CITY COLLEGE OF MANAGEMENT AND TECHNOLOGY
(Affiliated to Lucknow University)

B.C.A(SEM -3)

FINANCIAL & MANAGEMENT ACCOUNTING

(Important Question and Answers)

B.C.A. Semester III

P3: FINANCIAL & MANAGEMENT ACCOUNTING

IMPORTANT QUESTIONS AND ANSWERS

Q. 1 : What is Accounting? What are its objectives and scope?

Ans Q1 (a) Meaning of accounting-

- Accounting is the process of recording, analyzing, summarizing, and reporting a Company's financial transactions.
- Accounting is often referred to as the "language of Business"

Q1 (b) Write the definition of Accounting?

According to American Institute of Certified Public Accountants(AICPA),"Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money, of transactions and events which are in part at least of a financial character and interpreting the result thereof "

Q1 (c) Objectives of Accounting:-

I. **Main objectives are:**

   i. To know the profit or loss of the business.
   ii. To know the worth of assets and liabilities of the business at a particular date.
   iii. To know about the progress or downfall of business.

II. **Other objectives are:**

   i. To have detailed information about capital employed in the business.
   ii. To know the position of cash and stocks.

Q1(d) Scope of Accounting:-

Scope of Accounting Explained

The scope of accounting encompasses various tasks and operations, including documenting, categorizing, summarizing, analyzing, and interpreting financial transactions. The nature and scope of accounting contain the fundamental characteristics and the extent of activities within the accounting field. Moreover, the scope of accounting and finance spans different areas, including financial accounting, managerial accounting, cost accounting, auditing, taxation, and financial management. Let's explain in detail:

1 - Financial Accounting

Financial accounting involves the preparation, presentation, and reporting of financial statements. Hence, it ensures accuracy and compliance with GAAP (Generally Accepted Accounting Principles) or International Financial Reporting Standards (IFRS). It provides stakeholders with reliable and transparent financial information.

2 - Managerial Accounting

Managerial accounting provides financial information for internal decision-making, forecasting, analyzing costs, budgeting, and performance measurement. Therefore, it helps organizations make informed business decisions.

3 - Cost Accounting

Cost accounting is a field that analyzes and reports an organization's expenses, including units, goods, and activities. It helps identify cash spending, gains, and losses and aims to improve internal expense controls and effectiveness, serving as a functional examination for the board.

4 - Auditing

Auditing aims to give an opinion on the fairness and adherence to accounting rules of financial statements and records through an impartial review. It confirms the dependability and accuracy of financial data, assuring stakeholders and boosting the credibility of financial statements.

5 - Taxation

Planning, preparation, and adherence to tax laws and regulations are all part of tax accounting. It assists both individuals and businesses in minimizing their tax liability and ensuring that all tax requirements are met.

6 - Financial Management

Financial planning, capital budgeting, investment choices, and risk management are all examples of activities that fall under the umbrella of financial management. It is related to the organization's acquisition, segregation and utilization of financial resources. Managers conduct analyses of financial data, assess investment opportunities, and create plans to increase the company's value.

Q.2: What are the advantages and Limitations of Accounting Information?

Ans Q2 (a) What is Accounting-

- Accounting is the process of recording, analyzing, summarizing, and reporting a Company's financial transactions.
- Accounting is often referred to as the "language of Business"

Definition of Accounting-"American Institute of Certified Public Accountants-

"Accounting is the art of recording, classifying, and summarizing financial events and transactions in monetary terms, and interpreting the results."

