

1. Defne Accounting

“Accounting is the art of **recording, classifying** and **summarising** in significant manner and **in terms of money**, transactions and events which are, in part, at least of financial character and **interpreting** the results thereof”

2. What is book keeping?

Bookkeeping is the recording of financial transactions. Transactions include sales, purchases, income, receipts and payments by an individual or organization. Bookkeeping is usually performed by a bookkeeper.

3. What is the difference between book-keeping and accounting :

Book-keeping:

- Is the basis of accounting
- Confines itself to recording posting balancing and preparation of trial balance.
- It is done by junior staff because the nature is clerical.
- It records transactions in a significant and orderly manner.
- It covers journalizing, posting and extracting of balances.

Accounting:

- Is the culmination of book-keeping. It starts where book-keeping ends.
- Extends to preparation of final accounts after incorporating year end adjustments.
- It is done by senior staff because nature of the job requires imagination, skill and analytical ability.
- It classifies, summarized and provides information.
- It covers preparation of final accounts and balance sheet.

4. Who are the end users of accounting information?

Proprietors, Managers, Creditors, Investors, Government, Employees, Citizen are the end users of accounting information

5. What are the branches of accounting?

Accounting has three main forms of branches, viz, financial accounting, cost accounting, and management accounting. These forms of accounting have been developed to serve different types of objectives.

6. What is Financial Accounting?

It is the original form of accounting. It is mainly confined to the preparation of financial statements for the use of outsiders like creditors, banks and financial institutions etc. The chief purpose of financial accounting is to calculate profit or loss made by the business during the year and exhibit financial position of the business as on a particular date.

7. What is Cost Accounting:

Function of cost accounting is to ascertain the cost of the product and to help the management in the control of cost.

Cost accounting is a task of collecting, analyzing, summarizing and evaluating various alternative courses of action. Its goal is to advise the management on the most appropriate course of action based on the cost efficiency and capability. Cost accounting provides the detailed cost information that management needs to control current operations and plan for the future

8. What is Management Accounting or Managerial Accounting?

It is accounting for management. i.e., accounting which provides necessary information to the management for discharging its functions. It is the reproduction of financial accounts in such a way as will enable the management to take decisions and to control various business activities.

9. What is the difference between single entry system and double entry system of bookkeeping?

Meaning

Single entry system is an incomplete system of recording financial transactions. Double entry system is a complete system of recording and reporting financial transactions.

Duality

Single entry system is not based on the concept of duality. Double entry system is based on the concept of duality.

Accounts

Single entry system maintains only personal accounts of debtors and creditors and cash book. Double entry system all personal, real and nominal accounts.

Trial Balance

Single entry system can not prepare a trial balance and hence, arithmetical accuracy of books of accounts can not be checked. Double entry system prepares trial balance and hence, arithmetical accuracy of the books of accounts can be checked.

Profit Or Loss

Single entry system can not ascertain the true amount of profit or loss of the business as it does not maintain nominal accounts. Double entry system ascertains true profit or loss of the business as it maintains all nominal accounts.

Financial Position

Single entry system can not ascertain the true financial position of the business because it does not maintain real accounts except cash book. Double entry system ascertains financial position of the business as it maintains all personal and real accounts.

Suitability

Single entry system is suitable to a small business where only limited number of transactions are performed. Double entry system is suitable for a large business.

