

Short Answers for Class 11 Accountancy Chapter 1 - Introduction to Accounting

1. Define Accounting

Accounting is defined as the systematic process of identifying, recording, classifying, summarising, interpreting and communicating information about financial transactions to the users of the accounting information such as the owners, government, investors, creditors etc.

It provides the following information:

1. Resources available in the firm.
2. The means employed to finance those resources
3. Results achieved by using those resources.

2. State the end product of financial accounting.

The end product of Financial Accounting are shown below:

1. Income statement: Trading and Profit and Loss Account is part of the income statement, it determines the financial position of business based on gross/net loss or profit.
2. Balance Sheet: Balance sheet is helpful in presenting the exact financial position of the business. It provides information about the assets and the liabilities in a business to users of the business information.

3. Enumerate main objectives of accounting.

Main objectives of accounting are discussed below:

1. To keep a systematic record of all the financial transactions.
2. To determine the profit and loss of a business as reflected in a P & L account.
3. Making information available to users of the information (employees, shareholders, stakeholders)
4. To determine the financial position of business by preparing balance sheet.

4. Who are the users of accounting information?

Two types of users are there for accounting information. They are:

1. Internal Users
2. External Users

Internal Users include management, employee and owners. While external users consist of investors, creditors, government, public and customers.

5. State the nature of accounting information required by long-term lenders?

The long-term lenders seek following accounting information:

1. Liquidity of a business
2. Profitability
3. Operating efficiency
4. Growth potential of the business
5. Ability to repay the creditors

6. Who are the external users of information?

External users are those users who are not part of business but are interested in the accounting information. Some of the examples are government, suppliers, banks, labour unions, tax authorities, etc.

7. Enumerate information needs of management.

Following are information needs of management:

1. Gather data that assist in decision making and planning.
2. To determine the soundness of business by preparing reports on funds, profits and costs.
3. To compare current financial statement with past statements of own and of other similar business to determine the operating efficiency of the business.

8. Give any three examples of revenues

Examples of revenues are:

1. Dividends
2. Sales Revenue
3. Interest Received

9. Distinguish between debtors and creditors; profit and gain

Debtors and Creditors have following differences:

Basis of Comparison	Debtors	Creditors
Meaning	Persons or entities owing certain amount to a firm	Persons or entities who owe money from the firm
Position in balance sheet	As assets	As liabilities

Profit and Gain can be distinguished as follows:

Basis of Comparison	Profit	Gain
Meaning	Profit is the sum of total income minus the total expenses	An economic benefit that is derived by disposing of an asset
Generation	Within the usual business operation	It is generated outside of the business operation

10. 'Accounting information should be comparable'. Do you agree with this statement? Give two reasons.

Comparing accounting information is necessary for:

1. To determine how a firm is performing as compared to its competitors.
2. To determine internal performance of a firm to check how a firm is performing over the years.

11. If the accounting information is not clearly presented, which of the qualitative characteristic of accounting information is violated?

Following characteristics are violated:

1. The data will be erroneous or biased which impacts reliability.
2. The information loses the validity hence loses relevance
3. Records will be difficult to understand and will be prone to errors which impacts understandability.
4. Comparison with other reports will be difficult resulting in biased interpretations hence impacting comparability.

12. "The role of accounting has changed over the period of time"- Do you agree? Explain.

Role of accounting has evolved over the years. Earlier it was concerned only with record keeping, in current time it is more concerned with providing business information to relevant users of the information. These changes are the result of the dynamic changes in business structure which has become more competitive nowadays.

13. Giving examples, explain each of the following accounting terms: • Fixed assets • Revenue • Expenses • Short-term liability • Capital

Fixed assets: Fixed assets are long term assets and are not for sale. They bring profits over the years to the business; for example, land, buildings, machinery, etc.

Revenue: Revenue is income earned through routine activities of business such as amount that is received from the sales of goods, services provided to customers, commission received, royalties.

Expenses: Expenses are cost incurred by the business during the process of earning revenue is called as expenses. Examples are depreciation, rent, wages and salaries.

Short term liabilities: Liabilities that is to be cleared off within a year; for example, creditors, bank overdraft, outstanding wages, bills payable, short-term loans, etc.

Capital: The sum financed by the owner of the firm either in form of cash or asset. It is recorded as a liability in the balance sheet.

14. Define revenues and expenses

Revenue: Revenue is income earned through routine activities of business such as royalties, the amount received from sales of goods, services to customers, commission received,

Expenses: Expenses are cost incurred by the business during the process of earning revenue is called as expenses. Examples are depreciation, rent, wages and salaries.

15. What is the primary reason for the business students and others to familiarise themselves with the accounting discipline?

Accounting is the language of business. Hence, it is necessary for Business students and others to familiarise themselves with the accounting discipline. Following reasons are also important:

1. Understand various principles of accounting.
2. Learn how to maintain records of business
3. Summarising account information to study financial position of business.
4. Accurate interpretation of accounting information.