Q2(b) Advantages of Accounting:-

1. **Helps in Management:-** The information generated through the process of Accountancy enbles the management of a company to perform their job in an efficient manner.
2. **Substitute to Memory:-** Accounting necessitates recording of all the business transactions in a scientific and classified manner.
3. **Evidence in court:-** A systematic record of all the business transactions may be produced as evidence in the court of law. Courts are inclined to accept such records as 'Good Evidence'.
4. **Comparative study:-** The end products of Accounting are financial statements in the form of Profit and loss Account and Balance sheet which allow company to compare results.
5. **Evidence in courts:** When any matter relating to business is referred to the court of law, accounting records of business transactions are treated as satisfactory evidence. These are used in settling the disputes between parties.
6. **Assessment of tax-liability:** Business concerns have to pay sales tax, excise duty, income tax, etc. as per the government rules. Accounting books are the basis of conclusive proof of tax liability of the business.
7. **Assessing the performance and financial position of the business:** An statement of P & L discloses profit earned (or loss incurred) during a particular accounting period. Profit is a measurement of the performance of the business. A balance sheet states the financial position ofthe business on a particular data. Thus, accounting helps in assessing the performance and financial positions of the business.

Q2(c) Limitation of Accounting:-

1. **No record of non-monetary transaction**- The transactions which cannot be expressed in terms of money are not recorded in accounting.
2. **No record of immaterial informations-** Immaterial information means informations which do not affect the business at all, so all material information only be disclosed by financial statements.
3. **No record of prospective profits-** In accounting provision is made for prospective losses like provision for bad debts but no provision is made for prospective profits.
4. **Legal restrictions:** In case of companies various provisions of the Companies Act,2013, are to be complied with and hence certain limitations are imposed by law on accounting system.
5. **No Future Assessments -** The financial statements prepared are based on the date or the period of preparation.
6. **Errors and Frauds -** These two limitations are the most common ones in accounting. Error is ought to happen as the financial statements are prepared by humans and not machines and fraudulency occurs whenever there is the involvement of manipulation or similar other external or internal factors. These factors are very hard to recognize and rectify at the same time. Thus, this limitation is highly dangerous for any business or firm.
7. **Verifiability -** The correctness of the financial statement or for that matter an audit, cannot be guaranteed. The verification of the statements depends only on the judgment and ability of the auditor and hence creates plenty of limitations in accounting.
8. **Estimates -** Another important limitation of accounting is estimation. The reason behind is that not all accounting can be done to establish the exact amount and hence it is essential to estimate.

Q3:- Write short notes on:-

(a) Branches of Accounting.

(b) Users of Accounting Information

(c) Accounting process.

(d) Accounting Equation.

Ans. (a) Branches of Accounting.

1. **Financial Accounting-**An accounting which relates with the analysis and recording of transactions of financial nature,their classification, preparation and interpretation of financial statements is termed as Financial accounting.
2. **Management Accounting-** The accounting which is prepared exclusively for the use of management is called Management Accounting.
3. **Cost Accounting-** The accounting which helps in ascertainment of total cost and cost per unit of goods and services is called Cost Accounting.
4. **Tax Accounting-** The accounting which is used for tax purposes is called Tax Accounting.
5. **Government Accounting-** The accounts which are maintained by Central Government, State government and Local Government bodies are called Government accounting.
6. **Human resource Accounting-** Accounting which is exclusively related with human resource is called human resource accounting.
7. **Social Responsibility Accounting-** Social responsibility accounting deals with identifying, measuring and communicating social activities carried out by the for benefits of society.
8. **Environment Accounting-** This Accounting is deals with environment and ecology preservation.

(b) Users of Accounting Information

External Users of Accounting Information

a) **Investors**: It is only after knowing the profitability and sound financial position that potential investors take decision about making and present investors continues investment in an enterprise.
b) **Creditors**: Creditors (i.e. supplier of goods and services on credit, bankers and other Lenders of money) need the information to determine whether the concern will be able to repay its principal and interest as and when falls due.
c) **Government**: Central and State Governments are interested in the accounting information Because they want to know earnings or sales for a particular period for purposes of taxation, compute national income and also to know the industry growth of the country.
d) **Consumers**: Consumers need accounting information for establishing good accounting Control so that cost of production may be reduced with the resultant reduction of the prices Of goods they buy.