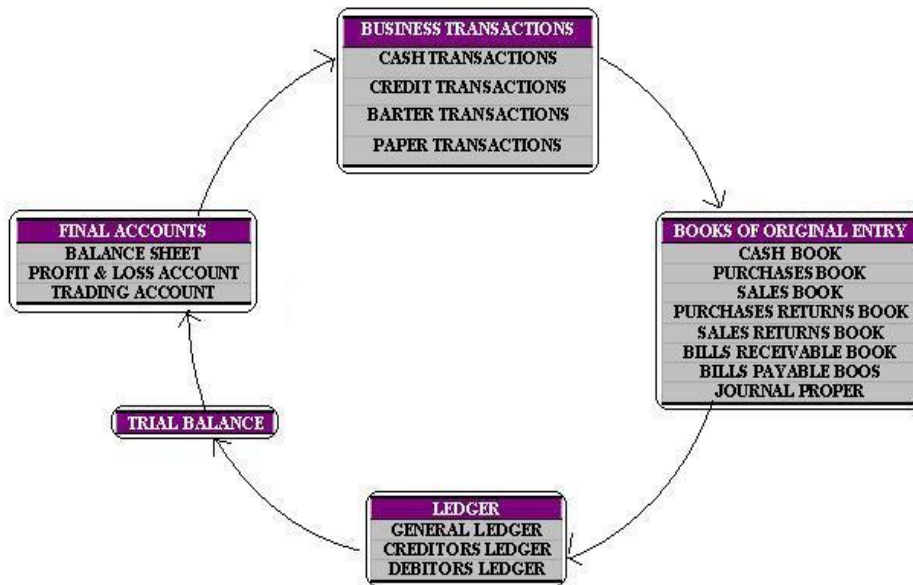
Tax Purpose

Single entry system is not acceptable for the purpose of assessment of tax. Double entry system is acceptable for the purpose of assessment of tax

10. What are the advantages of Double Entry System?

- In double entry system of bookkeeping as two fold aspect of each transaction is recorded in the books, a trial balance can be prepared to prove the arithmetical accuracy of the transaction. No trial balance can be prepared under single entry system and hence accuracy of books cannot be proved.
- In double entry system the risk of fraud or its non discovery is less. But under single entry system chances of fraud or mistake remaining undetected are very high.
- In double entry system a trading and profit and loss account can be prepared very easily. The proprietor can know the profit earned or loss suffered by his business. Under single entry system no trading and profit and loss account can be prepared scientifically and, hence, the proprietor will have no firm idea of profit earned or loss suffered. In double entry system a balance sheet can be prepared from the books of accounts. The correctness of assets and liabilities can be proved.

11. What is accounting cycle?



12. What is compound entry?

COMPOUND JOURNAL ENTRY is a journal entry that involves more than one debit or more than one credit or both.

It may be recorded in the following three ways:

1. One particular account may be debited while several other accounts may be credited.
2. One particular account may be credited while several other accounts may be debited
3. Several accounts may be credited while several other accounts may be debited

13. What is ledger?

A book in which the monetary transactions of a business are posted in the form of debits and credits.

14. What is journal?

A [journal](#) is a book in which monetary transactions are entered the first time they are processed. This journal lists transactions in chronological sequence by date prior to a transfer of the same transactions to a [ledger](#) in the process of [bookkeeping](#)

15. What is posting?

The process of transferring the debit and the Credit entries from the Journal to the ledger is called Ledger Posting.

A separate account is opened in the ledger for each Account. All the Debit entries and the Credit entries are duly entered. At the end, the Accounts are properly balanced. In other words, the total; of all debit entries is adjusted against the total of all Credit entries and the Balance is carried forward to the next accounting period. In the case of personal Accounts and the Real Accounts the balances in the nominal accounts are transferred to the Trading, Profit and Loss account.

16. Steps in Ledger Posting..?

First of all the opening balance (if any) has to be posted). The opening entry for various assets should be posted by writing 'To Balance b/f' on the debit side of any relevant Account. Similarly the liabilities should be posted by writing 'by Balance b/f' on the credit side of the Relevant Account.

1. Enter the date of the transaction on the debit side of the Relevant Account
2. The title of the Account to be credited is preceded by the word 'To'
3. In Ledger Folio (L.F.) column, enter the page number of the Journal on which the Journal entry is to be passed.
4. Amount column records the account mentioned in the journal against the title of the account under consideration.

For posting of the account to be credited, above mentioned steps are followed but with one slight difference. Now the recording is done on the Credit Side of the accounts, and in the particulars column title of the amount to be debited is preceded by the word 'By'.

17. What are the types of journal Entries?

Entries recorded in the journal may be of two types. Simple Journal Entry and Compound Journal Entry

Simple Journal Entry:

When a transaction affects only one aspect/account in the debit and one aspect/account in the credit. It is known as Simple Journal Entry.

Compound Journal Entry:

When a transaction affects more than two accounts at a time – one or more accounts being debited/ one or more accounts being credited, such entry is known as Compound Journal Entry.

18. What are the Process of Journalising?

The process of journalising means the steps to be followed for ascertaining the account heads to be debited/credited for a particular transaction. There are three steps involved in the process of journalising a transaction.

