

# **Chapter -1 Model Answer of Theoretical Questions**

## **1. Write the meaning of book keeping.**

*Book keeping is an art of keeping records of financial transactions .It is concerned with the systematic recording of financial transactions of a business sin a set of books. Such transactions are recorded in a set of books systematically in a chorological order as and when they take place with a view to preparing some further statements.*

## **2. State any four objectives of book keeping**

*The following objectives of book keeping:*

- a) *To identify financial transactions: Book keeping identifies financial transactions from a large number of business transactions to keep their record.*
- b) *To keep permanent records: It keeps permanent records of financial transactions in a systematic order.*
- c) *To classify transactions: It classifies all financial transactions in to three type- personal , real and nominal and records them accordingly in a permanent book.*
- d) *To prepare statements: It helps to prepare different statements to summarize, present, interpret the financial information contained in routine records.*

## **3.-Mention any four functions of book keeping**

*The following are the important functions of book keeping:*

- a) *Recognizing financial transactions: Book keeping recognizes financial transactions from among large number of business transactions and keep their record.*
- b) *Maintaining records: It maintains permanent records of financial transactions as and when they take place in a systematic manner.*
- c) *Classifying transactions: It analyzed and classifies all financial transactions in to different categories considering the similar nature of transactions.*
- d) *Preparing statements: It helps to prepare different financial statements to summarize present and interpret the financial information contained in the routine records.*

## **4-State any four importance of book keeping**

*The importance of book keeping is as follows:*

- a) *Maintaining permanent records: Book keeping maintains permanent record of all financial transactions take place in the business.*

- b) *Provision of information about debtors and creditors: It maintains classified records of personal transactions, which provide information about the amounts owed to creditors and their due dates*
- c) *Knowledge about assets and liabilities: Since it keeps the books of different business assets and liabilities, owner can always know about the position of such assets and liabilities.*
- d) *Showing profits and losses: It helps showing the business operations in the form of either profit or losses.*

#### 5- Write in brief the essentials of maintaining books of account in a business.

- A) *Short human memory: Since human memory is short, it is essential to keep books of account as permanent records of financial transactions for future reference.*
- b) *Debtors and creditors: Since books of account are maintained in a classified manner, they provide clear information about the amounts owed by creditors and owed from debtors and when they are due.*
- c) *Assets and liabilities: Similarly, the books of account also provide the information about business assets and liabilities; as such, the owner has clear picture about the financial condition of its business.*
- d) *Evidence: The books of account properly maintained in a business can be presented in the court of law if there is any dispute about any transactions.*

#### 6- Write the meaning of accounting.

*Accounting is a systematic process of identifying, recording, classifying, summarizing, analyzing, and interpreting the financial transactions. Such financial transactions are recorded in such a way which helps to determine the profit and loss and financial position of the business. Besides, it interprets and communicates information about the financial position of the business to different users.*

#### 7- State any four objectives of accounting.

*The main objectives of accounting are as follows:*

- a) *To maintain records: Since human memory is limited, it is very difficult for a person to remember all financial transactions that a business performs. Therefore, accounting maintains a permanent record of all financial transactions of a business in books of account permanently.*
- b) *To ascertain profit or loss: A business is the prime motive to achieve profits. Therefore, accounting ascertains whether the business has earned a profit or suffered a loss by preparing profit and loss account at the end of a period.*
- c) *To show financial position: Besides its profit or loss, the business also needs to know about its financial position the end of a period. Therefore, accounting shows the financial position of the business by preparing a statement called the balance sheet. The balance sheet is a statement of a capital, liabilities and assets of a business.*
- d) *To communicate information: Financial information is essential to its users for taking financial decision. Therefore, accounting communicates the information of operating results and financial position of the business to different users for their decision making purposes.*

#### **8 -State any functions of accounting.**

*A).Maintaining complete records: The first function of accounting is to maintain permanent complete and systematic records of all financial transactions of a business. Such records are maintained in the books and electronic devices by using a given set of rules.*

