**BUSINESS ACCOUNTING**

**TWO MARKS QUESTIONS**

**UNIT - I**

1. What is Branch Accounting?

Branch accounting is a bookkeeping system in which [separate accounts](https://www.investopedia.com/terms/s/separateaccount.asp) are maintained for each branch or operating location of an organization. Typically found in geographically dispersed corporations, multinationals and chain operators, it allows for greater transparency in the transactions, [cash flows](https://www.accountingtools.com/articles/what-is-cash-flow.html) and overall financial position and performance of each branch.

### What are Branch Accounting Methods?

There are several different methods for keeping branch accounts, depending on the nature and complexity of the business and the operational autonomy of the branch. The most common include:

* Debtor system
* Income statement system
* Stock and debtor system
* Final accounts system

1. What is a dependent branch?

Dependent branches are the branches which do not maintain full set of accounts. They maintain only essential records and accounts such as stock register, debtors account etc., periodically, these branches send reports and statement of their transaction to the head office.

1. What is an independent branch?

Independent Branch, like the Head Office, keeps all its records separately and independently on Double Entry System. Independent Branches are those which make purchases from outside, get goods from Head Office, supply goods to Head Office and fix the selling price by itself

1. What are the Characteristics of an Independent Branch?

1. Independent Branch keeps a complete set of books. Such Branch gets goods from Head Office and from outside parties. It has its own Bank Account. Thus, the Branch keeps frill system of accounting.

2. It prepares its own Trial Balance, Trading and Profit and Loss Account and Balance Sheet. Copies of these statements are sent to Head Office for incorporating in the Head Office Books.

3. The books contain an Account called “Head Office Account” or “Head Office Current Account” which is credited with everything received from the Head Office and debited with everything sent to Head Office. That is, all transactions relating to Head Office are recorded in this Account. The Head Office Current Account is thus a Proprietorship Account (i.e. Capital Account).

1. What do you mean by debtors system?

A method under which branch account is opened for each branch in the head office ledger. All transactions relating to that branch are recorded in this account. This system is suitable for the small size branches.

1. What do you mean by stock and debtors system?

When the head office wants to have strict control over the branch transactions and branch stock it may follow stock and debtors system for accounting in respect of dependent branches.

1. What do you mean by whole sale branch system?

Under the wholesale branch system the head office sends the goods to the branch at wholesale price and not at cost. So the goods sent to branches should be credited at whole sale price in the head office trading account.

1. What do you mean by final accounts system?

The profit or loss of a dependent branch can also be ascertained by preparing a trading and profit and loss account. This account is usually prepared in cost price. So opening stock, goods sent to branch, goods returned by branch, closing stock at branch, etc. are recorded only at cost price and not at invoice price.

1. Write any two features of dependent branch.

* Dependent branches are selling the goods supplied by the head office. Sometimes, they may be allowed to purchase goods from others and sell the same.
* All branch expenses are paid by the head office.

1. Write short note on stock reserve account.

Stock reserve is unrealised profit which is burden in the wholesale closing stock’s cost price under wholesale branch system. The stock reserve is debited to head office profit and loss account and credited to stock reserve account.

1. Write short notes on cash –in- transit.

Cash in transit generally represents cash sent by the branch and not yet received by the head office. If cash is not received by the head office, the head office would not have made an entry crediting branch account. But the branch would have made entry for cash sent debiting head office account. Hence, branch account will show more debit than head office account.so the adjusting entry passed for cash in transit it will tally. Cash in transit will be show under current assets in the balance sheet.

1. Write short notes on goods –in- transit.

Goods in transit generally represent goods sent by the head office and not yet received by the branch. If these goods are not received by the branch would not have made an entry crediting head office for such goods. But the head office would have made entry for the goods sent by debiting branch account. Hence, branch account will show more debit than head office account. If the adjusting entry is passed for goods in transit it will tally. Goods in transit will be shown under current assets in the balance sheet.

