

* — Unit-3 — (Accountancy) — *

Ques Define accounting & state its functions.

A. Accounting:-

- 1- Accounting was considered simply as a process of recording business transactions and the role of accountant as that of record-keeping.
- 2- Accounting is now considered to be a tool of management providing vital information concerning the organization's future.
- 3- The American Accounting Association (AAA) defined accounting as follows. "Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decision by users of the information."

(B) Is Account a Science or an Art:

- 1- Any organization knowledge based on certain basic principle is 'Science' Accounting is also a science.

2- It is a social science depending much on human behaviours and other social and economic factors.

3- Art is a technique which helps us in achieving our desired objective.

4- Accounting is definitely an art of recording, classifying and summarising the financing transactions.

5- Accounting helps in achieving our desired objectives of maintaining proper accounts.

(C) Functions of Accounting:

(a) Recording:-

i) This is the basic function of accounting.

ii) It is essentially concerned with not only ensuring that all business transactions of financial character are in fact recorded but also they are recorded in orderly manner.

iii) Recording is done in the book known as "Journal"

(b) Classifying:-

i) Classification is concerned with the systematic analysis of the recorded data, with a view to group transactions or entries of one nature at one place.

ii) The work of classification is done in the book termed as "Ledger".

(10)

Define marketing and explain its objectives. How does it differ from selling?

Ans- 1- Marketing is a consumer-oriented activity.

2- It analyses the need of the customer. before the product are produced and offered to them.

A. Objectives of marketing :-

(a) Identifying needs and wants.

1- The process of marketing helps people in obtaining what they need & want.

2- The primary reason or motivation for people to engage in the process of marketing is to satisfy some of their need or wants.

b. Creating and market offering:

1- market offering means offering a product or service by specifying its features, shape, size, color etc.

2- A good market offer should keep in mind the satisfaction of consumer.

C. Customer value -

1- The process of marketing facilitates exchange of product and services b/w the buyers & the sellers.

B. Allocation:

- 1- The allocation of certain overhead costs to produced goods in ~~requires~~ under the rules of various accounting frameworks.
- 2- In many business, the amount of overhead to be allocated substantially greater than the direct cost of goods, so the overhead allocation method can be of some importance.
- 3- There is a need to allocate the costs of manufacturing overhead to inventory items that are classified as work-in-process or finished good.

Ques what do you mean by production planning & control. ~~explain~~ the steps involved in production control.

Ques Describe the main features of various financial reports.

- 1- The purpose of the appraisal of financial reports of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operations.
- 2- In every case, it is necessary to ensure that satisfactory accounts are maintained for effective

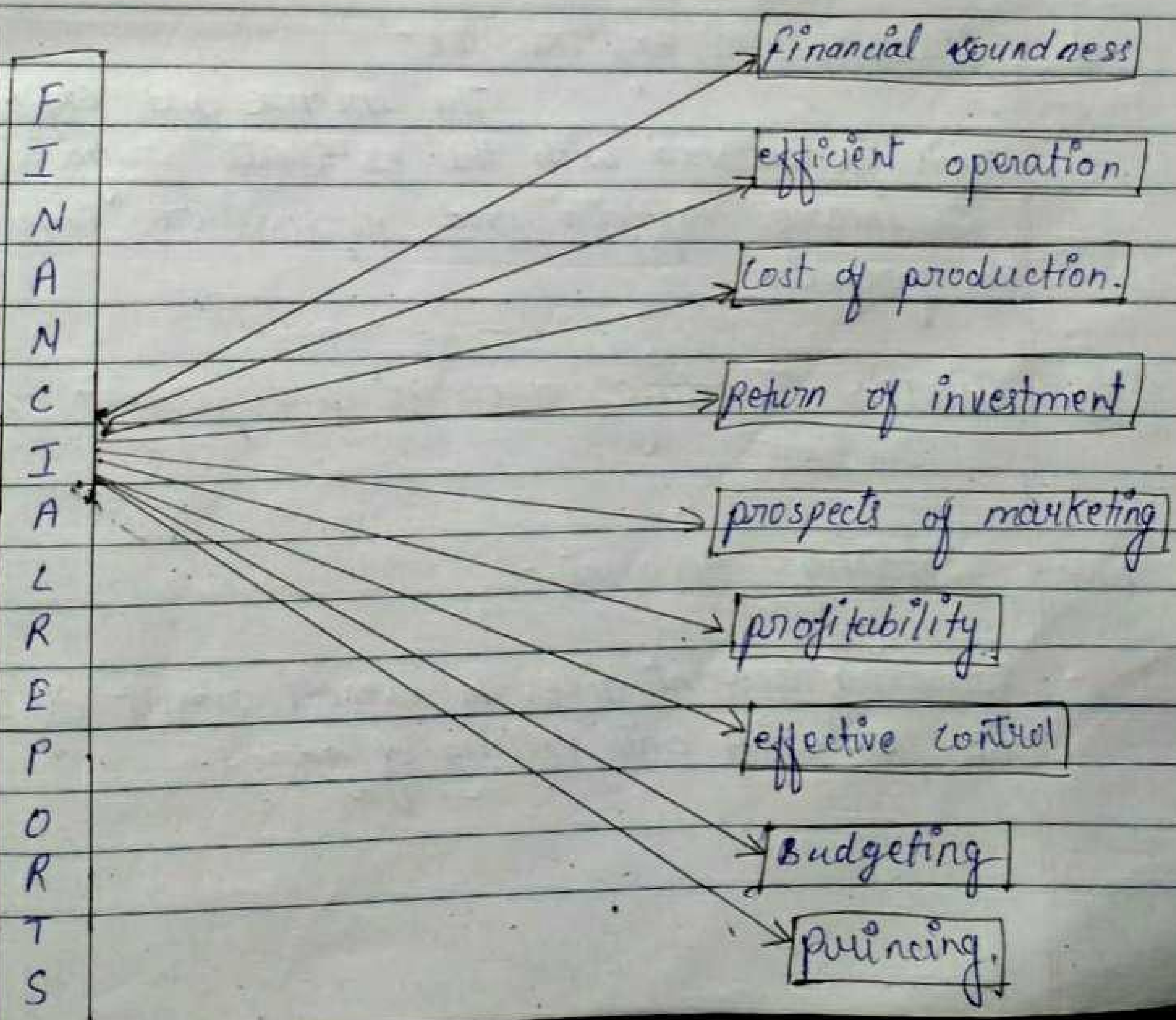
control over expenditure and revenue, and to disclose the project and entity carrying it out.