*b).Determining the results of business operations: Another important function of accounting is to find out the operating results and financial position of the business. Such results are obtained by preparing a profit and loss account and the balance sheet.*

*c).Communicating accounting information: Communicating information to the users is another important function of accounting .There are different users of accounting information such as owners ,managers creditors employees, consumers and the governments.*

*d).Complying with legal information: Some business such as joint stock companies are required to submit their accounting reports under the double entry system by considering the Generally Accepted Accounting Principles (GAAP). Therefore, an important function of accounting is to comply with such legal requirements.*

#### **9- State the important advantages of accounting.**

*The following points highlight the importance of accounting.*

- a) *Maintains systematic records: Accounting maintains permanent, complete, and systematic records of all financial transactions of a business for future references.*
- b) *Determines business operations: It shows the results of business operations and the financial position of the business.*
- c) *Communicates accounting information: It communicates the information through annual accounting reports to different users of such information.*
- d) *Complies with legal information: It complies with legal requirements in case of joint stock companies and also generally accepted accounting practices (GAAP) while preparing the books of accounts and financial statements.*
- e) *Protects business properties: It protects the assets properties by maintaining such records and procedures that easily locate the assets and the person who uses them.*

#### **10- Mention the scope of accounting.**

*The scope of accounting is composed as follows:*

*A) Business: Business is the largest field of accounting. Accounting is used in all business irrespective of their nature, kind and size.*

*B) Government: The government is another field of accounting activity. Accounting is used in all government offices such as the central and operating level offices. The branch of accounting is used in government organizations is called government accounting.*

*c) Non -governmental organizations: Accounting is invariably used in these organizations. The accounting used in this organization is called funds accounting.*

*d) Profession: Profession such as teaching legal, medical, accounting and engineering also comprises an important field of accounting.*

*e) Individuals: Individuals also perform economic activities to earn livelihood. Therefore, some form of accounting is also carried out by them to draw financial transactions. The sequence of the steps to be followed in accounting activities is known as accounting process.*

#### **11. Mention the process of accounting.**

*Accounting consists of a number of sequential steps of activities. These include identifying, recording, classifying, summarizing, and communicating financial transactions. The sequence of the steps to be followed in accounting activities is known as accounting process.*

#### **12. List the sequential steps involved in accounting cycle.**

*The accounting process or cycle has the following five sequential steps:*

*a) Identifying the financial transactions: In the first step of the accounting process, financial transactions are identified.*

*b.) Recording financial transactions: In the second step, all financial transactions performed by the business are systematically recorded in the journal, and subsidiary books.*

*c) Classifying financial transactions: In the third step financial transactions are classified mainly in to two transactions related with person that include enterprises, person, assets and income expenses.*

*d) Summarizing financial transactions: All financial transactions are summarized in this step. They are summarized by preparing a trial balance.*

*e) Communicating the results of business: In the last step, the results of business operations such as profit and losses and the company's financial position are communicated to different uses.*

#### **13. What is meant by business entity concept?**

*These concepts state that the business and its owners are two separate and distinct entities. According to this concept, all the transactions of the business have to be accounted from the view point of the business and not from the view point of its owner .The distinction between the business and its owners is essential to ascertain the true picture of a business. For example, drawing is a personal expense so it should be recorded in the personal book of the owner not in the book of the business.*

#### **14. What is meant by going concern concept?**

*This concept implies that a business has an indefinite life and exists for a long period of time. All business transactions are performed and recorded from this point of view. The long term expenditure such as purchases of land, building and machinery that the business makes are recorded in books of account assuming that it will exist and run for a long period of time. Their cost and current resale values are recorded spreading over their estimated working lives. Therefore, the balance sheet always shows fixed assets at cost after subtracting the amount of depreciation.*

**15. What is meant by accounting period concept?**

*The accounting period concept implies that for the purpose of reporting financial information, the whole life of the business is divided into imaginary time intervals. Each time interval is called an accounting period which is normally of one year.*

