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CUET · ACCOUNTANCY · CLASS XI · CODE 301

Introduction to Accounting

CUET unit: Foundations of Accounting

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Snapshot

- Establishes accounting as a process of identifying, measuring, recording and communicating economic information of an organisation to its interested users (NCERT §1.1, p. 2–3).
- Distinguishes accounting from mere book-keeping by presenting it as an information system that serves both internal and external decision-makers (NCERT §1.1.4, p. 6; §1.2, pp. 8–9).
- Defines the four qualitative characteristics of accounting information — Reliability, Relevance, Understandability and Comparability (NCERT §1.2.1, pp. 9–12) — a high-yield CUET area.
- Lists the primary objectives of accounting (records, profit/loss, financial position, information dissemination) and the role of accounting as language, historical record, economic reality, information system and service (NCERT §1.3, §1.4, pp. 12–16).
- Defines all foundational accounting vocabulary — entity, transaction, assets, liabilities, capital, drawings, sales, purchases, revenue, expense, expenditure, profit, gain, loss, discount, voucher, goods, stock, debtors, creditors (NCERT §1.5, pp. 16–21).
- Sets up the basic accounting equation framework that every later chapter (theory base, journal, ledger, trial balance, financial statements) will use; treats book-keeping as a subset of accounting and accounting as a subset of an information system (NCERT §1.2, p. 8).



Detailed Notes

2.1 Core concepts

Accounting is the oldest discipline of business knowledge: Kautilya's Arthashastra discussed proper maintenance of accounts of a State, and modern double-entry book-keeping is attributed to the Italian friar Luca Pacioli (1494) (NCERT §1.1, p. 1–2). The **AICPA 1941** definition: accounting is "the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof" (NCERT §1.1, p. 2). The more modern, user-oriented **AAA 1966** definition: accounting is "the process of identifying, measuring and communicating economic information to permit informed

judgments and decisions by users of information" (NCERT §1.1, p. 2). The **working definition** distils both: accounting is the process of identifying, measuring, recording and communicating the required information relating to the economic events of an organisation to interested users (NCERT §1.1, p. 3). Examiners frequently combine words across these three definitions to construct distractors, so each must be memorised verbatim.

The working definition has **four aspects** — Economic Events; Identification, Measurement, Recording and Communication; Organisation; Interested Users of Information (NCERT §1.1, p. 3). An **economic event** is a happening of consequence to a business consisting of transactions measurable in monetary terms (NCERT §1.1.1, p. 4). Events between the firm and an outsider — sale of goods, purchase of materials, payment of rent — are **external**; events occurring entirely within the firm — transfer of stores to the manufacturing department, payment of wages from cash to workers — are **internal** (NCERT §1.1.1, p. 4). The four process verbs: **identification** selects events of financial character; **measurement** quantifies them in money (in rupees and paise); **recording** is done chronologically and systematically in books of account so that the data can be retrieved later; **communication** transmits the summarised information to users through accounting reports such as the income statement, balance sheet and various supporting schedules (NCERT §1.1.2, p. 5). Accounting works only in monetary units — both a strength (objectivity, comparability) and a limitation (qualitative aspects like brand reputation or staff morale go un-recorded) (NCERT §1.4, p. 14).

The third aspect, **Organisation**, clarifies that accounting applies to **any** business enterprise — profit-seeking or not-for-profit — including sole proprietorships, partnerships, cooperative societies, companies and even local authorities or government departments (NCERT §1.1.3, p. 6). The fourth aspect, **Interested Users of Information**, is split into two broad groups. **Internal users** include the Chief Executive, Financial Officer, Vice President, Business Unit Managers, Plant Managers, Store Managers and Line Supervisors — all of whom use accounting information to plan and control day-to-day operations (NCERT §1.1.4, p. 6, Box 1). **External users** include (i) present and potential investors / shareholders, (ii) creditors such as banks, financial institutions, debenture-holders and other lenders, (iii) tax authorities, (iv) regulatory agencies — Department of Company Affairs, Registrar of Companies, SEBI, (v) labour unions, (vi) trade associations, (vii) stock exchanges and (viii) customers (NCERT §1.1.4, p. 6, Box 1). The grouping is a classic CUET MCQ — examiners deliberately misplace "management" into the external group or "investors" into the internal group.

