

19. Book-Keeping-ledger

Multiple Choice Questions

1. Question

Which is the most scientific methods of accounting or book-keeping?

- A. Single Accounting System
- B. Cash Method
- C. Mahajani Method
- D. Double Accounting

Answer

Double accounting system is most scientific because every transaction is recorded twice and which match with others which reduces the chances of error. Different journal and ledgers are printed which are used for generating trial balance, profit and loss account and balance sheet which are analysed to get financial information about the performance of the organisation, all these features make it a scientific method of accounting.

2. Question

In Double accounting transaction is written-

- A. In two sides of an account
- B. In Naam side of account
- C. In deposit (credit) side of account
- D. In Naam side of one account and deposit side of other account

Answer

In the double accounting system every transaction is recorded on two sides, both debit and credit, like if someone is buying then someone is selling. If a person buys something, he will pay money to you, then his account will be debited, and the same amount of money will be credit in sales account. When you buy some material, then buyer amount will be credited, and your cash account will be debited.

3. Question

which stage of double accounting shows the financial status of business

- A. Classification
- B. Final accounting
- C. Primary Accounting
- D. Posting

Answer

In double accounting system primary accounting is done in journal and then data is classified like what is sales, what are expenditures etc. ledgers are prepared for different accounts and based on the final trial balance, profit and loss statement and balance sheet is prepared which is used to ascertain the financial position of the company.

4. Question

What is the money called, that the businessman invests to start a business?

- A. Assets
- B. Withdrawal
- C. Capital
- D. Liabilities

Answer

In order to start some business, businessman needs to invest some money in a business which will be used for the purchase of material, rent, salaries and other final transaction, the amount invested is called capital as capital will be used for generating revenues in the company.

5. Question

Mahajani accounting is based on-

- A. Single Entry
- B. Cash System
- C. Double Accounting
- D. None of these

Answer

Mahajani accounting is based on the double accounting system, in primary accounting, each transaction is recorded in Bahis and it is called deposit and spending, in second stage primary accounts are sorted out in posted in ledgers, in third stage statement are prepare in profit and loss account perspective and on the perspective of financial condition.

Very Short Answer

1. Question

How many lines are there in Mahajani account book?

Answer

Zero, mahajani accounting book does not have lines, lines are formed by folding paper.

In mahajani accosting system books which are used for accounting have thick and smooth paper and which are very long and have thin cardboard as outer curving, lines are not used in accosting, but rather lines are formed by folding the paper and transaction are recorded with black ink.

2. Question

From which account book, Balance Sheet is prepared?

Answer

Balance and other accounting statement are prepared using ledgers, ledgers are the main accounting system at second phase and every account have a particular place in ledgers, using these trail balance, profit and loss stamen and balance sheet is prepared.

3. Question

What is called accounting in 'Ledger'?

Answer

it is the main accounting book of accounting in a ledger book. Every account has a particular place in the ledger and in ledger different accounts are opened for different people, things, income and expenses. All these transactions are sorted out and used for the preparation of profit and loss statement and balance sheet to access the financial position of the organisation.

Short Answer

1. Question

Write two feature and two demerits of double accounting system of book-keeping?

Answer

Features of double accounting system

a. Each transaction has two sides, one side is debited, other is credited and on each account, there are two sides, debit and credit

b. The two sides of transactions are recorded on two opposite sides of two separate accounts. For example, you buy stationary using cash, then in cash account, cash will be debited, and the stationary account will be credited, meanwhile, in the stationary account, the stationary account will be credited, and cash will be debited, each entry can be checked from two places.

Demerits of double entry system

i. No effect when account is left – if the person making an entry using a double accounting system, and if he or she has forgotten to enter entry, it cannot be verified as it will be missing in both accounts

ii. Difficult to find Compensatory error – compensatory error is like if you buy something of 500 Rs, but mentioned it as 5000 in both accounts, it won't affect trail balance and it will be difficult to identify.

2. Question

Give the name of books of first stage of double entry system of book-keeping?

Answer

Books of the first stage of Double Entry System of book-keeping: Purchase book, Sales book, Purchase return book, Sales Return book, Bills receivable books, Cashbook and main journals. Each book record different type of transaction as per their name. for example, purchase book records all the transactions related to purchase, whereas, in the sales book, sales details are entered. There are separate books for the material you buy, sales, the amount payable to other and amount receivable from others. Each transaction will be recorded in two different accounts, like any transaction related to purchasing will be recorded in purchase account and

3. Question

Write the definition of accounting?

