

GOVERNMENT ARTS AND SCIENCE COLLEGE, MANALMEDU

DEPARTMENT OF COMMERCE

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Business Accounting – E-Learning Study Material

Part - A Questions and Answers (2 Marks)

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UNIT I –

BRANCH AND DEPARTMENTAL ACCOUNTS

1. What is branch?

If a business wants to establish in their business activities in some other location, it does it through establishing as a business unit, it is called as branch. Branch is always controlled by head office.

2. State any two objectives of branch accounts.

Objectives of branch

- To calculate profit or loss of each branch
- To control branches by the head office

3. What are various types of branch?

Types of branch

- Dependent branch
- Independent branch
- Foreign branch

4. What is meant by dependent branch?

Branch which cannot maintain its own set of books of accounts and all records are maintained by the head office. In other words, branch which is controlled by head office and it does not have autonomy.

5. What do you mean by debtors system?

Under Debtors system of accounts, a branch account is to be opened separately for each branch in the books of head office. The nature of accounts is nominal account. The opening and closing balances of stock, debtors and petty cash are recorded in such account.

6. Write a short note on stock and debtors system.

One of the methods of preparing branch account is called as stock and debtors system. Under this system separate accounts are opened called branch stock account, branch debtors account, branch expenses account and branch profit and loss account.

7. What is meant by independent branch?

Independent branch means, a branch which can maintain its own set of books of accounts and has autonomy to operate business activities independently.

8. What is wholesale branch?

Manufacturer of goods may sell goods to consumers through branches, in such situation the manufacturer send goods to branches at wholesale price not at cost price.

9. What is head office?

Branches are opened by a business in various locations in order to enhance their business. They are called as branches. They are controlled by the primary business unit, which is called as Head Office.

10. What is final accounts system?

The head office may ascertain the profit or loss of a dependent branch by preparing branch trading and profit and loss account at cost value. This method of accounting is called as final accounts system.

11. What is branch adjustment account?

When goods are sent by head office to its branches at invoice price, the inflated price (i.e. excess of invoice price than cost) to be adjusted in order to ascertain real profit or loss of the branch. For this purpose Branch adjustment account is opened and in such account loading (excess of invoice price than cost) on opening stock, closing stock, goods sent to branch, goods returned from branch are to be adjusted.

12. What is meant by invoice price?

Goods are sent by head office to branches and the details including prices are informed in invoice. Some head offices mention inflated price than its actual cost (i.e. cost plus some rate of profit). This inflated price is called as 'Invoice Price'.

13. What is a department?

In big size businesses, for the purpose of easy administration the business is divided into various divisions based on its nature or sale/manufacture of products etc. The particular division in the business unit is called debarment.

14. What is departmental accounting?

Under departmental business system, usual accounting system (i.e. preparation of trading and profit and loss account) is not suitable. The business wants to calculate profits or losses for each department separately and overall result of the organization. This method of accounting is called as departmental accounting.

15. State any two needs for departmental accounting.

- To calculate profit or loss for each departments separately in order to know their efficiency.
- To compare results of a particular department with other departments in the business.

16. State any two advantages for departmental accounting.

- Ascertaining profit for each department separately.
- It helps to take remedial measures based on performance ascertained by departmental accounting.

17. State basis of apportionment of the following expenses.

(a) Selling expenses (b) Rent (c) Lighting (d) Workmen's amenities

| Expenses | Basis |
|-------------------------|---------------------------------|
| (a) Selling expenses | - Sales |
| (b) Rent | - Floor area occupied |
| (c) Lighting | - No. of light points |
| (d) Workmen's amenities | - No. of workers / Direct wages |

18. What is inter-departmental transfer?

In a business goods may be transferred from one department to another department within the same business organization. It is called as inter departmental transfer.

UNIT II

HIRE PURCHASE AND INSTALMENT PURCHASE SYSTEM

1. Define purchase system.

Section 2 (c) of The Hire Purchase Act 1972 defines hire purchase as “Hire purchase agreement is an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement and includes an agreement”.

2. What is cash price?

If a goods or asset are offered at a price when the full payment is paid immediately is called as cash price.

3. What do you mean by hire purchase price?

The agreement price fixed by hire vendor, when a goods or asset sold under hire purchase system. The price includes cash price and interest there on.

