



CA FOUNDATION

ACCOUNTING

CHAPTERWISE - TEST 1
SUGGESTED ANSWER

CHAPTER: THEORETICAL
FRAMEWORK PART 1

Marks – 30

Duration – 50 mins

INSTRUCTIONS:

1. All the questions are compulsory.
2. Properly mention Test no. on First Page and Page no. on every answer sheet.
3. Working Notes are compulsory wherever required in support of your solution.
4. Do not copy any solution from material.
5. Attempt as much as you know to fairly judge your performance.
6. Please upload your Answer Sheet Horizontally.
7. Copy once get evaluated by Evaluator cannot be re-uploaded by the student.
8. Always check correct Test No. of your subject while uploading answer sheet.
9. Handwriting should be clean.

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ANSWER ALL THE QUESTIONS

Question 1:

State whether the following statements are True or False with reasons.

1. There is no difference between book keeping and accounting, both are same.
2. Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.
3. Financial accounting is concerned with internal reporting to the managers of a business unit.
4. Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business
5. Summarizing is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.
6. Balance sheet shows the position of the business on the day of its preparation and not on the future date. **(6 x 2 = 12 marks)**

Solution:

1.False: Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyze and interpret the information provided by book-keeping records.

Book-keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system.

2. False: Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

3. False: Management accounting is concerned with internal reporting to the managers of a business unit.

4. False: Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods

5. False: Recording is the basic function of accounting. Summarising is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements

6.True: Balance Sheet is a statement of the financial position of an enterprise at a given date.

Question 2:

Multiple Choice Questions

(5 marks)

1. Which of the following is not a subfield of accounting?
 - (a) Management accounting.
 - (b) Cost accounting.
 - (c) **Book-keeping**

2. Purposes of an accounting system include all the following except
 - (a) Interpret and record the effects of business transaction.
 - (b) Classify the effects of transactions to facilitate the preparation of reports.
 - (c) **Dictate the specific types of business enterprise transactions that the enterprises may engage in.**

3. Book-keeping is mainly concerned with
 - (a) **Recording of financial data.**
 - (b) Designing the systems in recording, classifying and summarizing the recorded data.
 - (c) Interpreting the data for internal and external users.

4. All of the following are functions of accounting except
 - (a) Decision making.
 - (b) **Ledger posting.**
 - (c) Forecasting.

5. Financial statements are part of
 - (a) **Accounting.**
 - (b) Book-keeping.
 - (c) Management Accounting.

6. Financial position of the business is ascertained on the basis of
 - (a) Records prepared under book-keeping process.
 - (b) Trial balance.
 - (c) **Balance Sheet.**

Question 3:

- (i) Define accounting. What are the sub-fields of accounting? **(2 marks)**
- (ii) Who are the users of accounting information? **(2 marks)**
- (iii) Discuss briefly the relationship of accounting with **(4 marks)**
 - (a) Economics (b) Statistics (c) Law
- (iv) Discuss the limitations which must be kept in mind while evaluating the Financial Statements. **(2 marks)**
- (v) What services can a Chartered Accountant provide to the society? **(2 marks)**

Solution:

(i). Accounting is the 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 result thereof. Various subfields of accounting are listed as: Financial Accounting; Management Accounting; Cost Accounting; Social Responsibility Accounting and Human Resource Accounting.

(ii). Users of accounts can be listed as Investors, Employees, Lenders, Suppliers and Creditors, Customers, Govt. and their agencies, public and Management.

(iii) **(a) Accounting and Economics:** Economics is viewed as a science of rational decision-making about the use of scarce resources. It is concerned with the analysis of efficient use of scarce resources for satisfying human wants. This may be viewed either from the perspective of a single firm or of the country as a whole.

Accounting is viewed as a system, which provides data to the users to permit informed judgement and decisions. Some non-accounting data are also relevant for decision-making.

(b) Accounting and Statistics: The use of statistics in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise; it is exact to the last paisa. But, for decision-making purposes such

precision is not necessary and hence, the statistical approximations are sought. In accounts, all values are important individually because they relate to business transactions. As against this, statistics is concerned with the typical value, behaviour or trend over a period of time or the degree of variation over a series of observations. Therefore, wherever a need arises for only broad generalisations or the average of relationships, statistical methods have to be applied in accounting data.

(c) Accounting and Law: An economic entity operates within a legal environment. All transactions with suppliers and customers are governed by the Contract Act, the Sale of Goods Act, the Negotiable Instruments Act, etc. The entity itself is created and controlled by laws. For example, a company is created by the Companies Act and also controlled by Companies Act.

Similarly, every country has a set of economic, fiscal and labour laws. Transactions and events are always guided by laws of the land. Very often the accounting system to be followed has been prescribed by the law. For example, the Companies Act has prescribed the format of financial statements for companies.

(iv) Limitations which must be kept in mind while evaluating the Financial Statements are as follows:

- The factors which may be relevant in assessing the worth of the enterprise don't find place in the accounts as they cannot be measured in terms of money.
- Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.
- Accounting ignores changes in some money factors like inflation etc.
- There are occasions when accounting principles conflict with each other.
- Certain accounting estimates depend on the sheer personal judgement of the accountant.
- Different accounting policies for the treatment of same item adds to the probability of manipulations.

(v). The practice of accountancy has crossed its usual domain of preparation of financial statements, interpretation of such statements and audit thereof. Accountants are presently taking active role in company laws and other corporate legislation matters, in taxation laws matters (both direct and indirect) and in general management problems.

