

## Accounting Notes and Questions Solves

### Q: What is Accounting?

**Answer:** Accounting is the process of identifying economic events, recording, classifying, summarizing, evaluating economic conditions and communicating related information to related parties for decision making.

### Q: Who are the users of accounting data?

**Answer:** There are two broad groups of users of accounting information. They are,

1. **Internal users:** These are people who work inside the business and use accounting information to run the organization. They plan, manage, and make decisions.  
**Examples:** managers of finance, marketing, HR, and other departments; owners; employees.
2. **External users:** These are people outside the business who need accounting information to make decisions about the company. **Examples:** investors, banks/creditors, government, suppliers, and the general public.

### Q: What are the objectives of studying accounting?

**Answer:** There are several objectives of studying accounting. Such as,

1. **Recording financial transactions:** To keep a clear record of all money-related activities.
2. **Financial condition:** To understand how strong or weak the business is financially.
3. **Regulatory compliance:** To follow all rules and legal requirements properly.
4. **Decision-making:** To provide information that helps in making business decision.
5. **Preventing fraud:** To reduce mistakes and stop dishonest activities.
6. **Preparing budget:** To plan future income and expenses in an organized way.
7. **Performance evaluation:** To check how well the business or departments are performing.

### Q: What are the importances of accounting?

**Answer:** There are many importances of accounting. Such as,

1. **Helps in decisions:** Helps managers choose the right actions based on facts.
2. **Shows financial position:** Shows whether the business is financially strong or weak.
3. **Checks performance:** Measures how well the business or its departments are doing.
4. **Follows rules:** Ensures the business follows all legal and government rules.
5. **Gives reports to users:** Provides useful reports to both internal and external users.
6. **Builds trust:** Builds trust by keeping accurate and reliable financial records.
7. **Keeps things clear:** Makes business activities clear and open to others.
8. **Manages money better:** Helps the business control cash flow and use money wisely.

### Q: Why accounting is known as an information system?

- ✓ **Input:** It takes financial data from different business activities.
- ✓ **Process:** It processes and organizes that data step by step.
- ✓ **Output:** It produces useful reports like income statements and balance sheets.
- ✓ **Feedback:** It helps users review results and make improvements.
- ✓ **Control mechanism:** It maintains accuracy and prevents errors.
- ✓ **Technology:** It uses software and tools to make the whole system faster and reliable.

### OR, Answer:

Accounting is known as an information system because it works just like any other system that collects and processes data to produce useful information. First, it takes financial data from daily business activities. Then it processes and organizes that data so it becomes meaningful. After that, it produces clear reports like income statements and balance sheets that people can use to make decisions. The system also gives feedback, which helps managers check results and improve future actions. It includes controls to keep the records accurate and reduce errors. Modern accounting also uses technology and software, which makes the whole process faster, easier, and more reliable.

### Q: Computerized System and Application in Accounting.

**Answer:** A computerized accounting system uses software to record, process, and report financial information quickly and accurately. It replaces manual work and makes accounting easier, faster, and more reliable. Common software examples are **ERP, QuickBooks, FreshBooks, Zoho Books, and Xero.**

### Benefits of a computerized accounting system:

- ✚ **Automates recording:** Entering and processing transactions automatically.
- ✚ **Creates digital records:** Stores all information electronically for easy access.
- ✚ **Speeds up work:** Makes accounting tasks faster than manual methods.
- ✚ **Improves accuracy:** Produces fewer mistakes and more reliable results.
- ✚ **Reduces manual errors:** Minimizes human mistakes in calculations and entries.

Accounting is commonly applied in payroll management, data processing, financial reporting, inventory management, tax administration, budgeting, and preserving information.

### Q: What is GAAP?

**Answer:** GAAP (Generally Accepted Accounting Principles) is a set of rules and guidelines that accountants follow to record and report financial information. These standards make sure financial statements are prepared in a clear, consistent, and reliable way so everyone understands the economic events in the same manner.

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## Q: Briefly explain about the elements of financial statements.

### Elements of Financial Statements:

1. **Assets:** Resources the business **owns** that will give future benefits (e.g., cash, equipment).
2. **Liabilities:** Amounts the business **owes** and must pay in the future (e.g., accounts payable, loans).
3. **Equity:** The owner's **share** of the business after paying all liabilities.
4. **Investment by owner:** Money or assets **invest** by the owner, increasing equity.
5. **Distribution to owner:** Money or assets **taken out** by the owner, decreasing equity.
6. **Comprehensive income:** All changes in equity from **non-owner sources** during a period (e.g. Gain or losses from foreign currency transactions).
7. **Revenues:** **Income** earned from the main business activities, like selling goods or services.
8. **Expenses:** **Costs** the business pays to earn revenue, like salaries or rent.
9. **Gains:** **Increases** in equity from activities outside the main business (e.g., selling an asset for more).
10. **Losses:** **Decreases** in equity from activities outside the main business (e.g., selling an asset for less).