4. What is meant by instalment?

Under hire purchase or instalment system, the price of the goods are paid by the purchase is paid periodically, such amount is called as instalment.

5. What is down payment?

When a goods sold under hire price system, a part of its hire price should be paid at the time of agreement or delivery of goods, such payment is called as down payment.

6. Who is hirer?

The buyer of goods under higher purchase system is called as hirer.

7. Who is hire vendor?

The seller who sells goods under higher purchase system is called as hire vendor.

8. Write any two features of hire purchase system.

- The possession of goods alone is transferred to hirer at the time of signing the hire purchase agreement.
- Ownership of goods under higher purchase system remain with hire vendor until the last instalment is paid by the hirer.

9. What is default in hire purchase system?

If a hire purchaser fails to pay any instalment is called as ‘default’.

10. What is meant by repossession?

If a hire purchaser fails to pay any instalment, the hire vendor has the right to take the sold goods back is called repossession. Under hire purchase system the ownership of the goods is transferred only when the last instalment is paid by the hire purchaser, until that the possession of goods only is vested with him. Hence the hire vendor can take away the goods back when there is default in payment.

11. What is meant by complete repossession?

If the hire vendor takes away the whole goods sold by him from the hirer due to non-payment of instalment is called complete repossession.

12. What do you mean by partial repossession?

When a hire vendor sells more than one unit of goods to hirer under purchase system, If the hirer fails to make any instalment, the hire vendor may takes away part of goods sold for equalent to the amount due from him and rest of the goods will be left with hirer. This is called as partial repossession.

UNIT III

SELF BALANCING LEDGERS AND ROYALTY ACCOUNTS

1. What are self balancing ledgers?

In large size businesses, many numbers of personal accounts are to be maintained, it may not be convenient to keep all the accounts in one ledger. At the end of the accounting period, in case of non-agreement of trial balance, it is difficult to locate errors. In such situation debtors ledger, creditors ledger and general ledger are maintained is called self balancing ledger.

2. State the sub divisions of self balancing ledgers.

- a. Debtors or sales ledger
- b. Creditors or purchase ledger and
- c. General or impersonal or nominal ledger

3. What is debtors ledger / sales ledger?

This ledger contains personal accounts of debtors to whom credit sales were made by the business. In this account only trade debtors accounts are opened.

4. What do you mean by creditors ledger / purchase ledger?

This ledger contains personal accounts of creditors from whom credit purchases were made by the business. In this account only trade creditors accounts are opened.

5. What is meant by general ledger?

In general ledger all nominal and real accounts and remaining personal accounts are opened.

6. What is adjustment account?

In order to prepare trial balance for each ledger separately, it is important to provide the missing information in each of such ledgers. This is accomplished by opening the 'adjustment accounts' at the end of each ledger.

7. What is meant by contra balance?

Generally a debtors account should show debit balance and creditors account should show credit balance. However on the date of finalizing accounts, some debtors account may show credit balance or some creditors account may show debit balances temporarily. They are called as contra balance.

8. What is meant by 'set off' or 'transfer'?

Transfer or set off always decreases the debtors as well as creditors, whether the transfer is from debtors ledger to creditors ledger or from creditors ledger to debtors ledger the net effect is that the transfer results in the decrease of debtors as well as creditors.

9. What is royalty?

Royalty is an amount payable by one person to another person in order to use of an asset or right or license etc. of the latter.

10. What is meant by minimum rent or dead rent?

Minimum rent or dead rent is the guaranteed amount must be payable by the lessee (tenant) to the landlord irrespective of actual output or sales made by lessee.

11. What do you mean by short-workings?

Excess of minimum rent over actual royalty is called as shortworking.

12. What is recoupment of shortworkings?

According to agreement the landlord permits the lessee to coup shortworking of earlier years from excess amount of royalty over minimum rent is called as recoupment of shortworking.

13. What is fixed recoupment?

Under this method of recoupment the lessee is allowed to recoup shortworking for a fixed number of years is called as fixed recoupment. (e.g. recoupment may be allowed for the first three years or four years or five years etc.).

14. What do you mean by flexible recoupment?

Under this method of recoupment the lessee is allowed to recoup shortworking for few number of subsequent years from the year in which shortworking is occurred is called as flexible recoupment. (e.g. recoupment may be allowed for one/two/three etc. years from the year of shortworking).