Step 1: Identification of accounts or 'account heads' affected by the transaction.

Step 2: Classification of accounts or accounts heads.

Step 3: Application of Rules for Debit and Credit

19. Format of Journal:

The format of Journal is sub-divided into five columns. These five columns are (i) Date (ii) Particulars (iii) Ledger Folio (L/F) (iv) Debit amount and Credit amount.

Ledger Folio (L.F): Journal is the original record of the business transactions. All entries from the journal are posted in the ledger accounts. **The page number or folio number of the ledger** account where the posting has been made from the journal is recorded in the L.F column of the Journal. Each entry in the journal must be explained in brief. This brief explanation of the entry is called **Narration**. **Thus**, Narration gives a brief explanation of the transaction for which the entry has been passed is given. It enables the persons going through the journal entry to have an idea about the transaction.

20. Meaning of Trial Balance

After posting the accounts in the ledger and balancing the same, a statement is prepared to show separately the debit and credit balances. Such a statement is known as Trial Balance.

The Trial Balance is a statement which shows the closing balances, debit balances as well as credit balances of all ledger accounts. This statement is always prepared in 'T' Shape. In the left hand side, debit balances and in the right hand side, credit balances of ledger accounts are written and both sides are totalled. The totals of the both the sides, should always be equal. This equality in the totals of debit side and credit side ensures the completion of double entry system of book-keeping. It also ensures the arithmetical accuracy of ledger accounts.

21. What is inflation accounting?

Inflation Accounting is also called as Price Level Accounting

It is based on the principle that the price level of products at different periods are at different levels

22. What is HRA?

“HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties”.

Human Resource Accounting is an attempt to identify and report investments made in human resource of an organization. Basically it tells the management what changes over time are occurring to human resources of the business

23. Define Company.

A company is an association of many persons who contribute money or money's worth to a common stock and employ it for a common purpose. The common stock so contributed is denoted in money and is capital of the company. The persons who contribute it for to whom it belongs are members

24. Statutory books of the company

- Register of investment held and their names, Register of directors
- Register of charges, Minute books, Register of directors shareholding
- Register of members, Register of loans
- Register of debenture holders

25. What is statutory company?

Statutory company is created by special acts passed by state legislature or parliament. They are not required to have Memorandum or Articles of Association. The general objective of such companies is not only to earn profits but to serve people E.g.. Life Insurance corporation, Reserve Bank of India.

26. Registered Company : A company which is registered under the Companies Act,1956. these companies may be limited by shares, limited by guarantee and unlimited company

27. Private Company:

- Which has a minimum paid-up capital of 1 lakh rupees
- Limits its member to 50
- The name of a private company ends with “private limited”

28. Privileges of private company

Even two persons can float a private limited company

Two signatures to the Memorandum will be sufficient

It cannot and need not issue prospectus

As soon it receives certificate of incorporation, it commences business

29. Issue of shares at discount: Issuing of shares less than the face value. If the face value of share is Rs.10/-each. Issuing less than Rs.10/-each is called as issue of shares at discount

30. What is prospectus?

A Document which contains information relating to the issuing company, besides other details of the issue is called a “prospectus”

31. Share Capital: Company have to raise capital through issue of shares is called share capital

32. Types of shares: Equity and preference shares

33. What is ESOP?

- Many companies use employee stock option plan to compensate, retain, and attract employees
- The plans are contract between employees and a company
- It gives employees the right to buy a specific number of shares at a fixed price within a certain period of time

34. . What is memorandum of association?

To be filed with the Registrar of Companies. It contains the following clauses: Name Clauses, Place Clauses, Object Clauses, Capital Clauses, Liability Clauses, Declaration Clauses. The Memorandum should be printed, divided into paragraphs, each numbered consecutively and signed

35. Buy Back of Shares

Take back the equity shares from market or shareholders by paying cash and reduce equity shares available in the share market. It is also known as stock repurchase. A company can buy back its shares either from existing shareholders, or open market, or odd lot shareholders or employees of the company.

36. What is financial statement analysis?

Financial Statement Analysis is concerned with the process of determining financial strength and weakness. It establishes relationship between various accounts in the financial statements.