## Q: Briefly explain about the basic accounting equation.

**Answer:** The Basic accounting equation is given below:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}.$$

The relationship shows that assets must equal to the sum of liabilities and owner's equity. Liabilities appear before owner's equity because they are paid first if a business is liquidated.

### Transaction Analysis:

#### Table Format

Month	Assets				=	Liabilities	+ Owner's Equity				Explan- ation
Month name	Cash	+Equip ment	+Supply	+A/R		A/P	Capital	-Drawings	+Revenue	-Expense	
-	-	-	-	-		-	-	-	-	-	-
-	-	-	-	-		-	-	-	-	-	-
Total					=						

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**Q: Briefly discuss about the four types of Financial Statements.**

**Answer:** Companies prepare four financial statements from the summarized accounting data:

1. **Income Statement:** Shows how much money the business earned and spent, and whether it made a profit or loss during a period.
2. **Owner's Equity Statement:** Shows how the owner's share in the business changed over a period.
3. **Balance Sheet:** Shows what the business owns (assets), owes (liabilities), and the owner's share (equity) at a specific date.
4. **Statement of Cash Flows:** Shows the cash coming in and going out of the business during a period.

**Q: What is an account?**

**Answer:** An account is a record that shows all increases and decreases for a specific item, like cash, revenue, or expenses. For example, Cash, Equipment, Accounts Receivable, Accounts Payable, Salaries, and Utilities.

**Q: Briefly discuss the concept of Debits and credits.**

**Answer:** In accounting, **debit (Dr.)** means the left side of an account, and **credit (Cr.)** means the right side. These terms do **not** mean increase or decrease by themselves—they just show where we record amounts.

- ❖ **Debiting an account** means putting an amount on the left side.
- ❖ **Crediting an account** means putting an amount on the right side.

An account shows a **debit balance** if the total of debits is more than credits, and a **credit balance** if credits are more than debits. Simple rules for debits and credits:

Basic Equation	Assets		=	Liabilities		+	Owner's Equity										
Expanded Equation	Assets		=	Liabilities		+	Owner's Capital		-	Owner's Drawings		+	Revenues		-	Expenses	
Debit / Credit Effect	Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.		Dr.	Cr.
	↑	↓		↓	↑		↓	↑		↑	↓		↓	↑		↑	↓

### Q: What is the Double Entry System?

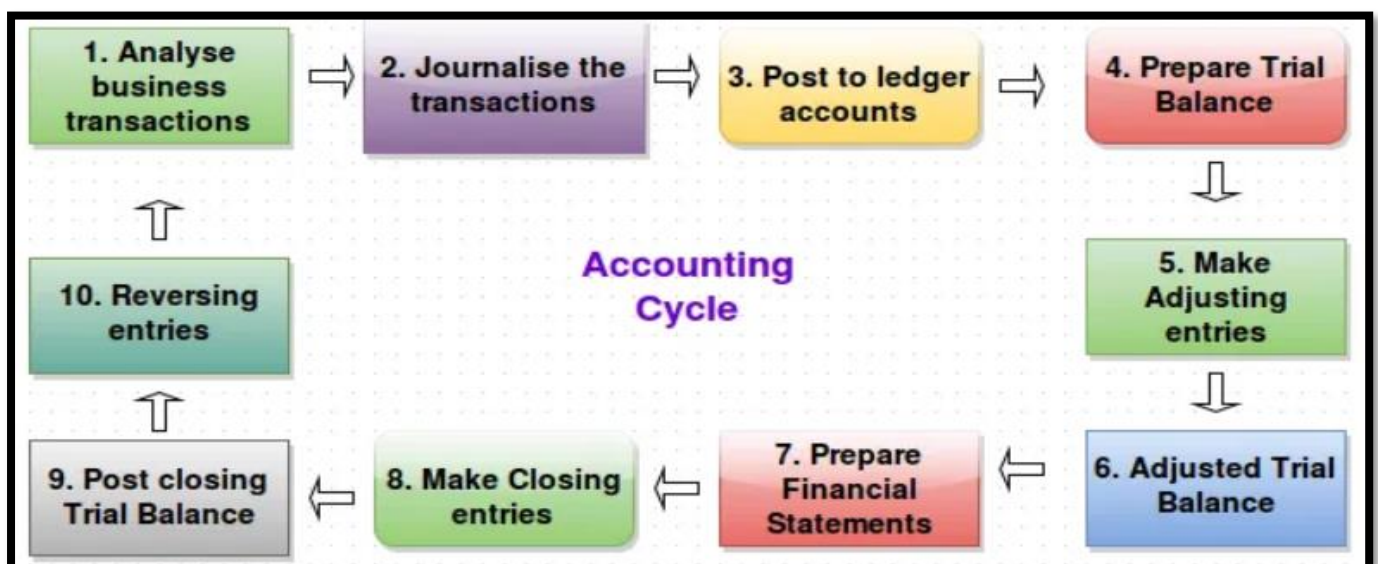
**Answer:** The double entry system is a method of recording financial transactions where every transaction affects at least two accounts, one is debit and another is credit. This ensures that the total debits always equal the total credits. It helps keep the accounts accurate and makes it easier to find errors, and provides a clear, logical way to record all transactions.

