Class 11 Accountancy - Chapter 1: Short Answer Questions

1. Define Accounting.

Accounting is the process of keeping records of all the money-related activities in a business. It involves identifying business transactions, measuring them in money, writing them down (recording), and finally sharing the information with people who need it, such as the business owner or bank. This helps in understanding the financial health of a business and making good decisions.

2. State the end product of financial accounting.

The final results or end products of financial accounting are the Profit and Loss Account and the Balance Sheet.

- The Profit and Loss Account tells whether the business has earned a profit or suffered a loss.
- The Balance Sheet shows the financial position of the business - what the business owns (assets) and what it owes (liabilities).

3. Enumerate main objectives of accounting.

The main purposes of accounting are:

- To keep a record of all financial transactions so that nothing is forgotten.
- To find out whether the business is making profit or loss.
- To show the financial position by preparing a Balance Sheet.
- To provide useful information to owners, managers, and others to help them make decisions.

4. Who are the users of accounting information?

People who need accounting information are called its users.

- Internal users: Managers and employees who use this information to plan and control business activities.
- External users: Investors, banks, government, and tax departments, who use the information to check the business's performance and stability.

5. State the nature of accounting information required by long-term lenders.

Long-term lenders (like banks or loan providers) want to know whether the business is financially strong and trustworthy. They look for information that shows:

- The business can repay loans on time,
- It has enough assets and profits,
- It can survive in the long term.

6. Who are the external users of information?

External users are people who are not part of the business but still need financial information. These include:

- Investors
- Creditors or lenders
- Government and tax authorities
- Regulators
- Customers

7. Enumerate information needs of management.

The managers of a business need accounting information to make smart decisions. They use it to:

- Know whether the business is profitable or not
- Plan how much to spend or earn in the future (budgeting)
- Control business costs (cost of sales)
- Take decisions for the growth of the business
- Understand the overall financial health

8. Give any three examples of revenues.

Revenues are the earnings of a business. Some common examples are:

1. Sales revenue - money earned by selling goods or services
2. Commission received - money earned by helping others sell products
3. Interest received - money earned from lending money or bank savings

9. Distinguish between the following:

Debtors vs. Creditors

- Debtors are people who owe money to the business (the business will receive money from them).
- Creditors are people to whom the business owes money (the business has to pay them).

Profit vs. Gain

- Profit is the extra money earned by a business when income is more than expenses in daily operations.
- Gain is a type of profit earned from activities that are not regular, like selling an old machine for more than its value.

10. 'Accounting information should be comparable'. Do you agree?

Yes, accounting information should be written in a way that it can be easily compared:

- With the past years of the same business, and
- With other businesses.

This helps in checking the progress and performance of a company.

11. If the accounting information is not clearly presented, which qualitative characteristic is violated?

The quality of Understandability is violated. If the information is confusing or unclear, users like owners or investors won't be able to understand it or use it to make decisions.

12. "The role of accounting has changed over time"-Do you agree? Explain.

Yes, the role of accounting has expanded. Earlier, accounting was just about writing down transactions (bookkeeping).

Now, it also helps in:

- Making decisions
- Planning and controlling business
- Providing reports to the government, investors, and society

Accountants today work in new areas like e-commerce, environmental accounting, and forensic accounting too.

13. Define the following accounting terms:

- Fixed Assets: Long-term assets like buildings or machines that are used for many years in the business.
- Revenue: The income or money earned by the business, such as sales or services.
- Expenses: The money spent to run the business, like salary, rent, electricity, etc.
- Short-term Liability: Money that the business has to repay within one year, like bills payable.
- Capital: The money or things invested by the owner into the business.

14. Define revenues and expenses.

- Revenue is the income earned by a business from selling products or services.
- Expenses are the costs that the business has to pay to earn that revenue, like rent, wages, and electricity bills.

15. Why should business students study accounting?

Business students should study accounting because it helps them to:

- Understand how money is managed in a business
- Make smart decisions based on financial data
- Learn how to read and understand financial statements
- Become good managers, accountants, or entrepreneurs in the future