

Little Flower Matriculation Higher Secondary School
Nathakkarai, Thalaivasal - 636112

11 Accountancy

Study Material - English Medium



Prepared By

M.Varadarajan, M.Com., M.Ed., M.Phil.,
 PG Assistant in Commerce
 E-mail: mvaradarajan76@gmail.com
 Mobile: 9786868699 & 9842868699

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11 – Accountancy
Unit – I Introduction to Accounting

I. Choose the Correct Answers

1. The root of financial accounting system is
(a) Social accounting **(b) Stewardship accounting**
(c) Management accounting (d) Responsibility accounting
2. Which one of the following is not a main objective of accounting?
(a) Systematic recording of transactions
(b) Ascertainment of the profitability of the business
(c) Ascertainment of the financial position of the business
(d) Solving tax disputes with tax authorities
3. Which one of the following is not a branch of accounting?
(a) Financial accounting (b) Management accounting
(c) Human resources accounting **(d) None of the above**
4. Financial position of a business is ascertained on the basis of
(a) Journal (b) Trial balance **(c) Balance Sheet** (d) Ledger
5. Who is considered to be the internal user of the financial information?
(a) Creditor **(b) Employee** (c) Customer (d) Government

II. Very short answer

1. Define accounting.

⇒ American Accounting Association has defined accounting as “the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information”.

2. List any two functions of accounting.**(i) Measurement**

⇒ The main function of accounting is to keep systematic record of transactions, post them to the ledger and ultimately prepare the final accounts.

(ii) Forecasting

⇒ With the help of the various tools of accounting, future performance and financial position of the business enterprises can be forecasted.

3. What are the steps involved in the process of accounting?

- (i) Identifying the transactions and journalising
- (ii) Posting and balancing
- (iii) Preparation of trial balance
- (iv) Preparation of trading account
- (v) Preparation of profit and loss account
- (vi) Preparation of balance sheet

4. Who are the parties interested in accounting information?**(A) Internal users:**

- (i) Owners
- (ii) Management
- (iii) Employees

(B) External users:

- (i) Creditors and financial institutions
- (ii) Investors
- (iii) Customers
- (iv) Tax authorities and other regulatory bodies
- (v) Government
- (vi) Researchers
- (vii) General public

5. Name any two bases of recording accounting information.

- (i) Cash basis
- (ii) Accrual or mercantile basis
- (iii) Mixed or hybrid basis

III. Short answer**1. Explain the meaning of accounting.**

- (i) Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information.
- (ii) Accounting gives information on:
 - (a) The resources available
 - (b) How the available resources have been employed
 - (c) The results achieved by their use
- (iii) The profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and capital can be ascertained from the information recorded in accounts.

2. Discuss briefly the branches of accounting.**(i) Financial Accounting**

- ⇒ It involves recording of financial transactions and events.
- ⇒ It provides financial information to the users for taking decisions.
- ⇒ It ends up with the preparation of trading and profit and loss account and balance sheet.

(ii) Cost Accounting

- ⇒ It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purposes of cost control and managerial decision making.

(iii) Management Accounting

- ⇒ It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day-to-day operations

of an enterprise.

(iv) Human Resources Accounting

- ⇒ It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.

3. Discuss in detail the importance of accounting.

(i) Systematic records

- ⇒ All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts.

(ii) Preparation of financial statements

- ⇒ Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements namely, trading and profit and loss account and balance sheet.

(iii) Assessment of progress

- ⇒ Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses.

(iv) Computation of tax

- ⇒ Accounting records are the basic source for computation and settlement of income tax and other taxes.

4. Why are the following parties interested in accounting information?

(a) Investors (b) Government

Investors

- (i) Persons who are interested in investing their funds in an organisation should know about the financial condition of a business unit while making their investment decisions.
- (ii) They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

Government

- (i) The scarce resources of the country are used by business enterprises.
- (ii) Information about performance of business units in different industries helps the government in policy formulation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc.

5. Discuss the role of an accountant in the modern business world.

- ⇒ An accountant designs the accounting procedures for an enterprise.
- ⇒ He plays several roles in an organisation.

(i) Record keeper

- ⇒ The accountant maintains a systematic record of financial transactions.
- ⇒ He also prepares the financial statements and other financial reports.

(ii) Provider of information to the management

- ⇒ The accountant assists the management by providing financial information required for decision making and for exercising control.

(iii) Protector of business assets

- ⇒ The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets.

(iv) Public relation officer

- ⇒ The accountant provides accounting information to various interested users for analysis as per their requirements.

Thank You

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