

FINANCIAL ACCOUNTING

CALICUT UNIVERSITY

2ND SEMESTER B.COM

“SHORT QUESTIONS/ 2 MARKS QUESTIONS”

1. What is capital receipt?
Capital Receipts are described as the money brought to the business from non-operating sources like proceeds from the sale of long-term assets, capital brought by the proprietor, sum received as a loan or from debenture holders etc.
2. Mention four limitations of incomplete records?
*(i) Arithmetical Accuracy cannot be checked.
(ii) Figures of Profits cannot be relied upon.
(iii) True and Fair View of the Business Concern not Shown.
(iv) Improper Analysis of Profitability and Solvency.*
3. What is capital expenditure?
Capital expenditure or capital expense is the money a company spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land.
4. What is income and expenditure account?
Income and expenditure account is prepared in non-profit organisation whose
- aim is not to earn money for personal benefits but they distribute the profit for welfare activities. So, for showing the organisation different from for-profit organisation, they prepare income and expenditure account. It is prepared just like preparing of profit and loss account.*
5. Mention any two purpose of trading account?
*(i). Measuring the current state of any business.
(ii). A clear idea on direct expense.*
6. What is the main functions of ASB?
*(i) To conceive of and suggest areas in which Accounting Standards need to be developed.
(ii) To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India.
(iii) To examine how far the relevant International Accounting Standard/International Financial Reporting Standard can be adapted while*

formulating the Accounting Standard and to adapt the same.
 (iv) To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.

(v) To provide, from time to time, interpretations and guidance on Accounting Standards.

(vi) To carry out such other functions relating to Accounting Standards

7. What is closing entries?

Closing entries are journal entries made at the end of an accounting period which transfer the balances of temporary accounts to permanent accounts.

8. Mention two differences between receipt and payment account and cash book?

Receipt & payment Account	Cash book
It is an account outside the double entry system	It is a book of account within the double entry system
No narration is written here.	Each entry is followed by narration
Daily cash balance cannot be ascertained	Daily cash balance can be ascertained from this book
Only non-profit seeking organizations prepare it.	All concerns (non-profit seeking and profit seeking) organizations prepare it.

9. What is meant by dual aspect concept?

According to this concept, every transaction has two aspects. These two aspects are receiving aspect and giving aspect. These two aspects have to be recorded. The basis of this principle is that for every debit, there is an equal and corresponding credit.

10. What are special journals? Give two examples?

Special Journals (also known as subsidiary journals) are chronological records of frequently occurring transactions such as

sales, purchases and cash receipts/payments.

Example: sales journal, sales returns journal, purchases journal, purchase returns journal, cash receipts journal, cash payments journal

11. Define trial balance?

Trial balance is a statement containing the various ledger balances on a particular date. This statement is prepared to check the correctness of ledger posting and balancing of accounts. If the total of the debit balances is equal to the credit balances. It is implied that posting and balancing of accounts are correct

12. What are the functions of accounting?

(a) Recording (b) Classifying (c) Summarising (d) Analysis & interprets (e) Communicates.

13. Define statement of affairs?

Statement of Affairs is a statement showing assets, liabilities and capital of the entity prepared on the basis of a single entry system of bookkeeping.

14. What is a non-trading concern? Give one example.

Non-profit organization or non-trading organization are those organizations which are established not for earning profits but for promoting art, culture, sports, education etc. Medical institution, Charitable trusts, welfare societies, educational institutions etc are examples of non-trading organizations

15. Explain the term 'life membership fee'?

Life membership may, sometime, be granted to members on their making a lump sum payment in lieu of annual subscription. As the service has to be rendered for a long time without further payment, it must be treated as capital receipts and should be capitalized

16. Define accounting standards?

Accounting standards may be defined as the accounting principles and rules which are to be followed for various accounting treatments while preparing financial statements on uniform basis and which will reveal the same meaning to all the interested groups.

17. Define balance sheet?

Balance sheet is a statement showing the assets and liabilities of a business on a particular date. It reveals the financial position of a business. Hence it is also known as position statement. In the words of Francis R Stead, 'balance sheet is a screen picture of financial position of a going business at a certain moment.

18. What is a ledger?

Ledger is a book, which contains various accounts it is said to be secondary books of account. It is a collection of all accounts debited or credited in journal. Ledger is defined as," a book in which all the personal, real, and nominal accounts of business are kept for permanent records so that up to date statement of an account can be easily known".

