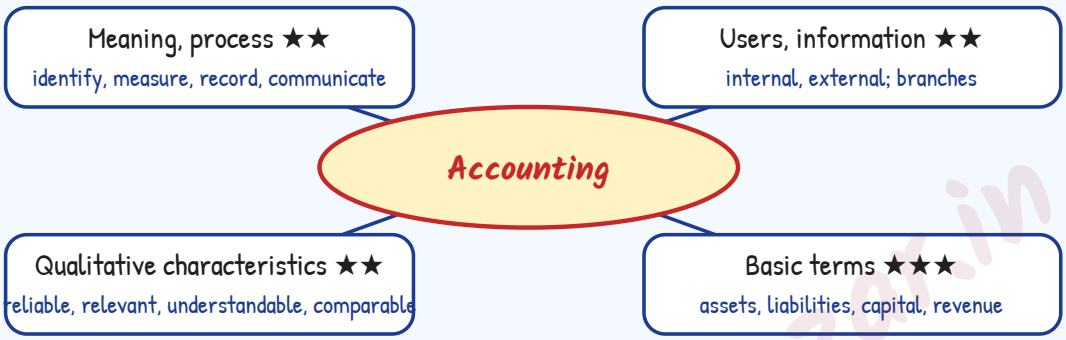
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Chapter 1 Introduction to Accounting



NCERT Financial Accounting Part I, Reprint 2026-27 · CBSE 2026-27

Chapter map (★ = asked often in school and annual exams)



What is inside

1. Concept notes with definitions, flow charts and tables
2. NCERT "Test your understanding" and Questions for Practice, fully solved
3. Important exam questions, fully solved
4. Quick-reference sheet; practice A–G, 20 MCQs, 6 A–R, answers, summary

Colour code used

red = key term green = definition

purple = sub-heading black = explanation

★ = high-frequency exam topic

1 = mark the examiner gives for that point

★ **Exam tip:** This chapter is the vocabulary of the whole subject. Exams ask 1-mark definitions (asset, capital, drawings, voucher), a 3–4 mark "users of accounting information" or "qualitative characteristics", and a 4–6 mark "classify the items" question.

NB **Prepared by Notes Bazar** · Every answer written and checked by hand against NCERT and the CBSE marking schemes. Doubt or mistake? WhatsApp 88240 98091.

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1.1 Meaning of accounting; 1.2 accounting as a source of information ★★

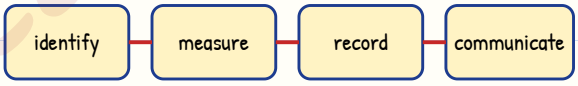
year	definition
AICPA 1941	the art of recording, classifying and summarising, in money, transactions and events of a financial character, and interpreting the results
AAA 1966	the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users
APB 1970	providing quantitative, mainly financial, information useful for economic decisions

Accounting is the process of **identifying, measuring, recording and communicating** the required information relating to the economic events of an organisation to the interested users.

Economic events: happenings of consequence measurable in money. **External** events involve outsiders (sale to customers, purchase from suppliers, rent paid); **internal** events stay inside (stores issuing materials to the factory).

step	meaning
identification	deciding which events are financial and should be recorded (a sale yes; appointment of a manager no)
measurement	quantifying in money (₹); what cannot be measured in money is not recorded
recording	entering in the books in chronological order
communication	reports to users at the right time, in the right form

History: Babylonia and Egypt (clay tablets, about 4000 BC); Kautilya's *Arthashastra* in India; Luca Pacioli's *Summa* (Venice, 1494), the first printed book on double entry; "debit" from Italian *debito* (owed), "credit" from *credo* (trust).



