earned, commission received, dividend received etc.
- Q No.27 Define Marshalling.**
- Ans.** As arrangement in which assets and liabilities are known in the balance sheet is known as marshalling.
- Q No.28 Define Adjustment.**
- Ans.** An adjustment means to make a record of a transaction which has not been entered, or which has been entered but in an incomplete or wrong way.
- Q No.29 Define Adjusting Entries.**
- Ans.** Adjusting entries are made at the end of an accounting period to update and correct the information shown in the accounts.
- Q No.30 Define Cash System of Accounting.**
- Ans.** Under the system of accounting transactions are recorded only when cash is received or paid whether they are related to current year or not.
- Q No.31 Define Accrual System of Accounting / Mercantile System of Accounting.**
- Ans.** The system under which all items of revenue and expenses relating to current accounting period whether received / paid in cash or not are taken into consideration to determine profit & loss.
- Q No.32 Define Outstanding Expenses.**
- Ans.** The expenses which have been incurred during the current year but have not been paid till the end of current year are called outstanding expenses.
- Q No.33 What is adjusting entry of outstanding expenses?**
- Ans.** Expenses Account Dr. XXXXXX
 Outstanding Expenses Account Cr. XXXXXX
- Q No.34 Define Prepaid Expenses.**
- Ans.** The expenses which have been paid during current year but the services or benefit against them have not been received till the end of current year are known as Prepaid Expenses.
- Adjusting Entry for Prepaid Expenses:
- Initially recorded as an Assets:
- Prepaid Expenses Account..... Dr. XXXXXX
 Cash Account..... Cr. XXXXXX
- Expenses Account Dr. XXXXX
 Prepaid Expenses Account Cr. XXXXX
- Q No.35 Define Accrued Revenue.**
- Ans.** The Revenue which we have been earned in the current year but has not been received in cash within the current year it will be received in next year is known as accrued revenue or revenue receivable.
- Q No.36 What is adjusting entry of Accrued Revenue?**
- Ans.** Accrued Revenue Account... Dr. XXXXX
 Revenue Account Cr. XXXXX
- Q No.37 Define Unearned Revenue or Revenue Received in Advanced.**
- Ans.** The revenue that has not become due but has received in cash in the current year is known as Unearned Revenue.
- Adjusting Entry for Unearned Revenue:
- Amount of revenue initially recorded as a liability (unearned revenue)

Cash Account Dr. XXXXX
 Unearned Revenue Account Cr. XXXXX
 Unearned Revenue Account Dr. XXX
 Revenue Account..... Cr. XXX

Q No.38 Define Depreciation.

Ans. Gradual decrease in the monetary value of an asset due to usage in in business is known as depreciation.

Q No.39 What is adjusting entry of depreciation?

Ans. Depreciation Account Dr. XXXXX
 Assets Account..... Cr. XXXXX

Q No.40 Define the term accumulated depreciation.

Ans. The sum or total of the depreciation expenses in the different accounting years is called Accumulated Depreciation.

Q No.41 Define Debts.

Ans. Amount receivable by the business from its debtors are called debts.

Q No.42 Define Bad Debts.

Ans. The debts which are irrecoverable from the debtors are called bad debts and the concerned debtors are called bad debtors.

Q No.43 Define Doubtful Debts.

Ans. The recovery of debts which become doubtful or uncertain are known as doubtful debts.

Q No.44 Define Bad Debts Recovered.

Ans. The debts which are written off as bad if recovered in future are called bad debts recovered.

Q No.45 Define Provision for Doubtful Debts / Allowance for Uncollectible.

Ans. The provision which is maintained for doubtful debts in future is known as Provision for doubtful debts.

Q No.46 Define Provision on Discount on Debtors.

Ans. Provision which is created for debtors who pay their debts within the discount period is known as Provision for Discount on Debtors.

Q No.47 What is the Adjusting entry of Discount on Debtors?

