



INDIAN SCHOOL MUSCAT
DEPARTMENT OF COMMERCE & HUMANITIES
CLASS :11
ACCOUNTANCY

Question Bank: 3

UNIT-5 : COMPUTERS IN ACCOUNTING

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Name of the student:

Roll No:.....

Section:.....

Very Short Answer Type Questions

1. Define a computer.

“A computer is a data processor that can perform substantial computations, including numerous arithmetic and logic operations, without intervention of human operator during the run.”-----

International Standards Organisation

2. What are the different elements of a computer system?

A computer system ideally consists of following three major elements --- Hardware, Software and Humanware.

3. What are the advantages of a computer system over the manual system?

The advantages of a computer system over manual system are :-

(a) Speed – Computers have such a fast operating capability that the relevant unit of time is a fraction of a second.

(b) Accuracy –The computer cannot make mistakes if proper instructions are given.

(Reliability, Versatility, Storage and Retrieval.)

4. What are the different kinds of Softwares?

The different kinds of computer softwares are Operating Softwares, Utility Softwares and Application Softwares.

5. A computer cannot function without the Operating Software. Elaborate.

Operating Software is essential for a computer as through it the computer accepts command for operation. In simple words, an Operating System acts as the government of a computer system to manage its resources for their better and effective use.

6. What is meant by utility software?

Utility Software is a set of computer programs used to perform supporting operations in a computer. It usually focuses on how the computer infrastructure (including the computer hardware, operating system, application software and data storage) operates.

7. Name two Utility Softwares.

Disk Storage, Disk Defragmenters, File Managers, Anti-Virus, Data Compression etc.

8. What is meant by Application Software?

Application software is the user-oriented program which is designed and developed for performing certain jobs, such as accounting, word processing and designing. For example, if an enterprise has to maintain its accounts, it will install an accounting software such as Tally or Busy.

9. Name two Application Software.

Tally, Busy, Oracle, SQL-server, My-SQL or Access.

10. What is Accounting Information system (AIS).

Accounting Information System is a structure that allows its users to collect and store business or financial data and transform it into information and communicate to its internal and external users.

11. Name two reports generated by AIS.

Debtors' Report, Creditors' Report, Routine Reports, Exception Reports, Financial Statements.

12. Write three advantages of AIS.

- (i) It allows its user to collect and store business or financial data.
- (ii) It transforms this data into information and communicates to the internal and external users .
- (iii) This accounting information is used by management, consultants, CEO, regularity and tax authorities, employees etc.

13. Write the disadvantages of AIS.

- (i) This information can be interpreted by only specially trained accountants to ensure accuracy.
- (ii) Since the computers lack capability to judge, they cannot detect unanticipated error as human beings do.
- (iii) The danger of the system crashing due to hardware failures and the subsequent loss of work is a serious limitation.

14. What do you understand by grouping of accounts?

Trial balance has a number of accounts for expenses, income, assets and liabilities. All the account heads cannot be shown in the final accounts as they will not remain understandable. Account heads are grouped in various sub-heads according to their nature and the final amount in the sub-group is shown in the final accounts. It means giving a code to each main head, sub-heads and thereafter individual account heads.

15. Give an example how you will codify a Fixed Asset -Machinery.

Main Code	Sub-Code	Account Code	Main Head	Sub Head	Account Head
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1			Assets		
	1			Fixed Assets	
		001			Land
		002			Buildings
		003			Machinery
		004			Electrical Inst.
		005			Vehicles
		006			Furniture
		007			Computers

Here Fixed Asset Machinery will have the code 11003. In the above codification, it has been considered that the enterprise is a single unit enterprise.

16. What do you understand by Readymade or Off-the-Shelf Software?

Readymade Softwares are the softwares that are developed not for any specific user but for users in general. Since the Readymade softwares are for general user, it is not necessary that all the modules of such softwares are for use of every user. Eg Tally, Ex, Busy and Professional Accountant.

17. What are the advantages of Readymade Software? (Two points)

The advantages of Readymade Software are :-

- (i) They are economical – Readymade softwares are prepared not for any particular user but for the user in general. It means development cost of the software is not loaded on a single software for determining the cost and thus the selling price.
- (ii) Readymade softwares are available off-the-shelf – It therefore saves time that may be required for development of tailor made softwares or customization. Development of a software consumes considerable time both at the user end and software development end.

18. What do you understand by Customised Software?

The term Customised Software making changes in the readymade software to suit the specific requirement of the user, i.e. making it user specific. For example, the design of the invoice is changed to the specification of the user.

19. What do you understand by Tailor-Made Software?

The term Tailor-Made Software refers to designing and developing user specific software. They are not available off-the-shelf but are developed to meet the requirement of the user on the basis of discussion between the user and developer.