Book-keeping, accounting and **accountancy** are distinct. Book-keeping is concerned only with the **recording** of business transactions in a methodical way and does not include analysis or interpretation; accounting goes further and embraces classification, summarisation, analysis and communication; accountancy is the **body of knowledge** — the theory, principles and practice — that governs both (NCERT §1.2, p. 8 and Box 2). Accounting has three **sub-disciplines** (NCERT §1.2, pp. 8–9): (a) **Financial accounting** generates systematic records of past transactions and produces financial reports such

as the income statement and balance sheet — stewardship oriented, monetary, historical; (b) **Cost accounting** analyses the expenditure on each product or activity so as to ascertain cost and fix selling prices, and to control costs; (c) **Management accounting** uses information drawn from both financial and cost accounting (and adds qualitative, future-oriented and non-financial data) to assist internal planning, control and decision-making (NCERT Box 3, p. 10).

The highest-yield topic is the **qualitative characteristics of accounting information** (NCERT §1.2.1, pp. 9–12). The four characteristics are: **Reliability** — information must be free from error and bias and must faithfully represent what it purports to represent; reliability rests on credibility, verifiability, neutrality and faithfulness (NCERT §1.2.1, p. 9). **Relevance** — information must be available in time, must help in prediction and feedback, and must influence users' decisions; irrelevant information, however accurate, has no decision-utility (NCERT §1.2.1, p. 10). **Understandability** — decision-makers must interpret the information in the same sense in which the preparer intends it; this requires use of common terminology and an appropriate level of disclosure (NCERT §1.2.1, pp. 10–11). **Comparability** — users must be able to compare the financial position and performance of an entity (i) across periods (inter-period comparability) and (ii) with other entities (inter-firm comparability), which requires a common period, a common unit of measurement and a common format of reporting (NCERT §1.2.1, pp. 11–12). The inter-relationship of these four traits (Fig. 1.3, p. 11): Decision-Usefulness flows through Understandability, which branches into Relevance (with sub-traits Timeliness, Predictive Value and Feedback Value) and Reliability (with sub-traits Verifiability, Faithfulness and Neutrality), both ultimately supporting Comparability.

The **objectives of accounting** (NCERT §1.3, pp. 12–14) are four: (a) maintenance of records of business transactions, because human memory cannot retain the volume; (b) calculation of profit and loss for the period — Profit = Revenue – Expenses, illustrated by ₹6,00,000 revenue minus ₹5,40,000 expenses giving ₹60,000 profit (NCERT §1.3.2, p. 13); (c) depiction of the financial position via a balance sheet showing assets and liabilities at a date; and (d) providing accounting information to the various internal and external users described above, each of whom has distinct informational needs — investors look at risk and return, lenders at creditworthiness and repayment capacity, customers at continued existence of the supplier, regulators at compliance and so on (NCERT §1.3.4, pp. 13–14). The **role of accounting** is summarised in Box 4 (NCERT §1.4, pp. 14–16) as five complementary perspectives: accounting as a **language of business**; as a **historical record**; as **current economic reality**; as an **information system**; and as a **commodity** — a service that is bought and sold in the market for fees. Accounting information has a critical **limitation**: it relates only to past transactions and is quantitative and financial in nature; it does **not** provide qualitative or non-financial information (NCERT §1.4, p. 14).

Basic Terms in Accounting (NCERT §1.5, pp. 16–21) covers twenty foundational terms that recur throughout Class XI and XII — entity, transaction, assets (current/non-current), liabilities (current/non-current), capital, sales, revenues, expenses, expenditure,

profit, gain, loss, discount (trade and cash), voucher, goods, drawings, purchases, stock (opening, closing, raw, semi-finished, finished), debtors and creditors. Each is defined in the table at §2.2. The key conceptual subtleties — expense vs expenditure, profit vs gain, goods vs asset, trade vs cash discount, drawings as a reduction of capital rather than an expense — are the ones CUET keeps revisiting.

