BBS 1st Year Account Theory 45-55 marks

What is the matching concept of accounting?

- English: The matching concept states that expenses incurred during a period should be recorded in the same period as the revenues they helped to earn.
- Nepali: मिलान अवधारणाले भन्छ कि कुनै निश्चित अवधिमा आर्जन गरिएको आम्दानीसँग सोही आम्दानी प्राप्त गर्न लागेको खर्चलाई सोही अवधिमा लेखाङ्कन गरिनुपर्छ ।

2. State the meaning of bookkeeping accounting.

- English: Bookkeeping is the process of recording daily financial transactions and information systematically in a business.
- Nepali: बुक किपिङ (पुस्तपालन) भनेको व्यवसायका दैनिक आर्थिक कारोबारहरूलाई एउटा व्यवस्थित तरिकाले अभिलेख राख्ने प्रक्रिया हो ।

3. Define the meaning of NFRS.

- English: NFRS stands for Nepal Financial Reporting Standards. These are the accounting standards adopted by the Accounting Standards Board (ASB) of Nepal to bring uniformity in financial statements.
- Nepali: NFRS को पूर्ण रूप 'नेपाल वित्तीय प्रतिवेदन मान' (Nepal Financial Reporting Standards) हो । यो नेपालको लेखा परीक्षण बोर्डद्वारा वित्तीय विवरणहरूमा एकरूपता ल्याउन तयार पारिएको मापदण्ड हो ।

4. Write down the meaning of contingent liabilities.

- English: A contingent liability is a potential liability that may occur in the future depending on the outcome of an uncertain specific event (e.g., a pending lawsuit).
- Nepali: आकस्मिक दायित्व (Contingent Liability) भनेको त्यस्तो सम्भावित दायित्व हो जुन भविष्यमा कुनै अनिश्चित घटनाको परिणाममा निर्भर हुन्छ (जस्तै: अदालतमा विचाराधीन मुद्दा) ।

5. What is Trial Balance?

- English: A Trial Balance is a statement that lists the closing balances of all ledger accounts to check the arithmetical accuracy of the books of accounts.
- Nepali: सन्तुलन परीक्षण (Trial Balance) एउटा यस्तो विवरण हो जसमा खाताका सबै अन्तिम मौज्दातहरू राखिन्छन् ताकि लेखाको गणितीय शुद्धता जाँच गर्न सकियोस् ।

Set 2 Questions

1. What is financial accounting?

- English: Financial accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the transactions resulting from business operations over a period of time.
- Nepali: वित्तीय लेखाविधि (Financial Accounting) लेखाविधिको एक शाखा हो जसमा व्यवसायका कारोबारहरूलाई व्यवस्थित रूपमा अभिलेख राख्ने, सारांश निकाल्ने र वित्तीय प्रतिवेदन तयार गर्ने काम गरिन्छ ।

2. Define the realization concept of accounting?

- English: The realization concept states that revenue should be recognized and recorded only when it is actually earned or realized, usually when goods are delivered or services are rendered.
- Nepali: प्राप्ति वा महसुस अवधारणा (Realization Concept) अनुसार आम्दानीलाई तब मात्र लेखाङ्कन गर्नुपर्छ जब त्यो वास्तविक रूपमा प्राप्त हुन्छ वा वस्तु वा सेवा हस्तान्तरण गरिन्छ ।

3. What is periodic inventory system?

- English: A periodic inventory system is a method of inventory valuation where the inventory account is updated at the end of a specific accounting period rather than after every sale.
- Nepali: आवधिक मौज्दात प्रणाली (Periodic Inventory System) भनेको मौज्दात गणना गर्ने यस्तो तरिका हो जसमा प्रत्येक कारोबारपछि नभई एउटा निश्चित अवधिको अन्त्यमा मात्र मौज्दातको भौतिक गणना गरिन्छ ।

4. Write down the meaning of contingent liabilities. *(Same as Set 1, Question 4)*

5. What is GAAP?

- English: GAAP stands for Generally Accepted Accounting Principles. It is a collection of commonly-followed accounting rules and standards for financial reporting.
- Nepali: GAAP को पूर्ण रूप 'सर्वमान्य लेखा सिद्धान्त' (Generally Accepted Accounting Principles) हो । यो वित्तीय प्रतिवेदन तयार गर्दा पालना गरिने सामान्य नियम र मापदण्डहरूको समूह हो ।

Set 3 Questions

1. What is realization concept of accounting? *(Same as Set 2, Question 2)*

2. Write about the accrual basis of accounting.

- English: Accrual basis of accounting is a method where revenues and expenses are recorded when they are earned or incurred, regardless of when the cash is actually received or paid.
- Nepali: प्रोदभावी आधार (Accrual Basis) भनेको लेखा राख्ने यस्तो विधि हो जसमा आम्दानी वा खर्च भएको समयमा नै अभिलेख राखिन्छ, नगद लेनदेन भए पनि वा नभए पनि ।

3. What are the objectives of internal control of a business?

- English: The objectives are to safeguard assets, ensure the accuracy and reliability of accounting data, and promote operational efficiency.
- Nepali: आन्तरिक नियन्त्रणका उद्देश्यहरू सम्पत्तिको सुरक्षा गर्नु, लेखा तथ्याङ्कको शुद्धता र विश्वसनीयता सुनिश्चित गर्नु र कार्यदक्षता बढाउनु हुन् ।

4. Define the meaning of current liabilities.

- English: Current liabilities are a company's short-term financial obligations that are expected to be settled within one year or one operating cycle.
- Nepali: चालू दायित्व (Current Liabilities) भनेको व्यवसायको त्यस्तो ऋण वा दायित्व हो जुन एक वर्ष वा एक सञ्चालन चक्र भित्र चुक्ता गरिसक्नुपर्छ ।

5. What is treasury stock?

- English: Treasury stock is the portion of shares that a company keeps in its own treasury, usually bought back from the open market.
- Nepali: ट्रेजरी स्टक (Treasury Stock) भनेको कम्पनीले आफ्नै शेयरहरू बजारबाट फिर्ता किनेर आफ्नो ढुकुटीमा राखेको शेयर हो ।

Unit 1: Introduction

Define Financial Accounting. Explain its objectives and functions.

Financial Accounting is a specialized branch of accounting that focuses on the systematic recording, summarizing, and reporting of an organization's financial transactions. Its primary purpose is to provide an accurate and fair view of the company's financial performance (profit or loss) and financial position (assets, liabilities, and equity) over a specific period. This information is primarily intended for external users, such as investors, creditors, regulators, and tax authorities, but is also used by internal management. The final reports, known as financial statements, are prepared according to standardized guidelines like Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) to ensure consistency, comparability, and reliability. वित्तीय लेखांकन (Financial Accounting) लेखांकनको त्यो विशिष्ट शाखा हो जसले कुनै संस्थाको वित्तीय कारोवारहरूलाई व्यवस्थित ढंगले रेकर्ड गर्ने, सारांश तयार गर्ने, र प्रतिवेदन प्रस्तुत गर्ने कार्य गर्दछ। यसको मुख्य उद्देश्य संस्थाको वित्तीय प्रदर्शन (नाफा वा नोक्सान) र वित्तीय अवस्था (सम्पत्ति, देनदारी, तथा पूँजी) को सही एवं निष्पक्ष तस्वीर प्रस्तुत गर्नु हो। यो जानकारी मुख्यतया बाहृय प्रयोगकर्ताहरू (जस्तै लगानीकर्ता, ऋणदाता, नियामक निकाय, राजस्व कार्यालय) को लागि हुन्छ, तर आन्तरिक व्यवस्थापनले पनि यसको प्रयोग गर्दछ। अन्तिम प्रतिवेदनहरूलाई वित्तीय विवरण (Financial Statements) भनिन्छ, जुन सामान्यतया स्वीकार्य लेखांकन सिद्धान्त (GAAP) वा अन्तर्राष्ट्रिय वित्तीय प्रतिवेदन मानक (IFRS) अनुसार तयार गरिन्छ ताकि ती तुलनायोग्य र विश्वसनीय बनून्।

Objectives of Financial Accounting

The main objectives of financial accounting are as follows:

1. **Systematic Record Keeping:** To maintain a complete, systematic, and chronological record of all financial transactions (e.g., sales, purchases, payments, receipts) in the books of original entry and ledgers.

2. **Determination of Profit or Loss:** To ascertain the net result of business operations during an accounting period by preparing a Profit and Loss Account (or Income Statement). This shows whether the business has earned a profit or incurred a loss.

3. **Determination of Financial Position:** To present a clear picture of the business's financial health at the end of a period by preparing a Balance Sheet (or Statement of Financial Position). This statement shows what the business owns (assets) and owes (liabilities), along with the owners' equity.

4. **Providing Information to Stakeholders:** To provide relevant, reliable, and timely financial information to various external and internal users for decision-making, such as investing, lending, taxation, and regulation.

5. **Ensuring Accountability and Stewardship:** To act as a tool for management to report (provide an account of) how effectively they have used the resources entrusted to them by owners and other stakeholders.

Functions of Financial Accounting

The functions are the practical activities performed to achieve the above objectives:

1. **Recording (Bookkeeping):** The primary function is to record every financial transaction in a systematic manner using the double-entry system. This includes journalizing transactions and posting them to ledger accounts.

2. **Classifying:** To group all similar transactions together. For example, all sales transactions are grouped in a "Sales Account," all rent expenses in a "Rent Account." This is done in the ledger.

3. **Summarizing:** To condense and summarize the classified data into a more understandable and useful form. This involves preparing a Trial Balance to check arithmetic accuracy, followed by the final accounts: Trading Account, Profit & Loss Account, and Balance Sheet.

4. **Analyzing:** To establish relationships between the items in the financial statements. This is done using ratio analysis, trend analysis, and cash flow analysis to interpret the meaning of raw figures. For example, calculating the current ratio to assess liquidity.

5. **Interpreting:** To explain the significance and meaning of the analyzed data. It involves drawing conclusions and making explanations, such as "Profits fell by 20% due to rising material costs and decreased sales volume."

Differentiate between Book-keeping and Accounting.

Gazzab ko Tuition Center

Learn Today, Lead Tomorrow

Basis of Difference	Book-keeping	Accounting
1. Definition	It is the systematic process of recording all financial transactions in the books of original entry (journal) and ledgers.	It is a broader process that includes classifying, summarizing, analyzing, interpreting, and communicating financial information.
2. Objective	The primary objective is to maintain a complete and accurate chronological record of every transaction.	The objective is to ascertain the financial position (Balance Sheet), profitability (Profit & Loss), and provide useful information for decision-making.
3. Scope	Narrower. It is limited to the recording and classifying phase.	Wider. It includes book-keeping plus summarizing, analysis, interpretation, and reporting.
4. Nature of Work	Routine and clerical. It involves repetitive, day-to-day tasks.	Analytical and non-routine. It involves judgment, estimates, and strategic thinking.
5. Who Performs It	Usually performed by a book-keeper (junior staff).	Performed by an accountant (senior staff or professional).
6. Skills Required	Basic knowledge of debits, credits, and ledgers. Requires accuracy and attention to routine detail.	In-depth knowledge of accounting principles (GAAP/IFRS), standards, taxation, auditing, and financial analysis.
7. Decision-making Role	Does not involve direct decision-making. It only provides raw data (the "input").	Directly aids management and external parties in making economic decisions by providing interpreted data (the "output").
8. Financial Statements	Does not prepare financial statements. The end product of book-keeping is the Trial Balance.	Prepares final financial statements: Trading Account, Profit & Loss Account, Balance Sheet, and Cash Flow Statement.
9. Analysis & Interpretation	No analysis or interpretation is done.	Analysis (ratio analysis, trend analysis) and interpretation are core functions.
10. Subsidiary Books	Involves maintenance of subsidiary books like Cash Book, Purchase Book, Sales Book, etc.	Uses the data from these books but does not maintain them directly.

Discuss the users of accounting information and their specific needs.

Accounting information is used by different individuals and organizations for decision-making. These users can be divided into **internal users** and **external users**.