20. What are the advantages of Tailor-Made Software? (two points)

Advantages of Tailor-Made Software are :-

- (i) It, being user specific, takes care of the accounting reports and MIS that may be required by the user and management of the enterprise.
- (ii) The software being tailor made, the enterprise may have to engage a software engineer to maintain it. In other words the problems faced can be countered immediately.
- (iii) Well-trained users use the software and, therefore, they can maximize software utilization.

Short Answer Type Questions

1. What is a computer? Give four features of a computer.

A computer is a data processor that can perform substantial computations, including numerous arithmetic and logic operations, without intervention of human operator during the run

The features of a computer are :-

- (i) It is an electronic machine capable of performing many diversified mathematical functions at a phenomenal speed and accuracy.
- (ii) They are capable of storing and retrieving data when required.
- (iii) They act in response to a set of instructions called programmes and software.
- (iv) It processes raw data into meaningful information.

2. Discuss the applications of Computers in Accounting.

In general every aspect of accounting is affected by computers but it is commonly used in the following areas.

- (i) Recording of business transactions – Recording of business transactions through computers reduces the use of paper and also space required for storing the accounting records. In case of recording of business transactions through computers in the books of original record, posting in the concerned ledger accounts is automatically made. It means that ledger accounts contain up to date information at all times.
- (ii) Accounting of debtors – Computers are very much effective in maintenance of customer's accounts. Computers are also used for printing periodic reminders to be sent to debtors. It avoids delay in the recovery of outstanding debt.
- (iii) Stores accounting – Stores accounting is the record of receipt and issue of items kept in the stores. It provides immediate information regarding stock in hand of each item. It helps the management in framing effective stock policy.
- (iv) Payroll accounting – The use of computers in the payroll accounting provides correct and prompt information. Computerised accounting ensures accuracy, uniformity and promptness in the proper calculation and accounting of payrolls for the business accounting.

3. Distinguish between Hardware and Software.

Basis	Hardware	Software
1. Meaning	The physical component of a computer, such as monitor and printer.	Collection of computer programmes are known as software. Programs are the systematic instructions to perform specific jobs.
2. Uses	The same hardware is used for performing different jobs. Machines or hardware do not require changes for	The different softwares are used for performing different jobs.

	different works.	
3. Physical Construction	Hardware have physical construction. It can be seen and touched.	Softwares do not have physical construction. It can neither be seen nor touched.

4. What do you understand by Transaction Processing System (TPS)?

Processing of transactions involves classification of financial and accounting transactions through sorting, merging and updating. Reports in the form of Trial Balance, Ledger Balances and Balance Sheets can be obtained after processing. These days inbuilt accounting and other packages (a set of various programmes) are available in the market, which can perform automatic recording and classification (posting) of transactions.

Accounting as we know is the generation of financial information through recording, analyzing and summarizing business operations of financial nature. These business transactions can be recorded, analysed and summarized with speed and accuracy.

5. What are the advantages of Computerised Accounting?

The Computerised Accounting System has the following advantages.

- (i) **Large volume of transactions** – In the present –day business environment, the transactions of a business are normally large in volume. The computerized accounting system can store and process such voluminous transactions with speed and accuracy.
- (ii) **Scalability** – A computerized accounting system is scalable to handle the growing transactions.
- (iii) **Security** – The accounting data under the computerized accounting environment is safer than the accounting data under the manual system. The data can be kept secure by using a password, i.e. allowing only authorized users to access the data.
- (iv) **Timely Reporting** – Availability of reports on time enables the management to take quick decisions, which is an important element for the success of an enterprise. A computerized accounting system makes these reports available as and when required.
- (v) **Lower Cost** – The cost of maintaining books of accounts under the computerized process is much lower than the manual process.
- (vi) **Flexible Reporting** – Reporting under the computerized process is flexible in comparison to the manual process. The database can be processed further to obtain the report.

6. What is the role of Computers in Accounting?

Accounting as we know is generation of financial information through recording, analyzing and summarizing business operations of financial nature. These business transactions can be recorded, analysed and summarized through computers with speed and accuracy.

The role of computers in accounting can be summarized as under :

- (a) Recording and posting business transactions.
- (b) Processing and maintaining payrolls.

- (c) Maintaining personnel records.
- (d) Keeping effective stock control.
- (e) Invoicing sales.
- (f) Preparing bills.
- (g) Preparing debtors account.
- (h) Maintaining purchases and sales ledger.
- (i) Classification of accounting transactions through sorting, merging and updating.
- (j) Reporting in the form of Trial Balance, Profit/Loss Account and Balance Sheet.

7. What considerations should be borne in mind for Designing Accounting Reports?

Data when processed becomes information. When the related information is summarized to meet a particular need, it is called a report. The content and design of a report is expected to vary depending upon the level to which it is submitted and decision is made on the basis of the report. A report must be effective and efficient to the user and should substantiate the decision making process. Every accounting report must be able to fulfill the following criterion :-

- Relevance
- Timeliness
- Accuracy
- Completeness
- Summarisation

The accounting reports should be designed in a manner that they meet these quality standards. The steps involved in designing an Accounting Report are :-

- (i) Define objectives of the report clearly
- (ii) The contents and format of the report should be such that it has complete information and is easy to understand by the users.
- (iii) The report should specify the queries that are helpful in database manipulation.
- (iv) The report should be complete with respect to analyses and suggestions.