1. What are the different types of branch?
2. Dependent branches: branches not keeping full system of accounting.
3. Independent branches: branches keeping full system of accounting.
4. Foreign branches: branches establish outside India. They are generally independent branches and maintain full system of accounting.
5. What do you mean by invoice price?
6. The head office may send the goods to the branches at invoice price which is higher than the cost price.
7. Invoice price = cost price + profit
8. What is a departmental organisation?

Departmental organization is the oldest form of business organization and is common in many countries. One of the best examples of the departmental form of organization is the post office. In India, Railways, Defence Industries, Radio, Public Utility services etc. are being run on departmental basis.

1. What do you mean by departmental accounts?
2. When a business concern has different divisions under the same roof. Each division trading in different types of goods or serves. Such divisions are called departments.
3. Departmental trading profit and loss account is prepared separately for each department showing the net profit or loss for each department.
4. Write any two objectives of preparing departmental accounts.
   1. To ascertain the profit or loss of each department.
   2. To determine the operating efficiency of each departments.
5. Write any two advantages of departmental accounts.
6. Enables inter departmental comparison
7. Enables historical comparison
8. Facilitates decision making at different situations
9. Helps in determining efficiency of personnel
10. What do you mean by departmental expenses?
11. The expenses incurred in the business may be divided into direct and indirect expenses.
12. Direct expenses are the expenses that can be identified with a product or department. Such expenses are charged directly to the respective departments. For eg. Cost of purchases, packing, wages
13. Indirect expenses are expenses which cannot be identified with a product or department and are generally incurred in common. For eg. Advertisement, rent
14. These expenses are apportioned to the departments.
15. What do you mean by apportionment of expenses?

The expenses are to be divided among the departments on some suitable bases. This is called apportionment of expenses. For eg. Total rent can be apportioned to different departments in the basis of floor area of each department.

1. What do you mean by inter departmental transfers?

Transfer of goods or services from one department to another department of the same business unit is called inter department transfer.

The transfer may be for the following purposes:

1. For own use of the receiving department.
2. For further processing before sale by the receiving department.

**UNIT – II**

1. Define hire purchase system.

According to sec 2(c) of the Hire purchase Act, 1972,” hire purchase agreement means 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.”

1. What is Hire purchase system?

It is an agreement under which one person (hirer) acquires goods on hire from another person (owner) on the stipulation that payments will be made in periodical instalments and that the ownership will pass to the payer only after the payment of last instalment.

1. What do you mean by instalment purchase system?
2. It is a contract under which the buyer purchases the goods from the seller on the stipulation that, payments will be made in periodical instalments and theat the buyer becomes the owner of the goods immediately after signing the contract.
3. It is similar to hire purchase system except that the purchaser becomes the owner of the goods as soon as the agreement is made.
4. What is cash price?

It is the amount payable for goods when payment is made in cash immediately. Cash price is the price at which goods may be purchased for cash.

1. Give short notes on hire purchase price.
2. It means the total sum payable by the hirer under hire purchase agreement including any deposit or initial payment.
3. It will be higher than the cash price as it includes interest for the credit period and other charges for the risk involved in selling the goods on hire purchases.
4. Hire purchase price = cash price + interest
5. What is down payment?

The amount paid by the hirer to the owner immediately on signing the hire purchase agreement is called down payment.

1. Who is hire vendor?

Hire vendor is the person who is selling the goods under hire purchase agreement. He is the owner of the goods and he is in the position of bailor.

1. Who is hire purchaser?

Hire purchaser or hirer is the person who obtains the goods under hire purchase agreement from the owner. He is in the position of bailee.

1. What is effective rate of interest?

The nominal rate of interest does not take into account the reduction in debt due to the payment of instalments. True rate of interest or effective rate of interest considers the reduction the debt due to the payment of instalments. Hence, effective rate of interest will be higher than the nominal rate of interest.