3- financial appraisal also evaluate capacity of revenue producing investments from the standard point of the entity.

4- The financial report of project also covers the following areas:-

a. Cost Analysis -

In this case of cost analysis it is to be decided or to be worked out what would be the cost of production.



(3)

(C) Summarising:-

i. This involves presenting the classified data in a manner which is understandable and useful to the internal as well as external end-users of accounting statements.

ii. This process leads to the preparation of the following statements.

1. Trial balance.

2. Income statement

3. Balance sheet.

(D) Dealing with financial transactions.

i. Accounting records only those transactions and events in terms of money which are of a financial character.

ii. Transactions which are not of a financial character are not recorded in the book of accounts.

(E) Analysing and Interpreting -

i. The recorded financial data is analysed and interpreted in a manner that the end-users can make a meaningful judgment about the financial conditions and profitability of the business operators.

ii. The data is also used for preparing the future plan and framing of policies.

- Profit and Loss Account -

For the period ending -

particulars	Rs.	particulars	Rs.
To Gross loss b/d	—	By Gross profit b/d	—
To salaries	—	By Discount Received	—
To Rent	—	By Net loss transferred	—
To Commission	—	To capital account	—
To advertisement	—		
To bad & bed debts	—		
To Discount	—		
To Net profit	—		
Transferred to Capital Account			

2.	Objectives	Focuses on consumer's needs.	Focuses on seller's needs.
3-	Scope	It covers all business activities from product planning to sale & after sale services.	It covers only those activities which help in transfer of goods from the producer to the consumer.
4.	profit	profit through customer satisfaction.	profit through higher sales volume.
5.	Emphasis	converting customer's needs into products	converting products into cash.
6-	Demand	Demand has to be created and maintained.	presuppose existence of demand.

Ques What are manufacturing overheads? How are they allocated?

A. Manufacturing overheads -

1- manufacturing overhead (also known as factory overhead, factory burden, production overhead) involves a company's factory operation.

2- A product will be purchased only if it is perceived to be giving greatest benefit or value for the money. (11)

d. Exchange mechanism:

- 1- The process of marketing involves exchange of products and services for money or money's worth.
- 2- In exchange, customers pay money and in return they take product or services which satisfy their needs and wants.
- 3- In the process of marketing, the following things have to be decided.

- i what is to be marketed?
- ii who is the market?
- iii who are the customers?

B. Distinction b/w marketing & selling:

S.No.	Basis of Difference	Marketing	Selling
1-	Meaning	Marketing is the business process by which products are matched with the markets.	Selling involves transfer of goods from the producer to the consumer.

f. Communicating -

- i. The accounting information after being meaningfully analysed and interpreted has to be communicated in a proper form and manner to the proper person.
- ii. This is done through preparation and distribution of accounting reports, which includes the usual income statement, the balance sheet etc.

(D) Rules of Debit and Credit in accounting -

- i. The transactions in the journal are recorded on basis of the rule of debit and credit. For this purpose business transactions have been classified into three categories.

a. Personal Account -

- i. Personal account includes the account of persons with whom the business deals like natural, artificial or representatives.

Debit the Receiver
Credit the Giver.

b. Real Account -

- i. Real account deals into tangible and intangible real accounts which what comes in what goes out matters.

- 2- They are likely to be realised within a period of one year or during the normal operating cycle.
- 3. Current assets includes - cash balance, bank balance, closing stock, debtors, bill receivables; etc.
- 4- They are also called floating or circulating assets.

iii^{oo} Tangible Assets -

- 1- These are definite assets, which can be seen, touched and have some vol^m such as building, furniture, machinery, stock, etc.

iv Fictitious Assets -

- 1- These assets are fictitious in nature; i.e. they are not really assets.

v Intangible Assets -

- 1- These assets cannot be seen or felt, or touched and have no vol^m but values are treated as intangible assets for example goodwill, patents, etc.

vi^o Liquid Assets :-

- 1- Cash and other marketable securities, which can be converted into cash quickly, are called liquid assets.

