



Long Answer Type Questions:

Q1. Explain the factors, which necessitated systematic accounting.

Answer : The factors that necessitated systematic accounting are given below.

1. Only financial transactions are recorded- Those events that are financial in nature are only recorded in the books of accounts. For example, salary of an employee is recorded in the books but his/her educational qualification is not recorded.
2. Transactions are recorded in monetary terms- Only those transactions which can be expressed in monetary terms are recorded in the books. For example, if a business has two buildings and four machines, then their monetary values is recorded in the books, i.e. two buildings costing Rs 2,00,000, four machines costing Rs 8,00,000. Thus the total value of assets is Rs 10,00,000.
3. Art of recording- Transactions are recorded in the order of their occurrence.
4. Classification of transaction- Business transactions of similar nature are classified and posted under their respective accounts. For example, all the transactions relating to machinery will be posted in the Machinery Account.
5. Summarising of data- All business transactions are summarised in the form of Trial Balance, Trading Account, Profit and Loss Account and Balance Sheet that provides necessary information to various users.
6. Analysing and interpreting data- Systematic accounting records enable users to analyse and interpret the accounting data in a proper and appropriate manner. These accounting data and information are presented in form of graphs, statements, charts that leads to easy communication and understandability by various users. Moreover, these facilitates in decision making and future predictions.

Q2. Describe the brief history of accounting.

Answer: The history of accounting can be traced long back in civilisation. Around 4000 B.C., in Babylonia and Egypt, payment of wages and taxes were recorded on clay tablets. As history claims that Egyptians kept the record of gold and valuables deposits and withdrawal from the treasuries. These records were reported on daily basis by the incharge of treasuries to the wazir, who used to forward the monthly reports to the king. Babylonia and Egypt used this method to rectify and remove errors, frauds and inefficiency from the records. Around 2000 B.C., China used sophisticated form of accounting. In Greece, accounting was used to maintain total receipts and total payments and to balance government accounts. In Rome, around 700 B.C., receipts and payments were recorded in daybook and were posted in the ledger at the end of the month. In India, around twenty three centuries ago, Kautilya wrote the book Arthshastra, which describes how accounting records have to be maintained. In 1494, Luca Pacioli wrote the book Summa de Arithmetica Geometria Proportioni et Proportionalita. In this, he explained the term debit and credit, which are used in accounting till date.

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