



INDIAN SCHOOL AL WADI AL KABIR

DEPARTMENT OF COMMERCE

INTRODUCTION TO ACCOUNTING AND ACCOUNTING TERMINOLOGY

1. Complete the following sentences with appropriate words:

- (a) Information in financial reports is based on **financial** transactions.
- (b) Internal users of the business entity are **Owners, Management, Employees and workers**
- (c) **Bank** or **Creditors** would most likely use an entities financial report to determine whether or not the business entity is eligible for credit/loan.
- (d) **External** users are groups outside the business entity, who uses the information to make decisions about the business entity.
- (e) Information is said to be reliable if it is **Free from bias**
- (f) The process of accounting starts with **Identifying financial transactions** and ends with **Communicating information to users.**
- (g) Accounting measures the business transactions in terms of **monetary** units.
- (h) Identified and measured economic events should be recording in **chronological** order

2. Which stakeholder group would be most interested in

- | | |
|--|---|
| <u>Government and its tax authorities</u> | (a) the tax liabilities of the firm |
| <u>Employees</u> | (b) the potential for pay awards and bonus deals |
| <u>Government and its authorities</u> | (c) the ethical or environmental activities of the firm |
| <u>Banks and Financial Institutions</u> | (d) whether the firm will be able to pay back loan. |
| <u>Researchers</u> | (e) doing research work. |
| <u>Consumers</u> | (f) the ability of the firm to provide a service a product. |

3. Select the correct alternative:

- 1. Which of the following is not a business transaction?
 - a. Bought furniture of Rs.10,000 for business
 - b. Paid for salaries of employees Rs.5,000
 - c. **Paid sons fees from her personal bank account Rs.20,000**
 - d. Paid sons fees from the business Rs.2,000

- 2. Which is the last step of accounting as a process of information?
 - a. Recording of data in the books of accounts
 - b. Preparation of summaries in the form of financial statements
 - c. **Communication of information**
 - d. Analysis and interpretation of information

3. Which qualitative characteristics of accounting information is reflected when accounting information is clearly presented?

- a. **Understandability**
- b. Relevance
- c. Comparability
- d. Reliability

4. Use of common unit of measurement and common format of reporting promotes;

- a. **Comparability**
- b. Understandability
- c. Relevance
- d. Reliability

4. Mr. Suraj started a business for buying and selling of stationery with Rs. 5,00,000 as an initial investment. Of which he paid Rs.1,00,000 for furniture, Rs. 2,00,000 for buying stationery items. He employed a sales person and clerk. At the end of the month he paid Rs.5,000 as their salaries. Out of the stationery bought he sold some stationery for Rs.1,50,000 for cash and some other stationery for Rs.1,00,000 on credit basis to Mr.Ravi. Subsequently, he bought stationery items of Rs.1,50,000 from Mr. Peter. In the first week of next month there was a fire accident and he lost Rs. 30,000 worth of stationery. A part of the furniture, which cost Rs. 40,000, was sold for Rs. 45,000.

From the above, answer the following :

1. What is the amount of capital with which Mr. Sunrise started business. **Rs. 5,00,000**
2. What are the fixed assets he bought? **Furniture**
3. What is the value of the goods purchased? **Rs. 3,50,000**
4. Who is the creditor and state the amount payable to him? **Mr. Peter , Rs. 1,50,000**
5. What are the expenses? **Salary**
6. What is the gain he earned? **Rs. 5,000**
7. What is the loss he incurred? **Rs. 30,000 – Goods lost by fire**
8. Who is the debtor? What is the amount receivable from him? **Mr. Ravi , Rs. 1,00,000**
9. What is his closing stock. **Rs. 70,000**
10. Determine if the following are assets, liabilities, revenues, expenses or none of these: sales, debtors, creditors, salary to manager, discount to debtors.

5. Tick the appropriate one:

ITEM	Current Asset	Non Current Asset	Current Liability	Non Current Liability	Expense	Revenue
Machine		✓				
Goodwill		✓				
Furniture		✓				
Cash at Bank	✓					
Inventory	✓					
Salary					✓	
Sales						✓
Bank overdraft			✓			
Sundry creditors			✓			
Bills Receivable	✓					
Trade Payable			✓			
Rent received						✓
Investments		✓				
Interest on investments						✓
Bank loan				✓		
Interest on bank loan					✓	

6. Akash started business with Rs.1,00,000 and he used the funds to buy machine for Rs.12,000, furniture for Rs.8,000. He purchased goods for Rs.25,000. He took goods worth Rs.3,000 for personal use and sold goods costing Rs. 10,000 for Rs. 12,000 to Rakesh. He also sold goods worth Rs.2,000 for Rs.3,000 and issued a cash memo to the customer. Rakesh Returned goods of Rs.500 (cost 400) being defective.

(a) Define capital. What is the amount of capital invested by Akash.

Capital is the amount invested in an enterprise by the proprietor. It may be in the form of money or assets having a monetary value. It is a liability for the business.

The capital invested by Akash is **Rs. 1,00,000**

(b) Identify the Non-current assets for Akash's business?

Machine and Furniture

(c) Define drawings. What is the amount of drawings for Akash, if any?

It is the amount withdrawn or goods taken by the proprietor or partner for personal use.

Rs. 3,000 is the drawings of Akash

(d) What is the amount of cash sales made by Akash?

Rs. 3,000

(e) Name the debtors for Akash and the amount receivable from him?

Rakesh Rs. 11,500

(f) Calculate the profit earned by during the year.

Rs. 2,900

7. Answer the following:

a. Distinguish between Profit and gain.

Profit : It means income earned by the business from its Operating Activities, i.e., the activities carried out by the enterprise to earn profit. Ex: Profit earned by the sale of goods / rendering services

Gain : It is a profit that arises from transactions which are not the operating activities of the business but are incidental to it. Ex: Gain on sale of land or building.

b. What is the end product of financial accounting?

Financial statements

c. Name the branch of accounting which helps in solving cyber crimes.

Forensic Accounting

d. State the informational needs of trade unions.

Employees and workers are entitled to bonus, retirement benefits, good working conditions etc. Therefore, the employees and workers are interested in financial statements.

e. Define accounting information and state its types

Accounting information refers to the financial information which helps in decision making. The following are the types of accounting information:

(1) Information relating to Profit or Loss

(2) Information relating to Financial Position

(3) Information about Cash Flow.