1. Internal Users

a) Management

Managers use accounting information for planning, controlling, and decision-making. They need information about profit, cost, sales, budget, and performance to operate the business efficiently.

Specific Needs:

- Planning future activities
- Controlling business operations
- Preparing budgets
- Making investment and pricing decisions

b) Employees

Employees are interested in the financial stability and profitability of the business because it affects their salary, bonus, job security, and promotion.

Specific Needs:

- Salary and incentives
- Job security
- Retirement benefits
- Growth opportunities

---

2. External Users

a) Investors / Shareholders

Investors use accounting information to evaluate the profitability and financial position of the business before investing.

Specific Needs:

- Profitability of the company
- Return on investment
- Dividend information

- Financial strength and future growth

b) Creditors and Lenders

Banks and other lenders analyze accounting reports to determine whether the business can repay loans and interest on time.

Specific Needs:

- Liquidity position
- Creditworthiness
- Ability to repay debt
- Financial stability

c) Suppliers

Suppliers want to know whether the business can pay for goods purchased on credit.

Specific Needs:

- Short-term solvency
- Payment capability
- Business continuity

d) Customers

Customers are interested in the company's long-term survival, especially when they depend on its products or services.

Specific Needs:

- Continuity of supply
- Product quality and reliability
- Long-term stability

Explain the scope and limitations of financial accounting.

Introduction

Financial accounting is the branch of accounting that records, classifies, summarizes, and reports financial transactions of a business. It helps users understand the financial position and performance of the organization through financial statements.

Scope of Financial Accounting

The scope of financial accounting is broad because it covers various activities related to recording and reporting financial information.

1. Recording Financial Transactions

Financial accounting records all business transactions systematically in journals and ledgers.

Example: Purchase, sales, payment, and receipts are recorded properly.

2. Classifying Transactions

Transactions are classified into different accounts such as assets, liabilities, capital, income, and expenses.

Purpose: Helps in easy understanding and analysis of accounts.

3. Summarizing Financial Data

Financial accounting summarizes accounting data through preparation of:

- Trial Balance
- Trading Account
- Profit and Loss Account
- Balance Sheet

4. Preparing Financial Statements

It prepares financial statements to show the financial performance and financial position of the business.

Main Statements:

- Income Statement
- Balance Sheet
- Cash Flow Statement

5. Determining Profit or Loss

Financial accounting helps determine whether the business earned profit or suffered loss during a particular period.

Limitations of Financial Accounting

Despite its importance, financial accounting has several limitations.

1. Historical Nature

Financial accounting records only past transactions and does not provide future predictions.

2. Ignores Non-Monetary Items

Items that cannot be expressed in money, such as employee efficiency, customer satisfaction, and goodwill, are not recorded properly.

3. Based on Accounting Principles

Financial statements are prepared using accounting conventions and estimates, which may not always show the true picture.

4. Possibility of Manipulation

Management may manipulate accounting figures through window dressing to show better financial performance.

5. Does Not Consider Inflation

Financial accounting records transactions at historical cost and ignores changes in price level or inflation.

Financial accounting is essential for recording and reporting financial information and helps various users in decision-making. However, it also has limitations such as historical nature, ignoring non-monetary factors, and possibility of manipulation. Therefore, financial accounting should be used together with other accounting tools for effective business decisions.

5. What is the role of an Accountant in a modern business organization?

In a modern business organization, the role of an accountant has evolved far beyond traditional bookkeeping and tax compliance. Today, an accountant acts as a strategic business partner. The key roles include:

1. **Recording and Classifying Transactions (Bookkeeping):** The foundational role is to systematically record all financial transactions (sales, purchases, payments, receipts) in the books of accounts and classify them into ledgers.
2. **Preparation of Financial Statements:** Accountants prepare periodic financial statements (Income Statement, Balance Sheet, Cash Flow Statement) to provide a true and fair view of the company's financial position and performance to external stakeholders (investors, creditors, regulators).
3. **Decision Support and Management Reporting:** Modern accountants provide real-time, actionable reports (e.g., variance analysis, sales trends, cost breakdowns) to management for planning, budgeting, and strategic decisions.
4. **Compliance and Regulatory Adherence:** They ensure the organization complies with tax laws (income tax, GST/VAT), company law, accounting standards (e.g., IFRS, GAAP), and other statutory requirements, thereby avoiding legal penalties.
5. **Internal Control and Risk Management:** Accountants design and monitor internal control systems to prevent fraud, errors, and asset misappropriation. They also identify financial risks (liquidity, credit, market) and suggest mitigation strategies.

6. **Performance Measurement and Analysis:** Through tools like ratio analysis, trend analysis, and key performance indicators (KPIs), they evaluate profitability, efficiency, liquidity, and solvency.
7. **Strategic Planning and Forecasting:** They contribute to long-term strategy by preparing financial models, forecasting future cash flows, analyzing capital investment proposals (e.g., NPV, IRR), and supporting mergers or acquisitions.
8. **Technology and Systems Management:** Modern accountants manage or work with Enterprise Resource Planning (ERP) systems, cloud accounting software, and data analytics tools to automate processes and generate insights.
9. **Ethical Stewardship:** As guardians of financial integrity, they ensure transparency, objectivity, and ethical handling of financial information.

Thus, the modern accountant is no longer a "number cruncher" but a **value creator, advisor, and decision enabler**.

---

6. Briefly explain the qualitative characteristics of accounting information.

Qualitative characteristics are the attributes that make accounting information useful to users for decision-making. According to the Conceptual Framework (e.g., IFRS), they are divided into **fundamental** and **enhancing** characteristics.

A. Fundamental Qualitative Characteristics (Essential)

1. **Relevance:** Information must be capable of making a difference in user decisions. It has:
   - *Predictive value* (helps forecast future outcomes)
   - *Confirmatory value* (confirms or corrects past evaluations)
   - *Materiality* – if omitting or misstating it could influence decisions.
2. **Faithful Representation:** Information must faithfully represent the economic phenomena it claims to represent. This requires:
   - *Completeness* (all necessary information included)
   - *Neutrality* (free from bias)
   - *Free from error* (no inaccuracies or omissions).

B. Enhancing Qualitative Characteristics (Increase usefulness)

1. **Comparability:** Users can compare information across different companies (inter-company) or same company over time (intra-company). Consistency in applying accounting methods helps comparability.
2. **Verifiability:** Different knowledgeable and independent observers can reach consensus that the information is faithfully represented (e.g., audited financial statements).
3. **Timeliness:** Information is available to decision-makers in time to influence their decisions. Old information loses relevance.
4. **Understandability:** Information should be clearly presented and classified, with the assumption that users have a reasonable knowledge of business and economics.

Constraint: The **cost-benefit** constraint ensures that the benefit of providing information should outweigh the cost of producing it.

---

7. Explain the relationship between financial accounting and cost accounting.

Financial accounting and cost accounting are two branches of accounting that complement each other, though they serve different purposes.

Aspect	Financial Accounting	Cost Accounting
Primary users	External (investors, creditors, tax authorities)	Internal (management, department head
Objective	Provide a true and fair view of overall profitability and financial position	Determine product/service cost, control costs, aid in pricing and efficiency
Time orientation	Historical (records past transactions)	Both historical and future (budgeting, standard costing)
Reporting frequency	Periodic (quarterly, annually)	Continuous (daily, weekly, monthly repor
Legal requirement	Mandatory for most companies (by law/GAAP)	Voluntary (internal use only)

Aspect	Financial Accounting	Cost Accounting
Focus	Entire organization as a whole	Products, processes, departments, jobs
Valuation	Uses historical cost	Uses standard, marginal, or actual cost

Relationship:

1. **Source of Data:** Cost accounting uses basic transaction data (e.g., raw material purchases, wages) that financial accounting also records. Both systems can be integrated.
2. **Inventory Valuation:** Financial accounting relies on cost accounting to provide the cost of goods sold (COGS) and closing inventory values (e.g., using FIFO, LIFO, or weighted average) for the balance sheet and income statement.
3. **Cost Classification:** Cost accounting classifies costs into direct/indirect, fixed/variable, product/period. Financial accounting uses this classification to present expenses correctly.
4. **Profit Reporting:** Financial accounting reports total profit of the firm. Cost accounting provides cost data that helps explain *why* profit increased or decreased (e.g., due to higher material cost or inefficiency).
5. **Decision Support for Financial Outcomes:** Cost accounting helps management reduce waste and improve efficiency, which directly improves the final net profit reported by financial accounting.

In essence, **cost accounting supplies detailed cost information, while financial accounting presents the summarized overall results**. Many organizations use an **integrated accounting system** where both are merged.

---

8. What do you mean by Accounting Information System (AIS)?

An **Accounting Information System (AIS)** is a structured system that collects, records, stores, processes, retrieves, and reports financial and accounting data for use by decision-makers. It combines traditional accounting principles with modern information technology.

Key Components of an AIS (often described as "people, processes, data, software, infrastructure"):

1. **People:** Users include accountants, managers, auditors, analysts, and even external stakeholders who interact with the system.
2. **Procedures and Instructions:** Both manual and automated methods for collecting, processing, and reporting data (e.g., how to record a sale, approve a purchase order).
3. **Data:** The financial transactions (sales, purchases, receipts, payments) stored in databases – the core of AIS.
4. **Software:** Accounting software (e.g., QuickBooks, Tally, SAP FICO, Oracle Financials) that processes transactions and generates reports.
5. **Information Technology Infrastructure:** Hardware (servers, computers, scanners), networks (LAN, cloud), and security systems (firewalls, encryption).

Functions of an AIS:

- **Transaction processing:** Records daily operations (sales, purchases, payroll).
- **General Ledger & Financial Reporting:** Automatically posts journal entries and produces trial balance, income statement, balance sheet.
- **Management reporting:** Produces budgets, variance reports, cash flow forecasts.
- **Internal controls:** Enforces approval hierarchies, audit trails, access controls to prevent fraud.
- **Compliance:** Helps generate tax returns and statutory filings.

Example:

When a company makes a credit sale, the AIS simultaneously:

- Records the sale in the sales journal
- Updates accounts receivable
- Adjusts inventory levels
- Posts to the general ledger
- Creates an invoice for the customer.

Importance:

AIS improves accuracy, speed, security, and decision-making. Modern AIS are often part of an **ERP system** that integrates accounting with HR, supply chain, and CRM.

9. Short Note: Ethics in Accounting.

Ethics in accounting refers to the system of moral principles and professional standards that guide accountants' conduct in recording, analyzing, and reporting financial information. It is the foundation of trust in the accounting profession.

Core Ethical Principles (based on codes like IFAC, AICPA, ICAI):

1. **Integrity:** Being honest and straightforward; not being associated with false or misleading information.
2. **Objectivity:** Not allowing bias, conflict of interest, or undue influence of others to override professional judgment.
3. **Professional Competence and Due Care:** Maintaining knowledge and skills at the required level; acting diligently in accordance with applicable technical and professional standards.
4. **Confidentiality:** Refraining from disclosing client or employer information unless legally obligated or permitted.
5. **Professional Behavior:** Complying with relevant laws and regulations; avoiding actions that discredit the profession.

Importance of Ethics:

- **Public Trust:** Investors, creditors, and the public rely on financial statements. Unethical accounting (e.g., Enron, Satyam) erodes capital market confidence.
- **Legal Compliance:** Laws like Sarbanes-Oxley Act (SOX) impose penalties for fraudulent accounting.
- **Quality of Decisions:** Ethical accounting ensures relevant and faithful representation, leading to better decisions.
- **Professional Reputation:** Ethical conduct protects the reputation of both the individual and the profession.

Common Ethical Dilemmas:

- Pressure to manipulate earnings to meet targets
- Conflict of interest (e.g., auditing a client where the auditor owns shares)
- Reporting a superior's fraudulent act (whistleblowing)

Professional Safeguards:

- Codes of ethics from professional bodies (e.g., AICPA Code, IESBA Code)
- Continuing professional education (CPE)
- Whistleblowing policies
- Independent audits and ethics committees

Conclusion: Ethics is not optional in accounting. It is mandatory for survival and credibility of the profession.

