

NCERT Solutions for Class 11

Accountancy

Chapter 1 - Introduction to Accounting

1. Define accounting.

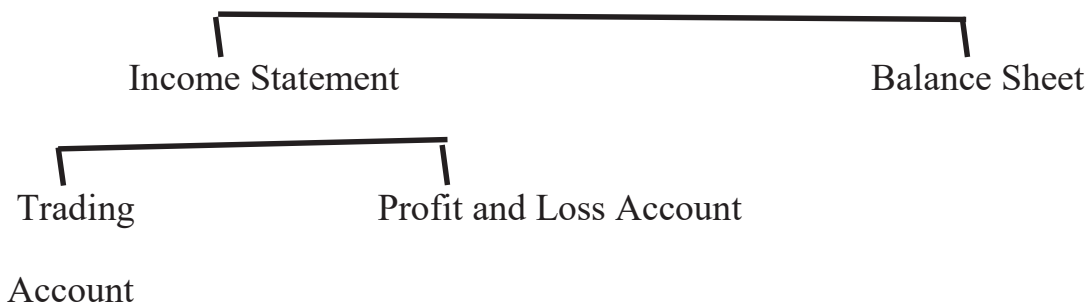
Ans: Accounting is a method of identifying the occasions of monetary nature and recording them in a magazine, classifying in their respective ledgers, summarizing them in earnings and Loss Account and balance Sheet and providing the consequences to the users of such information, viz. owner/s, government, creditors, traders etc.

According to the American Institute of Certified Accountants, 1941, "Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events that are, in part at least, of a financial character and interpreting the results thereof."

2. State what is the end product of financial accounting?

Ans:

The Excel Product of Financial Accounting



1. Income statements (Trading and/or Profit and Loss Account) - An income statement that includes Trading and Profit and Loss Account, ascertains the financial results of a business in terms of gross (or net) profit or loss.

2. Balance Sheet- It indicates the real monetary positions of a commercial enterprise that gives required facts of assets and liabilities of a enterprise company, to folks that require information like owners, creditors, investors, authorities, and many others.

3. Enumerate main objectives of accounting.

Ans: The primary objectives of accounting are given under

1. To preserve a systematic report of all transactions which occur.
2. To predict and calculate the income earned or loss incurred all through an accounting duration via getting ready income and loss accounts.
3. To expect the financial position of the enterprise at the cease of every accounting period by means of getting ready balance sheets.
4. To assist the management for selection making, effective manipulation, forecasting, etc.
5. To forecast the destiny choices for the betterment of business.
6. To come across and save you frauds and errors
7. To communicate statistics to diverse customers

4. Who are the users of accounting information?

Ans: Users customers of accounting records are divided in two classes as - inner customers and outside users.

1. Inner users

Inner customers are typically referred for the employees of the enterprise. they've direct right of entry to the monetary statements of a commercial enterprise. Examples are given beneath.

- i. owners

ii. management

iii. personnel and people

2. External users

External customers are individuals who aren't an employee of the corporation and are inquisitive about the monetary affairs of the business. Those customers do not have direct access to the economic statements of the business. the subsequent come below the pinnacle of external customers.

i. Banks and Financial Institutions

ii. Investors and Potential Investors

iii. Creditors

iv. Tax Authorities

v. Government

vi. Consumers

vii. Researchers

viii. Public

5. State the nature of accounting information required by long-term lenders.

Ans: Accounting information required with the aid of the long term creditors are repaying potential of the enterprise, profitability, liquidity, operational efficiency, capacity increase of business, and so forth.

6. Who are the external users of information?

Ans: External users of statistics are the individual or the groups that have direct or indirect hobby inside the commercial enterprise firm; however, are not a part of

control. They do now not have direct access to the internal records of the firm and makes use of posted records or reports like income and loss accounts, stability sheets, annual reviews, press releases, etc. a few examples of external customers are government, tax government, exertions unions,, etc.

7. Enumerate informational needs of management.

Ans: The informational desires of control are worried with the activities given underneath.

1. Assists in choice making and business planning
2. Getting ready reviews associated with funds, prices and income to check the soundness of the enterprise
3. Comparing contemporary monetary statements with its very own historic monetary statements and of different similar corporations to evaluate the operational performance of the commercial enterprise.