### Q: What is the accounting cycle? Explain it's every step with suitable diagram.

**Answer:** The accounting cycle is a step-by-step process that helps record, process, and report a company's financial activities accurately. The main steps are:

1. **Identify and analyze transactions:** Find financial events and analyze them.
2. **Record journal entries:** Enter each transaction in the journal in order with debit and credit effects.
3. **Post to the ledger:** Transfer journal entries to individual accounts in the ledger.
4. **Prepare a trial balance:** List all account balances to make sure total debits equal total credits.
5. **Record adjusting entries:** Make adjustments for things like accruals and deferrals to update account balances.
6. **Prepare adjusted trial balance:** Check all balances again after adjustments to ensure debits still equal credits.
7. **Prepare financial statements:** Use the adjusted trial balance to create the income statement, owner's equity statement, balance sheet, and cash flow statement.
8. **Record closing entries:** Transfer temporary account balances (like revenue and expenses) to owner's capital and reset temporary accounts to zero.
9. **Prepare post-closing trial balance:** List only permanent accounts after closing entries for the next period.

This cycle repeats every accounting period to maintain accurate and complete financial records.



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### Q: What is a journal?

**Answer:** A journal is the book where all financial transactions are recorded in chronologically and showed which accounts are debited and credited with a short explanation. **Example:** Payment of salary Tk. 5000 on June 7, 2025. The journal entry for this transaction will be:

June 7, 2025	Salary Expense	5000	
	Cash		5000
(to record payment of salary on cash)			

### Q: Why journal is prepared? / Why Journal is referred as the primary book of Accounting?

**Answer:** A journal is prepared because it is the first book where all transactions are recorded in chronological order. It provides a complete and organized record of every transaction. It supports the double-entry system and helps in posting to the ledger. It also helps detect errors and assists in preparing financial statements. For this reasons the journal is referred as the primary book of Accounting.

### Q: What is a ledger?

A ledger is the main book that contains all individual accounts of a business. It shows the detailed records of assets, liabilities, expenses, income, and owner's equity.

### Q: Why is a ledger prepared? Why Ledger is referred as the main book of Accounting?

A ledger is prepared to organize all financial transactions into separate accounts. It helps summarize financial information clearly. It assists in preparing the trial balance and financial statements. It also helps identify errors and keeps a permanent record of all account balances. For these reasons, the ledger is referred as the main book of Accounting.

### Q: What is a trial balance? Why is it prepared?

A trial balance is a statement that lists all ledger accounts with their debit and credit balances at a specific date.

It is prepared to check whether total debits and total credits are equal, which ensures mathematical accuracy. It helps summarize all ledger balances in one place and makes account checking easier. It also assists in preparing financial statements by providing organized and verified account totals.



### **Q: What are the Limitations of preparing trial balance?**

**Answer:** Limitations or Errors that are not properly detected in the time of preparing trial balance. They are,

1. **Errors of omission:** A transaction is completely left out from the records.
2. **Compensating errors:** Two opposite mistakes cancel each other out.
3. **Errors of wrong entry:** The amount is recorded in the wrong account.
4. **Errors of principles:** The recorded transaction don't follow the proper accounting rules.

### **Q: Explain the accrual basis of accounting and the reasons for adjusting entries.**

**Answer:** Accrual basis of accounting means recording revenues when they are earned and expenses when they are incurred, even if the cash has not been received or paid yet.

Businesses divide their activities into different time periods, so they need adjusting entries at the end of each period. Adjusting entries make sure revenue is recorded in the correct period and expenses are matched to the period. These adjustments include deferrals (like prepaid expenses and unearned revenue) and accruals (like accrued expenses and accrued revenue).

### **Q: Why are adjusting entries needed for deferrals, and how are they prepared?**

**Answer:** Adjusting entries for deferrals are made when cash has been paid or received in advance.

For prepaid expenses, the used-up portion is recorded as an expense. For unearned revenues, the earned portion is recorded as revenue. This ensures expenses and revenues are correctly matched to the current period.

