

SHORT ANSWER QUESTIONS

1. Prove that, "Accounting Equation holds good under all circumstances." Give atleast two illustrations.

2. Give two basic purposes of accounting equation.

Ans. (i) Since accounting equation is always equal it ensures the accuracy in recording of business transaction.

(ii) It helps in preparation of Balance Sheet.]

3. Describe the fundamental accounting equation. How are revenue and expenses related to it?

4. Which of the following equations are correct ?

I. Assets	=	Capital	+	Liabilities
II. Assets	=	Capital	-	Liabilities
III. Assets	=	Liabilities	-	Capital
IV. Capital	=	Assets	-	Liabilities
V. Capital	=	Assets	+	Liabilities
VI. Liabilities	=	Capital	+	Assets
VII. Liabilities	=	Capital	-	Assets
VIII. Liabilities	=	Assets	-	Capital

Ans. I, IV, VIII.

5. The position of a businessman on 30th June 1994 was as follows :— Cash ₹5,000; Debtors ₹20,000; Machinery ₹60,000; Stock ₹25,000; Capital ₹75,000. Calculate his liabilities.

Ans. ₹35,000.

Hint. Liabilities = Assets - Capital

6. What entry (debit or credit) would you make to (a) increase in revenue (b) decrease in expense, (c) record drawings, (d) record the fresh capital introduced by the owner.

Ans. (a) Increase in Revenue : Credit
 (b) Decrease in Expense : Credit
 (c) Drawings : Debit in Capital Account
 (d) Fresh Capital : Credit in Capital Account

7. If a transaction has the effect of decreasing an asset, is the decrease recorded as a debit or as a credit? If the transaction has the effect of decreasing a liability, is the decrease recorded as a debit or as a credit?

Ans. Decrease in Asset will be recorded on credit side.
 Decrease in Liability will be recorded on debit side.]

8. Which transactions will :

- I. Decrease the Assets and Decrease the Capital.
- II. Increase the Assets and Increase the Liabilities.
- III. Increase the Assets and Decrease another Asset.
- IV. Decrease the Assets and Decrease the Liabilities.

Ans. (I) Drawings or Expenses; (II) Purchase of an asset on Credit; (III) Purchase or Sale of an asset in Cash; (IV) Payment of a liability.]

9. What will be the effect of the following on the Accounting Equation :—
1. Purchased goods for ₹20,000 from Mahesh on Credit.
 2. Sold goods to Suresh costing ₹8,000 for ₹10,000 in cash.
 3. Paid Wages ₹500.
 4. Withdrew in cash for private use ₹2,000.
 5. Paid to creditors ₹5,000.

Ans. 1. + Stock + Creditors
 3. – Cash – Capital
 5. – Cash – Creditors]

2. + Cash – Stock + Capital
 4. – Cash – Capital

VERY SHORT ANSWER QUESTIONS (Questions Carrying 1 Mark)

1. What is an accounting equation?
Ans. An accounting equation is a formula of accounting which shows that the assets of a business are always equal to the total of capital and liabilities.
2. Give fundamental accounting equation.
Ans. Assets = Liabilities + Capital
3. If the Capital of a business is ₹5,00,000 and Outside liabilities are ₹2,00,000, calculate total assets of the business.
Ans. Total Assets ₹7,00,000.
4. If total assets of a business are ₹10,00,000 and capital is ₹4,00,000, calculate creditors.
Ans. Creditors ₹6,00,000
5. 'X' commenced business on 1st April, 2013 with a capital of ₹6,00,000. On 31st March, 2014 his assets were worth ₹8,00,000 and liabilities ₹50,000. Find out his closing capital and profits earned during the year.
Ans. Closing Capital ₹7,50,000; Profit ₹1,50,000.
6. What is Debit?
Ans. When an amount is entered on the left-hand side of an account, it is a debit and the account is said to be debited.
7. What is Credit?
Ans. When an amount is entered on the right-hand side of an account, it is a credit and the account is said to be credited.
8. Why are the rules of debit and credit same for both liability and capital?
Ans. Because according to business entity concept capital is also treated as liability of the business.
9. Name the side on which increase in capital is recorded.
Ans. Credit side.