8. Give any three examples of revenues.

Ans: Three examples of revenue are given below.

1. Sales revenue
2. Interest received
3. Dividends

9. Distinguish between debtors and creditors; Profit and Gain.

Ans: Difference between Debtors and Creditors is given below.

Basis of Difference	Debtors	Creditors
Meaning	Humans or companies which can be prone to pay money to a company are known as borrowers.	Folks or organizations to whom the firm is vulnerable to pay cash. those are referred to as creditors.
Nature	Debit balance for the firm.	Credit balance for the firm.
Payment	Received payment from them.	Payments are made to them.
Shown	Balance sheet under current assets carry debtors balance	balance sheet under current liabilities carry creditors balance.

Difference between Profit and Gain is given below.

Gain- is incidental to the business. They stand up from irregular sports or non-recurring transactions; as an instance, profit on sale of fixed belongings, appreciation in cost of asset, income on sale of funding, and many others.

Profit- This refers to the excess of sales over the fee. it's far commonly classified into gross income or internet profit. net income is brought to the capital of the proprietor, which will increase the owner's capital. as an instance, items

11. What is accounting? Define its objectives.

Ans: Accounting is a method of figuring out the activities of economic nature, recording them inside the journal, classifying them in their respective money owed and summarizing them in income and loss account and balance sheet and speaking

outcomes to customers of such facts, viz. owner, government, creditor, traders, and so on.

According to American Institute of Certified Accountants, 1941, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events that are, in part at least, of financial character and interpreting the results thereof."

In 1970, American Institute of licensed Public Accountants modified the definition and stated, "The function of accounting is to offer quantitative statistics, usually economic in nature, about financial entities, this is meant to be beneficial in making monetary selections."

Targets of Accounting:

1. Recording business transactions systematically- its miles necessary to maintain systematic records of every enterprise transaction, as its miles beyond human capacities to bear in mind one of these large wide variety of transactions. Skipping the document of any individual of the transactions may additionally cause erroneous and defective effects.

2. Determining earnings earned or loss incurred- as a way to determine the net result on the stop of an accounting period, we need to calculate income or loss. For this reason trading and earnings and loss accounts are prepared. It offers statistics regarding how a lot of goods have been bought and offered, charges incurred and amount earned during a year.

3. Ascertaining monetary function of the company- Ascertaining income earned or loss incurred is not sufficient; proprietor is likewise interested by knowing the monetary role of his/her company, i.e. the fee of the assets, amount of liabilities owed, net increase or decrease in his/her capital. This reason is served by way of making ready the balance sheet that helps in ascertaining the true monetary role of the enterprise.

4. Assisting management- Systematic accounting enables the management in effective decision making, efficient control on cash management guidelines, preparing finances and forecasting, and many others.

5. Assessing the development of the enterprise- Accounting facilitates in assessing the progress of commercial enterprise from 12 months to year, as accounting allows the evaluation each inter-company in addition to intra-company.

6. Detecting and preventing frauds and errors- it is vital to detect and prevent fraud and errors, mismanagement and wastage of the finance. Systematic recording facilitates inside the clean detection and rectification of frauds, errors and inefficiencies, if any.

7. Communicating accounting facts to diverse users- The vital step in the accounting system is to communicate economic and accounting statistics to diverse users together with each internal and external users like proprietors, management, government, hard work, tax government, and many others. This assists the customers to understand and interpret the accounting data in a significant and suitable manner without any ambiguity.

12. If the accounting information is not clearly presented, which of the qualitative characteristics of the accounting information is violated?

Ans: If the accounting data isn't always truly offered, then the qualitative characteristics like, comparison, reliability and understanding capability, are violated. that is because if the accounting information is not without a doubt provided, then significant assessment may not be viable, as the information isn't always trustworthy, which may additionally lead to faulty conclusions.

13. The role of accounting has changed over the period of time"- Do you agree? Explain.

Ans: The role of accounting is ever converting. at the same time as in in advance times, accounting became merely concerned with recording the financial events, i.e. record-maintaining activity; but, now-days, accounting is accomplished with the rationale of no longer simplest retaining facts, but additionally presenting an statistics device that provides crucial and relevant records to diverse accounting

customers. The need of this alteration is delivered over due to the ever-changing and dynamic business environment, that's more aggressive in nature now than it turned into in advance times. In addition, there are various applicable sports like decision making, forecasting, evaluation, and evaluation that make these modifications inside the function of accounting inevitable.