---

10. Define accounting as an information system.

Definition:
Accounting as an information system means viewing accounting not merely as bookkeeping or record-keeping, but as a structured system that identifies, measures, records, processes, and communicates financial information to help users make informed economic decisions.

Formally, the American Accounting Association (AAA) defines accounting as:
"The process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information."

Explanation of Accounting as an Information System:

An information system has inputs, processes, outputs, and feedback. Applied to accounting:

Information System Component	Accounting Equivalent
Inputs	Economic events (transactions): sales, purchases, expenses, receipts, etc.
Processing	Journalizing, classifying into ledgers, summarizing into trial balance, adjusting, closing
Outputs	Financial statements (income statement, balance sheet, cash flow statement), management reports, tax returns

Information System Component	Accounting Equivalent
Storage	Books of accounts, databases, ledgers
Feedback/Control	Internal controls, variance analysis, audits to correct errors and improve future input

Key Characteristics of Accounting as an Information System:

1. **User-Oriented:** Designed to serve both internal users (managers) and external users (investors, creditors, regulators) with relevant information.
2. **Data vs. Information:** Raw transaction data is converted into meaningful, summarized, and analyzed information.
3. **Quantitative & Monetary:** Primarily deals with transactions measurable in monetary terms.
4. **Historical & Predictive:** Records past but also provides budgets and forecasts.
5. **System of Controls:** Includes procedures to ensure accuracy, reliability, and security of financial data.

Importance of this Perspective:

- Recognizes that accounting is a dynamic, integrated sub-system of the total organization's management information system (MIS).
- Highlights the role of technology (e.g., accounting software, databases) in capturing and reporting.
- Emphasizes that the *output* is only as good as the *input* and *process* – hence the need for internal controls.

Example: When a cash sale occurs – the cash register records the input, AIS processes it by updating sales and cash accounts, and outputs a daily sales report. A manager uses that report to decide whether to reorder inventory.

Unit 2: Conceptual Framework of Accounting

1. What are Generally Accepted Accounting Principles (GAAP)? Explain their importance.

लेखांकनको सामान्यतः स्वीकृत सिद्धान्तहरू (GAAP) भनेको के हो? तिनको महत्व व्याख्या गर्नुहोस्।

Generally Accepted Accounting Principles (GAAP) are a common set of accounting rules, standards, and procedures issued by professional accounting bodies. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.

Importance of GAAP:

1. **Consistency and Comparability:** GAAP ensures that financial statements are consistent across different periods for the same company and comparable across different companies. This allows investors and creditors to analyze "apples to apples" .
2. **Credibility and Trust:** Following GAAP assures stakeholders that the financial information is accurate and prepared with integrity, which helps in building trust in the capital markets.
3. **Regulatory Compliance:** In many jurisdictions (like the US with the SEC), public companies are legally required to follow GAAP to remain listed on stock exchanges.

   लेखांकनको सामान्यतः स्वीकृत सिद्धान्तहरू (GAAP) लेखाकारहरूले वित्तीय विवरणहरू तयार गर्दा पालना गर्नुपर्ने मापदण्ड, नियम र प्रक्रियाहरूको सामान्य सेट हो। यो नीति बोर्डहरूद्वारा जारी गरिएको अख्तियारी मापदण्ड र सूचना रेकर्ड गर्ने सामान्य रूपमा स्वीकृत तरिकाहरूको संयोजन हो।

GAAP को महत्व:

1. **स्थिरता र तुलनात्मकता:** GAAP ले सुनिश्चित गर्दछ कि वित्तीय विवरणहरू एउटै कम्पनीको लागि विभिन्न अवधिहरूमा र विभिन्न कम्पनीहरू बीच तुलना गर्न मिल्ने बनाउँछ। यसले लगानीकर्ता र ऋणदाताहरूलाई सही तुलना गर्न मद्दत गर्दछ।
2. **विश्वसनीयता र भरोसा:** GAAP को पालनाले सरोकारवालाहरूलाई आश्वस्त बनाउँछ कि जानकारी सही छ, जसले पूँजी बजारमा भरोसा निर्माण गर्न मद्दत गर्दछ।
3. **कानूनी अनुपालन:** धेरै देशहरूमा (जस्तै अमेरिका), सार्वजनिक कम्पनीहरूको लागि GAAP पालना गर्नु कानूनी अनिवार्यता हो।

---

2. Explain the Matching Principle and Revenue Recognition Principle.

मिलान सिद्धान्त र राजस्व पहिचान सिद्धान्त व्याख्या गर्नुहोस्।

English:
Both are fundamental accrual accounting principles.

1. **Revenue Recognition Principle:** This principle states that revenue should be recognized (recorded) when it is *earned*, regardless of when cash is received. Revenue is considered earned when the goods are delivered or the service is performed, and the company has a legal right to collect the payment .
2. **Matching Principle:** This principle requires that expenses be recorded in the same accounting period as the revenues they helped to generate. For example, if a company sells a product in January, the cost of that product (COGS) and the sales commission must also be recorded in January, even if the bills are paid later .

Nepali:
यी दुबै आधारभूत उपार्जन (Accrual) लेखांकनका सिद्धान्तहरू हुन्।

1. **राजस्व पहिचान सिद्धान्त:** यस सिद्धान्त अनुसार राजस्व कमाइसकेपछि (earned) मात्रै रेकर्ड गर्नुपर्छ, पैसा प्राप्त भएको समयमा होइन। राजस्व तब कमाइन्छ जब वस्तु वा सेवा प्रदान भइसकेको हुन्छ र पैसा उठाउने कानूनी अधिकार कम्पनीलाई प्राप्त भइसकेको हुन्छ ।
2. **मिलान सिद्धान्त:** यस सिद्धान्त अनुसार खर्चहरू जुन राजस्व कमाउन मद्दत गर्छन्, ती खर्चहरू त्यही लेखांकन अवधिमा रेकर्ड गर्नुपर्छ। उदाहरणका लागि, जनवरीमा सामान बिक्री गर्दा, त्यही जनवरी महिनामा बिक्रीको लागत र कमिसन रेकर्ड गर्नुपर्छ, चाहे ती भुक्तानी पछि मात्र किन नहोस् ।

---

3. Discuss the Business Entity Concept and Going Concern Concept.

व्यवसायिक इकाई अवधारणा र सञ्चालनशीलता अवधारणा (Going Concern) को चर्चा गर्नुहोस्।

English:

1. **Business Entity Concept:** This concept states that the business is separate and distinct from its owners. The personal assets and liabilities of the owner are not mixed with the business's assets and liabilities. The business itself is treated as a "person" in accounting .
2. **Going Concern Concept:** This concept assumes that the business will continue to operate indefinitely for the foreseeable future (usually the next 12 months). Consequently, assets are

recorded at their cost (not forced liquidation value), and liabilities are expected to be paid through future operations .

Nepali:

1. **व्यवसायिक इकाई अवधारणा:** यस अवधारणा अनुसार व्यवसाय र यसको मालिक दुई फरक र छुट्टै निकाय हुन्। मालिकको निजी सम्पत्ति र व्यवसायको सम्पत्ति एकै मानिंदैन। लेखांकनको दृष्टिमा व्यवसाय एउटा छुट्टै "व्यक्ति" हो ।

2. **सञ्चालनशीलता अवधारणा (Going Concern):** यसले मान्दछ कि व्यवसाय भविष्यमा (कम्तीमा अर्को १२ महिना) निरन्तर सञ्चालन हुनेछ। यसैले सम्पत्तिहरूको झट्ट बिक्री मूल्य (ब्रेक-अप भ्याल्) मा मूल्यांकन गरिंदैन, बरु उनीहरूको लागत मूल्यमा रेकर्ड गरिन्छ ।

---

4. Define Nepal Financial Reporting Standards (NFRS). Explain its importance in the Nepalese context.

नेपाल वित्तीय प्रतिवेदन मापदण्ड (NFRS) परिभाषित गर्नुहोस्। नेपाली सन्दर्भमा यसको महत्व व्याख्या गर्नुहोस्।

English:
Nepal Financial Reporting Standards (NFRS) are the accounting standards issued by the Accounting Standards Board (ASB) of Nepal. They are based on and are largely converged with the International Financial Reporting Standards (IFRS).

Importance in Nepalese Context:

1. **Increased Transparency:** A study on Nepalese commercial banks found that after the implementation of NFRS, earnings management (manipulation of profits) significantly declined. This indicates that NFRS has improved the quality of financial reporting in Nepal .

2. **Global Comparability:** As it aligns with IFRS, NFRS allows Nepalese companies to present their financial statements in a language that international investors, banks, and partners understand, facilitating foreign investment.

3. **Regulation:** NFRS is mandatory for specified entities (like commercial banks, insurance companies, and large corporations) in Nepal, ensuring a standardized financial discipline .

Nepali:
नेपाल वित्तीय प्रतिवेदन मापदण्ड (NFRS) नेपालको लेखा मापदण्ड समिति (ASB) ले जारी गरेको लेखांकन मापदण्ड हो। यो अन्तर्राष्ट्रिय वित्तीय प्रतिवेदन मापदण्ड (IFRS) मा आधारित छ।

नेपाली सन्दर्भमा महत्व:

1. **बढी पारदर्शिता:** नेपाली वाणिज्य बैं्कहरूमा गरिएको एक अध्ययनले NFRS लागू भएपछि आम्दानी व्यवस्थापन (नाफा हेरफेर) उल्लेखनीय रूपमा घटेको पुष्टि गरेको छ। यसले NFRS ले वित्तीय प्रतिवेदनको गुणस्तर सुधार गरेको देखाउँछ।
2. **वैश्विक तुलनात्मकता:** NFRS, IFRS सँग मिलेको हुँदा, नेपाली कम्पनीहरूलाई अन्तर्राष्ट्रिय लगानीकर्ता, बैं्क र साझेदारहरूले बुझ्ने भाषामा वित्तीय विवरण प्रस्तुत गर्न मद्दत गर्दछ, जसले विदेशी लगानी सहज बनाउँछ।
3. **अनिवार्यता:** नेपालमा निर्दिष्ट संस्थाहरू (जस्तै बैं्क, वित्तीय संस्था र ठूला निगमहरू) ले पालना गर्नैपर्ने अनिवार्य मापदण्ड हो।

---

5. Differentiate between Accounting Concepts and Accounting Conventions.

लेखांकन अवधारणा र लेखांकन परम्परा बीचको भिन्नता लेख्नुहोस्।

English:
Although both guide accountants, there are key differences :

Basis	Accounting Concepts	Accounting Conventions
Definition	Basic assumptions or conditions upon which the science of accounting is based.	Customs or traditions that guide the accountant while preparing statements.
Recording	Officially recorded and recognized by law/accounting bodies.	Generally accepted practices; not officially recorded.
Nature	Self-evident, logical, and objective statements.	Customary procedures that evolve based on general agreement.
Example	Business Entity Concept, Going Concern, Dual Aspect.	Conservatism, Materiality, Consistency.

Nepali:
यद्यपि दुबैले लेखाकारहरूलाई मार्गदर्शन गर्छन्, प्रमुख भिन्नताहरू निम्न छन् :

आधार	लेखांकन अवधारणा (Concepts)	लेखांकन परम्परा (Conventions)
परिभाषा	वैज्ञानिक सिद्धान्तको आधार हो। यी आधारभूत मान्यताहरू हुन्।	चलन वा परम्परा हुन् जसले विवरण बनाउन मद्दत गर्छ।
रेकर्डिङ	यी सरकारी रूपमा रेकर्ड गरिएका र कानूनी मान्यता प्राप्त हुन्छन्।	यी सामान्यतः स्वीकृत अभ्यास हुन्, तर औपचारिक रूपमा रेकर्ड गरिएका हुँदैनन्।
प्रकृति	तार्किक र वस्तुगत कथनहरू जुन स्वतः-स्पष्ट हुन्छन्।	परम्परागत प्रक्रियाहरू जुन समयसँगै विकसित हुन्छन्।
उदाहरण	व्यवसायिक इकाई अवधारणा, सञ्चालनशीलता, दोहोरो पक्ष।	सतर्कता, मूलभूतता, स्थिरता।

---

6. Explain the Prudence (Conservatism) Concept with examples.

सतर्कता अवधारणा (Prudence Concept) उदाहरणसहित व्याख्या गर्नुहोस्।

English:
The **Prudence Concept** (also known as Conservatism) states that when there is uncertainty, accountants should choose the solution that does not overstate assets or income, and does not understate liabilities or expenses. It encourages recording all possible losses but recognizing profits only when they are actually realized.