Answer

According to R.N. Anthony It is a means of collecting, summarizing, analysing and reporting in monetary terms, information's about business. Whereas according to AICPA (American Institute of certified public accounts), accounting is an art of recording, classifying and summarising in a significant manner, and in terms of money, transactions and vent which are, in part at least of a financial character and interpreting the result thereof.

4. Question

Mention four objectives of accounting.

Answer

Main objective of accounts are mentioned below

a. Account of all economic transactions

- b. Profit and loss statement
- c. To know the financial posting of a company
- d. To have effective control over business
- e. To provide information to all interested parties
- f. For the preparation of tax information
- g. And to provide required information to financial institutions.

5. Question

Define the principle of accounting.

Answer

The accounting principle is that in any financial transaction, two sides are involved, one is giver, and another is taker, hence in accounting both sides are affected, and these sides are called debit and credit, respectively. Both of the sides have the same effect of a transaction because the amount debited is same as amount credited on another side, and hence every financial transaction is required to be accounted on both sides.

Essay Type

1. Question

What is accounting? Mention the main objective of accounting?

Answer

As per American Institute of Certified Public Accounts, AICPA, Accounting is an art of recording, classifying and summarising in a significant manner and in terms of

money, transactions and events which are in part at least, of a financial character and interpreting the results there of.

Main objective of accounting is mentioned below

- a. Account of all economic transactions: All the transaction of a firm is recorded in accounting, either it purchases, credit, sales or anything else financial, it will be recorded in accounting.
- b. Profit and loss statement: To access the financial position of a company, different statement like profit and loss statement, balance sheet etc are prepared in accounting.
- c. To know the financial position of a company: By analysing the statement prepared using accounting, interpretation of these statement can provide information about financial position of a company on different parameters for different companies.

d. To have effective control over business: Financial statement provides information that on which parameters company is doing good and bad, like some expenses may be higher than usual, which should not be higher, when this information is available, management can have control over them.

e. To provide information to all interested parties : Different stakeholder have different interest in company, like a investor may want to know about future profit of company, so lender may be interested in having information that whether company will be able to pay loan or not, this information can be accessed by statement prepared by accounts.

f. For preparation of tax information: At the end of year company needs to pay taxes to government and how much tax needs to be paid, calculated by accounting.

g. Provide required information to financial institutions: Companies need to furnish certain information to financial institutes, like SEBI, or Minister of corporate affair and this information is provided by statements prepared using accosting methods.

2. Question

“In Double Accounting System every Naam amount has same and equal deposit amount.” Explain the statement and its stages.

Answer

According to the double entry system Each transaction has two sides, one side is debited, other is credited and on each account, there are two sides, debit and credit. The two sides of transactions are recorded on two opposite side of two separate accounts. For example, you buy stationary using cash, then in cash account, cash will be debited, and the stationary account will be credited, meanwhile, in the stationery account, the stationery account will be credited, and cash will be debited, each entry can be checked from two places.

In the double accounting system, complete accounting is done in three different stages, these stages are mentioned below

1) Primary accounting: It is the recording of business transactions as soon as they take place, and it is done in a primary accounting book. For a small business, it is called journals, but for big business, they have different journals for a different type of transactions, like sale journal to record sale, cash receipt to record cash received etc.

2) Classification and “Khatauni” : - Primary accounting is day based accounting and all the transaction like from whom how much money is taken, what bought and what sold, these transactions are later classified into ledgers, every account have a place in ledger and different accounts are opened in a ledger, like for different people, different things, expenses and income. This classification and sorting are called as posting ledger.

3) Preparation of final accounts: ledgers contain many accounts and still no information can be interpreted using these ledgers, trail balance, profit and loss statement and balance sheet is prepared using these accounts. These statements can be analysed by different stakeholders for different stakeholders and information can be used.

3. Question

Describe the main merits and demerits of double Accounting System.

Answer

Merits of double accounting system

1) Complete and Scientific: As it is based on definite principles and rules hence the scientific method of accounting and keeps different types of accounts. There is no chance of error because every transaction is entered twice. If any errors are left it is easily depicted

2) Basis of Account is Reliable: It is completely accountable as every entry is done twice in two books – once in Debit, other in Credit and same amount is entered in both accounts. From these accounts, the trial balance is prepared which proves the reliability of this system.

3) Profit and loss statement: Separate ledgers are made for every type of transaction, like expenses, income, payable, receivable etc. Hence, at any time businessman can get status of profit and loss of particular period.

4) Economic status: under this system separate accounts of all the assets and liabilities are kept and accounting and adjustment of the personal items are also kept, it means that businessman can create a balance sheet and get right financial position on that date.

5) Easy access to information: As separate accounts are made for sale purchase, payment and received, and hence everything could be calculated easily.