II- Internal Users of Accounting Information.

a) **Owners**: They need accounting information to know the profitability and the financial Position and future aspects of the concern in which they have invested their funds.
b) **Management**: Management can improve the efficiency, increase production and increase profitability by using accounting information in an appropriate manner.
c) **Employees**: Employees always feel that proprietor makes huge profit while their remunerations are limited, this doubt is removed by accounting information.

(c) Accounting process.

The accounting process or cycle starts with the identification and measurement of the financial transactions.
Steps Involved in Accounting Process are as follows:

Step 1:- Business Transactions/events Takes place- Identify Transactions-

The first step in the accounting cycle is identifying transactions. Companies will have many transactions throughout the accounting cycle. Each one needs to be properly recorded on the company's books.

Step 2:- Analysis and Recording of the Transaction

The second step in the cycle is the creation of journal entries for each transaction. Point of sale technology can help to combine steps one and two, but companies must also track their expenses. The choice between accrual and cash accounting will dictate when transactions are officially recorded.

Step 3:- Posting the Information.

Once a transaction is recorded as a journal entry, it should post to an account in the general ledger. The general ledger provides a breakdown of all accounting activities by account.

Step4: Preparation of Trial Balance

Step5: Preparation of the Financial Statements- After the company makes all adjusting entries, it then generates its financial statements in the seventh step. For most companies, these statements will include an income statement, balance sheet, and cash flow statement.

Q4- What are GAAP(Generally accepted accounting principles) and explain what are accounting standards?

ANS-Q4A- GAAP (Generally Accepted Accounting Standard)

- Generally Accepted Accounting Principles (GAAP) are a set of accounting rules and procedures that ensure financial statements are consistent, accurate, and transparent.
- GAAP is established and frequently updated by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).

GAAP is important because it:

- **Helps people understand financial information:** GAAP makes it easier for people to understand financial statements and compare the finances of different entities.
- **Helps maintain trust in financial markets:** GAAP helps investors make better-informed investment decisions.
- **Helps ensure accountability:** GAAP helps taxpayers and others hold government bodies accountable.

Some of the principles of GAAP include:

- **Principle of consistency-** Accountants must apply consistent standards throughout the financial reporting process.
- **Principle of sincerity-** Accountants must strive to provide a complete and accurate depiction of a company's financial situation.
- **Principle of non-compensation-** All financial information must be disclosed regardless of whether it is positive or negative for the company.

Q4-B-Accounting standards-are a set of guidelines that help businesses record, measure, and report financial transactions. They ensure that financial statements are reliable, transparent, consistent, and comparable.

Or

- Accounting standards (AS) are a set of principles, standards, and procedures that serve as the foundation for financial accounting policies and practices.

Objectives of Accounting Standards (IND AS)

Objectives of Accounting Standards of India include:

- The Indian Accounting Standards (IND AS) primary objective is to ensure that large-scale activities are properly accounted for through continuous disclosure, treatment, and reformation.
- IND AS standardizing accounting policies and principles for the country's economy.
- Provides a unified framework for the preparation of books of accounts and ensures financial transparency.
- The Indian Accounting Standards (IND AS) ensure that all institutions and governmental bodies are accepted globally.

Advantages of Accounting Standards

Some of the advantages of Accounting Standards are as follows:

- It simplifies and clarifies accounting information.
- Helps an accounting system be uniform.
- Provides acceptance on a global level.
- Financial statements can be easily compared.
- Helps in auditing.
- Gives financial statements credibility.
- Assess management performance.
- Prevents fraud and manipulation

Here are some details about accounting standards:

- **Purpose -** Accounting standards help provide accurate financial information to investors, banks, and government agencies.
- **Application -** Accounting standards apply to all aspects of a company's activities, including revenue, expenses, assets, liabilities, equity, and reporting.
- **Issuers-** Accounting standards are issued by a regulatory board, accounting body, or sometimes directly by the government. In India, the Institute of Chartered Accountants of India (ICAI) issues accounting standards.

Here are some **mandatory accounting standard** listed below issued by the ICAI as well as Companies (Accounting Standards) Rules, 2006 notified by the Ministry of Corporate Affairs, Government of India. These standards are followed by the preparers and auditors of financial statements along with other stakeholders.