Examples:

1. **Inventory Valuation:** If inventory was bought for 1,000butitscurrentmarketvaluefellto1,000*butitscurrentmarketvaluefellto*700, the prudent approach is to record the inventory at 700(the lower value) to immediately recognize the loss. The profit is not recorded at 700 (*the lower value*) *to immediately recognize the loss*. *The profit is not recorded at 1,500,* even if the selling price is high until the sale actually happens.

2. **Lawsuits:** If a company is facing a potential lawsuit (expected loss), it should record the probable loss immediately as a "provision." However, the same company cannot record an "expected profit" from a future lawsuit win .

Nepali:
सतर्कता अवधारणा (Prudence) ले भन्छ कि जब अनिश्चितता हुन्छ, लेखाकारले त्यो समाधान रोज्नुपर्छ जसले सम्पत्ति वा आयलाई बढाएर देखाउँदैन, र दायित्व वा खर्चलाई घटाएर देखाउँदैन। यसले प्राप्त नभएको नाफा भन्दा प्राप्त हुन सक्ने घाटालाई प्राथमिकता दिन्छ।

उदाहरण:

1. **मौज्दात मूल्यांकन:** यदि सामान १०००माकिनियोतरबजारमूल्य१०००माकिनियोतरबजारमूल्य७०० मा झर्छ भने, बुद्धिमानी तरिका भनेको मौज्दातको मूल्य $७०० राख्नु हो (घाटा मानेर)। सामान बिक्री नभएसम्म नाफा देखाउनु हुँदैन।
2. **मुद्दा मामिला:** यदि कम्पनीमाथि मुद्दा छ र हार्ने सम्भावना छ भने, त्यो सम्भावित घाटा तुरुन्तै लेखांकन किताबमा देखाउनुपर्छ। तर, मुद्दा जित्दा हुने सम्भावित नाफा भने देखाउन पाइँदैन।

---

7. What is the Full Disclosure Principle? Why is it necessary?

पूर्ण प्रकटिकरण सिद्धान्त के हो? यो किन आवश्यक छ?

English:
The **Full Disclosure Principle** requires that a company's financial statements and accompanying notes provide all necessary, relevant, and material information to users (investors, creditors) to make informed decisions. It does not mean releasing every internal memo, but it does require disclosing any fact significant enough to affect the judgment of a reasonably prudent investor .

Why is it necessary?

1. **Reduces Information Asymmetry:** Without it, company management would know much more than the owners/shareholders. Full disclosure levels the playing field.
2. **Prevents Fraud:** Mandatory disclosure of accounting policies, contingent liabilities, and lawsuits prevents management from hiding bad news .
3. **Informed Decision Making:** It allows investors to see the "fine print," such as changes in accounting methods, potential legal battles, or related party transactions, which impact future cash flows.

Nepali:
पूर्ण प्रकटिकरण सिद्धान्त (Full Disclosure Principle) अनुसार कम्पनीको वित्तीय विवरण र यसको टिप्पणी (नोट) ले सबै आवश्यक, सान्दर्भिक र महत्वपूर्ण जानकारी प्रयोगकर्ताहरूलाई उपलब्ध गराउनुपर्छ।

यसको अर्थ हरेक सानो सूचना दिनु होइन, तर लगानीको निर्णयलाई असर गर्ने कुनै पनि तथ्यलाई लुकाउनु हुँदैन।

यो किन आवश्यक छ?

1. **जानकारीको अन्तर कम गर्छ:** यदि यो सिद्धान्त नभए व्यवस्थापनले लगानीकर्ता भन्दा धेरै जानकारी राख्छ। पूर्ण प्रकटिकरणले दुवै पक्षलाई बराबर बनाउँछ।
2. **धोखाधडी रोक्छ:** लेखांकन नीति, सम्भावित दायित्व र मुद्दाहरूको अनिवार्य जानकारीले व्यवस्थापनलाई खराब समाचार लुकाउन रोक्छ।
3. **सचेत निर्णयन:** लगानीकर्ताले "सानो अक्षर (fine print)" हेर्न पाउँछन्, जस्तै लेखांकन विधि परिवर्तन वा सम्भावित मुद्दाहरू।

---

8. Explain the Materiality Concept in accounting.

लेखांकनको मूलभूतता अवधारणा व्याख्या गर्नुहोस्।

English:
The **Materiality Concept** states that financial reporting should focus on items that are significant enough to influence the economic decisions of a user of the financial statements. Immaterial (trivial) items can be handled in the most expedient way (e.g., expensed immediately) even if accounting rules technically say they should be treated as an asset .

Key aspects:

- **Size:** Avoiding $100 can be material for a small shop, but it is immaterial for a multi-billion dollar company.
- **Nature:** A small bribe of $50 is small in size but "material" in nature because it is illegal and must be disclosed.
- **Threshold:** It acts as a "threshold" or filter. If an omission or misstatement cannot change the user's decision, it is considered immaterial.

Nepali:
मूलभूतता अवधारणा (Materiality Concept) अनुसार वित्तीय विवरणले लगानीकर्ताको निर्णयलाई असर गर्ने वस्तुहरूमा मात्र केन्द्रित हुनुपर्छ। जुन वस्तुहरू महत्वहीन छन् (जस्तै रु. ५० को स्टेसनरी), तिनलाई प्राविधिक नियमले जे भने पनि सामान्य खर्चमा राख्न सकिन्छ।

प्रमुख पक्षहरू:

- **आकार:** सानो पसलको लागि रु. १०,००० महत्वपूर्ण हुन्छ तर ठूलो कम्पनीको लागि त्यो नगण्य हुन्छ।
- **प्रकृति:** रु. ५० को घुस रकम सानो हुन सक्छ, तर यसको प्रकृति अवैध भएको हुँदा यो "मूलभूत" हुन्छ र प्रकट गर्नुपर्छ।
- **सीमा (Threshold):** यो एउटा फिल्टर हो। यदि कुनै सूचना नदिँदा वा गलत दिँदा निर्णय फरक पर्दैन भने, त्यो वस्तु अमूलभूत (Immaterial) हो।

---

9. Discuss the role of the Accounting Standards Board (ASB) of Nepal.

नेपालको लेखा मापदण्ड समितिको भूमिका चर्चा गर्नुहोस्।

English:
The **Accounting Standards Board (ASB) Nepal** was formed by the Government of Nepal on July 8, 2002 . Its primary role includes:

1. **Setting NFRS:** The main role is to formulate and issue accounting standards for the preparation and presentation of financial statements in Nepal, known as NFRS (Nepal Financial Reporting Standards) .
2. **Convergence with IFRS:** ASB Nepal is responsible for converging Nepalese standards with the International Financial Reporting Standards (IFRS) to ensure global alignment .
3. **Issuing Interpretations:** The board issues interpretations to clarify how specific NFRS standards should be applied in complex or industry-specific situations.
4. **Regulation:** It ensures that business entities in Nepal follow a standardized discipline, which leads to uniformity and transparency in the financial market.

Nepali:
नेपालको लेखा मापदण्ड समिति (Accounting Standards Board - ASB) को गठन नेपाल सरकारद्वारा जुलाई ८, २००२ मा गरिएको थियो। यसको प्रमुख भूमिकाहरू:

1. **NFRS निर्माण:** नेपाल भित्र वित्तीय विवरण तयार गर्नको लागि NFRS (नेपाल वित्तीय प्रतिवेदन मापदण्ड) जारी गर्नु प्रमुख भूमिका हो।
2. **IFRS सँग मेलमिलाप (Convergence):** ASB ले नेपाली मापदण्डलाई अन्तर्राष्ट्रिय मापदण्ड (IFRS) सँग मिल्दोजुल्दो बनाउन जिम्मेवारी लिन्छ।

3. **व्याख्या जारी गर्ने:** जटिल परिस्थितिहरूमा NFRS कसरी लागू गर्ने भन्ने बारे स्पष्टता ल्याउन व्याख्याहरू जारी गर्छ।

4. **नियमन:** यसले नेपाली व्यवसायिक संस्थाहरूले अनुशासित र पारदर्शी लेखांकन पद्दति अपनाएको सुनिश्चितता गर्छ।

---

10. Distinguish between IFRS and NFRS.

IFRS र NFRS बीचको भिन्नता लेख्नुहोस्।

English:
The key difference is one of scope and jurisdiction:

Nepali:

Feature	IFRS (International Financial Reporting Standards)	NFRS (Nepal Financial Reporting Standards)
Issuing Body	Issued by the IASB (International Accounting Standards Board), based in London.	Issued by the ASB Nepal (Accounting Standards Board of Nepal) .
Jurisdiction	Used in over 140 countries globally. It is a "global language" for business.	Specifically applicable to companies registered in Nepal.
Relationship	The parent/original standard.	NFRS is essentially the Nepali version of IFRS. ASB Nepal has fully converged NFRS with IFRS to ensure consistency.
Modifications	Generally principle-based with minimal country-specific changes.	Tailored to the Nepalese legal and economic environment but without compromising the core principles of IFRS.

Unit 3: Accounting Process

1. Define the Accounting Cycle. Explain its various stages.

English:

The Accounting Cycle is the step-by-step process of recording, classifying, summarizing, and reporting financial transactions of a business during an accounting period.

Stages of Accounting Cycle:

1. Identification of transactions
2. Recording in Journal
3. Posting into Ledger
4. Preparing Trial Balance
5. Passing Adjusting Entries
6. Preparing Adjusted Trial Balance
7. Preparing Financial Statements
8. Closing Entries

Conclusion:

The accounting cycle helps maintain systematic and accurate accounting records.

नेपाली:

Accounting Cycle भनेको लेखा अवधिभर व्यवसायका आर्थिक कारोबारलाई क्रमिक रूपमा पहिचान, अभिलेख, वर्गीकरण, सारांश तथा प्रतिवेदन गर्ने प्रक्रिया हो।

Accounting Cycle का चरणहरू:

1. कारोबारको पहिचान
2. जर्नलमा अभिलेख गर्ने
3. लेजरमा पोस्टिङ गर्ने
4. ट्रायल ब्यालेन्स तयार गर्ने
5. समायोजन प्रविष्टि गर्ने

6. समायोजित ट्रायल ब्यालेन्स तयार गर्ने
7. वित्तीय विवरण तयार गर्ने
8. समापन प्रविष्टि गर्ने

निष्कर्ष:

Accounting Cycle ले व्यवस्थित र सही लेखा अभिलेख राख्न मद्दत गर्छ।

---

2. What is a Trial Balance? Explain its objectives and the errors it cannot detect.

English:

A Trial Balance is a statement prepared to check the arithmetic accuracy of ledger accounts by comparing total debit and credit balances.

Objectives:

1. To check mathematical accuracy.
2. To help prepare financial statements.
3. To detect posting errors.
4. To summarize ledger balances.

Errors it cannot detect:

1. Errors of omission
2. Errors of principle
3. Compensating errors
4. Complete omission of transactions
5. Wrong entry in correct accounts

Conclusion:

Trial Balance ensures arithmetical accuracy but cannot detect all types of accounting errors.