**16. Write in brief about cost concept.**

*This concept implies that a cost if anything such as services or assets is recognized when it is incurred and not when cash is paid for it. According to the concept, the cost is assumed to be incurred when the services or the assets is used to generate revenue. Besides, the concept assumes that the assets is taken in to account at the cost of its purchase and not at its market value.*

**17. Write in brief about money measurement concept.**

*This concept assumes that only those business transactions that are measured a monetary terms have to be taken an account. It is so assumed because money provides a common measure for different goods, services, assets and liabilities. The concept also assumes that monetary units such as rupee are stable units in value, but this assumption may not be true in reality.*

## **Chapter -19 Model Answer of Theoretical Questions**

### **1. Write the meaning of new accounting system.**

*The new accounting system is a present accounting system which keeps systematic record of all revenues and expenditures of government offices. It is based on double entry system which keeps the record of all financial transactions of government offices according to the budget heads. It maintains uniformity in recording and reporting the financial transactions in all government offices.*

### **2. Mention any four features of government of Nepal's accounting system**

*The main features of Nepal's accounting system are as follows:*

- a) Double entry system: The new accounting system is based on double entry system. Therefore, all government transactions are recorded in two separate accounts. The one aspect of the transactions is debited and another is credited.*
- b) Banking transactions: The new accounting system emphasizes that all government transactions should be performed through bank. Therefore, the revenues are deposited in to bank and expenditures are made by issuing cheques.*
- c) Budget heads: The new accounting system is based on the classification of revenues and expenditures in to different budget heads. Therefore, all government transactions are recorded according to their respective budget heads along with their budget head number.*
- d) Imprest system of budget release: The new accounting system has made the provision of imprest system of budget release. Under this system, budget release is made at the beginning of each month equal to the amount of previous month.*

### **3. Write any four objectives of government of Nepal's accounting system.**

*The main features of government of Nepal's accounting system are as follows:*

- a) To keep systematic record: The new accounting system keeps systematic record of government transactions. It also systematically maintains the books of account and prepares different statements and reports.*
- b) To provide financial data: The annual is prepared by the government every year, for which it needs historical and estimated data. The accounting system provides historical financial data and information for the new budget.*
- c) To provide information about funds: The government needs to be informed about the position about public funds. It, therefore, requires detailed information about the sources and uses of these funds. The new accounting system provides the relevant and up to date information about such funds.*

**d) To provide financial information for periodical reporting:** Government offices need to prepare various types of financial statements and reports at the end of every month as well at the end of fiscal year to the concerned authority. The new accounting system provides necessary financial data and information for the preparation of such financial statements and reports. .

**4. Write any four importance of government of Nepal's accounting system.**

**The following are the main importance of government of Nepal's accounting system:**

- a) It keeps record of all transactions and provides financial data and information to the government at the time of necessity.**
- b) It makes expenditures within the limitation of budget, which helps to control unnecessary expenditures.**
- c) It provides necessary financial data and information to the government for the purpose of preparing annual budget.**
- d) It provides actual data and information regarding the government revenues and expenditures to the public and other concerned parties.**

**5. Write any three limitations of government of Nepal's Accounting system.**

**The following are the main limitations of government of Nepal's accounting system.**

- a) Cash basis:** It is cash basis of accounting. Therefore, the transactions other than cash are not taken into account.
- b) Violation of accounting principle:** The amount of advances are treated as actual expenditures and charged to the concerned budget heads at the time of giving advance. Such practice violates the basic accounting principles.
- c) Deviation from double- entry principle:** The entry for advance transactions require triple posting in the bank cash book which is against the principle of double entry system.