14. Giving examples, explain each of the following accounting terms:

- a. Fixed assets**
- b. Revenue**
- c. Expenses**
- d. Short-term liability**
- e. Capital**

Ans:

Those are held for long term and growth the profit incomes capability of the commercial enterprise, over numerous accounting periods. These property are not supposed for sale; as an instance, land, building, machinery, and many others.

Sales- It refers to the amount obtained from daily sports of enterprise, viz. quantity acquired from sales of products and services to customers; rent received, commission received, dividend, royalty, interest received, and so forth. are items of sales which are delivered to the capital.

Capital- It refers to the quantity invested with the aid of the owner of a firm. It is able to be within the form of coins or belongings. It's miles an duty of the enterprise in the direction of the proprietor of the firm, in view that business is handled separate or distinct from the proprietor.

Capital = assets - Liabilities.

Costs- charges are the ones fees which might be incurred to maintain the profitability of commercial enterprise, like lease, wages, depreciation, interest, salaries, and so forth. Those help in the manufacturing, enterprise operations and generating revenues.

quick time period liabilities- those liabilities which are incurred with an purpose to be paid or are payable within a yr; as an instance, bank overdraft creditors, bills payable, brilliant wages, quick-time period loans, and many others.

15. Define revenues and expenses?

Ans:

Revenues- Sales discuss with the amount obtained from everyday activities of the commercial enterprise, like sale proceeds of goods and rendering services to the customers. Lease obtained, fee received, royalties and hobby obtained are considered as revenue, as they're regular in nature and worried with day to day activities. It is shown in the credit aspect of the income and loss account or trading account.

Expenses- Charges talk to the ones charges which might be incurred to earn revenue for the commercial enterprise. it's miles incurred for preserving profitability of the commercial enterprise. It shows the quantity spent to meet quick-time period wishes of the business. it's miles shown in the debit aspect of the income and loss account or trading account. as an example, wages, lease paid, salaries paid, amazing wages, and many others.

16. What is the primary reason for the business students and others to familiarize themselves with the accounting discipline?

Ans: Every economic transaction have to be recorded in such a manner that diverse accounting customers must understand and interpret these effects inside the identical way with none ambiguity. The reasons for why business college students and others need to familiarize themselves with the accounting field are given below.

1. It enables in studying the various aspects of accounting.
2. It enables learning how to maintain books of bills.
3. It facilitates studying how to summarize accounting data.

4. It enables in studying the way to interpret the accounting data with relative accuracy.

17. What is accounting? Define its objectives.

Ans: Accounting is a process of identifying the events of financial nature, recording them in the journal, classifying them in their respective accounts and summarizing them in profit and loss account and balance sheet and communicating results to users of such information, viz. owner, government, creditor, investors, etc. According to American Institute of Certified Accountants, 1941, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events that are, in part at least, of financial character and interpreting the results thereof."

In 1970, American Institute of Certified Public Accountants changed the definition and stated, "The function of accounting is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions."

Objectives of Accounting:

1. Recording business transactions systematically- It is necessary to maintain systematic records of every business transaction, as it is beyond human capacities to remember such a large number of transactions. Skipping the record of any one of the transactions may lead to erroneous and faulty results.

2. Determining profit earned or loss incurred- In order to determine the net result at the end of an accounting period, we need to calculate profit or loss. For this purpose trading and profit and loss accounts are prepared. It gives information regarding how much of goods have been purchased and sold, expenses incurred and amount earned during a year.

3. Ascertaining financial position of the firm- Ascertaining profit earned or loss incurred is not enough; proprietor is also interested in knowing the financial position of his/her firm, i.e. the value of the assets, amount of liabilities owed, net increase

or decrease in his/her capital. This purpose is served by preparing the balance sheet that facilitates in ascertaining the true financial position of the business.

4. Assisting management- Systematic accounting helps the management in effective decision making, efficient control on cash management policies, preparing budget and forecasting, etc.

5. Assessing the progress of the business- Accounting helps in assessing the progress of business from year to year, as accounting facilitates the comparison both inter-firm as well as intra-firm.