नेपाली:

Trial Balance भनेको लेजर खाताको डेबिट र क्रेडिट बराबर भए नभएको जाँच गर्न तयार गरिने विवरण हो।

उद्देश्य:

1. गणितीय शुद्धता जाँच गर्ने
2. वित्तीय विवरण तयार गर्न सहयोग गर्ने
3. पोस्टिङ त्रुटि पत्ता लगाउने
4. लेजर खाताको सारांश प्रस्तुत गर्ने

पत्ता लगाउन नसक्ने त्रुटिहरू:

1. छुटेका त्रुटि
2. सिद्धान्तसम्बन्धी त्रुटि
3. प्रतिपूरक त्रुटि
4. कारोबार पूर्ण रूपमा छुटेको
5. सही खातामा गलत रकम लेखिएको

निष्कर्ष:

Trial Balance ले अंकगणितीय शुद्धता जाँच गर्छ तर सबै त्रुटि पत्ता लगाउन सक्दैन।

---

3. Explain the importance of Subsidiary Books in a large business.

English:

Subsidiary Books are special books maintained to record similar types of transactions separately.

Importance:

1. Saves time and labor.
2. Helps division of work.
3. Reduces errors.
4. Makes recording systematic.
5. Facilitates quick reference.
6. Helps in internal control.

Conclusion:

Subsidiary books increase efficiency and accuracy in large businesses.

नेपाली:

Subsidiary Books भनेका समान प्रकारका कारोबार छुट्टाछुट्टै अभिलेख गर्न राखिने विशेष पुस्तकहरू हुन्।

महत्व:

1. समय र श्रम बचत हुन्छ।
2. कार्य विभाजन गर्न सजिलो हुन्छ।
3. त्रुटि कम हुन्छ।
4. व्यवस्थित अभिलेख राख्न मद्दत गर्छ।
5. छिटो जानकारी प्राप्त गर्न सकिन्छ।
6. आन्तरिक नियन्त्रण बलियो हुन्छ।

निष्कर्ष:

ठूला व्यवसायमा Subsidiary Books ले कार्यक्षमता र शुद्धता बढाउँछ।

---

4. Discuss the rules of Debit and Credit for different types of accounts.

English:

Type of Account	Debit Rule	Credit Rule
Personal Account	Debit the receiver	Credit the giver
Real Account	Debit what comes in	Credit what goes out
Nominal Account	Debit expenses/losses	Credit incomes/gains

Conclusion:

Debit and credit rules help record transactions correctly in accounting.

नेपाली:

खाताको प्रकार	**डेबिट नियम**	**क्रेडिट नियम**
व्यक्तिगत खाता	प्राप्त गर्ने डेबिट	दिने क्रेडिट
वास्तविक खाता	भित्र आउने डेबिट	बाहिर जाने क्रेडिट
नाममात्र खाता	खर्च/घाटा डेबिट	आम्दानी/नाफा क्रेडिट

निष्कर्ष:

डेबिट र क्रेडिटका नियमले सही लेखा अभिलेख गर्न सहयोग गर्छन्।

---

5. What is an Adjusted Trial Balance? Why is it prepared?

English:

An Adjusted Trial Balance is a trial balance prepared after recording adjusting entries.

Reasons for Preparation:

1. To include adjustments.
2. To ensure accuracy of accounts.
3. To prepare financial statements.
4. To show updated balances.

Conclusion:

Adjusted Trial Balance helps prepare correct financial statements.

नेपाली:

समायोजित ट्रायल ब्यालेन्स भनेको समायोजन प्रविष्टि गरेपछि तयार गरिने ट्रायल ब्यालेन्स हो।

तयार गर्ने कारण:

1. समायोजन समावेश गर्न
2. खाताको शुद्धता सुनिश्चित गर्न
3. वित्तीय विवरण तयार गर्न
4. अद्यावधिक मौज्दात देखाउन

निष्कर्ष:

यसले सही वित्तीय विवरण तयार गर्न मद्दत गर्छ।

---

6. Explain the purpose of Ledger Posting and Balancing.

English:

Ledger Posting:

It is the process of transferring journal entries into respective ledger accounts.

Purpose:

1. Classifies transactions account-wise.
2. Helps know account balances.
3. Assists in preparing Trial Balance.

Balancing:

Balancing means finding the difference between debit and credit sides of an account.

Purpose of Balancing:

1. Determines final account balance.
2. Helps prepare financial statements.
3. Shows financial position clearly.

Conclusion:

Posting and balancing are essential for systematic accounting.

नेपाली:

Ledger Posting:

जर्नलबाट सम्बन्धित खातामा प्रविष्टि सार्ने प्रक्रियालाई Ledger Posting भनिन्छ।

उद्देश्य:

1. कारोबारलाई खाताअनुसार वर्गीकरण गर्ने
2. खाताको मौज्दात थाहा पाउने

3. Trial Balance तयार गर्न सहयोग गर्ने

Balancing:

खाताको डेबिट र क्रेडिटको अन्तर निकाल्ने प्रक्रियालाई Balancing भनिन्छ।

Balancing को उद्देश्य:

1. अन्तिम मौज्दात निर्धारण गर्ने
2. वित्तीय विवरण तयार गर्न सहयोग गर्ने
3. वित्तीय अवस्था स्पष्ट देखाउने

निष्कर्ष:

Posting र Balancing व्यवस्थित लेखांकनका महत्वपूर्ण प्रक्रिया हुन्।

---

7. Define Journal. Explain the importance of Narration in journal entries.

English:

A Journal is the book of original entry where business transactions are first recorded chronologically.

Importance of Narration:

1. Explains the nature of transaction.
2. Helps understand journal entries easily.
3. Provides clarity and reference.
4. Assists in auditing.

Conclusion:

Narration increases clarity and usefulness of journal entries.

नेपाली:

Journal भनेको व्यवसायका कारोबार पहिलो पटक मितिअनुसार अभिलेख गरिने मूल पुस्तक हो।

Narration को महत्व:

1. कारोबारको प्रकृति स्पष्ट पार्छ।

2. जर्नल प्रविष्टि बुझ्न सजिलो बनाउँछ।

3. स्पष्टता र सन्दर्भ प्रदान गर्छ।

4. लेखापरीक्षणमा सहयोग गर्छ।

निष्कर्ष:

Narration ले जर्नल प्रविष्टिलाई स्पष्ट र उपयोगी बनाउँछ।

---

8. Distinguish between Capital Expenditure and Revenue Expenditure.

English:

Basis	**Capital Expenditure**	**Revenue Expenditure**
Meaning	Expenditure for long-term benefit	Expenditure for day-to-day operations
Benefit Period	More than one year	Current accounting period
Nature	Capital in nature	Revenue in nature
Example	Purchase of machinery	Salary, rent

नेपाली:

आधार	**पूँजीगत खर्च**	**राजस्व खर्च**
अर्थ	दीर्घकालीन लाभका लागि गरिएको खर्च	दैनिक सञ्चालनका खर्च
लाभ अवधि	एक वर्षभन्दा बढी	चालु अवधिसम्म
प्रकृति	पूँजीगत	राजस्व सम्बन्धी
उदाहरण	मेसिन खरिद	तलब, भाडा

Unit 4: Accrual Basis of Accounting

1. Differentiate between Cash Basis and Accrual Basis of Accounting.

English:

Basis	Cash Basis	Accrual Basis
Meaning	Transactions are recorded when cash is received or paid	Transactions are recorded when earned or incurred
Revenue Recognition	Recorded when cash is received	Recorded when earned
Expense Recognition	Recorded when cash is paid	Recorded when incurred
Accuracy	Less accurate	More accurate
Use	Small businesses	Large businesses and companies

Conclusion:

The accrual basis is more scientific and reliable than the cash basis.

नेपाली:

आधार	नगद आधार	अर्जित आधार
अर्थ	नगद प्राप्त वा भुक्तानी हुँदा कारोबार अभिलेख गरिन्छ	आम्दानी कमाउँदा वा खर्च हुँदा अभिलेख गरिन्छ
आम्दानी मान्यता	नगद प्राप्त हुँदा	आम्दानी कमाउँदा
खर्च मान्यता	नगद तिर्दा	खर्च भएको बेला
शुद्धता	कम शुद्ध	बढी शुद्ध
प्रयोग	साना व्यवसाय	ठूला व्यवसाय तथा कम्पनी

निष्कर्ष:

अर्जित आधार नगद आधारभन्दा बढी वैज्ञानिक र विश्वसनीय मानिन्छ।

---

2. Why are Adjusting Entries necessary under the accrual basis?

English:

Adjusting Entries are necessary to record revenues earned and expenses incurred in the correct accounting period under the accrual basis.

Reasons:

1. To match revenue with related expenses.
2. To show accurate profit or loss.
3. To update asset and liability balances.
4. To prepare correct financial statements.
5. To follow accrual accounting principles.

Conclusion:

Adjusting entries ensure accuracy and fairness in financial reporting.

नेपाली:

अर्जित आधारमा सही अवधिको आम्दानी र खर्च अभिलेख गर्न Adjusting Entries आवश्यक हुन्छन्।

कारणहरू:

1. आम्दानी र सम्बन्धित खर्च मिलाउन
2. सही नाफा वा घाटा देखाउन
3. सम्पत्ति तथा दायित्व अद्यावधिक गर्न
4. सही वित्तीय विवरण तयार गर्न
5. अर्जित आधारका सिद्धान्त पालना गर्न

निष्कर्ष:

Adjusting Entries ले वित्तीय विवरणलाई सही र निष्पक्ष बनाउँछ।

---

3. Explain the concept of Accrued Revenue and Unearned Revenue.

English:

Accrued Revenue:

Revenue that has been earned but not yet received in cash is called accrued revenue.

Example:

Interest earned but not yet received.

Unearned Revenue:

Revenue received in advance before providing goods or services is called unearned revenue.

Example:

Advance rent received from tenant.

Conclusion:

Accrued revenue increases income, whereas unearned revenue creates liability.

नेपाली:

Accrued Revenue:

नगद प्राप्त नभए पनि कमाइसकेको आम्दानीलाई Accrued Revenue भनिन्छ।

उदाहरण:

प्राप्त हुन बाँकी ब्याज।

Unearned Revenue:

वस्तु वा सेवा नदिई पहिले प्राप्त गरिएको आम्दानीलाई Unearned Revenue भनिन्छ।

उदाहरण:

घरभाडा अग्रिम प्राप्त हुनु।

निष्कर्ष:

Accrued Revenue ले आम्दानी बढाउँछ भने Unearned Revenue दायित्व मानिन्छ।

---

4. Discuss Prepaid Expenses and Outstanding Expenses with their accounting treatment.

English:

Prepaid Expenses:

Expenses paid in advance for future periods are called prepaid expenses.

Example:

Insurance paid for next year.

Accounting Treatment:

- Deduct from expense account
- Show as current asset in Balance Sheet

Outstanding Expenses:

Expenses incurred but not yet paid are called outstanding expenses.

Example:

Unpaid salary at year-end.

Accounting Treatment:

- Add to expense account
- Show as current liability in Balance Sheet

Conclusion:

Both adjustments are necessary for accurate profit measurement.

नेपाली:

Prepaid Expenses:

भविष्यका अवधिका लागि पहिले तिरिएको खर्चलाई Prepaid Expenses भनिन्छ।

उदाहरण:

अर्को वर्षको बीमा रकम अग्रिम तिर्नु।

लेखा उपचार:

- खर्च खाताबाट घटाइन्छ
- Balance Sheet मा चालु सम्पत्तिका रूपमा देखाइन्छ

Outstanding Expenses:

भइसकेको तर तिर्न बाँकी खर्चलाई Outstanding Expenses भनिन्छ।

उदाहरण:

वर्ष अन्त्यसम्म नतिरेको तलब।

लेखा उपचार:

- खर्च खातामा थपिन्छ
- Balance Sheet मा चालु दायित्वका रूपमा देखाइन्छ

निष्कर्ष:

यी दुवै समायोजनले सही नाफा निर्धारण गर्न मद्दत गर्छन्।

---

5. Explain the importance of the Periodicity Concept in the accrual basis of accounting.

English:

The Periodicity Concept states that business activities should be divided into specific accounting periods for reporting purposes.