1. What is repossession of goods?

The hire vendor may repossess the goods for default in the payment of hire purchase instalment by the hirer. This can be done only after serving a proper notice to the hire purchaser.

1. What are the two types of repossession?

Complete repossession: when hire vendor takes full repossession of goods.

Partial repossession: when the hire vendor takes repossession of only a part of the goods.

**UNIT –III**

1. What is self- balancing ledger?

Self-balancing system is a system whereby separate Trial Balance can be taken out from each ledger. “General Ledger Adjustment Account” will be maintained in each of the sales and purchase ledger. It is the reverse of the Total Debtors Account in Sales Ledger and Total Creditors Account in Purchase Ledger.

Under this system ledgers are made self-balancing by opening adjustment accounts. When goods of Rs 1,000 sold to Ram, then Ram’s Account is debited with Rs 1,000 in Sales Ledger and Goods Account is credited with Rs 1,000 in General Ledger

1. Write the names of the ledgers followed under self- balancing method.
2. Sales ledger
3. Purchase ledger
4. Nominal ledger
5. Write any two advantages for maintaining the self-balancing method.
6. Errors can be detected and localised quickly and only the connected ledger can be checked without checking the other ledgers. Thus, it saves time, money and labour and, therefore, delay in balancing is minimised.
7. This system is, perhaps, the best one for detecting frauds and errors relating to accounts committed by the clerks. In addition, if the trial balance does not agree for a particular ledger, the clerk who has prepared that ledger will be responsible. As a result, this system distinguishes efficient employees from inefficient ones.
8. A complete trial balance can be compiled by taking the debtors and creditors balances or by taking the general ledger balances which facilitate the preparation of both the interim accounts and the final accounts without abstracting the individual personal ledger balances.
9. Write the main features of sectional balancing system.
10. The debtor’s ledger contains the personal accounts of each of the trade debtors of the firm and the creditors ledger contains each of the trade creditors.
11. The general ledger contains all accounts such as real, personal and nominal except those of trade debtors and trade creditors. However it contains total debtors account and total creditors account.
12. The accounts of individual trade debtors and trade creditors are posted without completing the double entry. The double entry is completed only in general ledger in respect of total debtors account and total creditors account.
13. The balance of total debtors account in the general ledger at the end of a period should tally with the total of individual balances in the debtor’s ledger as well as in the creditors ledger. Hence the accuracy of the entries made in the debtors and creditors ledger can be checked and can locate errors at an early stage.
14. Since double entry is completed only in respect of general ledger and not in respect of the debtors and creditors ledger, a trial balance of only the general ledger can be prepared and not of the debtors and creditors ledger. Hence the sectional balancing is self-balancing of a section of group ledgers.
15. Write three differences between sectional and self - balancing system.

1. In the case of sectional balancing only General ledger is made self- balancing whereas in self-balancing all the three ledgers are made self-balancing.

2. In sectional balancing, the general ledger contains two control accounts, such as Total debtors account and Total creditors account whereas in the case of self- balancing, each ledger contains an Adjustment account for reconciling the corresponding entries in the other ledger

3. In the case of sectional balancing, no account is opened in the debtor’s ledger and creditor’s ledger to reconcile them with the entries in the general ledger. Whereas in the case of self- balancing, the Debtor’s ledger has a General Ledger Adjustment account and the Creditors ledger also has a General Ledger Adjustment account. Further the general ledger has two accounts such as Debtors Ledger Adjustment account and Creditors Ledger Adjustment account.

1. Write a short note on sectional balancing system.

Sectional balancing system differs from self-balancing system. In sectional balancing only a section of the group of ledgers is self-balanced and correctness of the posting of the sales and purchased ledgers can be verified by preparing total debtors and total creditors accounts in the general ledger. Under sectional balancing system a trial balance is prepared only for the general ledger whereas in self-balancing system a trial balance is prepared for each one of the ledgers independently.