Its objectives:

- To estimate the earning capacity of the business
- To determine the debt capacity of the concern
- To decide about the future prospects of the concern

37. Define Financial Statement Analysis

“Financial Statement Analysis is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm’s position and performance”

38. Who are the users of financial statement analysis?

The users of financial statement analysis are owners, investors, management and suppliers

39. What is internal analysis?

Analysis by the owners, management and employees
Carried out to find the strength and weakness of the company
To find the growth rate of the company
To carry out the future actions

40. What is external analysis?

Analysis done by the external parties like private institutions, banks and general public
The purpose is to know the financial and operating performance
To know about the credit worthiness, To know about the safety of their investment

41. What is ratio analysis?

Ratio analysis is a powerful tool of financial analysis. It is used as a device to analyse and interpret the financial health of a firm.
Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of determination and interpretation of various ratios for helping in decision making.

42. Fund Flow statement:

- Fund statement is the statement of changes in fund
- It is also called as sources and application of funds
- Sources of funds are issue of shares, issue of debentures, raising of long term loans, sale of fixed assets, sale of long term investments, funds from operations

- Application of funds are redemption of preference shares and debentures, repayment of loans, purchase of long term investments, purchase of fixed assets, payment of taxes and dividends, drawings, fund lost in operations.

43. What are the methods of financial statement analysis?

Comparative Statements
 Common-size Statements
 Trend Analysis
 Ratio Analysis
 Fund Flow and Cash Flow Statement

44. What is working capital?

Working capital refers to the excess of current assets over current liabilities. It is also known as revolving or circulating capital or short term capital. It is the amount of funds necessary to cover the cost of operating the enterprise.

45. What is fund from operation?

The main source of fund for an enterprise is the fund from operation that represents actual amount of profit generated by the business. It is an operational profit. This is done to find the effect of the items such as depreciation, transfer to general reserve, provision for taxation, dividend, loss on sale of assets etc..

46. Define Cost Accounting

Cost accounting is concerned with recording, classifying and summarising costs for determining cost of products or services; Planning, controlling and reducing such costs and furnishing information to the management for decision making.

47. What is cost?

The cost has variety of meanings according to the context. The cost refers to the price of a product. But in management terminology, cost refers to expenditure. The ICMA London defines Cost as “the amount of expenditure incurred on a given thing”

For example: The cost of making a chair includes the amount on materials like timber, polish, wages to carpenter and other overhead expenses

48. What are the objectives of cost accounting?

Ascertainment of Cost : Total Cost and Cost per unit

To disclose the proportion of different elements in total cost

Estimation of Cost: It is not enough to know “what has been the cost”. It is important to know “what is likely to be the cost” or “what should be the cost”

Cost Control: compare actual cost with standard cost (by adopting techniques they can compare)

Cost Reduction : To be kept within limits

Determining the selling price

49. What are the characteristics of good costing system?

- Suitability
- Simplicity : simple and easy to understand
- Economy : expenses should be less than benefits
- Flexibility
- Comparability : with past facts and figures
- Minimum Clerical Work
- Minimum changes : minimum disturbance to the existing system

50. What is marginal costing?

- Marginal costing technique, classifies costs into fixed and variable cost. This is so because marginal costing regards only variable costs as the cost of the products. This technique is used to study the effect on profit of changes in volume or type of output.
- The technique of analysing the **changes of cost** due to the **changes in volume of production** is called marginal costing
- The total cost of production is classified into fixed cost and variable cost
- Only variable cost are charged to the products.

51. Operating or Service Costing:

It is used in undertakings which provide services instead of manufacturing products. For example: transport undertakings, hotels, hospitals, cinemas etc..

52. What is job costing?

- Job costing is a method of costing used to determine the cost of **non-standard jobs** carried out according to **customer specification**
- In this method cost units are separately identified and are costed individually.
- It is also called job costing, specific order costing, terminal costing and production order costing
- Example: Printing Press, Repair Shops etc...

53. What is Activity Based Costing?

Activity Based Costing (ABC) is an accounting technique that allows an organization to determine the actual cost associated with each product and service produced by the organization without regard to the organizational structure. It is developed to provide more-accurate ways of assigning the costs of indirect and support resources to activities, business processes, products, services, and customers.

54. What is value chain analysis?

The value chain framework is an approach for breaking down the sequence of business function into strategically relevant activities through which utility is added to products and services.