2.2 Definitions to memorise

Term	Definition	Page
Entity	A reality that has a definite individual existence; a business entity is a specifically identifiable enterprise (e.g., Super Bazaar, ITC Limited) (NCERT §1.5.1).	16
Transaction	An event involving some value between two or more entities — purchase of goods, receipt/payment of money, incurring expenses; can be cash or credit (NCERT §1.5.2).	16
Assets	Economic resources of an enterprise expressible in monetary terms; items of value used by the business in its operations. Classified as Current and Non-current (NCERT §1.5.3).	16–17
Current Assets	Assets held for conversion into cash within one year — debtors, stock, bills receivable, cash, short-term investments, prepaid expenses (NCERT §1.5.3, Fig. 1.4).	17
Non-current Assets	Fixed assets held for long-term use — tangible (land, building, plant, machinery) and intangible (goodwill, patents, trademarks, copyrights); plus non-current investments (NCERT §1.5.3, Fig. 1.4).	17
Liabilities	Obligations or debts that the enterprise has to pay in future; creditors' claims on the firm's assets. Classified as Current and Non-current (NCERT §1.5.4).	18
Current Liabilities	Obligations payable within one year — short-term borrowings, trade payables, other current liabilities, short-term provisions (NCERT Fig. 1.5).	18
Non-current Liabilities	Obligations payable beyond one year — long-term borrowings, deferred tax liabilities (net), other long-term liabilities, long-term provisions (NCERT Fig. 1.5).	18
Capital	Amount invested by the owner in the firm (cash or assets); an obligation of the firm and a claim of the owner on its assets; shown on the liabilities side of the balance sheet (NCERT §1.5.5).	18
Sales	Total revenues from goods or services sold or provided to customers; can be cash sales or credit sales (NCERT §1.5.6).	19
Revenues	Amounts the business earns by selling products or providing services — sales revenue; also commission, interest, dividends, royalties, rent received; also called income (NCERT §1.5.7).	19
Expenses		19

Term	Definition	Page
	Costs incurred in the process of earning revenue — depreciation, rent, wages, salaries, interest, cost of heater/light/water, telephone, etc. (NCERT §1.5.8).	
Expenditure	Spending money or incurring a liability for some benefit, service or property received. Benefit exhausted within a year → revenue expenditure (expense); benefit lasting more than a year → capital expenditure (asset) (NCERT §1.5.9).	19
Profit	Excess of revenues of a period over its related expenses during an accounting year; increases owner's investment (NCERT §1.5.10).	19
Gain	A profit arising from events or transactions incidental to business — sale of fixed assets, winning a court case, appreciation in the value of an asset (NCERT §1.5.11).	19
Loss	Excess of expenses of a period over related revenues; decreases owner's equity; also money/money's worth lost (theft, fire) without benefit, plus loss on sale of fixed assets (NCERT §1.5.12).	19–20
Trade Discount	A deduction in the list price of goods at the time of sale, given by the manufacturer to a wholesaler or by a wholesaler to a retailer; not recorded separately in the books (NCERT §1.5.13).	20
Cash Discount	A deduction allowed to debtors at the time of payment to encourage prompt settlement within the stipulated credit period; recorded in the books as discount allowed / discount received (NCERT §1.5.13).	20
Voucher	Documentary evidence in support of a transaction — cash memo (cash purchase), invoice/bill (credit), receipt (on payment) (NCERT §1.5.14).	20
Goods	Products in which the business deals — buys/sells or produces/sells; items bought for use in the business are not goods (chairs are goods for a furniture dealer but asset for others) (NCERT §1.5.15).	20
Drawings	Withdrawal of money and/or goods by the owner from the business for personal use; reduces owner's capital (NCERT §1.5.16).	20
Purchases	Total amount of goods procured by a business on credit and on cash, for use or sale (NCERT §1.5.17).	20
Stock (Inventory)	Goods, spares and other items on hand. Closing stock = unsold goods at end of period; opening stock = stock at beginning of period; in manufacturing splits into raw materials, semi-finished and finished goods (NCERT §1.5.18).	21
Debtors	Persons/entities who owe the enterprise money for goods or services sold on credit; shown as sundry debtors on the asset side (NCERT §1.5.19).	21
Creditors	Persons/entities to whom the enterprise owes money for goods/ services received on credit; shown as sundry creditors on the liabilities side (NCERT §1.5.20).	21

2.3 Diagrams / processes to remember

Fig. 1.1 — Process of accounting (NCERT p. 2). A horizontal flow chart showing the four process verbs in sequence: Identification of economic events → Measurement of those events in money → Recording of measured data chronologically in books of account → Communication of summarised information through reports to users. Every later step (journal, ledger, trial balance, financial statements) sits inside this flow; CUET often asks which verb a particular activity falls under.

Fig. 1.2 — Book-keeping, Accounting and Accountancy (NCERT p. 8, Box 2).

Three concentric ovals — book-keeping is the smallest (recording only), accounting is the next layer (classification + summarisation + analysis + communication), and accountancy is the outermost (the body of knowledge and principles). This visual is the source of one or two MCQs every year on "which is the widest term?".

Fig. 1.3 — Qualitative characteristics of accounting information (NCERT p. 11).

Decision-Usefulness sits at the top; below it Understandability is the gateway trait; Understandability branches into Relevance (Timeliness, Predictive Value, Feedback Value) and Reliability (Verifiability, Faithfulness, Neutrality); both feed Comparability. Memorise the sub-traits — they appear as match-the-following options.