1. Name two control accounts to be prepared under sectional balancing.

The two control accounts which are prepared under sectional balancing are

* 1. Total Debtors Account
  2. Total Creditors Account

1. What are the steps involved in the execution of Sectional balancing system?
   1. Record the transactions which involve only one ledger in the usual manner as in the case of single ledger system.
   2. For transactions involving both main ledger and subsidiary ledger, they are recorded in the subsidiary ledger only as and when they occur.
   3. At the end of the period, for all the transactions recorded in part 2 , find out the totals of the transactions recorded both the aspects of these transactions in the main ledger with the help of total debtors and total creditors account.
2. Define the term “Royalty”.

Royalty is the periodic payment made by one person to another person for using the right or privilege vested in the latter by the former. Royalty is paid for extraction of mines, for use of a patent, for use of technical know-how, to an author for sale of his books, etc.

1. Who is a lessee?

The person paying the royalty is called the lessee or the tenant.

1. Who is lessor?

The person giving his rights or privilege to the other person and receiving the royalty is the lessor or the landlord or the owner..

1. What is Minimum Rent?

. A minimum sum guaranteed to the lessor by the lessee in order to make the lessor receive a minimum amount in any particular period, whether he derived any benefit or not, out of the right is known as minimum rent.

It is a pre-determined rent and being disclosed in the royalty agreement where both parties have their consent. But if the production or sale is more than the minimum quantities previously agreed upon, then the royalty will be paid for the actual production.

In other words, when the royalty is less than the minimum rent, the lessee pays the minimum rent, but when the royalty exceeds the minimum rent, royalty is payable.

Minimum rent is also known as dead rent, fixed rent, flat rent, rock rent and contract rent

1. What is Shortworking?

Short working is that amount by which the actual royalty lesser than the minimum rent. It is a loss to the lessee and a gain to the lessor because the lessee has to pay more than the actual royalty to the lessor. Hence the parties concerned may agree to recoup the short working in the later years when there is excess or surplus, i.e, when actual royalty is higher than minimum rent.

1. When does Short working occur?

Short working arises when the actual royalty is lesser than the minimum rent suppose, if a mine owner agreed to let the mine to a lessee for the payment of royalties at Rs.2 per tonne with a minimum rent of Rs. 20,000. But lessee actually produced only 600 tons of coal, and then the royalty is 12000 which are lesser than the minimum rent.

1. What do you mean by Surplus?

If the actual royalty exceeds minimum rent, it is known as surplus. In the above example, suppose the output for a particular period is 15000 tons, then Rs.10,000 is referred as surplus.

1. What is Recoupment of Short working?

Generally, a royalty agreement contains a provision for carrying forward of shortworking with a view to adjust in the future. In the subsequent years, such shortworking is adjusted against the surplus royalty. This process of adjustment is called recoupment of shortworking.

1. What do you mean by Strike and Lock Out?

Strike is the outcome of labour force unrest in the work and it is being called by the labour unions. On the other hand, lock out is the right of the owner of the assets fulfilling legal necessities to close down the working site.But the results of both the cases show the production stoppage. In such event, the actual production could be badly affected and may not be sufficient to pay the minimum rent. Under such condition, the lessor may accept royalty on the basis of actual output. The provision to this effect must be presented in the royalty agreement.

**UNIT –IV**

1. What Is Fire Insurance?

Fire insurance is property insurance that covers damage and losses caused by fire. The purchase of fire insurance in addition to homeowners or property insurance helps to cover the cost of replacement, repair, or reconstruction of property, above the limit set by the property insurance policy. Fire insurance policies typically contain general exclusions, such as war, nuclear risks, and similar perils.

1. Definition of Fire in Insurance

The fire insurance contract is defined as “an agreement, whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain because of certainly defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount”.