Ans. Discount on Debtors Account Dr. XXXX
 Debtors Account Cr. XXXX

Q No.48 Define Provision on Discount on Creditors.

Ans. Provision which is created at the year end for the estimated amount of discount receivable from creditors is known as Provision for discount on creditors.

Q No.49 What is the adjusting entry for discount on creditors.

Ans. Creditors Account Dr. XXXX
 Discount on creditors Account Cr. XXXX

Q No.50 Define Interest on Capital.

Ans. Interest on Capital refers to the amount of money allowed to a business owner or partner on the capital (money or assets) they have invested in the business.

Q No.51 What is the adjusting entry of Interest on Capital?

Ans. Interest on Capital Account Dr. XXXX
 Capital Account Cr. XXXX

Q No.52 Define Drawings.

Ans. Drawings mean the amount of money, goods, or assets withdrawn by the owner/partner from the business for their personal use.

Q No.53 What is the adjusting entry of Interest on Drawings?

Ans. Drawings Account Dr. XXXXX
 Interest on Drawings Account Cr. XXXXX

Q No.51 Define Normal Loss.

Ans. Loss which arises due to the handling of goods, breakage, shrinkage, is known as Normal Loss. It is not recorded in the books of account.

Q No.52 Define Abnormal Loss.

Ans. Loss which arises due to fire, flood or some other abnormal reason is known as Abnormal Loss. It is recorded in the books of account.

Chapter No. 13 Financial Statements:

Q No.01 Define Financial Statement.

Ans. Statements prepared to show the financial position of the business is known as financial statement.

Q No.02 Define Operating Expenses.

Ans. The expenses which are incurred for the generation of revenues from the sales.

Q No.03 Define Selling Expenses.

Ans. All expenses regarding sale of goods and sending goods to the buyer are called selling expenses.

Q No.04 Define Administrative Expenses.

Ans. All expenses connected with the office and its administration are called Administrative Expenses.

Q No.05 Define Cost of Goods Sold.

Ans. It represents the sum of the cost of all goods which have been sold during the accounting period.
 $\text{Cost of Goods Sold} = \text{Opening Stock} + \text{Purchases} - \text{Closing Stock}$

CHAPTER NO. 14 Capital and Revenue

Capital Expenditure:

An expenditure which results in the buying of permanent assets which is intended to be permanently used in the business for the purpose of earning revenue is called capital expenditure. This expenditure is also called non-recurring expenditure. E.g., Money spent on the building, machinery and furniture etc.

Note: it should be remembered that when an asset is purchased all amounts spent up to the point till the asset is ready for use should be treated as capital expenditure.

Sr. No.	Transactions
1	Purchase of furniture, motor vehicle, electric motor, office equipment, loose tools and other tangible assets.
2	Cost of acquiring intangible assets like goodwill, patents, copyrights, trademarks, patterns and designs etc.
3	Additions of Assets and extension of existing assets.
4	Money spent on installation and erection of plant and machinery and other fixed assets.
5	Wages paid for the construction of building.

- 6 Structural improvements or alterations in fixed assets resulting in an increase in their useful life or profit earning capacity.
- 7 Cost of issue of shares and debentures
- 8 Legal expenses on raising loans for the purchase of fixed assets.
- 9 Interest in loan and capital during the construction of building.
- 10 Expenditures incurred for the development of mines and plantations etc.
- 11 Money spent to bring a second-hand asset into working condition.
- 12 Cost of replacement factory building from an old place to new and better site.
- 13 Premium given for a lease.

Revenue Expenditures:

All the expenditure which is incurred in the day-to-day conduct and administration of a business and the effect of which is completely exhausted within the current accounting year are known as revenue expenditure. This expenditure is also called Recurring Expenditure.

