**FYUGP B.COM COMMERCE & TOURISM AND TRAVEL STUDIES**

**Semester I**

**UK1DSCCOM100 ACCOUNTING PRINCIPLES AND STANDARDS**

**Part A. Objective Type Questions (1 Mark)**

1. Which of the following best defines depreciation?

a) Increase in asset value

b) Decrease in asset value

c) Allocation of asset cost over its useful life

d) Sale of an asset

2. Which of the following are types of depreciation methods? (Select all that apply)

a) Straight-line method

b) Diminishing balance method

c) Units-of-production method

d) All of the above

3. Identify the accounting principle that requires expenses to be matched with revenues:

a) Matching principle

b) Materiality principle

c) Consistency principle

d) Prudence principle

4. Recall the formula for calculating depreciation using the straight-line method:

a) (Cost - Residual Value) / Useful Life

b) (Cost + Residual Value) / Useful Life

c) Cost / Useful Life

d) Residual Value / Useful Life

5. Recognize the type of asset that is not physical in nature:

a) Tangible asset

b) Intangible asset

c) Current asset

d) Fixed asset

6. Which of the following best describes the purpose of a Trading Account?

a) To determine gross profit

b) To determine net profit

c) To determine cost of goods sold

d) To determine sales revenue

7. Which of the following explains the difference between capital expenditure and revenue expenditure?

a) Capital expenditure is for revenue generation, while revenue expenditure is for asset acquisition

b) Capital expenditure is for asset acquisition, while revenue

c) Capital expenditure is for long-term benefits, while revenue expenditure is for short-term benefits

d) Capital expenditure is for asset maintenance, while revenue expenditure is for asset acquisition

8. Which of the following summarizes the purpose of a Balance Sheet?

a) To determine financial performance

b) To determine financial position

c) To determine cash flows

d) To determine profitability

9. Classify the following asset as tangible or intangible:

a) Building (Tangible)

b) Goodwill (Intangible)

c) Both A and B

d) Neither A nor B

10. Which of the following comparisons is true about straight-line method and diminishing balance method?

a) Straight-line method charges more depreciation in early years

b) Diminishing balance method charges more depreciation in early years

c) Both methods charge same depreciation every year

d) Neither method charges depreciation

11. What is the definition of depreciation?

a) Increase in asset value

b) Decrease in asset value

c) Allocation of asset cost over its useful life

d) Sale of an asset

12. Identify the type of asset that is not physical in nature:

a) Tangible asset

b) Intangible asset

c) Current asset

d) Fixed asset

13. Recall the formula for calculating depreciation using the straight-line method:

a) (Cost - Residual Value) / Useful Life

b) (Cost + Residual Value) / Useful Life

c) Cost / Useful Life

d) Residual Value / Useful Life

14.Recognize the accounting principle that requires expenses to be matched with revenues:

a) Matching principle

b) Materiality principle

c) Consistency principle

d) Prudence principle

15. Which of the following best describes the purpose of a Trading Account?

a) To determine gross profit

b) To determine net profit

c) To determine cost of goods sold

d) To determine sales revenue

16. Which of the following explains the difference between capital expenditure and revenue expenditure?

a) Capital expenditure is for revenue generation, while revenue expenditure is for asset acquisition

b) Capital expenditure is for asset acquisition, while revenue expenditure is for revenue generation

c) Capital expenditure is for long-term benefits, while revenue expenditure is for short-term benefits

d) Capital expenditure is for asset maintenance, while revenue expenditure is for asset acquisition

17. Which of the following summarizes the purpose of a Balance Sheet?

a) To determine financial performance

b) To determine financial position

c) To determine cash flows

d) To determine profitability

18. Classify the following asset as tangible or intangible:

a) Building (Tangible)

b) Goodwill (Intangible)