1. What is premium?

Fire insurance is an agreement between two parties, i.e., insurer and insured, whereby insurer undertakes to indemnify the loss suffered by the insured in consideration for his (insured) paying of certain sum called ‘Premium’.

1. What are the two conditions satisfy the term fire while insurance claim?

(a) There must be actual fire or ignition;

(b) The fire should be accidental.

The property must be damaged or burnt by fire. If the property is damaged by heat or smoke without ignition it will not be covered under the word ‘fire’.

1. Write three important principles of fire insurance.
2. Utmost good faith
3. Insurable interest in property
4. Principle of indemnity.
5. What do you mean by Payment of Premium?

An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonoured then the coverage of risk will not exist.

1. What is Contract of Indemnity?

Fire insurance is a contract of indemnity and the insurance company is liable only to the extent of actual loss suffered. If there is no loss, there is no liability even if there is fire. Example: If the property is insured for Rs 20 lakhs under fire insurance and it is damaged by fire to the extent of Rs. 10 lakhs, then the insurance company will not pay more than Rs. 10 lakhs.

1. What is Utmost Good Faith?

The property owner must disclose all the relevant information to the insurance company while insuring their property. The fire policy shall be voidable in the event of misrepresentation, misdescription or non-disclosure of any material information.

Example: The use of building must be disclosed i.e whether the building is used for residential use or manufacturing use, as in both the cases the premium rate will vary.

1. Define the term Insurable Interest?

The fire insurance will be valid only if the person who is insuring the property is owner or having insurable interest in that property. Such interest must exist at the time when loss occurs.

Insurable interest exists not only with the ownership but also as a tenant or bailee or financier. Banks can also have the insurable interest. Example: Mr. A is the owner of the building. He insured that building and later on sold the building to Mr. B and the fire took place in the building. Mr. B will not get the compensation from the insurance company because he has not taken the insurance policy being an owner of the property. After selling to Mr. B, Mr. A has no insurable interest in the property.

1. What is Contribution?

If a person insured his property with two insurance companies, then in case of fire loss both the insurance companies will pay the loss to the owner proportionately. Example: A property worth Rs. 50 lakhs was insured with two Insurance companies A and B. In case of loss, both insurance companies will contribute equally.

1. What do you mean by Claims?

To get the compensation under fire insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

1. Define goods sent on approval or on sale or return.

According to sec 24 of sale of goods act, 1930, “ goods sent on approval or on sale or return means when goods are delivered to the buyer on approval or on sale or return or other similar terms, the property therein passes to the buyer –

* + 1. When he signifies his approval or acceptance to the seller or does any other act adopting the transaction;
    2. If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and if no time has been fixed, on the expiration of a reasonable time.

1. What are the possibilities for accounting treatment in sale or return basis?

There are three possibilities for goods sent on sale or return or approval basis.

* + - 1. When the goods are sent occasionally or casually on approval
      2. When goods are sent quite common i.e., frequently approval
      3. When goods are sent very common, i.e., numerously approval.

**UNIT- V**

1. What is insolvency?

Insolvency is a financial stringency i.e. when an individual or an organization/company is no longer capable to pay the debts he/it owes. Insolvency usually leads to insolvency proceedings, in which legal action can be taken against the insolvent, and assets may be liquidated to pay off the outstanding debts.

1. When does a person declared as an insolvent?
2. When a person (debtor) shows that he is not able to pay his liabilities.
3. An order of adjudication must be passed by the court of law, before legally declaring any person insolvent. To pass an order of adjudication by the court of law, a petition should be filed by any of the creditor or creditors or by the debtor himself.
4. Name the two accounts prepared under insolvency.
5. Statement of Affairs as on date of order and
6. Deficiency Account.
7. Define the term insolvent.

The term “insolvent” is restricted to a person whose liabilities exceed his assets and against whom the court makes an order of adjudication.

Thus insolvent is a person who is not in a position to pay his liabilities in full and has been declared as an insolvent by an Insolvency court.