15. What is lapse of shortworking or written off?

If any amount of shortworking is not able to recoup according to the terms of agreement is called as lapse of shortworking, this amount is to be written off by transferring it to profit and loss account.

16. What is sub-lease?

If a lessee gives a part of land or right to another person and receives royalty is called sub-lease. But it is possible only when terms of the original lease gives power to the lessee to sub-let.

17. Who is lessor?

Lessor is the person who gives his land or rights to another person in order to get royalty.

18. Who is lessee?

Lessee is the person who gets rights of land or rights from the lessor and gives royalty to him.

UNIT IV

FIRE INSURANCE CLAIMS AND ACCOUNTING FOR SALE OR RETURN

1. What is fire insurance claim?

A type of insurance policy which covers the financial risk of goods or assets which are damaged or lost by fire is called as fire insurance claim.

2. What is meant by loss of stock claims?

Business units which have insured their stock in its business place against the risk of loss by fire are eligible for lodging claim in case of loss occurred due to fire accident is called loss of stock claims.

3. What do you mean by salvage of stock?

In case any portion of stock is saved from damage due to fire occurred in a business place is called as salvage of stock.

4. Write a short note on gross profit ratio.

When fire occurred in a business place, exact profit cannot be calculated on account of non-availability sufficient information. In such case in order to calculate stock on the date of fire gross profit is calculated based on rate of gross profit of the business from earlier years. rate of gross profit is the percentage of gross profit on sales of a business.

5. Write a short note on average clause.

Fire insurance policy may include average clause. Under this, if stock on the date of fire is more than the insured stock, average clause must be applied to compute claim as follows.

$$\text{Claim} = \frac{\text{Insured stock}}{\text{Stock on the date of fire}} \times \text{Actual loss of stock}$$

6. What is indemnity period?

It is the period in which insurance policy is taken against the risk of fire. Insurance policies are taken for a period of one year. Indemnity period is the period in which affected by fire. During such period normal course of business cannot be expected.

7. What is meant by affected period?

It is the period for which normal working is affected due to fire.

8. What do you mean by standard turnover?

It is the sales during the same period as affected period, in the previous period. (e.g. if affected period is between January to march, 2019 means, standard turnover is the sales during January to march in 2018).

9. What is saved turnover?

It is the sales achieved due to spending additional amount during the affected period.

10. What is short sales?

Short sales is the difference between standard turnover and turnover during affected period.

11. What is memorandum trading account?

During the year in which fire accident is occurred, in order to calculate value of stock on the date of fire to lodge claim a trading account is to be prepared, but all the information to prepare the account will not be available. Hence this account is called as memorandum trading account.

12. What are abnormal items?

Abnormal items are the transactions which are normally happen in normal course of business. They are to be adjusted while calculating gross profit ratio under fire insurance claim.

13. What is sale or return?

A trader may send goods to his customers with the understanding that they can inspect goods in their place and decide whether that should be kept or return to the trader is called as sale or return transaction.

14. What is sale or return day book?

This account is opened on memorandum basis to show the goods sent, approved, rejected and balance.

15. What do you mean by sale or return ledger?

This ledger is opened in addition to sale or return day book as Katcha ledger or rough ledger. It contains personal accounts and sale or return account which are not to be confused with customers accounts and sales account in the regular ledger.

UNIT V

INSOLVENCY ACCOUNTS

1. Define ‘insolvent’?

The Indian Sale of Goods Act, in Section 2(8) defines insolvent as “A person is said to be insolvent who has ceased to pay his debts as they become due, whether he has committed an act of insolvency or not”.

2. What is statement of affairs?

Statement of affairs is the statement prepared in insolvency process, which summarises assets and liabilities of the person and also shows the amount of deficiency.

3. What is deficiency account?

Deficiency account is prepared after preparation of statement of affairs. It describes the how deficiency appear in the statement of affairs has arisen.

4. What do you mean by contra entry?

Balance sheet does not show any contra items. In statement of affairs surplus from secured creditors’ assets is transferred from liabilities side to assets side as a ‘contra’ item. Similarly, preferential creditors shown on liabilities side are deducted as ‘contra’ item on the assets side.

5. Who are preferential creditors?

Preferential creditors are the creditors who are having preferential right to get back their dues than others.

6. Who are secured creditors?

If debt of a creditor is secured by collateral is called as secured creditors. These creditors have to be paid from realized value of such security assets.