1-Policies related to accounting disclosure (AS 1) 2- Valuation of Inventories (AS 2) 3- Cash Flow Statements (AS 3)
4-Revenue Recognition (AS 9) 5-Accounting for Investments (AS 13)
6-Accounting for Amalgamations (AS 14)

Q5- What is IFRS? What are its needs & significance and also explain Ethical issues in Accounting?

ANS-Q1 a)

- IFRS or International Financial Reporting Standards refers to a globally-accepted set of accounting and financial reporting guidelines for preparing and presenting financial statements.
- It ensures uniformity in accounting practice that makes financial records comparable across different reporting entities worldwide.
- Over the years, it has emerged as the new world standard in accounting.
- IFRS specify in detail how companies must maintain their records and report their expenses and income.
- They were established to create a common accounting language that could be understood globally by investors, auditors, government regulators, and other interested parties.

Standard IFRS Requirements

IFRS covers a wide range of accounting activities. There are certain aspects of business practice for which IFRS set mandatory rules.

- **Statement of financial position:** This is the balance sheet. IFRS influences the ways in which the components of a balance sheet are reported.
- **Statement of comprehensive income:** This can take the form of one statement or be separated into a profit and loss statement and a statement of other income, including property and equipment.
- **Statement of changes in equity:** Also known as a statement of retained earnings, this documents the company's change in earnings or profit for the given financial period.
- **Statement of cash flows:** This report summarizes the company's financial transactions in the given period, separating cash flow into operations, investing, and financing.

The need for IFRS in India is necessary due to the following reasons:

- To ensure a general understanding of best accounting practices
- To make the financial statements reliable, comparable & transparent
- To standardize financial accounting & reporting across the globe
- To promote foreign Investment & spur Industrial growth
- To eliminate information barriers for users of financial statements

International Financial Reporting Standards represents an international financial reporting system and serves multiple purposes. Some of its significant goals in the financial world are as follows:

1- Create a Common Law

One of its key objectives is to ensure that common law is introduced and adopted by as many jurisdictions and countries as possible to bring everyone on the same page. It ensures that everyone follows the same guidelines and adopts a universal way of reporting business activities.

2 - Aid analysis

It helps stakeholders in analyzing a company's performance and interpreting its financial position. For example, corporations and governments use these standards to make credible financial statements. It aids in categorizing and reporting financial data with accuracy and consistency. Such financial records promote better comprehension and help decision-making.

3 - Assist in preparation of reliable financial records

By following International Financial Reporting Standards, the data presented in the books of accounts are likely to be accurate, reliable, uniform, and appropriate within the bounds of its rules. The high quality of financial records assists investors in making informed economic decisions.

4 - Ensure comparability, transparency, and flexibility in reporting

The consistency in reporting accounting practices enables easy comparison of the financial records of compliant companies across nations. Such comparisons allow investors to identify risks and opportunities before investing. As a result, it promotes foreign trade and investment. Also, it requires full disclosure of all relevant information to its stakeholders.

ANS Q1b)-What is ethics- Ethics are the moral principles that guide our actions and decisions and they play a pivotal role in the field of accounting. Accounting professional hold a position of trust in society, as they are responsible for managing financial information that impacts stakeholders

Q4 c)Ethical issues of Accounting are as follows-

- Confidentiality
- Independence
- Professional competence
- Objectivity
- Fraud.

Q6- Write short notes on?

a)Double entry system of Accounting?

b)What is Journal?

c)What is Ledger?

ANS Q6 A)- What is double entry system of accounting-

- Accounting is an art of recording, classifying and summarizing the transactions of financial nature measurable in terms of money and interpreting the results thereof.
- Two methods for accounting are Single Entry System and Double Entry System. Mostly, we convert to Double Entry for better accounting purposes.
- Double Entry System of accounting deals with either two or more accounts for every business transaction. For instance, a person enters a transaction of borrowing money from the bank. So, this will increase the assets for cash balance account and simultaneously the liability for loan payable account will also increase.
- It's a fundamental concept encompassing accounting and book-keeping in present times. Every financial transaction has an equal and opposite effect in at least two different accounts.