Importance:

1. Helps determine periodic profit or loss.
2. Facilitates preparation of financial statements.
3. Assists comparison between accounting periods.
4. Supports accrual accounting adjustments.
5. Improves decision-making.

Conclusion:

The periodicity concept ensures timely and systematic financial reporting.

नेपाली:

Periodicity Concept अनुसार व्यवसायका गतिविधिलाई निश्चित लेखा अवधिमा विभाजन गरेर प्रतिवेदन गरिन्छ।

महत्व:

1. अवधिगत नाफा वा घाटा निर्धारण गर्न मद्दत गर्छ।
2. वित्तीय विवरण तयार गर्न सहयोग गर्छ।
3. विभिन्न अवधिबीच तुलना गर्न सजिलो हुन्छ।
4. अर्जित आधारका समायोजनलाई समर्थन गर्छ।
5. निर्णय प्रक्रियामा सहयोग गर्छ।

निष्कर्ष:

यस अवधारणाले समयमै र व्यवस्थित वित्तीय प्रतिवेदन तयार गर्न मद्दत गर्छ।

---

6. How does the accrual basis provide a more accurate picture of profit?

English:

The accrual basis records revenues when earned and expenses when incurred, regardless of cash movement.

How it provides accurate profit:

1. Matches revenues with related expenses.
2. Includes outstanding and prepaid items.
3. Avoids misleading cash-based results.
4. Reflects actual business performance.
5. Provides reliable financial information.

Conclusion:

The accrual basis gives a true and fair view of business profit and financial position.

नेपाली:

अर्जित आधारले नगदको आधारमा नभई आम्दानी कमाएको र खर्च भएको समयमा अभिलेख गर्छ।

सही नाफा देखाउने तरिका:

1. आम्दानी र सम्बन्धित खर्च मिलाउँछ।
2. बाँकी तथा अग्रिम मदहरू समावेश गर्छ।

3. नगद आधारका भ्रमपूर्ण नतिजा हटाउँछ।
4. वास्तविक व्यवसायिक प्रदर्शन देखाउँछ।
5. विश्वसनीय वित्तीय जानकारी प्रदान गर्छ।

निष्कर्ष:

अर्जित आधारले व्यवसायको वास्तविक नाफा तथा वित्तीय अवस्था देखाउँछ।

10. Short Note: Temporary vs. Permanent Accounts

English:

Basis	Temporary Accounts	Permanent Accounts
Meaning	Accounts closed at the end of accounting period	Accounts carried forward to next accounting period
Purpose	Measure periodic income and expenses	Show continuous financial position
Closing	Closed through closing entries	Not closed at year-end
Examples	Revenue, Expense, Drawing accounts	Assets, Liabilities, Capital accounts

Temporary Accounts:

Temporary accounts are accounts used to record revenues, expenses, gains, and losses for a specific accounting period. Their balances are transferred to the capital account at the end of the year.

Example:

Salary Expense, Sales Revenue.

Permanent Accounts:

Permanent accounts are accounts whose balances continue from one accounting period to another. They appear in the Balance Sheet.

Example:

Cash Account, Building Account, Capital Account.

Conclusion:

Temporary accounts help determine profit or loss, while permanent accounts show the financial position of the business.

Unit 5: Accounting for Inventories and Cost of Goods Sold

Answers already listed in Chapter 5 theory

Unit 6: Accounting for Cash and Internal Control – 5 marks

1. Define Internal Control. Discuss its basic principles.

English:

Internal Control is a system of policies and procedures adopted by a business to safeguard assets, ensure the accuracy of accounting records, and prevent fraud and errors.

Basic Principles of Internal Control:

1. Division of duties
2. Proper authorization
3. Proper documentation
4. Physical control over assets
5. Independent verification
6. Rotation of duties
7. Proper supervision

Conclusion:

Internal control helps improve efficiency and reliability in business operations.

नेपाली:

Internal Control भनेको सम्पत्ति सुरक्षा, लेखा अभिलेखको शुद्धता कायम तथा धोखा र त्रुटि रोक्न व्यवसायले अपनाउने नीति तथा प्रक्रियाको प्रणाली हो।

Internal Control का आधारभूत सिद्धान्तहरू:

1. कार्य विभाजन
2. उचित स्वीकृति
3. उचित कागजात व्यवस्था
4. सम्पत्तिको भौतिक सुरक्षा

5. स्वतन्त्र जाँच
6. कार्य परिवर्तन
7. उचित सुपरिवेक्षण

निष्कर्ष:

Internal Control ले व्यवसायको कार्यक्षमता र विश्वसनीयता बढाउँछ।

---

2. What is a Bank Reconciliation Statement (BRS)? Why is it prepared?

English:

A Bank Reconciliation Statement (BRS) is a statement prepared to reconcile the balance shown in the Cash Book with the balance shown in the Bank Statement.

Reasons for Preparation:

1. To identify differences between bank and cash records.
2. To detect errors and omissions.
3. To know the correct bank balance.
4. To prevent fraud.
5. To ensure the accuracy of accounting records.

Conclusion:

BRS helps maintain accurate cash and bank records.

नेपाली:

Bank Reconciliation Statement (BRS) भनेको Cash Book र Bank Statement मा देखिएको मौज्दात मिलाउन तयार गरिने विवरण हो।

तयार गर्ने कारण:

1. बैंक र नगद अभिलेखबीचको फरक पत्ता लगाउन
2. त्रुटि तथा छुट पत्ता लगाउन
3. सही बैंक मौज्दात थाहा पाउन

4. धोखाधडी रोक्न

5. लेखा अभिलेखको शुद्धता सुनिश्चित गर्न

निष्कर्ष:

BRS ले सही नगद तथा बैंक अभिलेख कायम गर्न मद्दत गर्छ।

---

3. Discuss the importance of internal control over cash receipts and payments.

English:

Internal control over cash receipts and payments is important because cash is the most liquid and easily misused asset.

Importance:

1. Prevents fraud and embezzlement.
2. Ensures proper recording of cash transactions.
3. Protects cash assets.
4. Helps maintain accurate financial records.
5. Improves operational efficiency.
6. Increases reliability of financial statements.

Conclusion:

Strong internal control over cash ensures financial safety and accuracy.

नेपाली:

नगद सबैभन्दा सजिलै दुरुपयोग हुन सक्ने सम्पत्ति भएकाले नगद प्राप्ति तथा भुक्तानीमा Internal Control अत्यन्त महत्वपूर्ण हुन्छ।

महत्व:

1. धोखा तथा हिनामिना रोक्छ।
2. नगद कारोबार सही रूपमा अभिलेख गर्न मद्दत गर्छ।
3. नगद सम्पत्ति सुरक्षित राख्छ।

4. सही वित्तीय अभिलेख कायम गर्छ।
5. कार्यक्षमता बढाउँछ।
6. वित्तीय विवरणको विश्वसनीयता बढाउँछ।

निष्कर्ष:

नगदमा प्रभावकारी Internal Control ले वित्तीय सुरक्षा र शुद्धता सुनिश्चित गर्छ।

---

4. Explain the "Petty Cash System" and the "Imprest System."

English:

Petty Cash System:

The petty cash system is used to handle small day-to-day expenses such as postage, tea expenses, and stationery.

Example:

Payment for local transportation.

Imprest System:

Under the imprest system, a fixed amount is given to the petty cashier, and reimbursement is made equal to the amount spent.

Example:

If petty cash fund is Rs. 5,000 and Rs. 3,000 is spent, Rs. 3,000 is reimbursed.

Conclusion:

These systems help control small cash expenses effectively.

नेपाली:

Petty Cash System:

सानातिना दैनिक खर्चहरू व्यवस्थापन गर्न प्रयोग गरिने प्रणालीलाई Petty Cash System भनिन्छ।

उदाहरण:

हुलाक खर्च, चिया खर्च, स्टेशनरी खर्च।

Imprest System:

यस प्रणालीमा Petty Cashier लाई निश्चित रकम दिइन्छ र खर्च भएको रकम बराबर पुनः भरपाई गरिन्छ।

उदाहरण:

Petty cash fund रु. ५,००० भए रु. ३,००० खर्चपछि पुनः रु. ३,००० दिइन्छ।

निष्कर्ष:

यी प्रणालीहरूले साना नगद खर्चलाई प्रभावकारी रूपमा नियन्त्रण गर्न मद्दत गर्छन्।

---

5. What are the causes of differences between the Cash Book and Bank Statement?

English:

Causes:

1. Cheques issued but not yet presented.
2. Cheques deposited but not yet collected.
3. Bank charges not recorded in Cash Book.
4. Interest credited by bank.
5. Direct deposits by customers.
6. Errors in Cash Book or Bank Statement.
7. Dishonoured cheques.

Conclusion:

Timing differences and recording errors mainly cause differences between Cash Book and Bank Statement.

नेपाली:

कारणहरू:

1. जारी गरिएका चेक अझै प्रस्तुत नभएको।
2. जम्मा गरिएका चेक अझै क्लियर नभएको।

3. बैंक शुल्क Cash Book मा नलेखिएको।
4. बैंकले ब्याज जम्मा गरेको।
5. ग्राहकले सिधै बैंकमा रकम जम्मा गरेको।
6. Cash Book वा Bank Statement मा त्रुटि।
7. अस्वीकृत चेक।

निष्कर्ष:

समय अन्तर तथा अभिलेख त्रुटिका कारण Cash Book र Bank Statement फरक हुन्छन्।

---

6. Define Cash Equivalents.

English:

Cash Equivalents are short-term, highly liquid investments that can easily be converted into known amounts of cash with very low risk.

Examples:

1. Treasury bills
2. Commercial papers
3. Short-term deposits

Features:

1. Highly liquid
2. Short maturity period
3. Low risk of value change

Conclusion:

Cash equivalents help maintain liquidity in business operations.

नेपाली:

Cash Equivalents भनेका छोटो अवधिका, सजिलै नगदमा रूपान्तरण गर्न सकिने तथा कम जोखिम भएका लगानी हुन्।

उदाहरण:

1. Treasury Bills
2. Commercial Papers
3. छोटो अवधिका निक्षेप

विशेषताहरू:

1. उच्च तरलता
2. छोटो परिपक्वता अवधि
3. मूल्य परिवर्तनको कम जोखिम

निष्कर्ष:

Cash Equivalents ले व्यवसायको तरलता कायम राख्न मद्दत गर्छ।

---

7. Explain the limitations of internal control systems.

English:

Limitations of Internal Control:

1. Human error may occur.
2. Collusion among employees may defeat controls.
3. Cost of control may exceed benefits.
4. Management override is possible.
5. Inefficiency due to excessive procedures.
6. Difficult to control unusual transactions.

Conclusion:

Internal control reduces risks but cannot completely eliminate fraud and errors.

नेपाली:

Internal Control का सीमाहरू:

1. मानवीय त्रुटि हुन सक्छ।

2. कर्मचारीबीच मिलेमतो हुन सक्छ।
3. नियन्त्रणको लागत बढी हुन सक्छ।
4. व्यवस्थापनले नियम उल्लंघन गर्न सक्छ।
5. धेरै प्रक्रिया हुँदा कार्य ढिलो हुन सक्छ।
6. असामान्य कारोबार नियन्त्रण गर्न कठिन हुन्छ।

निष्कर्ष:

Internal Control ले जोखिम घटाउँछ तर पूर्ण रूपमा धोखा तथा त्रुटि हटाउन सक्दैन।

---

8. What is a voucher system? Explain its importance.

English:

A Voucher System is a system in which every payment transaction is supported by written evidence called a voucher.

Importance:

1. Provides proof of transactions.
2. Prevents unauthorized payments.
3. Helps maintain accurate records.
4. Facilitates auditing.
5. Reduces chances of fraud.
6. Improves accountability.

Conclusion:

The voucher system strengthens financial control and accounting accuracy.

Unit 7: Accounting for Receivables

1. Define Accounts Receivable and Notes Receivable.

English:

Accounts Receivable:

Accounts Receivable are amounts due from customers arising from credit sales of goods or services.