The accounting process

Users of accounting information

internal users	external users
owners, chief executive, finance officer, managers, supervisors, employees	investors (present and potential), lenders (banks, debenture holders), suppliers and creditors, customers, government and tax authorities, regulators (RoC, SEBI, RBI), unions, social groups, competitors

user	wants to know
investors	risk and return on investment
lenders	creditworthiness; ability to repay loans and interest
suppliers	whether dues will be paid; continued existence
customers	continued supply and after-sales service
employees, unions	stability, profitability, pay and bonus
government	taxes (GST, income tax), compliance

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management	costs, profitability; planning, control, decisions

Useful information helps economic decisions, predicts cash flows, judges management's use of resources, and discloses assumptions and social impact. Accounting is a **means to an end**: the decision.

> ★ ***Exam tip:*** Answer "users" questions in two groups (internal and external) and give one need for each user; that earns full marks.

1.2.1 Qualitative characteristics; 1.3 objectives; 1.4 role ★★

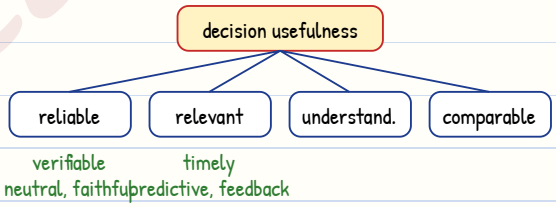
Branches of accounting

branch	purpose
financial accounting	record transactions; find profit or loss and the financial position; past period, monetary, stewardship
cost accounting	find the cost of products or services, fix prices, control costs
management accounting	information for planning, control and decisions (budgets, pricing, capital expenditure); future-oriented, financial and non-financial

Newer areas: human resource accounting, social accounting, responsibility accounting, forensic accounting.

Qualitative characteristics

quality	meaning
reliability	free from error and bias; verifiable, neutral, faithful
relevance	timely; has predictive and feedback value; influences decisions
understandability	users read it in the sense in which it is prepared; clear presentation
comparability	common period, common unit and format, so firms and years can be compared



Qualitative characteristics of accounting information

Objectives of accounting

1. **Maintain records** of all business transactions systematically (memory cannot hold them; records are evidence).
2. **Calculate profit or loss** of the period (revenue − expenses: ₹ 6,00,000 − ₹ 5,40,000 = ₹ 60,000 profit).
3. **Depict the financial position**: assets and liabilities in a balance sheet.
4. **Provide information** to internal and external users.

Role of accounting (Box 4)

role	idea
language of business	communicates information about the enterprise
historical record	chronological record at actual amounts
current economic reality	true income = change in wealth over time

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information system	links the accountant (source) to users (receivers)
commodity (service)	specialised information in demand in society

Limitations: records past events only; quantitative and financial; ignores qualitative facts (staff morale, management quality); affected by estimates and price changes.

The accountant's role has moved from record-keeper to member of the decision-making team.

★ ***Exam tip:*** "Information not clearly presented" breaks **understandability**; "different formats each year" breaks **comparability**; "late report" breaks **relevance** (timeliness).

1.5 Basic terms in accounting ★★★

term	*meaning and example*
entity	an identifiable business (ITC Ltd); accounts are kept for the entity
transaction	an event of value between two or more entities; cash or credit
assets	economic resources owned, measurable in money (trucks, cash, debtors)
liabilities	obligations payable in future (creditors, bank loan)
capital	amount invested by the owner; a claim on assets, shown on the liabilities side
sales	revenue from goods or services sold; cash or credit
revenue (income)	sales plus commission, interest, dividend, rent, royalty received
expenses	costs of earning revenue: rent, wages, salaries, depreciation
expenditure	spending for a benefit: benefit within a year = revenue expenditure (expense); longer = capital expenditure (asset)
profit	revenue of a period – related expenses
gain	profit from incidental events: sale of a fixed asset above book value, winning a case
loss	expenses over revenue; or value lost with no benefit (theft, fire, loss on sale of an asset)

term	*meaning and example*
discount	**trade discount**: off the list price when selling (not recorded); **cash discount**: for prompt payment (recorded)
voucher	documentary evidence: cash memo, invoice, receipt
goods	items the business deals in (chairs are goods for a furniture dealer, an asset for others)
drawings	cash or goods taken by the owner for personal use; reduce capital
purchases	goods bought for resale (or raw materials), cash or credit
stock (inventory)	goods on hand: opening and closing stock
debtors	those who owe the business for credit sales (asset)
creditors	those to whom the business owes for credit purchases (liability)

Classification

current	*non-current*

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assets: inventory, debtors, cash, bank, bills receivable, short-term investments	assets: land, building, machinery, furniture, vehicles; intangibles (goodwill, patents, software); long-term investments
liabilities: creditors (trade payables), bills payable, short-term borrowings and provisions	liabilities: long-term loans, debentures, long-term provisions

Current items are realised or settled within 12 months (or the operating cycle), are held for trading, or are cash.