18. Explain the factors, which necessitated systematic accounting.

Ans: The elements that necessitated systematic accounting are given underneath.

1. Most effective financial transactions are recorded- the ones activities which might be monetary in nature are simplest recorded within the books of bills. as an example, the income of an worker is recorded within the books but his/her instructional qualification isn't always recorded.

2. Transactions are recorded in financial phrases- best the ones transactions which may be expressed in financial phrases are recorded in the books. as an example, if a enterprise has two homes and 4 machines, then their economic values is recorded within the books, i.e. buildings costing Rs 2,00,000, 4 machines costing Rs 8,00,000 . therefore, the whole value of belongings is Rs 10, 00,000

3. Art of recording- Transactions are recorded within the order in their prevalence.

4. Type of transaction- commercial enterprise transactions of comparable nature are categorised and published underneath their respective bills. As an instance, all the transactions relating to machinery may be published within the machinery Account.

5. Summarizing of records- All enterprise transactions are summarized within the shape of Trial stability, trading Account, profit and Loss Account and balance Sheet that provides vital statistics to diverse customers.

6. Analyzing and deciphering information-Systematic accounting statistics enable customers to analyze and interpret the accounting statistics in a proper and suitable way. These accounting statistics and records are supplied within the shape of graphs, statements, charts that leads to smooth verbal exchange and understanding ability by using diverse users. Moreover, these allows in decision making and destiny predictions.

19. Describe the informational needs of external users.

Ans: There are various external users of accounting who need accounting data for selection making, funding planning and to assess the economic position of the business. The diverse external users are given under.

1. Banks and other economic institutions- Banks offer finance in shape of loans and advances to numerous businesses. thus, they want records concerning liquidity, creditworthiness, solvency and profitability to advance loans.

2. Lenders- these are the ones individuals and companies to whom a enterprise owes money attributable to credit score purchases of products and receiving offerings; consequently, the creditors require information approximately credit worthiness of the commercial enterprise.

3. Investors and capability buyers- They invest or plan to invest in the commercial enterprise. For this reason, to be able to verify the viability and prospectus of their investment, creditors want information approximately profitability and solvency of the enterprise.

4. Tax authorities- They need information approximately sales, sales, earnings and taxable profits if you want to decide the levy of various types of tax on the business.

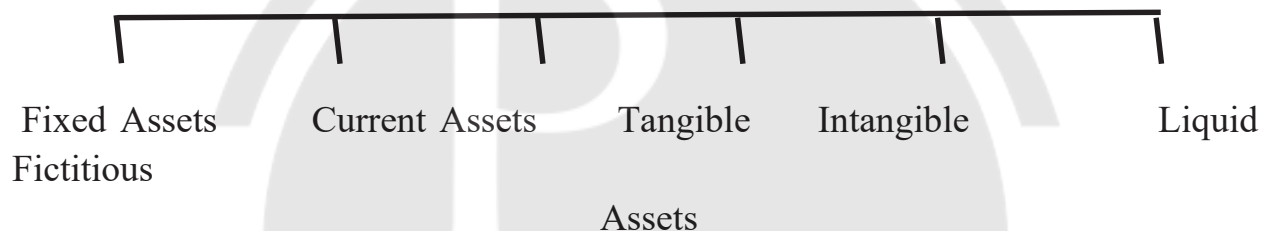
5. Government- It desires records to determine national profits, GDP, industrial growth, etc. The accounting facts help the government within the formula of numerous regulations and measures and to address diverse economic problems like employment, poverty and so on.

6. Researcher- Diverse research institutes like NGOs and other independent research institutions like CRISIL, inventory exchanges, etc. adopt various research tasks and the accounting records enables their studies work.

20. What do you mean by an asset and what are different types of assets?

Ans: Any valuable element that has economic value, that's owned through a enterprise, is its asset. In different phrases, property are the financial values of the homes or the felony rights which are owned through the enterprise groups.

Type of Assets



Fixed Assets- those are those property that are held for the long term and boom the income earning ability and efficient capability of the business. These property are not meant for sale, as an instance, land, constructing machinery, and so forth. Current property- property that can be without difficulty converted into coins or coins equivalents are termed as current belongings.