c) Both A and B

d) Neither A nor B

19. Which of the following comparisons is true about straight-line method and diminishing balance method?

a) Straight-line method charges more depreciation in early years

b) Diminishing balance method charges more depreciation in early years

c) Both methods charge same depreciation every year

d) Neither method charges depreciation

20. Which of the following is a benefit of using the diminishing balance method of depreciation?

a) It charges more depreciation in early years

b) It charges less depreciation in early years

c) It is simple to calculate

d) It is not affected by residual value

21. Identify the type of account that is used to record the depreciation of an asset:

a) Asset account

b) Depreciation account

c) Expense account

d) Liability account

22. Recall the accounting equation:

a) Assets = Liabilities + Equity

b) Assets = Liabilities - Equity

c) Assets = Equity - Liabilities

d) Liabilities = Assets + Equity

23. Recognize the type of expenditure that is incurred to acquire or improve a fixed asset:

a) Capital expenditure

b) Revenue expenditure

c) Deferred revenue expenditure

d) Prepaid expense

24. Which of the following best describes the purpose of a Profit and Loss Account?

a) To determine gross profit

b) To determine net profit

c) To determine cost of goods sold

d) To determine sales revenue

25. Which of the following explains the importance of depreciation in accounting?

a) It helps to determine the true value of assets

b) It helps to determine the profitability of a business

c) It helps to allocate the cost of assets over their useful life

d) It helps to determine the cash flows of a business

**Part B. Two – three Sentences Questions (2 Marks)**

1. Explain the concept of depreciation and its importance in accounting.
2. Explain the difference between capital expenditure and revenue expenditure, providing examples.
3. Summarize the key features of a Balance Sheet and its purpose in financial reporting.
4. Summarize the main differences between tangible and intangible assets.
5. Classify the following assets into tangible and intangible: building, goodwill, and machinery, patent.
6. Classify the following expenditures as capital or revenue: purchase of equipment, repair of equipment, salaries paid.
7. Compare and contrast the straight-line method and diminishing balance method of depreciation.
8. Compare the accounting treatment for tangible and intangible assets.
9. Discuss the importance of depreciation in financial reporting and its impact on financial statements.
10. Discuss the differences between capital and revenue expenditures, providing examples.
11. Interpret the financial performance of a company based on its Profit and Loss Account and Balance Sheet.
12. Interpret the impact of depreciation on the financial statements of a company.
13. Use the straight-line method to calculate depreciation on a machine costing ₹10,000 with a useful life of 5 years.
14. Use the diminishing balance method to calculate depreciation on a machine costing ₹10,000 with a useful life of 5 years and a depreciation rate of 20%.
15. Apply the matching principle to determine the depreciation expense for a machine used in production.
16. Apply the accounting treatment for intangible assets, such as goodwill and patents.
17. Implement the straight-line method of depreciation for a company with multiple assets.
18. Implement the accounting treatment for capital expenditures, such as purchase of equipment.
19. Distinguish between tangible and intangible assets, providing examples.
20. Distinguish between capital expenditure and revenue expenditure, providing examples.
21. What is the purpose of preparing a Trading Account? Explain briefly.
22. Distinguish between current assets and fixed assets, providing one example of each.
23. Compare the accounting treatment for depreciation under the straight-line method and diminishing balance method.
24. Summarize the key features of a Profit and Loss Account.
25. Explain the concept of goodwill and its accounting treatment.

**Part C. Short Answer Questions (4 Marks)**

1. A company purchases a machine for ₹50,000 on January 1, 2022. The machine has a useful life of 5 years and a residual value of ₹10,000. Calculate the annual depreciation expense using the straight-line method.
2. Apply the matching principle to determine the depreciation expense for a machine used in production.
3. Calculate the depreciation expense for a machine using the straight-line method.
4. Analyze the impact of depreciation on the financial statements of a company.
5. Compare the straight-line method and diminishing balance method of depreciation.
6. Distinguish between tangible and intangible assets.
7. Use the accounting equation to show the effect of transactions on the financial position of a business.
8. Implement the straight-line method of depreciation for a company with multiple assets.
9. A company has the following assets and liabilities:

- Building: ₹500,000 (cost), ₹100,000 (accumulated depreciation)

- Machinery: ₹200,000 (cost), ₹50,000 (accumulated depreciation)

- Cash: ₹100,000 - Accounts payable: ₹50,000

Calculate the total assets and total liabilities of the company, and prepare a simple Balance Sheet

1. Solve a problem involving depreciation calculation using the diminishing balance method.
2. Demonstrate how to calculate the book value of an asset after depreciation.
3. Examine the accounting treatment for intangible assets.
4. Organize assets into current and non-current categories.
5. Categorize expenditures as capital or revenue.
6. Differentiate between capital expenditures and revenue expenditures.
7. Apply the accounting treatment for revenue expenditures.
8. Calculate the annual depreciation expense using the units-of-production method.
9. Analyze the differences between straight-line and diminishing balance methods.
10. Compare the accounting treatment for tangible and intangible assets.
11. A company has a building with a cost of ₹200,000 and accumulated depreciation of ₹50,000. Calculate the book value of the building and explain the accounting treatment for depreciation.
12. A company purchases a piece of equipment for ₹40,000 on January 1, 2022. The equipment has a useful life of 4 years and a residual value of ₹8,000. Calculate the annual depreciation expense using the straight-line method and prepare the journal entry for depreciation for the year ended December 31, 2022.
13. Explain the steps involved in preparing a Trading Account, Profit and Loss Account, and Balance Sheet for a sole proprietorship. Discuss the importance of each account in evaluating the financial performance and position of the business.
14. Describe the differences between a Profit and Loss Account and an Income and Expenditure Account; discuss their significance in evaluating the financial performance of profit-making and not-for-profit organizations.
15. Explain the process of preparing a Receipt and Payment Account, Income and Expenditure Account, and Balance Sheet for a Not-for-Profit Organization. Discuss the importance of each account in evaluating the financial performance and position of the organization.
16. A Not-for-Profit Organization has the following information:

- Subscription received: ₹50,000

- Donation received: ₹20,000

- Expenses: ₹30,000

Prepare an Income and Expenditure Account for the year ended March 31, 2023.Here are some 6-mark essay questions on accounting principles and standards:

**Part D. Long Answer Questions (6 Marks)**

1. From the following information, prepare a Trading Account for the year ended March 31, 2023:

   - Sales: ₹500,000  
    - Purchases: ₹300,000  
    - Opening Stock: ₹50,000  
    - Closing Stock: ₹70,000  
    - Carriage Inwards: ₹10,000  
    - Wages: ₹20,000  
Calculate the Gross Profit.

1. Explain the interrelationship between Trading Account and Profit and Loss Account. How do they help in evaluating the financial performance of a business?
2. Explain the Conceptual Framework for Financial Reporting and its significance in guiding accounting standards development.
3. Discuss the Accounting Entity principle and its significance in separating personal and business transactions
4. Explain the importance of accounting principles in financial reporting. Discuss the role of Generally Accepted Accounting Principles (GAAP) in ensuring consistency and comparability in financial statements
5. A company purchased a machine for ₹200,000 on April 1, 2020. The machine has a useful life of 5 years and a residual value of ₹20,000. The company initially used the Straight-Line Method to depreciate the machine. However, from the year 2022-23, the company decides to switch to the Diminishing Balance Method at a rate of 20% per annum.
6. A company purchases a vehicle for ₹800,000 on April 1, 2022. The vehicle has a useful life of 4 years and a residual value of ₹100,000. Calculate the depreciation for the first two years using the Diminishing Balance Method at a rate of 25% per annum.
7. A company purchases a machine for ₹200,000 on April 1, 2022. The machine has a useful life of 5 years and a residual value of ₹40,000. Calculate the depreciation for the first two years using the Straight-Line Method and the Diminishing Balance Method at a rate of 20% per annum. Compare the results and discuss the advantages and disadvantages of each method.
8. Discuss the differences between a Profit and Loss Account and an Income and Expenditure Account. Highlight the key distinctions in their purpose, preparation, and presentation.
9. The following information is available for a not-for-profit organization:

Receipts:

- Subscription received: ₹50,000

- Donation received: ₹20,000

- Entrance fees received: ₹10,000

- Interest on investments: ₹5,000

Payments:

- Rent paid: ₹15,000

- Salaries paid: ₹30,000

- Equipment purchased: ₹25,000

- Miscellaneous expenses: ₹5,000

Prepare a Receipt and Payment Account for the year.

Requirements

1. Prepare the Receipt and Payment Account in a suitable format.

2. Calculate the cash balance at the end of the year, assuming an opening cash balance of ₹10,000.

1. The following information is available for a company:

- Outstanding salaries: ₹10,000

- Prepaid rent: ₹5,000

- Accrued interest on investments: ₹2,000

- Unearned revenue: ₹8,000

- Depreciation on machinery: ₹15,000

The company's Profit and Loss Account shows a net profit of ₹50,000 before making these adjustments. Prepare the adjusting entries and calculate the adjusted net profit.

Requirements

1. Prepare the adjusting entries for each item.
2. Calculate the adjusted net profit after making these adjustments.
3. 12. Describe the importance of interpreting financial statements for sole proprietorship and not-for-profit organizations
4. 13. Explain the fixed installment method and diminishing balance method of depreciation, highlighting their advantages and disadvantages.
5. 14. Describe the elements of financial statements, including the trading account, profit and loss account, and balance sheet.
6. 15. A company purchases a machine for ₹150,000 on January 1, 2022. The machine has a useful life of 5 years and a residual value of ₹30,000. Calculate the annual depreciation using the Straight-Line Method.