★ **Exam tip:** Profit comes from the main activity; gain from an incidental one. Both increase capital.

NCERT exercises, fully solved

Test your understanding

TYU I. Complete: (a) Information in financial reports is based on ___ (b) Internal users are the ___ of the entity (c) A ___ would use reports to decide whether the entity is eligible for a loan (d) The Internet has reduced the ___ in issuing reports (e) ___ users are outside the entity (f) Information is relevant if it is ___ (g) Accounting starts with ___ and ends with ___ (h) Accounting measures in ___ units (i) Events are recorded in ___ order.

> **Ans.** (a) economic (financial) transactions (b) management and employees (c) creditor (lender, bank) (d) time gap (e) External (f) timely and useful for prediction and feedback (the NCERT key says "free from bias", which is reliability) (g) identifying transactions; communicating information (h) monetary (i) chronological

TYU II. Three steps to make statements understandable and decision useful.

> **Ans.** 1. Make them **reliable**: verifiable, neutral, faithful. 2. Make them **relevant**: issue them on time with predictive and feedback value. 3. Make them **understandable and comparable**: clear presentation, same formats, periods and units.

TYU III. Which stakeholder is most interested in (a) VAT and tax liabilities (b) pay awards and bonus (c) ethical and environmental activities (d) whether the firm has a long-term future (e) profitability and share performance (f) ability to carry on supplying the product?

> **Ans.** (a) government and regulators (b) employees and unions (c) social responsibility groups (d) suppliers, creditors and lenders (e) investors (shareholders) (f) customers. (The NCERT checklist lists "management" for (b) and shifts the later answers; the matching above follows the text on page 13–14.)

TYU IV. 1. Not a business transaction 2. Data relevant for buying a building today 3. Last step of accounting as an information process 4. Characteristic shown by clear presentation 5. Common unit and format promote ___

> **Ans.** 1. (c) paid son's fees from her personal bank account (a private transaction). 2. (d) the August 2005 cost, the most recent data, is relevant for today's decision (the key's (a), a 2000 figure, is out of date). 3. (c) communication of information. 4. (a) understandability. 5. (a) comparability.

TYU V. Mr Sunrise started a stationery business with ₹ 5,00,000; paid ₹ 1,00,000 for furniture, ₹ 2,00,000 for stationery; salaries ₹ 5,000; sold for ₹ 1,50,000 cash and ₹ 1,00,000 on credit to Ravi; bought ₹ 1,50,000 from Peace; fire loss ₹ 30,000; machinery costing ₹ 40,000 sold for ₹ 45,000. Answer questions 1–10.

> **Ans.** 1. Capital ₹ 5,00,000. 2. Fixed asset: furniture ₹ 1,00,000 (and the machinery later sold). 3. Goods purchased ₹ 2,00,000 + ₹ 1,50,000 = ₹ 3,50,000 (the key gives only the first lot). 4. Creditor Mr Peace, ₹ 1,50,000. 5. Expenses: salaries ₹ 5,000. 6. Gain ₹ 5,000 on sale of machinery. 7. Loss ₹ 30,000 by fire. 8. Debtor Mr Ravi, ₹ 1,00,000. 9. Expenses and losses ₹ 35,000. 10. Sales: revenue; debtors: asset; creditors: liability; salary to manager: expense; discount to debtors: expense (loss); drawings: none of these (a reduction of capital). (The NCERT key mixes these up.)

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Activity 1. Classify as current or non-current assets or liabilities.