Those are required to run daily commercial enterprise sports; for instance, cash, debtors, stock, and many others.

Tangible belongings- property that have physical lifestyles, i.e., which may be visible and touched, are tangible belongings; for instance, vehicle, furniture, building, and many others.

Intangible belongings- assets that cannot be seen or touched, i.e. those assets that do not have bodily existence, are intangible belongings; for instance, goodwill, patents, trade mark, and many others.

Liquid property- belongings which can be kept either in cash or coins equivalents are regarded as liquid belongings. These can be transformed into coins in a very brief period of time; as an example, coins, financial institution, bills receivable, etc.

Fictitious belongings- those are the heavy sales costs, the benefit of which may be derived in more than one 12 months. They constitute losses or costs which are written off over a time frame, as an example, if commercial expenditure is Rs 1,00,000 for 5 years, then every yr Rs 2,00,000 might be written off.

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

Ans:

Profit- extra of revenue over rate is known as income. it is usually categorized into gross profit or internet earnings. It increases the proprietor's capital as it's far introduced to the capital at the cease of every accounting period. for example, goods costing Rs 1,00,000 are bought at Rs 1,20,000, then the sale proceeds of Rs 1,20,000 is the sales and 1,00,000 is the price to generate this sales. for this reason, accounting profit of Rs 20,000 (i.e. Rs 1, 20,000- Rs 1, 00,000) is the distinction between the sales and price that is earned via the commercial enterprise.

Gain- It arises from irregular activities or non-habitual transactions. In other phrases, a gain is a result of transactions which might be incidental to the commercial enterprise, other than working transactions. for instance, an antique equipment of e book value Rs 20,000 is sold at Rs 25,000. therefore, the advantage is Rs five,000 (i.e. Rs 25,000 - Rs 20,000). Here, the sale of the old equipment is an abnormal hobby; so, the distinction is termed as benefit as a result, in different words the best distinction between profit and benefit is that income is the excess of revenue over price and advantage arises from other than working transactions.

22. Explain the qualitative characteristics of accounting information.

Ans: Qualitative Characteristics of Accounting Information

Reliability	Relevance	Understandability	Comparability
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The following are the qualitative characteristics of accounting information:

1. Reliability - It method that the consumer can depend upon the accounting records. All accounting records is verifiable and can be confirmed from the supply report (voucher), viz. cash memos, bills, and so forth. Subsequently, to be had records need to be free from any mistakes and unbiased

2. Relevance - It manner that crucial and suitable statistics have to be effortlessly and timely available and any beside the point statistics should be prevented. The customers of accounting statistics need applicable facts for selection making, planning and predicting the future conditions.

3. Understandability- Accounting records need to be supplied in this kind of manner that every person is able to interpret the facts with none difficulty in a significant and suitable manner.

4. Comparability- it's miles the most critical exceptional of accounting facts. comparability means accounting facts of a modern-day yr can be comparable with that of the previous years. Comparability permits intra-company and inter-firm comparison. This assists in assessing the outcomes of numerous rules and packages followed in one-of-a-kind time horizons by means of the identical or exclusive companies. Similarly, it facilitates to examine the growth and development of the enterprise over time and in contrast to other companies.

23. Describe the role of accounting in the modern world.

Ans: The position of accounting has been changing over the time frame. in the cutting-edge world, the function of accounting is not most effective restricted to file monetary transactions however also to offer a basic framework for various decision making, offering applicable records to numerous users and assists in each short run and longer term planning. The roles of accounting inside the present day global are given underneath.

1. Supporting control- control makes use of accounting records for brief time period and long term planning of business activities, to are expecting the future situations, prepare budgets and various manipulate measures.

2. Comparative take a look at- within the present day world, accounting information helps us to realize the performance of the enterprise via evaluating cutting-edge 12 months's earnings with that of the preceding years and also with different corporations within the equal enterprise.

3. Replacement reminiscence- within the cutting-edge international, each enterprise incurs a massive variety of transactions and it is beyond human capability to memorize each and each transaction. hence, it's miles very vital to document transactions within the books of accounts.

4. Facts to stop consumer- Accounting performs an essential role in recording, summarizing and presenting relevant and dependable statistics to its users, in the form of economic facts that enables in choice making.