8. Write a detailed comparison between Manual Accounting and Computerised Accounting.

Basis	Manual Accounting	Computerised Accounting
1. Identification	The identification of transaction is based on application of accounting principles.	The identification of transactions of Computerised Accounting is also based on application of accounting principles.
2. Recording	The recording of financial transactions in manual accounting system is through books of original entries.	The data content of such transactions is stored in a well- designed database in computerized accounting system.
3. Summarising	The transactions are summarized	The originally stored data/transactions are

	to produce Trial Balance in manual accounting system by ascertaining the balance of various accounts.	processed to churn out the list of balances of various accounts to be finally shown in the Trial Balance Report. The generation of ledger account is not necessary in computerized accounting.
4. Classification	In a manual accounting system, transactions recorded in the books of original entry are further classified by posting into a ledger account. This results in transaction data duplicity.	In computerized accounting system no such data duplication is made to cause classification of transactions, in order to produce ledger accounts the stored transaction data is processed to appear as classified.
5. Adjusting Entries	In a manual accounting system, these entries are made to adhere to the principles of cost matching revenue. These entries are recorded to match the expenses and revenue generated of the accounting period.	In computerized accounting journal vouchers are prepared and stored to follow the principles of cost matching revenue, but there is nothing like passing adjusting entries for error and rectification.
6. Financial Statements	In a manual accounting system the preparation of financial statements presupposes the availability of trial balance.	In computerized accounting, there is no such requirement. The generation of Financial Statements is independent of producing the trial balance.
7. Closing the Books	After the preparation of financial reports, the accountant makes preparation for the next accounting period.	In computerized accounting, there is a year-end processing to create and store opening balance of accounts in database.

9. Write a note on the relationship of AIS with Human Resource Information System and Manufacturing Information System.

AIS and Human Resource Information System – The Human Resource Department maintains the records of each employee and prepares the salary or wages payable to them. The payment is made by the Accounts Department. It uses the processed payroll to check its accuracy before releasing the payment. Similarly, information such as the qualification, skill and experience of an individual employee, generated by the Human Resource Department, is used by the Manufacturing Department to place them accordingly.

AIS and Manufacturing Information System – Business process in Production Department may involve the following activities :

- Preparation of plans and schedules.
- Issue of material requisition forms and job cards.
- Issue of inventory.
- Issue of orders for procurement of raw materials.
- Handling of vendors invoices.
- Payment to vendors.

The accounting subsystem transaction cycle would therefore include the processing of purchase orders, advance to suppliers/vendors, inventory status updation, account payable, etc. All of this information has to be shared with the other MIS in the organization.

10. What is meant by Accounting Information System? List four features of a good Accounting Information System.

Accounting Information System is a collection of resources (people and equipment), designed to transform financial and other data into information. This information is communicated to a wide variety of decision-makers. This information system performs transformation of data whether they are from manual systems or thoroughly computerized system.

Four features of a good Accounting Information System are :

- (i) **Decision Support System** – The report generated by the accounting system is disseminated to the various users – internal and external. The external parties include investors, creditors, financiers, government suppliers, vendors and the society at large. The reports used by these parties are more of routine nature. However the internal parties use the accounting information for decision-making and control.
- (ii) **Effective Management Information System** – MIS was also perceived as day to day financial accounting system that are used to ensure basic control maintained over financial record keeping activities, but now is likely recognized as a broader concept and accounting system is its subcomponent.
- (iii) **Executive Support System** – It maintains the records of each employee and prepares the salary and wages payable to them. Similarly, information such as the qualification, skill and experience of an individual employee is generated by the Human Resource Department
- (iv) **Effective Transaction Processing system** – Processing of transactions involves classification of financial and accounting transactions through sorting, merging and updating. Reports in the form of Trial Balance, Ledger balances and Balance Sheets can be obtained after processing. This day's inbuilt accounting and other packages (a set of various programmes) are available in the market, which can perform automatic recording and classification (posting) of transactions.

11. What are the disadvantages of Computerised Accounting?

- (i) **Controls** – If adequate controls are not built and, where built, are not followed, it can lead to loss of data. It is important to take back-ups at regular intervals to avoid such a situation.
- (ii) **Data Corruption** – The data can get corrupted through viruses that may come in through the internet or the use of external input devices without scanning them for viruses.
- (iii) **Trained computer operators** – Untrained computer operators can lead to loss of data.
- (iv) **Limitations of Software** – The software is developed on the basis of experiences of the team of developers. As such, it may not be able to deal with a specific problem that may arise.