> **Ans.** Current assets: cash at bank, inventory, sundry debtors, loose tools (consumed within a year). Non-current assets: machinery, goodwill, land and building, furniture, computer software, motor vehicles, investments (long-term), patents, air-conditioners. Current liabilities: sundry creditors, bills payable. Non-current liability: loan from bank (long-term).

Short answers

SA 1. Define accounting.

> **Ans.** Accounting is the process of identifying, measuring, recording and communicating the required information relating to the economic events of an organisation to its interested users.

SA 2. End product of financial accounting?

> **Ans.** Financial statements: the profit and loss account (income statement) and the balance sheet (position statement).

SA 3. Main objectives of accounting.

> **Ans.** Maintaining records of transactions; calculating profit or loss; depicting the financial position; providing information to users.

SA 4. Users of accounting information.

> **Ans.** Internal: owners, management, employees. External: investors, lenders, suppliers, customers, government and regulators, unions, social groups, competitors.

SA 5. Information needed by long-term lenders.

> **Ans.** Creditworthiness and solvency: the firm's ability to pay interest regularly and repay the principal on time, its profitability and the security (assets) available.

SA 6. Who are external users?

> **Ans.** Present and potential investors, banks and lenders, suppliers and creditors, customers, tax authorities, regulators (RoC, SEBI, RBI), unions, trade associations, stock exchanges, researchers.

SA 7. Information needs of management.

> **Ans.** Timely data on costs, sales, profitability, cash position, budgets and variances, for planning, controlling and decision-making (pricing, make or buy, capital expenditure).

SA 8. Three examples of revenues.

> **Ans.** Sales of goods, commission received, interest received (also rent, dividend, royalty received).

SA 9. Distinguish (i) debtors and creditors (ii) profit and gain.

> **Ans.** (i) Debtors owe money to the business for credit sales (asset); creditors are owed money by the business for credit purchases (liability). (ii) Profit arises from the main business (revenue – expenses of a period); gain arises from incidental or non-recurring events (sale of an asset at a profit).

SA 10. "Accounting information should be comparable." Agree? Two reasons.

> **Ans.** Yes: (1) users can compare the firm's performance over periods; (2) they can compare it with other firms in the industry. This needs common periods, units and formats.

SA 11. If accounting information is not clearly presented, which characteristic is violated?

> **Ans.** Understandability.

SA 12. "The role of accounting has changed over time." Agree? Explain.

> **Ans.** Yes. Earlier it was only book-keeping (a historical record). Today it is an information system and a language of business: accountants supply relevant information for decisions, budgeting, pricing, tax planning, and work in

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new areas like forensic, environmental and human resource accounting.

SA 13. Explain with examples: fixed assets, revenue, expenses, short-term liability, capital.

Ans. Fixed assets: held for long-term use, not for sale (machinery, building). Revenue: earned by selling goods or services (sales ₹ 50,000; commission received). Expenses: costs of earning revenue (rent, wages). Short-term liability: payable within a year (creditors, bills payable). Capital: owner's investment (₹ 5,00,000 brought in by Mr Sunrise).

SA 14. Define revenues and expenses.

Ans. Revenues are amounts earned by selling products or services and from other sources (commission, interest, rent). Expenses are costs incurred in earning revenue, measured by assets consumed or services used in the period.

SA 15. Primary reason for students and others to learn accounting.

Ans. Accounting is the language of business: everyone who runs, invests in, lends to or works for a business needs to read its financial information to make decisions.

Long answers

LA 1. What is accounting? Define its objectives.

Ans. Meaning: the process of identifying, measuring, recording and communicating economic events to interested users (AAA). Objectives: (1) systematic records of transactions; (2) profit or loss of the period; (3) financial position through the balance sheet; (4) information to users for decisions; also (5) control over assets and prevention of fraud.

LA 2. Factors that necessitated systematic accounting.