## **Chapter -12 Model Answers of Theoretical Questions**

### **1. Write the meaning of capital expenditures giving examples.**

*The expenditure which generates revenue or income is called capital expenditure. It is incurred either for buying permanent assets or for improving their existing working capacity.*

*Examples of capital expenditure are as follows:*

- *Expenditure incurred in buying, transporting and installing permanent assets.*
- *Expenditure incurred in overhauling and installing an old asset to put it in production process.*
- *Cost of registration and legal charges incurred in buying or constructing a permanent asset.*
- *Expenditure incurred in improving or extending the working capacity of an existing asset.*
- *Expenditure incurred in getting benefits over a number of years.*

*Expenditure incurred in raising capital like brokerage and commission for underwriting shares and debentures.*

### **2- Differentiate between capital expenditure and revenue expenditure.**

*The following are the main difference between capital and revenue expenditures:*

<b>Basis of difference</b>	<b>Capital expenditure</b>	<b>Revenue Expenditure</b>
<b>Nature</b>	<i>Capital expenditure is of non-recurring nature.</i>	<i>Revenue expenditure is of recurring nature.</i>
<b>Purpose</b>	<i>It is incurred in acquiring permanent assets.</i>	<i>It is incurred in managing day to activities.</i>
<b>Benefit</b>	<i>It gives benefit over the number of years.</i>	<i>It gives benefit not for more than one year.</i>
<b>Earning</b>	<i>It helps in increasing earning capacity of business.</i>	<i>It helps in maintaining earning capacity of the business.</i>

**2. Write the meaning of capital receipts with examples:**

*An amount received in the form of capital from the owner and as loan from outsiders is known as capital receipts. Besides, cash received by selling shares, debentures and permanent asset is also called capital receipt .It is of non-recurring type of receipt.*

*Examples of capital receipts are as follows:*

- Amount received from the owner as capital.*
- Amount received through the sale of shares and debentures.*
- Amount of loan received.*
- Amount received from the sale of old assets.*
- Other receipts of non –recurring nature.*

**4. Give the meaning and examples of revenue receipts.**

*Revenue receipt is an amount which is received from the regular transactions of a business. It is the amount received from the sale of goods and services. It is the main source of income. It is a regular type of income.*

*Examples of revenue receipts are as follows:*

- Amount received from the sale of goods and services.*
- Amount received from the way of discount, commission, rent, interest and dividend.*

*Amount received from the sale of waste paper and packing cases.*

**5. Differentiate between revenue receipts and capital receipts.**

*The following are the differences between revenue receipts and capital receipts:*

Basis of difference	Capital receipt	Revenue receipt
Source	Capital receipt is the amount received from the sale of assets, shares and debentures.	Revenue receipt is the amount received from the sale of goods and services.
Nature	It is of non-recurring nature.	It is of recurring nature.
Impact	Its main items are capital and loan, which affect financial position of	Its main items are sale of merchandise, discount and commission, which affect

	the business.	operating results of the business.
treatment	It is shown on the liabilities side of the balance sheet.	It is shown on the credit side of the trading and profit and loss account.

6 .Write the meaning of revenue expenditure with examples:

***Any expenditure incurred in connection with the operation and administration of daily activities of business is called revenue expenditure. It is incurred for maintaining earning capacity and working efficiency of fixed assets. It is incurred for acquiring merchandise for resale either in its original or improved form. Its benefits expire within one year. It is of recurring nature.***

***Examples of revenue expenditures are as follows:***

***-expenditures incurred in acquiring raw materials for manufacturing process or finished goods for resale.***

***-Wages and all other items of manufacturing expenses.***

***-All items of office, administration, selling and distribution expenses.***

***-Repair, maintenance and depreciation of all the fixed assets.***

***-Interest on loan and other financial expenses.***

7. Write the meaning of capital profit and revenue profit.

***The amount of income earned by the business from the sale of its fixed assets or issue of shares and debentures at premium is capital income. If assets are sold at a price more than their face value, than the excess of face value or premium is capital profit.***

***Examples of capital income are as follows:***

***-Profit on sale of fixed assets.***

***-Premium on issue of shares and debentures.***

***-Share forfeited amount.***

***-Profit on sale of investment.***

***Revenue profit is the difference between revenue income and revenue expenses. It is earned in the ordinary course of the business. It results from the sale of goods and services at a price more than***

*their cost price .It is the outcome of regular transactions of the business. In fact, earning revenue profit is the main objective of every business.*

