



Q7. Explain the meaning of gain and profit. Distinguish between these two terms.

Answer :

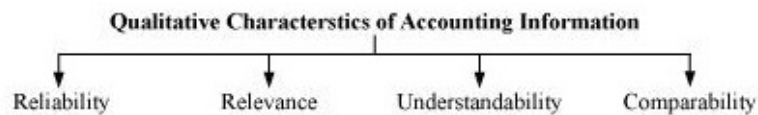
Profit- Excess of revenue over expense is known as profit. It is normally categorised into gross profit or net profit. It increases the owner's capital as it is added to the capital at the end of each accounting period. For example, goods costing Rs 1,00,000 is sold at Rs 1,20,000, then the sale proceeds of Rs 1,20,000 is the revenue and 1,00,000 is the expense to generate this revenue. Hence, accounting profit of Rs 20,000 (i.e. Rs 1,20,000 - Rs 1,00,000) is the difference between the revenue and expense that is earned by the business.

Gain- It arises from irregular activities or non-recurring transactions. In other words, a gain is a result of transactions that are incidental to the business, other than operating transactions. For example, an old machinery of book value Rs 20,000 is sold at Rs 25,000. Hence, the gain is Rs 5,000 (i.e. Rs 25,000 - Rs 20,000). Here, the sale of the old machinery is an irregular activity; so, the difference is termed as gain

Thus, in other words the only difference between profit and gain is that profit is the excess of revenue over expense and gain arises from other than operating transactions.

Q8. Explain the qualitative characteristics of accounting information.

Answer :



The following are the qualitative characteristics of accounting information:

1. **Reliability-** It means that the user can rely on the accounting information. All accounting information is verifiable and can be verified from the source document (voucher), viz. cash memos, bills, etc. Hence, the available information should be free from any errors and unbiased.
2. **Relevance-** It means that essential and appropriate information should be easily and timely available and any irrelevant information should be avoided. The users of accounting information need relevant information for decision making, planning and predicting the future conditions.
3. **Understandability-** Accounting information should be presented in such a way that every user is able to interpret the information without any difficulty in a meaningful and appropriate manner.
4. **Comparability-** It is the most important quality of accounting information. Comparability means accounting information of a current year can be comparable with that of the previous years. Comparability enables intra-firm and inter-firm comparison. This assists in assessing the outcomes of various policies and programmes adopted in different time horizons by the same or different businesses. Further, it helps to ascertain the growth and progress of the business over time and in comparison to other businesses.

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