Example:

Goods are sold on credit to customers.

Notes Receivable:

Notes Receivable are written promises from debtors to pay a specific amount on a certain future date.

Example:

A promissory note received from a customer.

Conclusion:

Accounts receivable arise from normal credit sales, whereas notes receivable are supported by formal written agreements.

नेपाली:

Accounts Receivable:

उधारो बिक्रीबाट ग्राहकबाट प्राप्त हुन बाँकी रकमलाई Accounts Receivable भनिन्छ।

उदाहरण:

ग्राहकलाई उधारोमा सामान बिक्री गर्नु।

Notes Receivable:

निश्चित रकम भविष्यमा तिर्ने लिखित प्रतिज्ञापत्रलाई Notes Receivable भनिन्छ।

उदाहरण:

ग्राहकबाट प्राप्त Promissory Note।

निष्कर्ष:

Accounts Receivable सामान्य उधारो कारोबारबाट उत्पन्न हुन्छ भने Notes Receivable लिखित प्रतिज्ञामा आधारित हुन्छ।

---

2. Explain the Allowance Method vs. the Direct Write-off Method for bad debts.

English:

Basis	Allowance Method	Direct Write-off Method
Meaning	Estimates bad debts in advance	Records bad debts only when identified
Matching Principle	Followed	Not followed
Accuracy	More accurate	Less accurate
Timing	Expense recognized earlier	Expense recognized later
Suitability	Large businesses	Small businesses

Conclusion:

The allowance method is more scientific and follows accrual accounting principles.

नेपाली:

आधार	Allowance Method	Direct Write-off Method
अर्थ	खराब ऋणको पूर्व अनुमान गरिन्छ	खराब ऋण निश्चित भएपछि मात्र लेखिन्छ
Matching Principle	पालना हुन्छ	पालना हुँदैन
शुद्धता	बढी शुद्ध	कम शुद्ध
समय	खर्च पहिले नै मान्यता दिइन्छ	पछि मात्र मान्यता दिइन्छ
उपयुक्तता	ठूला व्यवसाय	साना व्यवसाय

निष्कर्ष:

Allowance Method बढी वैज्ञानिक र अर्जित आधारअनुसार हुन्छ।

3. How is the "Provision for Doubtful Debts" calculated using the Aging Schedule?

English:

The Aging Schedule method classifies accounts receivable according to the length of time outstanding and estimates bad debts based on different percentages.

Steps:

1. Classify receivables by age.
2. Apply estimated uncollectible percentage.
3. Calculate expected bad debts.
4. Total estimated amount becomes provision for doubtful debts.

Example:

Older debts are considered more risky than recent debts.

Conclusion:

The aging schedule provides a realistic estimate of doubtful debts.

नेपाली:

Aging Schedule विधिमा उधारो रकमलाई बाँकी रहेको अवधिअनुसार वर्गीकरण गरी खराब ऋण अनुमान गरिन्छ।

चरणहरू:

1. प्राप्त गर्न बाँकी रकमलाई उमेरअनुसार वर्गीकरण गर्ने
2. प्रत्येक वर्गमा अनुमानित प्रतिशत लागू गर्ने
3. अनुमानित खराब ऋण गणना गर्ने
4. कुल रकमलाई doubtful debts को व्यवस्था मान्ने

उदाहरण:

पुरानो बाँकी रकम नयाँभन्दा बढी जोखिमयुक्त मानिन्छ।

निष्कर्ष:

Aging Schedule ले यथार्थ खराब ऋण अनुमान गर्न मद्दत गर्छ।

---

4. Explain the "Percentage of Sales" method for estimating bad debts.

English:

Under the Percentage of Sales method, bad debt expense is estimated as a fixed percentage of credit sales.

Advantages:

1. Simple to calculate.
2. Follows matching principle.
3. Helps estimate expected losses.

Example:

If credit sales are Rs. 100,000 and estimated bad debts are 2%, bad debt expense = Rs. 2,000.

Conclusion:

This method estimates bad debts based on sales performance.

नेपाली:

Percentage of Sales विधिमा उधारो बिक्रीको निश्चित प्रतिशतका आधारमा खराब ऋण अनुमान गरिन्छ।

फाइदा:

1. गणना गर्न सजिलो।
2. Matching Principle पालना हुन्छ।
3. सम्भावित घाटा अनुमान गर्न मद्दत गर्छ।

उदाहरण:

उधारो बिक्री रु. १,००,००० र खराब ऋण २% भए खर्च रु. २,००० हुन्छ।

निष्कर्ष:

यस विधिले बिक्रीका आधारमा खराब ऋण अनुमान गर्छ।

---

5. What is "Factoring" or "Pledging" of accounts receivable?

English:

Factoring:

Factoring means selling accounts receivable to a finance company for immediate cash.

Purpose:

To improve liquidity and collect cash quickly.

Pledging:

Pledging means using accounts receivable as security for a loan.

Purpose:

To obtain short-term finance.

Conclusion:

Both methods help businesses obtain cash using receivables.

नेपाली:

Factoring:

Accounts Receivable लाई वित्तीय संस्थालाई बेचेर तुरुन्त नगद प्राप्त गर्ने प्रक्रियालाई Factoring भनिन्छ।

उद्देश्य:

तरलता बढाउन तथा छिटो नगद प्राप्त गर्न।

Pledging:

Accounts Receivable लाई ऋणको धितोका रूपमा प्रयोग गर्ने प्रक्रियालाई Pledging भनिन्छ।

उद्देश्य:

छोटो अवधिको ऋण प्राप्त गर्न।

निष्कर्ष:

यी दुवै विधिले प्राप्त गर्न बाँकी रकम प्रयोग गरी नगद उपलब्ध गराउँछन्।

6. Discuss the accounting treatment for the "Dishonor of a Bill."

English:

Dishonor of a bill occurs when the acceptor fails to pay the bill amount on the due date.

Accounting Treatment:

1. The bill receivable account is cancelled.
2. Debtor's account is debited again.
3. Noting charges paid are added to the debtor's account.

Conclusion:

Dishonor restores the debtor's liability and records additional charges.

नेपाली:

बिलको रकम म्यादभित्र नतिरेमा त्यसलाई Dishonor of Bill भनिन्छ।

लेखा उपचार:

1. Bills Receivable खाता बन्द गरिन्छ।
2. देनदारको खाता पुनः डेबिट गरिन्छ।
3. Noting Charges देनदार खातामा थपिन्छ।

Dishonor हुँदा देनदारको दायित्व पुनः कायम गरिन्छ र अतिरिक्त खर्च लेखा गरिन्छ।

---

7. Explain the components of a Promissory Note.

English:

A Promissory Note is a written promise by one party to pay a certain amount to another party on a specified future date.

Components:

1. Date of issue
2. Name of maker
3. Name of payee

4. Amount payable
5. Due date
6. Promise to pay
7. Signature of maker
8. Stamp as required by law

Conclusion:

A promissory note is a legal financial instrument containing clear payment terms.

नेपाली:

Promissory Note भनेको निश्चित भविष्य मितिमा निश्चित रकम तिर्ने लिखित प्रतिज्ञापत्र हो।

मुख्य तत्वहरू:

1. जारी मिति
2. बनाउने व्यक्तिको नाम
3. रकम प्राप्त गर्ने व्यक्तिको नाम
4. तिर्नुपर्ने रकम
5. भुक्तानी मिति
6. तिर्ने प्रतिज्ञा
7. हस्ताक्षर
8. कानुनअनुसार टिकट

निष्कर्ष:

Promissory Note स्पष्ट भुक्तानी सर्त भएको कानुनी वित्तीय कागजात हो।

Unit 8: Accounting for Current Liabilities and Contingencies

1. Define Current Liabilities. Give examples.

Current Liabilities are short-term obligations that are payable within one accounting year or operating cycle.

Examples:

1. Accounts Payable
2. Short-term Notes Payable
3. Outstanding Expenses
4. Bank Overdraft
5. Unearned Revenue
6. Taxes Payable

Conclusion:

Current liabilities represent short-term financial obligations of a business.

---

2. What are Contingent Liabilities? How are they disclosed in financial statements?

Contingent Liabilities are possible obligations that may arise depending on the outcome of a future event.

Examples:

1. Pending lawsuits
2. Guarantees given
3. Disputed taxes

Disclosure in Financial Statements:

- They are usually disclosed in the notes to accounts.
- If the liability is probable and measurable, a provision is created.

Conclusion:

Contingent liabilities are disclosed to inform users about possible future obligations.

---

3. Explain the accounting for "Product Warranties."

Product Warranty is a promise by the seller to repair or replace defective products within a certain period.

Accounting Treatment:

1. Estimated warranty expense is recorded at the time of sale.
2. A warranty liability account is created.
3. Actual repair or replacement costs reduce the liability.

Journal Entry:

Warranty Expense A/c Dr.To Warranty Liability A/c\text{Warranty Expense A/c Dr.} \\ \text{To Warranty Liability A/c}Warranty Expense A/c Dr.To Warranty Liability A/c

Conclusion:

Warranty accounting follows the matching principle by recording expected expenses in the same period as sales.

---

4. Differentiate between Accounts Payable and Notes Payable.

Basis	**Accounts Payable**	**Notes Payable**
Meaning	Amount owed for credit purchases	Written promise to pay debt
Nature	Informal liability	Formal liability
Evidence	Invoice	Promissory Note
Interest	Usually no interest	Usually includes interest
Duration	Short-term	Short or long-term

Conclusion:

Accounts payable are ordinary credit obligations, while notes payable are formal written liabilities.

---

5. What is "Unearned Revenue" and how is it a liability?

Unearned Revenue is income received in advance before goods or services are provided.

Why it is a Liability:

- The business still has an obligation to provide goods or services in the future.
- Until services are delivered, the amount belongs to the customer.

Example:

Advance rent received from tenants.

Conclusion:

Unearned revenue is treated as a liability because it represents future obligations.

---

6. Explain the concept of Payroll accounting and related liabilities.

Payroll Accounting refers to the recording and management of employee salaries, wages, bonuses, and related deductions.

Related Liabilities:

1. Salaries Payable
2. Tax Payable
3. Provident Fund Payable
4. Insurance Deductions Payable

Importance:

1. Ensures timely payment to employees.
2. Maintains legal compliance.
3. Helps accurate expense recording.

Conclusion:

Payroll accounting helps manage employee compensation and related obligations effectively.

---

7. Discuss the characteristics of a liability.

Characteristics of Liability:

1. It is a present obligation.
2. It arises from past transactions.
3. It requires future payment or sacrifice of assets.
4. It can be measured in monetary terms.
5. It is legally enforceable in most cases.

Conclusion:

Liabilities represent obligations that reduce future economic benefits of a business.

---

8. What are "Estimated Liabilities"?

Estimated Liabilities are obligations whose exact amount or timing is uncertain but can be reasonably estimated.

Examples:

1. Warranty liabilities
2. Bonus payable
3. Tax liabilities
4. Pension obligations

Importance:

1. Ensures accurate financial reporting.
2. Follows matching principle.
3. Prevents understatement of expenses and liabilities.

Conclusion:

Estimated liabilities help present a fair and realistic financial position of the business.

Unit 9 & 10: Long-Lived Assets & Long-term Liabilities

1. Define Fixed Assets. Explain the factors determining the cost of fixed assets.

Fixed Assets are long-term tangible assets used in business operations and not intended for resale.

Examples:

1. Land
2. Building
3. Machinery
4. Furniture
5. Vehicles

Factors Determining the Cost of Fixed Assets:

1. Purchase price of the asset
2. Transportation charges
3. Installation costs
4. Import duties and taxes
5. Legal charges
6. Testing and trial run expenses
7. Any expenditure necessary to make the asset ready for use

Conclusion:

The cost of fixed assets includes all expenses incurred to acquire and prepare the asset for business use.

---

2. Define Depreciation. Explain the straight-line and diminishing balance methods.

Depreciation is the systematic allocation of the cost of a fixed asset over its useful life.