**9. Write the meaning of capital and revenue losses with examples.**

*The amount of loss suffered due to the sale of fixed assets, issue of shares and debentures at a price less than their book value or face value is capital loss. It does not occur in the normal course of the business. It occurs in the course of selling assets and raising capital. Usually, it is shown in the asset side of the balance sheet and written in out of the capital profit.*

*Examples of capital loss are as follows:*

- Loss on sale of fixed assets.*
- Discount on issue of shares and debentures.*
- Premium on redemption of debentures.*
- Loss on sale of investment.*

*Revenue loss occurs in the ordinary course of the business. It results due to the inefficiency in operating regular activities of the business. It results from the heavy amount of operating expenses and low amount of turnover. It adversely affects the amount of capital and stability of the business.*

## **Chapter -15 Model Answer of Theoretical Questions**

**1. Write the meaning of reserve and provision.**

**Reserve:** A reserve is a part of profit set aside to meet future contingencies and losses. It separated out of the profit for meeting unexpected future liabilities and losses or strengthening the financial position of the business.

**Provision:** An amount which is created for meeting a known liability or loss is known as provision is charged against profit and loss account. It reduces the amount of net profit.

**2. Mention any four objectives of reserve.**

**The main objectives of creating reserve are as follows:**

- a) To meet unexpected future losses, liabilities and contingencies.
- b) To strengthen the financial position of the business.
- c) To redeem debentures, preference shares and other loans and liabilities.
- d) To declare and distribute the uniform rate of the dividend over years.

**3. Mention any three objectives of maintaining provision.**

**The main objectives of maintaining provision are as follows:**

- To meet anticipated losses and liabilities.
- To meet known losses and liabilities.
- To present correct financial statements.

**4. Give any four examples of provision.**

**The following are the main examples of provision:**

- a) Provision for doubtful debts.
- b) Provision for discount on debtors.
- c) Provision for taxation.
- d) Provision for dividend.

**5. What is general reserve? How it is created?**

*A reserve created out of a profit not for a specific purpose is called general reserve. It is used for the general purpose as per the discretion of the management. Usually, it is used for strengthening the financial position and meeting future contingencies and losses. It is created out of the profit for meeting future contingencies. If there is no profit in a specific year, no reserve can be created in that year.*

**6. What is capital reserve? With two suitable examples, state how it is created.**

*A reserve which is created out of the capital profit is called capital reserve. It is not created out of the profit earned in a normal case of the business. It is created out of the profit earned from the transactions of capital nature. The following are the two examples of creating capital reserve:*

*a) Profit on sale of fixed assets.*

*b) Premium on issue of shares and debentures.*

**7. Differentiate between reserve and provision.**

*The following are the main difference between reserve and provision:*

Bases of difference	Reserve	Provision
Objective	The main objective is to strengthen the financial position and to meet future unknown losses and liabilities.	The main of provision is to meet known losses and liabilities which is not certain.
Mode of creation	It is created against the profit and loss appropriation account.	It is created against the profit and loss account.
Relation with profit	It is created when there is enough profit in the business.	It is created even if there is loss in the business.
Distribution	It can be distributed to shareholders as dividend.	It cannot be distributed to shareholders as dividend.

## **Chapter -11 Model Answer of Theoretical Questions**

1. Point out the errors that are disclosed by trial balance.

*The errors that are disclosed by trial balance are as follows:*

- a) **Partial omission:** If a transaction are recorded or posted partially in the journal or in the ledger, such as an error affect the errors that are disclosed by trial balance and is disclosed.
- b) **Posting a wrong amount in an account:** Posting a wrong amount from the book of original entry to a ledger account affects the total of trial balance and is disclosed.
- c) **Posting on the wrong side of an account:** If an account is posted on the wrong side from the book of original entry, such as error affects the total of trial balance and is disclosed.
- d) **Wrong casting of subsidiary books and wrong balancing of an account:** Incorrect totaling of subsidiary books and balancing of ledger account also result in the disagreement of the trial balance and is disclosed.