Equation can be: ASSETS = LIABILITIES + EQUITY

Recording System

- Double entry system records the transactions by understanding them as a DEBIT ITEM or CREDIT ITEM. A debit entry in one account gives the opposite effect in another account by credit entry.
- This means that the sum of all Debit accounts must be equal to the sum of Credit accounts. This method of accounting and book-keeping results in the accurate depiction of financial statements. Thus, it also lowers the rate of errors by detecting them on a timely basis.

Q6 b)- What is Journal?

A journal is the book of original entry which records transactions as they take place, such an entry into the journal must contain a source document. Maintaining a journal ensures all transactions are recorded and in one place and debit and credit for each transaction is linked properly. A journal consists of the following sections.

The characteristics of a journal are:-

(i) It contains day-to-day transactions in a chronological order
(ii) It shows complete details of a transaction in one entry.
(iii) It records both the debit and credit aspect of a transaction according to the double entry system of book - keeping.
(iv) Each entry in the journal is followed by a narration which is a brief explanation of the transaction.

Q6 c)-What is Ledger?

- A ledger in accounting refers to a book that contains different accounts where records of transactions pertaining to a specific account is stored. It is also known as the book of final entry or principal book of accounts.
- It is a book where all transactions either debited or credited are stored.
- It is regarded as the most important book in accounting as it helps in creating a trial balance that acts as a precursor to the preparation of financial statements.
- The information stored in a ledger account contains both starting and ending balances which are adjusted during the course of the accounting period with respective debits and credits.
- A ledger contains different components which include the various transaction elements such as date, amount, particulars and l.f (ledger folio). Individual transactions are contained within a ledger account and are identified by a transaction number or any other type of notation.

Ledger Posting-

The process of transferring entries from a journal to the respective ledger accounts is known as ledger posting.

Following are some examples of ledger accounts

1. **Accounts receivable**
2. **Cash**
3. **Depreciation**
4. **Accounts payable**

Q7- What is trial balance? What are the methods of trial Balance?

ANS Q7 a)- What is a Trial Balance?

- A Trial Balance is a statement that keeps a record of the final ledger balance of all accounts in a business.
- It has two columns – debit and credit.
- Trial Balance is prepared at the end of a year and is used to prepare financial statements like Profit and Loss Account or Balance Sheet.
- The main objective of a Trial Balance is to ensure the mathematical accuracy of the business transactions recorded in a company's ledgers.

Q7 b)-Objectives of Trial Balance:

The main objectives of a Trial Balance are as follows:

- It helps in ascertaining arithmetic errors that occur while preparing accounts. Accountants can make mistakes while recording financial transactions under the double-entry bookkeeping system. When the debit and credit sides of a Trial Balance do not match, it means one of two things. One, there was an error in either recording the account balance. Or two, there is an accounting mistake made while recording the transaction in the ledgers.
- It helps in preparing the financial statements of a company at the end of a financial year. The final balance of expenses and revenue accounts is taken from the Trial Balance and used in the Profit and Loss Account. Similarly, the accounts related to Assets, Liabilities and Capital gets recorded in the Balance Sheet.
- A Trial Balance helps in summarizing the financial transactions done while running a business. It is a consolidated summary of the financial transactions that have taken place within a financial year. It can help the management in making business decisions as well.

Q7 c)-Limitations of a Trial Balance

The main limitations of a Trial Balance are as follows:

- It may hide errors of omission. Some transactions are not journalized at all. Even a correctly balanced Trial Balance cannot reveal this mistake.
- If a journal entry with an incorrect amount gets recorded in both accounts, the Trial Balance will not detect that error.
- A journal entry may have the right amount, but the accountant may have entered it under the wrong accounting heads. The Trial Balance cannot identify such mistakes.
- If a journal entry is missing in the ledger, it will not reflect in the Trial Balance.