19. Explain the term 'legacy'?

It is the amount received by the non-profit organizations as per the will of a deceased person. It is a capital receipt and is shown on the liability side of the balance sheet, but if the amount is small it may be treated as income and may be shown on the credit side income and expenditure account

20. What do you mean by reserve?

Reserves are any part of stockholders' equity, except for basic share capital. Reserves are amounts that are retained in the business and not distributed to the owners

21. Define accounting?

The American Institute of Certified Public Accountants (AICPA) defines accounting as: the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least of financial character, and interpreting the results thereof.

22. Distinguish between capital expenditure and revenue expenditure?

A capital expenditure is an amount spent to acquire or improve a long-term asset such as equipment or buildings.

A revenue expenditure is an amount that is expensed immediately—thereby being matched with revenues of the current accounting period. Routine repairs are

revenue expenditures because they are charged directly to an account such as Repairs and Maintenance Expense.

23. Give the journal entry for purchase of goods from Mohan on account Rs.10000?

<i>Purchases A/c</i>	<i>Dr</i>	<i>10000</i>	
<i>To Mohan A/c</i>			<i>10000</i>
<i>(Purchased goods from Mohan)</i>			

24. Distinguish between debtors and creditors?
A debtor is a person or enterprise that owes money to another party. A creditor is a person, bank, or other enterprise that has lent money or extended credit to another party.

25. How will you treat Donations in the accounts of a non-trading concern?

The amount received from a person, firm or company by way of gift is called a donation. Donations may be specific donation or general donations. Specific donation must be treated as capital receipts and should be shown on the liability side of the balance sheet. General Donation of a comparatively small amount must be treated as income. But if the amount of such donation is big , it must be treated as capital receipts and it should be shown on the liability side of the balance sheet.

26. What is meant by money measurement concept?

Accounting records only those transactions which are expressed in monetary terms. Transactions which cannot be expressed in money do not find place in the books of accounts

27. Define revenue expenditure?

An expenditure that arises out of and in the course of regular business transactions of a concern is termed as revenue expenditure. It includes the money spend on day to day operations of business for current and immediate use

28. How will you find out profit or loss under pure single entry system?

The profit or loss in case of a business maintaining accounts according to single entry system can be computed by two methods namely, statement of affairs method and conversion method.

29. Write the journal entry for discount received?+

Creditors a/c	Dr		
To Discount received			
(Discount received)			

30. When a suspense account is opened?

A suspense account is an account in the general ledger in which amounts are temporarily recorded. The suspense account is used because the proper account could not be determined at the time that the transaction was recorded. Suspense accounts are used when your trial balance is out of balance or when you have an unidentified transaction

31. What do you mean by interest accrued?

Accrued interest is the amount of loan interest that has already occurred, but has not yet been paid to the lender by the borrower.

32. What do you mean by marshalling of a balance sheet?

Marshalling of balance sheet is to show assets and liabilities in specific order or arrangement. We can either show assets and liabilities in liquidity order or permanence order.

33. What is accrued income?

This is the income earned but not received by the end of the accounting year. This is also known as outstanding incomes. If it is given in the adjustment, it should be added to the concerned income on the credit side of the profit and loss account and it should also be shown on the asset side of balance sheet

34. What is deferred revenue expenditure?

It is that class of revenue expenditure which is incurred during a particular year but benefit of which may extend to a number of years. The whole amount of such expenditure cannot be treated as the expenditure of the year in which it is incurred.

35. What is matching concept?

According to this concept, cost of a business of a particular period is compared with the revenue of that period in order to ascertain net profit or net loss.

36. What do you mean by adjusting entries?

In the mercantile system of accounting, various adjustments had to be made to accounts of incomes and expenses, so as to show correct figure for the current year. These entries are passed for adjusting the incomes, expenses etc are called adjusting entries

37. What is single entry?

Kohler defines single entry system as "a system of book keeping which as a rule only records of cash and personal accounts are maintained, it is always incomplete double entry varying with circumstances"

38. What do you mean by trade discount?

A trade discount is the amount by which a manufacturer reduces the retail price of a product when it sells to a reseller, rather than to the end customer.