2. Mention the errors not disclosed by trial balance.

*The following are some of the errors not disclosed by trial balance are as follows:*

- a ) **Complete omission:** the complete omission of recording a financial transactions in the book of original entry or omission of posting an entry from journal to ledger accounts makes no impact on the total of the trial balance in a subsidiary book and ledger.
- b) **Posting a wrong amount in subsidiary books and journal:** Trial balance can not disclose the entry of a wrong in a subsidiary book and ledger.
- c) **Posting in wrong account:** if an amount is wrongly posted on the right side of the wrong account then the error will not affect the agreement of the trial balance and hence is not disclosed by trial balance.
- d) **Compensating errors:** compensating errors are also not shown by the trial balance.
- e) **Errors of duplication:** The errors of duplication are also not revealed by the trial balance. For example, the total of trial balance will be in agreement even though wage of Rs 500 paid for the month of Jestha 2001 was recorded twice in the cash book.
- f) **Errors of principle:** Errors of principle also not disclosed by the trial balance.

3. Write the meaning of compensating errors with example.

*Compensating errors refer to two or more errors which mutually compensate the effect of one another .If one error is committed and that error is compensated by another error it is called compensating error. For example, goods sold for Rs 5,000, but wrongly posted to the customers' account as Rs 500.*

*The errors in the personal account are compensated by each other, as Rs 4,500 short on the debit side of the customer's account and on the credit side of the suppliers account.*

**4. With suitable example write the meaning of error of principle.**

*Errors of principle are those errors which occur by violating the basic principles of accounting. Errors of principles may occur due to wrong allocation between capital and revenue expenditure or wrong evaluation of assets. For example, debiting the wage account instead the machinery account for the wages paid for installation of machinery. Errors of principle may also occur due to wrong valuation of assets by higher level staff.*

**5 . Write in short about the meaning error of omission and error of commission.**

*The errors committed by not recording a transaction either in the book of original entry or in the ledger book are called errors of omission. Such an omission may be either complete or partial.*

*The errors which are committed while recording or posting a transaction are called errors of commission. Errors of commission may take place either in the journal or in the subsidiary books, or in the ledger .Such errors include posting wrong amounts, posting on wrong side of accounts, wrong totaling or carrying forward, and wrong balancing .For example, if purchase of goods for Rs 1,000 in the journal or in the ledger, such an error is called error of commission.*

## **Chapter -2 Model Answer of Theoretical Questions**

### **1. Write the concept of double entry system.**

*The system of book keeping that recognizes two aspects of a transaction and records them giving their names of debit and credit in two separate accounts with equal effect is called double entry book keeping. As a result, the total of all debits equal the total of all credit, or Vice Versa.*

### **2. State the features of double entry book keeping system**

*The following are the main features of double entry book keeping.*

- a) Two aspects: The double entry book keeping recognizes that every transaction has two aspects. It is based on the facts that a transaction is an exchange and every exchange involves either two things, or two people, or thing and a person.*
- b) Debit and credit: Since the double entry system provides the two aspects of the transaction with the name debit and credit respectively. Thus, for each transaction, one aspect is debited and another is credited.*
- c) Two-fold/ Double effect: The double system records two-fold or makes double effect of every transaction. This implies that the two aspects of a transaction are simultaneously recorded in two opposite sides of two separate accounts.*
- d) Equal effect: The double entry system shows an equal effect of each of the two aspects of transaction. This implies that the amount of one aspects of a transaction is always equal to the amount of other aspects.*

### **3 .State any four importance of double entry book keeping system.**

*The following are the main advantages of double entry book keeping system:*

- a) Scientific: The double entry system is a scientific system of book keeping. It has its own set of principles and rules. Under those principles and rules, two aspects of every financial transaction are recorded.*
- b) Systematic: A systematic technique is followed in recording financial transaction in book keeping. It records financial transaction in a systematic and chronological order with suitable narration of the financial transaction.*
- c) Complete: It is complete system of book keeping .It records not only each and every financial transaction, but also each aspects of the transaction.*

d) **Accuracy:** This system is based on the double entry principle which means 'for every debit amount there is a corresponding credit amount or Vice Versa. Such a method of debit and credit can help ensure arithmetical accuracy of recordings the financial transactions.

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