Ans. (1) Growth in the size and number of transactions that memory cannot hold. (2) Need to know profit or loss and financial position. (3) Company form with separation of owners and managers (stewardship). (4) Legal requirements: Companies Act, tax laws, GST. (5) Needs of lenders, investors and government. (6) Control of assets and detection of errors and frauds. (7) Planning and decision-making by management.

LA 3. Information needs of external users.

Ans. Investors: risk and return. Lenders: creditworthiness, ability to repay. Suppliers: whether dues will be paid, continuity. Customers: continued supply and service. Government and regulators: taxes, compliance, allocation of resources. Unions and employees: stability, profitability, pay. Social groups: environmental impact. Competitors: relative strengths for benchmarking.

LA 4. What is an asset? Types of assets.

Ans. An asset is an economic resource owned by the enterprise, measurable in money, that gives future benefit. (1) **Non-current assets**: tangible fixed assets (land, building, machinery, furniture, vehicles), intangible assets (goodwill, patents, trademarks, software), long-term investments, long-term loans and advances. (2) **Current assets**: inventory, trade receivables (debtors, bills receivable), cash and bank, short-term investments, short-term loans and advances, prepaid expenses.

LA 5. Meaning of gain and profit; distinguish.

Ans. Profit is the excess of revenue over related expenses of a period from the main activity; gain is a profit from incidental events (sale of a fixed asset above book value, appreciation, winning a court case).
Differences: source (main activity vs incidental); regularity (recurring vs occasional); measurement (revenue – expenses vs proceeds – book value of one item).

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LA 6. Qualitative characteristics of accounting information.

> **Ans.** Reliability (free from error and bias; verifiable, neutral, faithful); relevance (timely, with predictive and feedback value, influencing decisions); understandability (interpreted by users as intended; clear and simple); comparability (common periods, units and formats so firms and years can be compared). Together they make information decision useful.

LA 7. Role of accounting in the modern world.

> **Ans.** Language of business; historical record; measure of current economic reality (true income); information system linking accountants and users; a service (commodity) in demand. It supports investors, lenders, government (tax, policy), management (planning, control), and society (social and environmental reporting), and new fields like forensic and e-commerce accounting.

★ **Exam tip:** For a 4-6 mark "explain" answer: write a one-line definition, then numbered points each with one line of explanation or an example.

Quick-reference sheet

item	remember
accounting	identify, measure, record, communicate
branches	financial, cost, management
qualities	reliable, relevant, understandable, comparable
objectives	records, profit or loss, position, information
roles	language, record, economic reality, information system, service
assets	owned resources; current and non-current
capital, drawings	owner's investment; personal withdrawals
profit vs gain	main activity vs incidental
trade vs cash discount	not recorded vs recorded

Case study (practice): 'Meera's boutique'. Meera starts a boutique with ₹ 3,00,000. She buys sewing machines for ₹ 60,000, cloth for ₹ 1,20,000 (₹ 40,000 on credit from Vastra Ltd), sells dresses for ₹ 90,000 (₹ 30,000 on credit to Asha), pays wages ₹ 12,000, takes a dress costing ₹ 2,000 for herself and sells an old machine (cost ₹ 8,000) for ₹ 9,500.

(i) Name the capital, a fixed asset and the goods. (ii) Who is the creditor and the debtor, and for how much? (iii) Identify the expense, the gain and the drawings. (iv) Which user would most want Meera's accounts before giving her a bank loan, and why?

★ **Exam tip:** In "identify" cases, write each term with its amount and one word of reason; marks are given item by item.

Important exam questions, fully solved

Questions of the kind set in school and annual exams, with complete answers and mark steps.