6) Less possibility of fraud and Forgery: If any person does any fraud, he could be caught easily as each transaction has two accounts

7) Comparative study: At the end of financial year profit and loss statement and balance sheets etc are prepared which could be compared with the same statement of last year to check the performance of business year.

8) Legal Recognition: It is legally recognised by the Company Act, bank, insurance, MNCs. Hence, all big companies are bound to keep their accounts according to this method.

Demerits of double accounting system:

1. No effect when an account is left – if the person making an entry using a double accounting system, and if he or she has forgotten to enter entry, it cannot be verified as it will be missing in both accounts

2. Difficult to find Compensatory error – compensatory error is like if you buy something of 500 Rs, but mentioned it as 5000 in both accounts, it won't affect trail balance and it will be difficult to identify.

3. No effect of right entry in a wrong account, like if entry is made into some other person account, it will be difficult to find a mistake when there are two accounts, credit and debit and amount is same, but the account is wrong.

4. it is a costly method as many heavy registers have to be maintained. But such expenditure is negligible for big business houses compared to its utility.

5. Specially trained and skilled people are required to maintain such records.

4. Question

What do you understand by book-keeping and a Ledger Account?
Differentiate between both of them.

Answer

AREA	BOOK KEEPING	LEDGER ACCOUNT
SCOPE	It has a limited area. It records only the business transactions. It is the first step of accounting.	Book keeping is a part of accounting. It has a vast area.
OBJECTIVE	It is the recording of transactions in the books of accounts.	It is the recording of transactions, analysis and interpretation of financial statements.
LEVEL OF WORK	The work is done by a book keeper and at first level.	The work is done at three levels-lower, medium and high.

Mutual Dependency	Bookkeeping is the art of recording.	Accounting makes it meaningful and purposeful.
Results	The financial position of a business cannot be determined.	The financial position of a business can be determined.
Principle	The principles of accounting are followed in book keeping.	There are different methods of accounting in different business firms.

5. Question

Describe the main activities of accounting?

Answer

The main activities of accounting are:

1. Accounting is a continuous activity.
2. It is the art and science of writing and classifies business transactions.
3. Those transactions which are financial in nature can be expressed in monetary forms.
4. It helps in summaries, interpretation and it's the solution.
5. Quantitative financial information to the respective party is provided by accounting.
6. Accounting helps to choose logically and the best option among the different options available to individuals and institutions.
7. Information can be easily provided to different parties by keeping a systematic record of the business transactions.
8. Accounting provides an important base for the adjudication process in the form of an information system.
9. Accounting is a special branch for knowledge that helps to ascertain the economic position of the difference.

6. Question

What is Mahajani Accounting System? Mention the main features of Mahajani Accounting System.

Answer

Mahajani accounting system is also complete and scientific accounting method used. It is thousands of years old system in India. The old businessmen keep their accounts in this system. It is one of the oldest systems in the world. The accounts are kept in large-sized folded books, bound in a red colour cloth called Bahis

Main features of Mahajani accounting system

- It is a complete and scientific method like a double book accounting system
- The principles of Double Entry system are followed in this system.
- Bahis are used to keep accounts. They are large sized folded books, contain thick and smooth papers, bound in thin red colour cloth having a strong string at one end.
- These books do not have lines, but lines are made by folding of papers
- In this transaction are recorded using black colour ink
- Transactions can be written in Hindi, and other Indian languages as Gujarati, Marathi, Sindhi, Urdu, Gurumukhi, etc. To maintain the secrecy of accounts, Sarafa and Mudiya script were also used in this accounting system
- In this system, the amount is written in starting and it does not have rupees and paisa column, but the bracket is used. Like for writing 10 Rs and 50 paise, instead of 10.50, 10)50 will be written
- Both Hindi and English dates are mentioned in this accounting system.

7. Question

“Mahajani Accounting System is a complete and scientific system”. Express your opinion on this statement.

Answer

Mahajani accounting system is a very old accounting system used in India earlier, it is similar to the double accounting system and has similar process and rules.

Like double accounting system, accounting in it is also done in different stages which are primary accounting where transactions are recorded in Bahis, entries are known as depositing and spending. In the second stages, journal accounts are posted into the ledgers, in Mahajani accounting system there are three types of ledgers, personal account, Stock account and profit and loss account.

In the third stage like profit and loss account can be made in P & L perspective and data on the perspective of various financial conditions.

A trail balance sheet is prepared in both the systems and checked by mathematical calculations. Also, profit and loss account are prepared to know the financial position of the business in both the systems.

As this system was similar to the double accounting system we use, it is scientific and complete accounting system.