Fig. 1.4 — Classification of Assets (NCERT p. 17). Assets bifurcate into Non-current (Fixed — Tangible: Land, Building, Plant, Machinery; Intangible: Goodwill, Patents, Trademarks, Copyrights; plus Non-current Investments) and Current (Stock, Debtors, Cash, Bills Receivable, Short-term Investments, Prepaid Expenses).

Fig. 1.5 — Classification of Liabilities (NCERT p. 18). Liabilities bifurcate into Non-current (Long-term Borrowings, Deferred Tax Liabilities (Net), Other Long-term Liabilities, Long-term Provisions) and Current (Short-term Borrowings, Trade Payables, Other Current Liabilities, Short-term Provisions).

Box 5 — Current vs Non-current distinction (NCERT p. 18). An item is current if it is (a) involved in the operating cycle, (b) realised/settled within 12 months, (c) primarily held for trading, or (d) is cash or a cash equivalent; otherwise it is non-current. CUET regularly tests this four-condition definition.

The accounting flow as a process: Source document (voucher) → Identification → Measurement in ₹ → Journal entry (chronological record) → Posting to ledger → Trial balance → Financial statements (income statement + balance sheet) → Communication to users. Chapter 1 covers this only at the level of "identification → measurement → recording → communication", but keep the full flow in mind because CUET often jumps a step to test understanding.

2.4 Common confusions / NTA trap points

1. **Expense vs Expenditure vs Capital Expenditure.** Purchase of machinery is an expenditure (capital expenditure → asset), while rent or salaries are expenses

(revenue expenditure that has expired in the current period). NTA distractors routinely label machinery as an "expense" (NCERT §1.5.9, p. 19).

2. **Profit vs Gain.** Profit arises from regular operations of the business (revenue – expenses); **Gain** arises from incidental or non-recurring events such as sale of a fixed asset, winning a court case, or appreciation of an asset. They are not synonyms (NCERT §1.5.10–§1.5.11, p. 19).
3. **Goods vs Asset.** The same item is **goods** for one trader and an **asset / expense** for another, depending on whether the business deals in it — furniture is goods for a furniture dealer but a fixed asset for a school (NCERT §1.5.15, p. 20).
4. **Trade Discount vs Cash Discount.** Trade discount is given on list price at the **time of sale** and is not recorded in the books; cash discount is given at the **time of payment** for prompt settlement and is recorded as discount allowed / discount received (NCERT §1.5.13, p. 20).
5. **Internal vs External users.** Management, employees and line supervisors are **internal**; investors, lenders, tax authorities, SEBI, customers, labour unions and trade associations are **external**. NTA frequently mis-classifies "Management" as external or "Investors" as internal (NCERT §1.1.4, p. 6, Box 1).
6. **Drawings is NOT an expense.** Withdrawal by the owner reduces owner's capital, not revenue; it never appears in the Profit and Loss Account (NCERT §1.5.16, p. 20).
7. **Reliability vs Relevance.** Reliability is about faithfulness and freedom from bias; Relevance is about timeliness and predictive/feedback value. Both are decision-related, but mis-pairing the sub-traits (e.g., placing "Timeliness" under Reliability) is a classic trap (NCERT §1.2.1, Fig. 1.3, p. 11).
8. **Capital appears on the LIABILITIES side.** Because capital is the owner's claim on the firm's assets, it is an obligation of the firm and is shown on the liabilities side of the balance sheet — students often place it on the asset side because the owner "owns" the business (NCERT §1.5.5, p. 18).
9. **Stock includes raw materials and semi-finished goods.** In a manufacturing firm "stock" is not just finished goods — it includes raw materials, work-in-progress and finished inventory (NCERT §1.5.18, p. 21).
10. **Book-keeping ≠ Accounting ≠ Accountancy.** Book-keeping is the narrowest, accounting is broader, accountancy is the widest. A typical NTA MCQ inverts the order (NCERT §1.2, Box 2, p. 8).
11. **Limitation of accounting.** Accounting captures only quantitative, monetary, past data — it cannot record brand value, staff morale, customer goodwill in a forward-looking sense; this is a frequent "which of the following is NOT a feature" question (NCERT §1.4, p. 14).
12. **Mutual exclusivity of revenue and capital expenditure.** Benefit lasting within a year = revenue expenditure (expense); benefit beyond a year = capital expenditure (asset). The cut-off is one accounting year, not the value of the spend (NCERT §1.5.9, p. 19).