Q7 d)-Benefits of Trial balance-

- It assists in the preparation of financial statements i.e. - Profit and Loss Account and Balance sheet.
- A self-balanced trial balance ensures the arithmetical accuracy of the entries made. If the balances do not tally, then the errors can be found out, rectified and then financial statements can be prepared.
- It acts as a quick reference. So that we can easily find out the balance in any ledger account without actually referring to the ledger.
- If the classification of ledger accounts is systematically done in the trial balance, one can do quick time analysis. Therefore the listing of ledger accounts is usually done in the sequence of Asset accounts, Liability accounts, Capital accounts, Owner's equity accounts, Income or gain accounts and Expenses or losses accounts in that order.

Q7 e)- Preparing a Trial Balance:

There are three methods by which you can prepare a Trial Balance. They are as follows:

- **Total Method –** Total Method records each ledger account's debit and credit columns to the Trial Balance. Both the columns should be equal as this method follows the double-entry bookkeeping method.
- **Balance Method –** This method uses each ledger account's final debit/credit balance in the Trial Balance. Once the balance figures of all accounts are listed, the Trial Balance (both on the debit and credit side) helps check the accuracy of all transactions. The Balance Method of preparing Trial Balance is more popular compared to its alternatives.
- **Total cum Balance Method** – This method is a combination of both the Total Method and Balance Method. The Trial Balance has four columns – two for the credit and debit totals of a ledger account and two for that account's credit/debit balances.
- **Adjusted trial balance-**This type of trial balance is prepared after the initial trial balance. It accounts for any missing or misrepresented information in the general ledger and corrects for errors identified in the initial report.

Q8- What are Capital and Revenue Items and also differentiate between them?

ANS- Q8 a)-What is Capital Expenditure?

- Capital Expenditure or CAPEX make up those funds which are put to use to acquire, maintain or upgrade long-term assets. Typically, such expenses do not occur frequently and are incurred to boost a company's proficiency in the long-term.
- Some potent capital expenses include – purchasing tangible assets like plant, plot, equipment, furniture, fixtures, etc. and intangible assets like – patent, license or trademark.
- Generally, CAPEX influences a firm's short-term and long-term financial standing and also helps to boost its overall operations over the years.
- The formula of CAPEX is given as –
- Capital expenditure = Net increase in PP & E + Depreciation Expense
- It must be noted here that capital expenditure is capitalised. Further, depreciation is charged on CAPEX every year and is among the prominent differences between capital expenditure and revenue expenditure.

Q8 b)-Types of Capital Expenditure

Capital expenditure is divided into these 3 distinct groups –

- Expenses that a firm incurs to lower cost.
- Expenses that help to boost overall earnings.
- Expenses made on non-economic grounds.

Q8 c)-What is Revenue Expenditure?

Revenue expenditure or OPEX accounts for those expenses that a firm incurs during its course of operation.

It can be defined as the total expenses that are incurred by firms through their course of production activities.

Under normal circumstances, such costs do not result in asset creation, and the benefits resulting from OPEX is limited to one accounting year.

Typically, they are not responsible for generating or boosting the profit earning capacity of a company.

Regardless, they play a key role in the aspect of managing operational activities and assets more optimally and are also considered vital for generating revenue within a given accounting period.

Some of the many revenue expenditure examples include – rent, salaries, wages, commission, freight charges, etc.

As far as accounting treatment is concerned, revenue expenditure for an accounting period is stated in a firm's Income Statement.

Q8 d)-Types of Revenue Expenditure

In a general sense, types of revenue expenditure can be categorized under 2 distinct groups, namely –

- **Direct expenses**

These types of expenses are mostly incurred through the production process. The most common direct expenses include – direct wages, freight charge, import duty, commission, rent, legal expenses and electricity cost.

- **Indirect expenses**

These expenses pertain to the sale and distribution of finished goods or services. They include expenses like selling salaries, repairs, interest, commission, depreciation, rent and taxes, among others. Such costs may also include the money spent during the management of recurrent administrative expenses.