Long Questions for Class 11 Accountancy Chapter 1 - Introduction to Accounting

1. What is accounting? Define its objectives.

Accounting is defined as the systematic process of identifying, recording, classifying, summarising, interpreting and communicating information about financial transactions to the users of the accounting information such as the owners, government, investors, creditors etc.

Objectives of Accounting:

1. Maintaining records of business transaction: Accounting helps in systematic maintenance of all the financial transactions in books of accounts.
2. Determining profit or loss: Profit and loss should be determined in a business to understand how the business is running. It is determined by creating P & L account.
3. Determining the financial position of the firm: A balance sheet is prepared to determine the exact financial position of the business. It shows the assets and liabilities of the business.
4. Providing accounting information to various users: Communicating accounting information to internal and external user helps understand accounting data in a structured manner.

2. Explain the factors which necessitated systematic accounting.

The following factors necessitated systematic accounting.

1. Recording only financial transactions: Only those transaction which are of financial in nature are recorded among all the transactions and events that occur in the organisation.
2. Recording transactions in monetary terms: All the economic events must be recorded in terms of monetary value.
3. Recording information: The information should be accurately and carefully segregated keeping the recording rules under consideration. In addition the economic events are recorded in sequential order.
4. Classification: Transaction must be classified and logged into the respective account records maintained in the form of ledgers.

5. Summarising transactions: All the transactions get prepared in the form of Trading Account, Profit and Loss Account, Balance Sheet, and Trial Balance providing users with information for whom these accounts are prepared.
6. Analysis and Data Interpretation: Recording of accounting information in a systematic manner helps the users to analyse and interpret the accounting information efficiently and accurately. Data presented in various formats like charts, graphs, accounting statements makes it easier to communicate to the users.

3. Describe the informational needs of external users.

The informational needs of external users are discussed below:

1. Customers: Customers require the information to ensure there is continuity of the business so that they have good probability of supply of products, parts and after sales service.
2. Competitors: Competitors need the information on the relative strengths and weaknesses of their competition in market and also for performance bench-marking purposes. Their information need is purely strategic in nature.
3. Government and other regulatory agencies: They need information to decide about the allocation of resources and to ensure that the business is complying with the regulations.
4. Investors and potential investors: They need information to assess the risks and the return on their investment.
5. Lenders and financial institutions: Information required to assess the creditworthiness of the business and its ability to repay loans.
6. Social responsibility groups: They need information to assess the impact on environment and its protection.
7. Unions and employee groups: They need this information to understand the profitability, stability and distribution of wealth within the business.

4. What do you mean by an asset and what are the different types of assets?

Asset is a resource of value owned by a person or business that can be used to generate cash flows in future.

Following types of assets can be classified:

1. Current asset: Assets which can be easily converted into cash or similar cash equivalents
2. Non-Current asset: Also known as fixed assets, these assets cannot be converted into cash or cash equivalents easily.

3. Tangible asset: Assets that are having a physical existence, i.e. which can be touched, seen and felt.
4. Intangible asset: Assets without any physical existence.
5. Operating asset: They are those assets that are required for the daily operations of the business.
6. Non-operating asset: They are assets which can generate revenue even when not being utilized for daily operations.
7. Fictitious assets: Assets that have no tangible existence or realizable value but represents actual cash expenditure.

5. Explain the meaning of gain and profit. Distinguish between these two terms.

Profit: It is the summation of total income minus total expenses. The profit is generated from the daily activities of business.

Gain: Gain is the economic benefit that a company earns apart from its usual business activities such as the sale of fixed assets, appreciation in the value of an asset.

Thus, the difference between gain and profit is that gain is economic benefit earned from activities outside usual business while profit is earned from the usual business activities.

6. Explain the qualitative characteristics of accounting information.

The following are the qualitative characteristics of accounting information:

1. Reliability: A piece of information becomes reliable when users are able to rely on that information.
2. Relevance: Information that is appropriate should be made easy to access and timely available. It avoids any irrelevant information. The relevant information will help in proper planning and decision making.
3. Understandability: Information presented to users of the information must be created in such a way that information is meaningful and appropriate without any difficulty in understanding.
4. Comparability: Accounting information should be comparable with firms' performance of previous years and as well as with competitors. It helps in determining the steps that need to be taken to ensure growth of business.

7. Describe the role of accounting in the modern world.

Role of accounting has changed with the changing time. Earlier it was considered only with recording of transactions but in modern world it is about sharing the information with the users of the information.

Here are some of the role of accounting in the modern world

1. **Assisting the management:** It assists management in planning and organising the business plans by preparing budgets and reports.
2. **Comparative study:** It helps to determine the performance of the firm and compare with that of previous years data and the same data can be used to compare against competitors performance within the same period. Such comparison helps in devising improvement strategies if there is a need.
3. **Substitute of memory:** In today's world every business processes large number of transactions. It is beyond human capacity to memorise every transaction. Hence, it becomes essential to record transactions in the books of accounts.
4. **Information to end user:** Being an information system it collects and communicates relevant and reliable economic information about the organisation to its various users. Thus the users depend on this information to make changes in their strategies for the business.