2.5 Journal entry templates

Journal mechanics are covered formally in Chapter 3, but the vocabulary in §1.5 (pp. 16–21) underpins every entry. The templates below show how the terms in §1.5 translate into a journal book and reinforce the debit/credit rules met in keac103.

(a) Owner brings capital into business (NCERT § 1.5.5, p. 18)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Cash A/cDr.		5,00,000	
	To Capital A/c			5,00,000
	(Being capital introduced by the proprietor)			

(b) Credit purchase of goods from a creditor (NCERT § 1.5.17 & § 1.5.20, pp. 20–21)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 5	Purchases A/cDr.		1,50,000	
	To Mr. Peace (Creditor) A/c			1,50,000
	(Being stationery purchased on credit from Mr. Peace)			

(c) Credit sale of goods to a debtor with trade discount (NCERT § 1.5.13 & § 1.5.19, pp. 20–21)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 10	Mr. Sunrise (Debtor) A/cDr.		90,000	
	To Sales A/c			90,000
	(Being goods of list price ₹1,00,000 sold on credit at 10% trade discount; trade discount is NOT recorded)			

(d) Receipt from debtor with cash discount (NCERT § 1.5.13, p. 20)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 25	Cash A/cDr.		88,200	
	Discount Allowed A/cDr.		1,800	
	To Mr. Sunrise A/c			90,000
	(Being amount received from Mr. Sunrise after allowing 2% cash discount for prompt payment)			

(e) Owner withdraws cash for personal use (NCERT § 1.5.16, p. 20)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 28	Drawings A/cDr.		10,000	
	To Cash A/c			10,000
	(Being cash withdrawn by the proprietor for personal use; reduces capital, not an expense)			

(f) Purchase of machinery (capital expenditure — NCERT § 1.5.9, p. 19)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
May 1	Machinery A/cDr.		2,00,000	
	To Cash / Bank A/c			2,00,000
	(Being machinery purchased — benefit lasts beyond a year, hence capitalised as an asset and not expensed)			

(g) Payment of rent (revenue expenditure — NCERT § 1.5.8, p. 19)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
May 31	Rent A/cDr.		12,000	
	To Cash A/c			12,000
	(Being rent paid for the month — benefit exhausted within the year, hence treated as an expense)			

(h) Recognition of a gain on sale of fixed asset (NCERT § 1.5.11, p. 19)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jun 15	Cash A/cDr.		55,000	
	To Machinery A/c			50,000
	To Gain on Sale of Machinery A/c			5,000
	(Being old machinery (book value ₹50,000) sold for ₹55,000; ₹5,000 is a gain, not operating profit)			

Practice MCQs

Q1. According to the American Accounting Association (1966), accounting is the process of:

- A. recording, classifying and summarising transactions of financial character and interpreting the results thereof
- B. identifying, measuring and communicating economic information to permit informed judgments and decisions by users of information
- C. providing quantitative information, primarily financial in nature, about economic entities useful in making economic decisions
- D. keeping a systematic record of all financial transactions to ascertain profit, financial position and inform interested parties

Q2. Which of the following is ****not**** a qualitative characteristic of accounting information as listed in NCERT §1.2.1?

- A. Reliability
- B. Relevance
- C. Materiality
- D. Comparability

Q3. Read the following two statements and choose the correct option:

****Statement I:**** Trade discount is offered by manufacturers to wholesalers and by wholesalers to retailers as a percentage of list price at the time of selling the goods. ****Statement II:**** Cash discount is a deduction given to debtors at the time of payment to encourage prompt settlement within the stipulated period.

- A. Only Statement I is correct
- B. Only Statement II is correct
- C. Both Statement I and Statement II are correct
- D. Both Statement I and Statement II are incorrect

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PYQ Alignment

Introduction to Accounting is a high-frequency chapter in CUET (UG) Accountancy: roughly 5–7 MCQs each year typically test the definitions of accounting (AICPA 1941 vs AAA 1966), qualitative characteristics (Reliability, Relevance, Understandability, Comparability and their sub-traits), classification of users (internal vs external), distinctions among expense/expenditure/asset, profit vs gain, debtors vs creditors, trade vs cash discount, and the simple Profit = Revenue – Expenses calculation from §1.3.2. Statement-based and matching questions on basic accounting terms (§1.5) are especially common, and at least one assertion-reason on drawings/capital/limitations of accounting is now standard. For further drill, see the consolidated CUET PYQ bank at [/pyq/accountancy](#) .

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