Categories: Primary activities and Support activities

55. What is process costing?

- Process costing is a method used to find out the cost of a product at each stage of process or production
- If there are number of process, then the finished product of one process is used as raw material for another process
- Examples : Cement, Chemicals, Steel, Paper , Soaps, Paints etc.,,

56. What is target costing?

- The fundamental objective of target costing is to enable the management to use **proactive** practices
- **Identify the cost at which the product should be** manufactured as its earns profit margin at expected selling price
- It is a process plans, manage and reduce costs
- Understand the market and competition
- Better understanding of the customer requirements

57. What is cost reduction?

Cost reduction may be defined as an attempt to bring costs down. Cost reduction implies real and permanent reduction in the unit cost of goods manufactured or services rendered without impairing their (product or goods) suitability for the use intended. The goal of cost reduction is achieved in two ways: (i) by reducing the cost per unit and (ii) by increasing productivity. The steps for cost reduction include elimination of waste, improving operations, increasing productivity, search for cheaper materials, improved standards of quality, finding other means to reduce unit costs

58. What is budget?

- A Budget is a quantitative statement relating to the forthcoming defined period
- It is always expressed in terms of money
- It is a policy to be followed during the budget period for attainment of organizational objective

59. What is budgetary control?

Budgetary control is the process of comparing the budget figures with the actual performance for calculating **variance**, in order to control the variance. It includes preparation of budgets, coordinating the department and establishing responsibilities, comparing actual performance with budgeted and acting upon results towards achieving maximum profitability.

60. What are the advantages of budgetary control?

- Maximization of Profits
- Co-ordination
- Specific Aims: Every department will have a definite plan
- Tool for Measuring Performance: Performance of each department is reported to the top management
- Corrective Action : Necessary action will be taken at the earliest
- Reduce Costs

61. What is budget committee?

In small concern, the accountant is responsible for preparation and implementation of budgets. In large concern budget committee is formed. All the department heads are made members of committee. They are responsible for preparation and execution of budgets.

62. What is ZBB?

- This technique is quite popular in U.S.
- This technique is designed by US Department of Agriculture in 1961
- ZBB is starting from scratch.
- Every year is taken as a new year and previous year is not taken as the base.
- Something will not be allowed simply because it was allowed in past
- A manager proposing expenditure has to justify

63. What is flexible budget?

It is also called as Variable budget. A budget changes accordance with the level of output. To prepare flexible budget, all costs should be classified into fixed, variable and semi-variable.

64. What is cash budget?

It is an estimate of cash receipts from all sources and cash payments for all purposes. It ensures that the business has adequate cash to meet its requirements as and when these arise. Cash budget is expressed in terms of money

65. What is computerized accounting system?

A computerized accounting system is an accounting information system that processes the financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports as per user requirements

66. What is codifying and grouping of accounts?

A proper codification requires a systematic grouping of accounts. The major groups or heads could be assets, liabilities, revenue receipts, capital receipt, capital expenditure. The sub-groups or minor heads could be ‘cash’ or ‘receivables’ or ‘payables’ and so on. The grouping and codification is dependant.

67. Prepackaged accounting software.

There are several prepackaged accounting software which are available in the market and are used extensively for small and medium sized organisations. The installations of these softwares are very simple. After the installation of the software, the user should check the version of the software to ensure that they have been provided with the latest.

68. What is a government company?

A company of which not less than 51% of the paid up capital is held by the Central Government or by State Government or partly by the Central Govt. and partly by one or more State govt. and includes a company which is a subsidiary govt. company.

69. What is shares?

Total capital of the company is divided into small unit of denomination. One of the units into which the capital of the company is divided is called a share. No trading concern can run without capital.

70. What are the uses of cash flow statement?

- How much cash resources are required?
- How much cash requirements could be internally settled?
- How much cash resources are to be raised through external sources?
- Which type of instruments is going to be floated for raising the required resources?
- It helps the management to understand its capacity at the moment of borrowing for any further capital budgeting decisions.

71. What are controllable costs?

Controllable costs are those which can be influenced by the action of a specified member of an undertaking, that is to say, costs which are at least partly within the control of management. Generally speaking, all direct costs including direct material, direct labour and some of the overhead expenses are controllable by lower level of management.

72. **Normal cost:** It is the cost which is normally incurred at a given level of output in the conditions in which that level of output is normally attained. It is a part of cost of production.