Sr. No.	Transactions
1	Wages paid to workers.
2	Oil to lubricant machines
3	Power required to run machine or motor
4	Expenditure on the ordinary conduct and administration of business i.e., rent, carriage on saleable goods, salaries, wages, manufacturing expenses, commission, legal expenses, insurance, advertisement, free samples, postage, printing charges etc.
5	Repair and maintenance expenses incurred on fixed assets.
6	Interest in borrowed money.
7	Freight, cartage, octroi duty, transportation, insurance paid on saleable goods.
8	Petrol consumed in motor vehicles.
9	Services charges to motor vehicles.
10	Bad debts.

Deferred Revenue Expenditure:

This is a revenue expenditure, the benefit of which is not confined to one accounting year. It extends to future accounting year or year also.

Note: however, this expenditure does not result in the acquisition of any fixed asset.

Sr. No.	Transaction
1	Expenditure incurred for the formation of a joint stock company i.e., Preliminary Expenses
2	Expenditure on research and expenditure connected with the introduction of a new product.
3	Heavy expenditure on advertising for marketing a new product.
4	Heavy expenditures on repairs to property.

Capitalized Expenditure:

Some expenditure, although of revenue nature basically, is directly connected with the fixed assets and spent directly on the acquisition of fixed assets. Such expenditures are added to the cost of assets and are called Capitalized Expenditure.

Sr. No.	Transaction
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- 1 Expenditure on installing an asset i.e., installation charges.
- 2 Expenditure on repairing property if the production capacity or utility of the property is increased.
- 3 Expenditure incidental to purchase of fixed assets e.g., freight, clearing charges, customs duty, carriage, octroi duty, import duty on assets purchased.
- 4 Expenditure on removal of old property.
- 5 Cost of repair to second-hand assets.
- 6 Wages paid for the installation of machines or plant.
- 7 Legal Charges, lawyer fee, court fee in connection with the purchase of permanent nature assets.
- 8 Interest payments belong to long period before it starts operation e.g., Iron & Steel and Cement Industry

Capital Receipt:

Receipts which are non-recurring (not received again and again) by nature and whose benefits are enjoyed over a long period of time are called Capital Receipts. E.g., Money brought into the business, Sale proceeds of Fixed Assets.

Revenue Receipt:

Receipts which are recurring (received again and again) by nature, and which are available for meeting all day-to-day expenses (revenue expenditure) of a business concern are known as Revenue Receipts. E.g., sale proceeds of goods, interest received, commission received, rent received, dividend received etc.

Capital Profit:

Capital profit is a profit which is earned on the sale of fixed assets or profit earned on raising capital for a company (by issuing shares at premium). This is not a regular profit of the business and is not earned in the ordinary trade of business.

Revenue Profit:

This is a profit which is earned during the ordinary course of business. E.g., profit on sale of goods, rent received, interest received.

Capital Payment:

This is an amount which is actually paid on account of capital expenditure.

Revenue Payment:

This is an amount which is actually paid on account of some revenue expenditures

Chapter No. 15 Rectification of Errors:

Q No.01 Define Error of Omission.

Ans. An error in which transaction are completely omitted from books of accounts is known as error of omission.

Q No.02 Define Error of Commission.

Ans. An error in which a transaction instead of being recorded in the right account has been recorded in wrong account.

Q No.03 Define Compensating Errors.

Ans. It means some errors in amount have occurred on the opposite of two or more accounts and have cancelled themselves in the net result are called compensating errors.

Q No.04 Define Error of Posting.

Ans. An error in which amount is posted to the wrong side of the same account is known as error of posting.

Q No.05 Define Error of Casting.

Ans. An error due to which the total of an account is more or less recorded is known as error of casting.

Q No.06 Define Error of Principle.

Ans. An error which arises out of the ignorance of the fundamental principles of accounting.

Q No.07 Define Error of Book-Keeping.

Ans. Errors which are made in the original documents (Journal and Ledger) called Book-Keeping.

Q No.08 Define Errors of Trial Balance.

Ans. Errors which are made in the preparation of trial balance are called Trial Balance Errors.

Q No.09 Define Suspense Account.

Ans. A suspense account is an account in which those transactions are entered which cannot be placed to their proper accounts.

BEST of LUCK!