

Short Answers for Class 11 Accountancy Chapter 2 - Theory Base of Accounting

1. Why it is necessary for accountants to assume that business entity will remain a going concern?

It is necessary for accountants to consider that a business entity will remain a going concern as an asset will be calculated for the profit it earns along with the depreciation it is charged, both of which are not restricted only for one accounting period. Hence, it indicates continuity in business.

2. When should revenue be recognized? Are there exceptions to the general rule?

Revenue is recognised if right to receive income is established. It can also be said to have established when a sale takes place in cash or in credit.

Following exceptions can be seen:

1. Goods that are sold on hire purchase, the amount thus collected in instalments will be accounted as revenue realized.
2. Projects related to construction of building etc. are projects of long duration, revenue is realized periodically that is in proportion to the part of work which is completed.

3. What is the basic accounting equation?

The assets of a business is equal to claims of its owners and the creditors as per the basic accounting equation. Liabilities are known as Creditors Equity and Capital is known as Owner's Equity. It is represented as:

Assets = Capital + Liabilities

4. The realization concept determines when goods sent on credit to customers are to be included in the sales figure for the purpose of computing the profit or loss for the accounting period. Which of the following trends to be used in practice to determine when to include a transaction in the sales figure for the period. When the goods have been:

- a. dispatched b. invoiced
c. delivered d. paid for

Give reasons for your answer.

As the goods gets invoiced, this indicates that the customer acquired the right to own the goods as soon as it is invoiced. The transaction is included in the sales figure for the period.

5. Complete the following work sheet:

- (i) If a firm believes that some of its borrowers may 'default', it should act on this by making sure that all possible losses are documented in the books. This is an example of the _____ concept.
- (ii) The fact that a business is separate and distinguishable from its owner is best exemplified by the _____ concept.
- (iii) Everything a company owns, it also owns out to someone. This co-incidence is elucidated by the _____ concept.
- (iv) The _____ concept states that if straight line method of depreciation is used in one year, then it should also be used in the next year.
- (v) A firm may hold stock which is heavily in demand. Consequently, the market value of this stock may be increased. Normal accounting procedure is to ignore this because of the _____.
- (vi) If a firm receives an order for goods, it would not be included in the sales figure owing to the _____.
- (vii) The management of a firm is remarkably incompetent, but the firm's accountants cannot take this into account while preparing book of accounts because of _____ concept.

Answer:

- (i) conservatism
- (ii) business entity
- (iii) dual aspect
- (iv) consistency
- (v) Conservatism
- (vi) Revenue recognition.
- (vii) measurement

Long Answers for Class 11 Accountancy Chapter 2 - Theory Base of Accounting

1. 'The accounting concepts and accounting standards are generally referred to as the essence of financial accounting'. Comment.

Following points will be helpful to understand the above mentioned statement:

1. Following the accounting concepts and standards make accounting information easy to rely and compare
2. Many accounting concepts such as going concern, conservatism, dual aspect, accounting period etc. are considered while preparing accounts.
3. It ensures relevant financial data will be recorded.
4. Adhering to the concepts and standards ensures uniformity in accounting procedures.
5. Maintain consistency which leads to less errors.
6. Improves understandability and leads to better decision making.

2. Why is it important to adopt a consistent basis for the preparation of financial statements?

Explain.

Consistency should be maintained for preparing financial statements as:

1. Financial statements are used to compare performance of an organization with competitors and also self, so it is easier to assess if statements are prepared maintaining consistency.
2. A consistent method of statement preparation will help comparing two different periods.
3. Eliminates any personal bias that makes report more comparable.
4. Results will become inconsistent if different principles are followed.

3. Discuss the concept-based on the premise 'do not anticipate profits but provide for all losses'.

The concept is based on the Conservatism principle It has the following considerations:

1. Incomes should be calculated properly so that profits are not overestimated.
2. As profit is not calculated in excess, it prevents dividend distribution from capital.
3. Provision for doubtful debts should be made
4. Stocks to be valued at either cost price or market price whichever is lower.
5. Intangible assets should be accounted
6. Protects against uncertainty in business.

4. What is matching concept? Why should a business concern follow this concept? Discuss?

Matching concept states that expenses that are incurred in an accounting period should be matching with the revenue earned during that period. Thus all expenses for that accounting period whether or not paid during that year and all revenue whether earned or not during the period should be considered to calculate profit or loss.

Business concerns should follow this concept as :

1. Matching concept portrays the exact financial status of the business.
2. As revenue and expenses are matched, the profit or loss are not over or under-stated.
3. Expenditure of capital assets which span over a period cannot be determined in one accounting period. Hence, depreciation as an expense can be more suitable towards calculating business profits.
4. It ensures transactions occurring in one accounting period although realised in another accounting period will be recognised for the accounting period in which it occurred.

5. What is the money measurement concept? Which one factor can make it difficult to compare the monetary values of one year with the monetary values of another year?

According to money measurement concept, those transactions and events in an organisation which can be expressed in monetary terms should only be considered for recording in the accounting books.

Also, it states that the monetary value of the unit should be considered and not the physical unit.

One factor that impacts measurement is that the value of money is not constant every year, the value of money will be different during different time periods due to price fluctuation. So, an asset purchased 10 years back at a price of 5000, may cost 5 times higher in today's date. Thus, making the comparison difficult as monetary worth of two time periods will vary considerably.