Stockholder's equity:		Fixed Assets:	
Capital stock	—	Land	—
Retained Earnings	—	Building	—
		plant & machinery	—

B. classifications of assets and liabilities.

a. Assets:

1. Assets denote the economic resources and possession of a business.
2. Land, machinery, furniture, building, books, debts, cash, and bill receivables are some examples of assets.
- 3 - Assets may be divided into following classes.

(i) Fixed Assets -

- 1- These assets are acquired for continued use in the business over a long period and are used for the purpose of earning profits.
- 2- These are permanent in nature and with the help of these assets business is carried on.

(ii) Current Assets -

- 1- Assets which kept temporarily for subsequent conversion into money are called current assets.

- 3- A balance sheet ^{is} the statement prepared with a view to measure the exact financial position of a business on a specified date.
- 4- All the assets and liabilities are recorded in the balance sheet in a classified form.
- 5- The excess of assets over liabilities represent the capital of the owner.
- 6- The total of both side of the balance sheet must tally because of the equation viz.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

Balance Sheet
for the period ended...

Liabilities	Rs.	Assets	Rs.
Current liabilities		Current Assets	
Accounts payable	---	Cash	---
Salaries payable	---	Short-term Investments	---
Accrued Interest	---	Accounts Receivables	---
Taxes payable	---	Inventories	---
Current portion of notes	---	prepaid Insurance	---
		others	
Long term liabilities:		Long term Investments:	
Note payable	---	stock Investments	---
Mortgage liability	---	Cash value of	---

(3)

Debit what comes in
Credit what goes out.

C. Nominal Account.

- i) These accounts are opened in the books to simply explain the nature of the transactions.
- ii) They do not really exist.
- iii) It includes all expenses, losses, income and gains.

Debit all expenses and losses
Credit all gains and incomes.

Ques Explain balance sheet and classify assets and liabilities.

A. Balance sheet -

- 1- Balance sheet is ascertain to prepare and analyse the financial position of the business, i.e. to know what the business owes and what it own on a certain date.
- 2- Balance sheet is prepared after ascertaining the net loss by preparing the trading and profit and loss account. Hence, it shows all assets and liabilities of the business as at the end of the accounting year.

b. Liabilities:

- 1- It is an amount which a business is legally bound to pay.
- 2- It denotes the claim by an outsider on the property of the business.
- 3- Liabilities may be divided into the following classes.

i) Fixed Liabilities: Long-Term Liabilities -

- 1- Long term liabilities are those liabilities which are not payable by the business within the next account period but will be payable after a long period of time.

ii) ^{Fixed} Long-Term Liabilities -

- 1- These liabilities which are payable termination of the business are called fixed liabilities such as capital.

iii) Current Liabilities -

- 1- Those liabilities, which have to be redeemed by the business within next accounting year. For example, bills payable, short-term loans, etc.

iv) Contingent Liabilities -

- 1- These liabilities are not actual liabilities but they are becoming actual liabilities.

- 2- It includes the costs in the factory other than the costs of direct materials and direct labour. This is the reason that manufacturing overhead is often classified as an indirect cost.
- 3- There are two types of overhead, which are administrative
- 4- Manufacturing overhead is all of the costs that a factory incurs, other than direct costs.
- 5- The following items are usually included in manufacturing overhead.

Depreciation of factory equipment	Quality control & inspections
factory administration expenses	Rent, facility & equipment.
Indirect labour & production supervisory wages.	Repair expenses.
Indirect material & supplies	Rework labour, scrap and spoilage.
Maintenance, factory & production equipment	Taxes related to production assets.
officer salaries related to production.	Uncapitalized tool & equipment.
production employee's benefits	utilities.

b. pricing:-

This strategy concerns the fixing of the product's price. price fixation is very tedious job. The price must be fixed very judiciously, because the price is the cause of demand. If the price is high, the demand may be low and vice-versa and a low price may mean a lower rate of profit also.

c. financing:

The funds needed to finance the project are important aspects of project appraisal. It is concerned with raising the funds and their most efficient use.

d. Income and expenditure-

The income and expenditure profile is concerned with the estimate regarding the income expected and expenditure involved in the project.

Ques Discuss Trading account and profit and loss account.

Ans- Trading Account:-

- 1- Trading account gives the overall result of trading i.e. purchasing and selling of goods.

2- In other words, it explains It takes into account on the one hand the cost of goods sold and on the other hand the value for which they have been sold away.

- Trading Account -

particular	Rs.	particular	Rs.
To opening stock	—	By sales	—
To purchase		less: Returns	—
less: Returns	—	By closing stock	—
To direct expenses	—		

B. profit and loss account.

1- The trading account simply tells about the gross profit or loss made by a businessman on purchasing and selling of goods.

2- In order to ascertain the true profit or loss which the business has made during a particular period, it is necessary that all such expenses and income should be considered in profit and loss account.