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A. MCQs and Assertion–Reason (1 mark each)

Exam-style Which is the last step of the accounting process? (A) recording (B) classifying (C) communicating (D) identifying [1]

> **Ans.** The process ends with communication of information to users. **(C)**

Exam-style Goods withdrawn by the owner for personal use are: (A) expenses (B) drawings (C) loss (D) sales [1]

> **Ans.** Withdrawal of cash or goods for personal use is drawings, which reduces capital. **(B)**

Exam-style Which of these is a current asset? (A) goodwill (B) furniture (C) bills receivable (D) patents [1]

> **Ans.** Bills receivable are realised within a year. **(C)**

Exam-style Profit on sale of an old machine is a: (A) revenue (B) gain (C) capital (D) sale [1]

> **Ans.** It arises from an incidental event, so it is a gain. **(B)**

Exam-style Assertion (A): The appointment of a new managing director is not recorded in the books. Reason (R): Only events measurable in money are recorded. [1]

> **Ans.** Both true; R explains A (measurement in money). **(A)**

Exam-style Assertion (A): Trade discount is not recorded in the books of account. Reason (R): It is deducted from the list price on the invoice itself. [1]

> **Ans.** Both true; since the deduction is made on the invoice, only the net amount is recorded, so R explains A. **(A)**

B. Short answer (3 marks)

Exam-style State any three objectives of accounting. [3]

> **Ans.** (1) To keep a systematic record of business transactions, since memory cannot hold them 1. (2) To ascertain profit or loss of a period by matching revenues and expenses 1. (3) To depict the financial position through a balance sheet of assets and liabilities 1. (Also: to provide information to users.)

Exam-style Distinguish between capital expenditure and revenue expenditure with one example each. [3]

> **Ans.** Capital expenditure gives benefit for more than a year and creates an asset, e.g. purchase of machinery 1½. Revenue expenditure gives benefit within the year and is an expense, e.g. wages, rent 1½.

Exam-style Explain the four steps of the accounting process with an example. [4]

> **Ans.** Identification: a credit sale of ₹ 20,000 to Ravi is a financial event, so it is selected 1. Measurement: it is measured at ₹ 20,000 1. Recording: it is entered in the books in date order 1. Communication: it appears in sales and debtors in the reports given to users 1.

Exam-style Classify into assets, liabilities, capital, revenue and expenses: cash, creditors, rent paid, commission received, bank loan, owner's investment, debtors, wages, furniture, sales. [4]

> **Ans.** Assets: cash, debtors, furniture. Liabilities: creditors, bank loan. Capital: owner's investment. Revenue: commission received, sales. Expenses: rent paid, wages. 4

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C. Long answer (6 marks)

Exam-style Who are the users of accounting information? Explain the information needed by any five of them. [6]

> **Ans.** Users are internal (owners, management, employees) and external (investors, lenders, suppliers, customers, government, regulators, public) 1.
> (1) Investors: whether the return is adequate and the risk acceptable. (2) Lenders: ability to pay interest and repay loans. (3) Suppliers: whether credit given will be paid. (4) Management: costs, profits and budgets for planning and control. (5) Government: profits for tax and data for policy and compliance 5.

Exam-style Explain the qualitative characteristics of accounting information. [6]

> **Ans.** Qualitative characteristics make information decision useful 1. Reliability: free from error and bias, verifiable, neutral, faithful 1¼. Relevance: available in time; helps in prediction and feedback; influences decisions 1¼. Understandability: presented so that users interpret it in the intended sense 1¼. Comparability: common period, unit and format, allowing comparison across years and firms 1¼.

Exam-style Case: Rohan started a business with ₹ 2,00,000. He bought goods for ₹ 80,000 (half on credit from Mohan), sold goods costing ₹ 50,000 for ₹ 70,000 to Sohan on credit, paid rent ₹ 5,000 and took ₹ 3,000 for home. Identify capital, purchases, creditor, debtor, revenue, expense and drawings with amounts. [4]

> **Ans.** Capital ₹ 2,00,000; purchases ₹ 80,000; creditor Mohan ₹ 40,000; debtor Sohan ₹ 70,000; revenue (sales) ₹ 70,000; expense rent ₹ 5,000; drawings ₹ 3,000 4.

Practice set: test yourself Exam-style

Try every question before looking at the answers at the end of the chapter. 69 or more out of 86 means you are ready for the exam.

A. Fill in the blanks (1 mark each)

1. Accounting is called the ___ of business.
2. The first printed book on double entry was written by ___.
3. Events are recorded in ___ order.
4. Amount invested by the owner is ___.
5. Goods taken by the owner for personal use are ___.
6. Documentary evidence of a transaction is a ___.
7. Persons who owe money to the business are ___.
8. Information available on time satisfies ___.