73. **Abnormal cost:** It is the cost which is not normally incurred at a given level of output in the conditions in which that level of output is normally attained. It is not a part of cost of production and charged to Costing Profit and Loss Account.

74. **Sunk costs:** A sunk cost is an irrecoverable cost and is caused by complete abandonment of a plant. It is the written down value of the abandoned plant less its salvage value. Such costs are not relevant for decision making and are not affected by increase or decrease in volume.

75. **Imputed costs:** These costs are those costs which appear in cost accounts only e.g. national rent charged on business premises owned by the proprietor, interest on capital for which no interest has been paid. These costs are also known as notional costs. When alternative capital investment projects are being evaluated it is necessary to consider the imputed interest on capital before a decision is arrived as to which is the most profitable project.

76. **Opportunity cost:** It is the maximum possible alternative earning that might have been earned if the productive capacity or services had been put to some alternative use. In simple words, it is the advantage, in measurable terms, which has been foregone due to not using the facility in the manner originally planned. For example, if an owned building is proposed to be used for a project, the likely rent of the building is the opportunity cost which should be taken into consideration while evaluating the profitability of the project.

77. **Replacement cost:** It is the cost at which there could be purchased an asset or material identical to that which is being replaced or revalued. It is the cost of replacement at current market price.

78. **Break Even Point**

The point which breaks the total cost and the selling price evenly to show the level of output or sales at which there shall be no profit or no loss is called “ Break Even Point”. In other words, the point of sales volume at which total revenue is equal to total cost.

79. **Margin of Safety**

The excess of actual or budgeted sales over the break even sales is called the Margin of safety. The margin of safety is calculated in rupees, units or even in percentage form.

This Margin of safety can be improved by adopting the following steps:

- By increasing the volume of production
- By increasing the sale price of the product
- By reducing the fixed cost through adopting the innovative technologies
- By reducing the variable cost by means of cost reduction and cost consciousness principles.
- By eliminating unprofitable products

- By adopting the optimal sales mix to increase the viability of the product.

80. Capital Expenditure Budget:

This budget is prepared to estimate the capital expenditure on fixed assets- Buildings, machinery, plant, furniture, etc. It is generally a long-term budget. It is prepared for replacement of assets, expansion of production facilities, adoption of new technologies, diversification, etc.

81. Standard Costing

A Predetermined cost which is calculated from management's standards of efficient operation and the relevant necessary expenditure

82. What is IFRS?

International Financial Reporting Standards

83. What is Tally?

Tally is popularly known as an accounting software for small and medium businesses. It does all the functions of accounting that a particularly mid sized business has. Tally has segmented it in 6 different functions. They are:

1. Contra (Only for cash and bank related entries)
2. Payment (For payment entries)
3. Receipt (For receipt entries)
4. Journal (For entries which doesn't include cash or bank and for closing entries)
5. Sales (For sales billing)
6. Purchases (For purchase billing)

There are many more functions related to accounting like Credit Note, Debit Note, Reverse Journal, Memos and so on which aid in performing accounting procedures in an easy manner.

84. What are profitability ratios?

A **profitability ratio** is a measure of profitability, which is a way to measure a company's performance. Profitability is simply the capacity to make a profit, and a profit is what is left over from income earned after you have deducted all costs and expenses related to earning the income.

85. What are the uses of accounting software?

Accounting software describes a type of application software that records and processes accounting transactions within functional modules such as accounts payable, accounts receivable, payroll, and trial balance. It functions as an accounting information system. It may be developed in-house by the organization using it, may be purchased from a third party, or may be a combination of a third-party application software package with local modifications. Accounting software may be on-line based, accessed anywhere at anytime with any device which is Internet enabled, or may be desktop based

86. What is ERP?

Enterprise resource planning (ERP) is business process management software that allows an organization to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources. ERP software integrates all facets of an operation, including product planning, development, manufacturing, sales and marketing.

ERP software is considered an enterprise application as it is designed to be used by larger businesses and often requires dedicated teams to customize and analyze the data and to handle upgrades and deployment

87. Name the various tools used for financial statement analysis.

Ratio Analysis, Fund Flow Statement, Cash Flow Statement, Comparative Balance Sheet, Comparative Income Statement, Common Size Balance Sheet, Common Size Income Statement, Trend Analysis