Straight-Line Method:

Under this method, equal depreciation is charged every year.

Formula:

Annual Depreciation=Cost of Asset−Residual ValueUseful Life\text{Annual Depreciation} = \frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Useful Life}}Annual Depreciation=Useful LifeCost of Asset−Residual Value

Features:

1. Simple and easy to calculate
2. Equal expense every year

Diminishing Balance Method:

Under this method, depreciation is charged at a fixed percentage on the book value of the asset each year.

Formula:

Depreciation=Book Value×Rate of Depreciation\text{Depreciation} = \text{Book Value} \times \text{Rate of Depreciation}Depreciation=Book Value×Rate of Depreciation

Features:

1. Higher depreciation in early years
2. Lower depreciation in later years

Conclusion:

Both methods allocate asset cost systematically, but the amount of depreciation differs.

---

3. Differentiate between Depreciation, Amortization, and Depletion.

Basis	Depreciation	Amortization	Depletion
Meaning	Reduction in value of tangible assets	Allocation of cost of intangible assets	Reduction in natural resources
Asset Type	Tangible assets	Intangible assets	Natural resources
Examples	Machinery, Building	Patent, Copyright	Mines, Oil wells
Cause	Wear and tear	Expiry of legal rights	Extraction of resources

Conclusion:

All three methods allocate asset cost, but they apply to different types of assets.

---

4. What is "Capitalization of Interest" in fixed assets?

Capitalization of Interest means adding interest incurred during the construction or acquisition of a fixed asset to the cost of the asset instead of treating it as an expense.

Purpose:

1. To determine the true cost of the asset
2. To follow the matching principle
3. To spread the cost over the asset's useful life

Example:

Interest paid on a loan used for constructing a building.

Conclusion:

Capitalized interest becomes part of the fixed asset cost and is depreciated over time.

5. Explain the accounting treatment for the disposal of fixed assets.

Disposal of a fixed asset occurs when the asset is sold, exchanged, or discarded.

Accounting Treatment:

1. Update depreciation up to disposal date
2. Remove asset cost from books
3. Remove accumulated depreciation
4. Record cash received from sale
5. Recognize profit or loss on disposal

Journal Entry for Sale:

Cash A/c Dr.Accumulated Depreciation A/c Dr.Loss on Disposal A/c Dr.To Fixed Asset A/cTo Gain on Disposal A/c\text{Cash A/c Dr.} \\ \text{Accumulated Depreciation A/c Dr.} \\ \text{Loss on Disposal A/c Dr.} \\ \text{To Fixed Asset A/c} \\ \text{To Gain on Disposal A/c}Cash A/c Dr.Accumulated Depreciation A/c Dr.Loss on Disposal A/c Dr.To Fixed Asset A/cTo Gain on Disposal A/c

Conclusion:

Proper accounting treatment ensures accurate recording of gains or losses from asset disposal.

---

6. What are Intangible Assets? Give examples and explain their amortization.

Intangible Assets are non-physical long-term assets that provide future economic benefits.

Examples:

1. Goodwill
2. Patent
3. Copyright
4. Trademark
5. Franchise

Amortization:

Amortization is the systematic allocation of the cost of intangible assets over their useful life.

Features:

1. Similar to depreciation
2. Applied to intangible assets
3. Reduces asset value gradually

Example:

Patent cost spread over its legal life.

Conclusion:

Amortization helps allocate the cost of intangible assets fairly over time.

---

7. Define Bonds Payable. Explain the types of bonds.

Bonds Payable are long-term liabilities arising when a company borrows money by issuing bonds to investors.

Types of Bonds:

1. Secured Bonds:

Bonds backed by specific assets as security.

2. Unsecured Bonds:

Bonds issued without collateral.

3. Convertible Bonds:

Bonds that can be converted into shares.

4. Callable Bonds:

Bonds that can be redeemed before maturity.

5. Registered Bonds:

Ownership is recorded in company records.

6. Bearer Bonds:

Payable to the holder of the bond certificate.

Conclusion:

Bonds payable are important sources of long-term finance for companies.

Unit 11 & 12: Shareholders' Equity & Basic Financial Statements

1. Define a Company. Explain the features of a Joint Stock Company.

A Company is an artificial legal entity formed by a group of persons to carry on business activities for profit.

Features of a Joint Stock Company:

1. Separate legal entity
2. Limited liability of shareholders
3. Perpetual succession
4. Transferability of shares
5. Common seal
6. Large capital collection
7. Professional management

Conclusion:

A joint stock company is a large business organization with a separate legal existence and limited liability.

---

2. Differentiate between Common Stock and Preferred Stock.

Basis	Common Stock	Preferred Stock
Voting Rights	Usually has voting rights	Usually no voting rights
Dividend	Dividend not fixed	Fixed dividend
Risk	Higher risk	Lower risk
Claim on Assets	Paid after preferred shareholders	Paid before common shareholders
Return	Variable return	Fixed return

Conclusion:

Common stock provides ownership control, while preferred stock provides fixed income preference.

---

3. What is Treasury Stock? Why does a company buy back its own shares?

Treasury Stock refers to the company's own shares that have been repurchased from shareholders.

Reasons for Buyback:

1. To increase the market price of shares
2. To reduce excess cash
3. To improve earnings per share
4. To prevent a hostile takeover
5. To distribute surplus cash to shareholders

Conclusion:

Treasury stock helps companies manage capital structure and shareholder value.

---

4. Explain Cash Dividends vs. Stock Dividends.

Basis	**Cash Dividend**	**Stock Dividend**
Meaning	Dividend paid in cash	Dividend paid in additional shares
Effect on Cash	Reduces company cash	No cash outflow
Shareholder Benefit	Immediate cash income	Increase in number of shares
Capital Structure	No major change	Increases share capital

Conclusion:

Cash dividends provide cash return, while stock dividends increase shareholders' ownership units.

---

5. Discuss the components of "Retained Earnings."

Retained Earnings are accumulated profits kept in the business after paying dividends.

Components:

1. Beginning retained earnings
2. Net profit or net income
3. Less: Dividends declared
4. Prior period adjustments

Formula:

Ending Retained Earnings=Beginning Retained Earnings+Net Income−Dividends\text{Ending Retained Earnings} = \text{Beginning Retained Earnings} + \text{Net Income} - \text{Dividends}Ending Retained Earnings=Beginning Retained Earnings+Net Income−Dividends

Conclusion:

Retained earnings represent reinvested profits used for business growth.

---

6. What is the purpose of preparing a Balance Sheet and Income Statement?

Balance Sheet:

The Balance Sheet shows the financial position of a business at a specific date.

Purpose:

1. Shows assets and liabilities
2. Determines financial strength
3. Helps decision-making

Income Statement:

The Income Statement shows profit or loss for a specific period.

Purpose:

1. Measures profitability
2. Shows revenues and expenses
3. Assists performance evaluation

Conclusion:

Both statements are essential for understanding financial performance and position.

---

7. Explain the "Classified Balance Sheet."

A Classified Balance Sheet is a balance sheet in which assets and liabilities are grouped into specific categories.

Classifications:

Assets:

1. Current Assets
2. Non-current Assets

Liabilities:

1. Current Liabilities
2. Long-term Liabilities

Equity:

1. Share Capital
2. Retained Earnings

Importance:

1. Improves clarity
2. Facilitates analysis
3. Helps compare financial data

Conclusion:

A classified balance sheet presents financial information in a more organized and understandable form.

---

8. What is a "Statement of Changes in Equity"?

The Statement of Changes in Equity shows changes in owners' equity during an accounting period.

It includes:

1. Share capital changes
2. Retained earnings changes
3. Net profit or loss
4. Dividends
5. Reserves and adjustments

Importance:

1. Explains movement in equity
2. Helps shareholders understand changes
3. Supports transparency in reporting

Conclusion:

This statement provides detailed information about changes in shareholders' equity.

---

9. Discuss the limitations of financial statements.

Limitations:

1. Based on historical cost
2. Ignore inflation effects
3. May contain personal judgments
4. Cannot show qualitative factors
5. Possibility of manipulation
6. Based on accounting assumptions
7. Do not provide complete future information

Conclusion:

Financial statements are useful but not fully sufficient for all decision-making purposes.

---

10. Explain the concept of "Authorized," "Issued," and "Paid-up" capital.

Authorized Capital:

The maximum amount of share capital a company is legally allowed to issue.

Issued Capital:

The portion of authorized capital offered to the public for subscription.

Paid-up Capital:

The part of the issued capital actually paid by shareholders.

Unit 13, 14 & 15: Cash Flow, Value Added & Analysis

1. Define Cash Flow Statement. Explain its three main activities.

A Cash Flow Statement is a financial statement that shows the inflow and outflow of cash and cash equivalents during a specific period.

Three Main Activities:

1. Operating Activities:

Cash flows from main business operations like buying and selling goods or services.

2. Investing Activities:

Cash flows related to purchase or sale of long-term assets such as machinery, buildings, or investments.

3. Financing Activities:

Cash flows related to capital and borrowing such as issuing shares, loans, and dividend payments.

Conclusion:

Cash Flow Statement helps understand how cash is generated and used in a business.

---

2. Differentiate between Direct and Indirect methods of Cash Flow.

Basis	Direct Method	Indirect Method
Meaning	Shows actual cash receipts and payments	Starts with net profit and adjusts non-cash items
Approach	Cash basis approach	Accrual basis adjustment
Complexity	Simple to understand	More complex
Usage	Less commonly used	Most commonly used
Accuracy	Shows detailed cash flows	Shows reconciliation of profit to cash

Conclusion:

Direct method focuses on actual cash flow, while indirect method adjusts accounting profit to cash flow.

---

3. What is the importance of a Cash Flow Statement for investors?

Importance:

1. Shows liquidity position of business

2. Helps assess ability to pay dividends
3. Indicates financial stability
4. Helps evaluate cash-generating ability
5. Supports investment decision-making
6. Shows real cash movement (not just profit)

Conclusion:

Cash Flow Statement helps investors understand the real financial strength of a company.

---

4. Define Value Added Statement (VAS). Explain its advantages.

A Value Added Statement shows the value created by a business and how it is distributed among stakeholders.

Advantages:

1. Shows contribution of business to economy
2. Helps measure performance
3. Useful for employees and government analysis
4. Promotes transparency
5. Helps in social accounting

Conclusion:

VAS highlights the wealth created and its distribution among stakeholders.

---

5. Discuss the concept of "Gross Value Added" vs. "Net Value Added."

Gross Value Added (GVA):

It is the total value created by a business before deducting depreciation.

Net Value Added (NVA):

It is the value remaining after deducting depreciation from GVA.

Formula:

Net Value Added=Gross Value Added−Depreciation\text{Net Value Added} = \text{Gross Value Added} - \text{Depreciation}Net Value Added=Gross Value Added−Depreciation

Difference:

- GVA includes full value created
- NVA deducts wear and tear of assets

Conclusion:

NVA gives a more realistic value of business contribution.

---

6. What is Financial Statement Analysis? Explain its objectives.

Financial Statement Analysis is the process of evaluating financial statements to understand a company's performance and position.

Objectives:

1. Measure profitability
2. Assess liquidity position
3. Evaluate financial stability
4. Support decision-making
5. Compare performance over time
6. Identify strengths and weaknesses

Conclusion:

It helps users make informed financial decisions.

---

7. Explain Ratio Analysis. Discuss Liquidity, Solvency, and Profitability ratios.

Ratio Analysis:

Ratio Analysis is a technique of analyzing financial statements using mathematical relationships between items.

---

1. Liquidity Ratios:

Measure ability to meet short-term obligations.
Example: Current Ratio, Quick Ratio

---

2. Solvency Ratios:

Measure long-term financial stability and debt-paying ability.
Example: Debt-Equity Ratio, Interest Coverage Ratio

---

3. Profitability Ratios:

Measure earning capacity of the business.
Example: Gross Profit Ratio, Net Profit Ratio, Return on Investment

---

Conclusion:

Ratio analysis helps evaluate liquidity, stability, and profitability of a business effectively.