### **Q: Why are adjusting entries needed for accruals, and how are they prepared?**

**Answer:** Adjusting entries for accruals are made when a company has earned revenue or incurred an expense but has not yet recorded it.

Accrued revenues record income earned but not yet received. Accrued expenses record costs incurred but not yet paid. These entries ensure all revenues and expenses appear in the correct accounting period.

### **Q: Discuss financial reporting concepts.**

**Answer:** Financial reporting must provide useful information, which means it should be relevant and faithfully represented. It should also be comparable, consistent, verifiable, timely, and easy to understand. These qualities help users make better decisions.

Several assumptions guide financial reporting. The monetary unit assumption records only money-measurable events, while the economic entity assumption separates business and personal activities. The time-period assumption allows businesses to report results for

specific periods, and the going-concern assumption assumes the company will continue operating.

Key principles also support proper reporting. Historical cost records assets at original cost, while fair value uses current market value when needed. Revenue is recognized when earned, and expenses are matched with related revenues. The full disclosure principle requires revealing important information, and the cost constraint ensures benefits outweigh reporting costs.

### **Q: What is a worksheet? What are the steps of preparing a worksheet?**

**Answer:** A worksheet is a multi-column tool used during the adjustment process and while preparing financial statements. It is not a formal accounting record, journal, or ledger. It simply helps accountants organize adjustments and prepare final statements. **Today, companies usually prepare worksheets using spreadsheet software like Excel.**

#### **Steps in preparing a worksheet**

1. Prepare the trial balance on the worksheet.
2. Enter all adjustments in the adjustment columns.
3. Compute and record adjusted balances in the adjusted trial balance columns.
4. Extend the adjusted amounts to the income statement and balance sheet columns.
5. Total the columns, determine net income or net loss, and complete the worksheet.

### **Q: What is a closing entry?**

**Answer:** Closing entries are made at the end of the accounting period to close temporary accounts. Revenues and expenses are closed to Income Summary, then transferred to Owner's Capital. Owner's Drawings are also closed to Owner's Capital. This process resets temporary accounts to zero for the next period.

### **Q: What is cost accounting?**

**Answer:** Cost accounting is the process of recording, analyzing, and reporting a company's costs. Cost accounting is used only for internal decision-making.

It helps managers understand how money is being spent and find ways to reduce expenses. Its main goal is to improve efficiency and support better management planning.



## Q: Write the classification of costs with brief explanation.

### Classification on the basis of Behavior

- ✓ **Fixed costs:** Costs that remain the same even if production changes.
- ✓ **Variable costs:** Costs that change directly with the level of output.
- ✓ **Semi-variable costs:** Costs that have both fixed and variable parts.

### Classification on the basis of Nature

- **Direct costs:** Costs that can be directly traced to a product.
- **Indirect costs:** Costs that cannot be directly linked to a single product.

### Classification on the basis of Element

- **Material cost:** The cost of raw materials used in production.
- **Labor cost:** The cost of wages paid to workers.
- **Expenses:** Other costs needed to run operations besides materials and labor.

### Classification on the basis of Controllability

- **Controllable costs:** Costs that managers can influence or control.
- **Uncontrollable costs:** Costs that managers cannot change or influence.

### Classification on the basis of Product Association

- ❖ **Product costs:** Costs related to making the product.
- ❖ **Period costs:** Costs related to time periods, not production.

### Classification on the basis of Function

- ✚ **Production costs:** Costs for manufacturing goods.
- ✚ **Administrative costs:** Costs of managing and running the office.
- ✚ **Selling costs:** Costs related to promoting and selling products.
- ✚ **Distribution costs:** Costs related to delivering goods to customers.

## Q: What are the Key Differences Among Financial, Cost & Management Accounting?

Aspect	Financial Accounting	Cost Accounting	Management Accounting
Purpose	Reports financial results for external users	Determines cost of products/services	Helps management in planning & decision-making
Primary Users	Investors, creditors, regulators	Internal management	Internal management
Focus	Overall financial performance & position	Detailed cost and production data	Future planning, budgeting, performance analysis
Time Orientation	Past (historical data)	Past & present	Future (projections)
Standards	Must follow GAAP/IFRS	More flexible, guided by costing principles	No fixed rules, depends on management needs
Type of Information	Only financial	Financial + non-financial	Both financial + non-financial
Report Frequency	Quarterly or yearly	As needed, often monthly	As needed, sometimes daily or monthly
Measurement	Monetary values	Monetary + non-monetary (e.g., units, hours)	Monetary values
Example Use	Preparing financial statements	Setting product price or controlling cost	Budgeting, forecasting, performance evaluation