B. True or false? (1 mark each)

1. Accounting records qualitative information.
2. Creditors are an asset.
3. Profit on sale of furniture is a gain.
4. Management is an external user.
5. Trade discount is recorded in the books.
6. Cost accounting helps fix prices.
7. Drawings increase capital.

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8. Goodwill is an intangible asset.

C. Very short answer (1 mark each)

1. Define assets.
2. Give two examples of current liabilities.
3. What is a voucher?
4. Name the end product of financial accounting.
5. Give one example of revenue expenditure.
6. Who are creditors?
7. What is cash discount?
8. Name two internal users.
9. What is an economic event?
10. Which quality is broken by a late report?

D. Short answer I (3 marks each)

1. Distinguish between financial and management accounting.
2. State three limitations of accounting.
3. Explain any three roles of accounting.
4. Distinguish between trade discount and cash discount.
5. What information do customers and employees need?
6. Explain identification and measurement with examples.
7. Distinguish between expense and expenditure.
8. Why is accounting called an information system?

My score (fill in after checking the answers)

Section	A /8	B /8	C /10	D /24	E /24	F /12	G (bonus)	Total /86
My marks								

Rough work

E. Short answer II (4 marks each)

1. Explain the classification of assets with two examples of each type.
2. Explain the four steps of the accounting process.
3. Explain the meaning of profit, gain, loss and drawings.
4. Classify: machinery, creditors, cash, bank overdraft, stock, patents, debtors, bills payable.
5. Explain the objectives of accounting.

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6. Explain reliability and relevance with examples.

F. Long answer (6 marks each)

1. Describe the information needs of the various users of accounting information.
2. "Accounting has moved from book-keeping to an information system." Discuss the role of accounting in the modern world.

G. HOTS (higher-order thinking)

1. A furniture dealer buys chairs. Are they goods or an asset? What if a school buys them?
2. Why is the value of a firm's employees not shown in its balance sheet?
3. Why must the owner's personal expenses be kept out of the business books?
4. Can information be reliable but not relevant? Give an example.

20 MCQs

1. Accounting is the language of:
   (a) science (b) law (c) business (d) society
2. The AAA definition (1966) calls accounting a:
   (a) process of identifying, measuring and communicating (b) art (c) science only (d) record of cash
3. Which is not a business transaction?
   (a) furniture bought for the office (b) goods sold (c) salary paid to staff (d) owner pays his son's fees from his personal account
4. Which is an internal user?
   (a) bank (b) manager (c) government (d) customer
5. Clear presentation of information reflects:
   (a) relevance (b) understandability (c) reliability (d) comparability
6. Common unit and format of reporting promote:
   (a) reliability (b) timeliness (c) relevance (d) comparability
7. Information free from error and bias is:
   (a) reliable (b) relevant (c) comparable (d) timely
8. Which branch helps in fixing the price of a product?
   (a) financial accounting (b) tax accounting (c) cost accounting (d) social accounting
9. Capital is shown on the:
   (a) assets side (b) trading account (c) profit and loss account (d) liabilities side
10. Patents are:
    (a) current assets (b) intangible non-current assets (c) liabilities (d) expenses
11. Drawings:
    (a) increase capital (b) are an expense (c) reduce capital (d) are revenue
12. Profit on sale of an old car is a:
    (a) gain (b) revenue (c) capital (d) sale
13. A cash memo is an example of a:
    (a) ledger (b) voucher (c) journal (d) balance sheet
14. For a stationery dealer, pens bought for resale are:
    (a) assets (b) expenses (c) goods (d) drawings

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15. Trade discount is:
(a) recorded in the books (b) a loss (c) for prompt payment (d) deducted from the list price and not recorded