39. Define double entry system?

The double entry system of accounting or bookkeeping means that every business transaction will involve two accounts (or more). For example, when a company borrows money from its bank, the company's Cash account will increase and its liability account Loans Payable will increase

40. What are accounting concepts?

(i)Accounting entity (b)Going concern (iii)Money measurement (d) Accounting period

41. Name two accounting standards which are recommendatory?

*Ind AS 103-Business combination
Ind AS 2 - Inventories*

42. Give the journal entry for discount allowed?

Discount Allowed	Dr	xxx	
To Customer			xxx

43. List the methods of finding profit under single entry?

*(a) Statement of Affairs method
(b) Conversion method*

44. What is an unlimited company?

Unlimited companies are companies not having any limit on the liability of its members. In the event of winding up, the members are liable to the full extent of their

fortunes to meet the obligations of the company

45. What do you mean by authorised capital?
The amount of capital with which the company intends to be registered is called Nominal or Registered or Authorised capital. It is the maximum amount which the company is authorised to raise by way of public subscription
46. Write a short note on over subscription?
When shares are issued by well managed and financially strong companies to the public, they often receive more number of application than that they offer through prospectus and intend to allot. This is known as over subscription.
47. What is a chartered company?
Companies which are incorporated under a special charter by Royal Charter which lays down objectives, rights, duties etc. Of the companies are known as Chartered companies. For example, East India Company.
48. What do you mean by issue of shares at a discount?
If the price required to be paid to the company for the share is less than the nominal value of that share, it is called issue of at a discount,
49. What do you know about surrender of shares?
Surrender of shares means voluntary return of shares by a member to the company. It is a short cut to the long procedure of forfeiture of shares.
50. What are calls in arrears?
It often happens that some shareholders fails to pay the allotment / call money due by them to the company. The total of such unpaid amount is known as calls in arrears.
51. Give a short note on preliminary expense?
*The expenses incurred when a company is formed and before the start of any business operations are termed as preliminary expenses.
 Eg: Legal cost, Professional fees, Stamp duty, Printing fees*
52. Give journal entries in the books of a company when it reissues forfeited shares?

Bank A/c (the amount received on reissue) Dr	
Share Forfeited A/c (the amount allowed as discount)	Dr
To Share Capital A/c (paid up amount)	

53. What journal entry should be passed for transferring the credit balance left in the forfeited shares account to capital reserve accounts?

Share forfeited A/c Dr	xx	
To Capital Reserve A/c		xx

54. Distinguish between stock and shares?
 (i) Shares may be fully or partly paid up. For the purpose of conversion into stock, shares must be fully paid up.
 (ii) It is not possible to transfer fractions of a share. Stock may be split up into fractional parts and transferred as such.
 (iii) Shares are distinctively numbered. Stock bears no such number.
 (iv) It is originally issued by a company. Stock cannot be issued originally.
 (v) It may be always registered. It may or may not be registered.
 (vi) Shares are individual units of the capital of a company. Stocks are aggregate of fully paid up shares.
55. What is meant by under subscription?
In case the applications received from the public for the shares are less than the applications invited from the public it is called the under subscription of the shares.
56. What do you mean by forfeiture of shares?
Forfeiture of shares is the termination of membership and taking away of the shares of a shareholder because of default in the payment of any instalment except application money.
57. Define debenture?
“Debenture includes debenture stock, bond and any other securities of the company whether constituting a charge on the company’s Assets or not”.
58. Give the journal entry for debentures issued at premium and redeemable at premium?

(a) On issue of debentures
Bank account Dr
Loss on issue of debentures Dr
To debenture

<p>To premium on redemption of debenture To capital reserve</p>
<p>(b) <u>On redemption of debenture</u> Debenture Dr Premium on redemption of debenture Dr To Bank</p>

59. What are contingent liabilities?

- (a) Liability on bills discounted outstanding or bills accepted on behalf of others;
- (b) Liability under a guarantee given in favour of others;
- (c) Liability for disputed claims and cases pending decision of the court;
- (d) Calls on partly paid shares held as investments;
- (e) Liability for arrears of dividends on cumulative preference shares

60. What do you mean by IPO?

Initial Public Offer (IPO) is a source of collecting money from the public for the first time in the market to fund for its projects. In return, the company gives the share to the investors in the company

61. What is reserve capital?

Under Sec 99, Reserve capital is the amount of uncalled capital which the company has, by special resolution, decided not to call up except in the event of winding up of the company; reserve capital is available only to the creditors at the time of winding up of the company

62. What do you mean by dividend?

A dividend is a distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. Dividends can be issued as cash payments, as shares of stock, or other property.

63. What do you mean by contingent liability?

Contingent liabilities are liabilities that may be incurred by an entity depending on the outcome of an uncertain future event such as the outcome of a pending lawsuit.

64. What is minimum subscription?

The minimum shares the company needs to get from the public out of the total issue by the date of closure. (Presently every company need to raise 90% of the issued amount). Else, the company shall refund the whole amount received.

65. What is issued capital?

The part of the authorised capital which is offered to the public for subscription is called issued capital

66. What is calls in advance?

Some of the shareholders may pay the balance amount on their shares along with allotment money or call money though not demanded by the company. Such amounts received in advance by the company from its shareholders are known as Calls in advance.