16. Loss of goods by fire is a:
(a) loss (b) expense (c) drawing (d) liability

17. Which is a current liability?
(a) bills payable (b) debentures (c) long-term loan (d) capital

18. Kautilya described accounting records in:
(a) Manusmriti (b) Rigveda (c) Summa (d) Arthashastra

19. Purchase of machinery is:
(a) revenue expenditure (b) capital expenditure (c) loss (d) drawings

20. Accounting information relates mainly to:
(a) future events only (b) qualitative facts (c) past transactions (d) personal matters

1 (c) · 2 (a) · 3 (d) · 4 (b) · 5 (b) · 6 (d) · 7 (a) · 8 (c) · 9 (d) · 10 (b) · 11 (c) · 12 (a) · 13 (b) · 14 (c) · 15 (d) · 16 (a) · 17 (a) · 18 (d) · 19 (b) · 20 (c)

Assertion–Reason (6)

(a) Both true, R explains A. (b) Both true, R does not explain A. (c) A true, R false. (d) A false, R true.

1. A: Human resources are not shown in the balance sheet. R: They cannot be measured objectively in money.
2. A: Creditors are a current liability. R: They are usually paid within 12 months.
3. A: Drawings are an expense of the business. R: Drawings reduce the owner's capital.
4. A: Management accounting is future-oriented. R: It supplies information for planning and decisions.
5. A: Cash discount is recorded in the books. R: It is allowed for prompt payment.
6. A: Accounting gives a complete picture of a business. R: It records only financial transactions.

Key: 1 (a) · 2 (a) · 3 (d) · 4 (a) · 5 (b) · 6 (d)

Answers to the practice set

A. 1. language 2. Luca Pacioli 3. chronological 4. capital 5. drawings 6. voucher 7. debtors 8. relevance (timeliness)

B. 1. F 2. F 3. T 4. F 5. F 6. T 7. F 8. T

C. 1. economic resources owned by the business, measurable in money 2. creditors, bills payable 3. documentary evidence of a transaction 4. financial statements 5. wages (rent) 6. those to whom the business owes for credit purchases 7. a deduction for prompt payment 8. owners, managers 9. a happening measurable in money that affects the business 10. relevance

D. 1. financial: records, past, for all stakeholders, statutory; management: for managers, future, financial and non-financial, optional 2. past only; ignores qualitative facts; estimates and price changes 3. language of business, historical record, information system 4. trade: off list price, not recorded; cash: for prompt payment, recorded 5. customers: continued supply; employees: stability, pay and bonus 6. identification: choosing the financial events (a sale); measurement: in ₹ (₹ 20,000) 7. expense: cost used up in the year; expenditure: any spending, capital or revenue 8. it collects data, processes it and communicates information to users

E. 1. non-current (machinery, goodwill) and current (stock, debtors) 2. identify, measure, record, communicate 3. see p. 4 4. assets: machinery, cash, stock, patents, debtors; liabilities: creditors, bank overdraft, bills payable 5. records, profit or loss, position, information 6. reliability: verified bank balance; relevance: monthly sales report on time

F. 1. see p. 2 table 2. see p. 3 (roles) and SA 12

G. 1. goods for the dealer; an asset (furniture) for the school 2. no objective money measure 3. business entity: the business is separate from the owner 4. yes: an audited report from five years ago is reliable but not relevant now

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Case. (i) capital ₹ 3,00,000; fixed asset sewing machines; goods cloth/dresses (ii) creditor Vastra Ltd ₹ 40,000; debtor Asha ₹ 30,000 (iii) expense wages ₹ 12,000; gain ₹ 1,500; drawings ₹ 2,000 (iv) the bank (lender): to judge her ability to repay

Last-night summary

- Accounting: identify, measure, record, communicate economic events to users.
- Users: internal (owners, managers, employees) and external (investors, lenders, suppliers, customers, government).
- Branches: financial, cost, management. Qualities: reliable, relevant, understandable, comparable.
- Objectives: records, profit or loss, financial position, information. Roles: language, record, reality, system, service.
- Terms: assets, liabilities, capital, drawings, revenue, expense, expenditure, profit vs gain, trade vs cash discount, voucher, debtors, creditors.

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