# INDIAN SCHOOL AL WADI AL KABIR

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| **Class: XI** | **Department: Commerce** | **Date of submission:** |
| **Worksheet No: 2** | **Topic: Theory Base of Accounting** | **10/05/2020** |

1. Identify the accounting principles/conventions in each of the following cases:
   (i) The life of the business is divided into small parts called as accounting period.
**ACCOUNTING PERIOD CONCEPT.**

   (ii) Closing stock is valued at lower of market price or cost price.
**CONSERVATISM/PRUDENCE CONCEPT.**

   (iii) A business is expected to use the same accounting procedure over a number of years.
**CONSISTENCY CONCEPT.**

   (iv) The amount contributed by the owner is treated as internal liability for the business.
**BUSINESS ENTITY CONCEPT.**

2. Discuss the following accounting principles/conventions with relevant example:
   (i) Matching concept; (ii) Cost concept; (iii) Full disclosure concept;
   (iv) Materiality assumption.

(i)Matching Concept: It states that expenses incurred in an accounting period should be matched with revenues during that period. It follows from this that the revenue and expenses incurred to earn these revenues must belong to the same accounting period. The matching concept, thus, implies that all revenues earned during an accounting year, whether received during that year, or not and all costs incurred, whether paid during the year, or not should be considered while ascertaining profit or loss for that year.
For example, expenses such as salaries, rent, insurance are recognised on the basis of period to which they relate and not when these are paid.

(ii)Cost Concept: The cost concept requires that all assets are recorded in the book of accounts at their purchase price, which includes cost of acquisition, transportation, installation and making the asset ready to use.

(iii)Full Disclosure Concept: The principle of full disclosure requires that all material and relevant facts concerning financial performance of an enterprise must be fully and completely disclosed in the financial statements and their accompanying footnotes. This is to enable the users to make correct assessment about the profitability and financial soundness of the enterprise and help them to take decisions.
e.g Mentioning foot notes about relevant items or happenings to the financial statement.

(iv)Materiality: An item is recorded in the books of account on the basis of materiality i,e nature of the item and amount involved.
e.g Purchase of stationery is debited to stationery A/c and not shown as assets.

3 .Define: IFRS.  State the objectives of IASB.
Ans: International Financial Reporting Standards (IFRS) are set of accounting standards developed by the International Accounting Standard Board to harmonise the accounting system. Therefore, a single set of accounting standards can unify the accounting practice worldwide.

The Objectives of IASB are:
To develop a single set of high quality, understandable global accounting standards.
To promote the use and application of those standards.
To converge the national accounting standards and IFRS.

4. What do you mean by Accounting Standards?
Ans: Accounting standards are written policy documents covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in financial statements.

5. Complete the following questions:
(i) If a firm believes that some of its debtors may 'default', it should act on this by making sure that all possible losses are recorded 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 firm owns, it also owns out to somebody. This co-incidence is explained 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 firms accountants cannot take this into account while preparing book of accounts because of ___________ concept.

(i)Prudence; (ii)Business Entity; (iii) Dual Aspect; (iv) Consistency; (v) Prudence; (vi) Revenue Recognition; (vii) Money Measurement.

6. State the following statements as True or False

a. Generally Accepted Accounting principles refer to the rules or guidelines adopted for recording and reporting of business transactions in order to bring uniformity in the preparation and presentation of financial statements.
   TRUE.
b. Business Entity: This concept assumes that business has distinct and separate entity from

its owners. Thus, for the purpose of accounting, business and its owners are to be treated as two separate entities.
TRUE

c. Money Measurement: The concept of money measurement states that only those transactions and happenings in an organisation, which can be expressed in terms of money are to be recorded in the book of accounts. Also, the records of the transactions are to be kept not in the physical units but in the monetary units.
TRUE.
d. Going Concern : The concept of going concern assumes that a business firm would continue to carry out its operations indefinitely (for a fairly long period of time) and would not be liquidated in the near future.
TRUE.
e. Accounting Period : Accounting period refers to the span of time at the end of which the financial statements of an enterprise are prepared to know whether it has earned profits or incurred losses during that period and what exactly is the position of its assets and liabilities, at the end of that period.
TRUE.
f. Cost Concept : The cost concept requires that all assets are recorded in the book of accounts at their cost price, which includes cost of acquisition, transportation, installation and making the asset ready for the use.
TRUE
g. Dual Aspect : This concept states that every transaction has a dual or twofold effect on various accounts and should therefore be recorded at two places. The duality principle is commonly expressed in terms of fundamental accounting equation, which is : Assets = Liabilities + Capital.
TRUE.
h. Revenue Recognition : Revenue is the gross in-flow of cash arising from the sale of goods and services by an enterprise and use by others of the enterprise resources yielding interest royalties and dividends. The concept of revenue recognition requires that the revenue for a business transaction should be considered realised when a legal right to receive it arises.
TRUE.
i. Matching : The concept of matching emphasises that expenses incurred in an accounting period should be matched with revenues during that period. It follows from this that the revenue and expenses incurred to earn these revenue must belong to the same accounting period.
TRUE
j. Full Disclosure : This concept requires that all material and relevant facts concerning financial performance of an enterprise must be fully and completely disclosed in the financial statements and their accompanying footnotes.
TRUE
k. Consistency : This concepts states that accounting policies and practices followed by enterprises should be uniform and consistent one the period of time so that results are comparable. Comparability results when the same accounting principles are consistently being applied by different enterprises for the period under comparison, or the same firm for a number of periods.

TRUE.

l. Conservatism : This concept requires that business transactions should be recorded in such a manner that profits are not overstated. All anticipated losses should be accounted for but all unrealised gains should be ignored.
TRUE.

m. Materiality : This concept states that accounting should focus on material facts. If the item is likely to influence the decision of a reasonably prudent investor or creditor, it should be regarded as material, and shown in the financial statements.
TRUE.

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

Ans: This is an important assumption of accounting as it provides the very basis for showing the value of assets in the balance sheet.

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

Ans: Revenue is assumed to be realised when a legal right to receive it arises, i.e. the point of time when goods have been sold or service has been rendered and not when money is received from the buyer in case of credit sales.
Exception to Revenue Recognition Concept, in case of contracts like construction work, which take long time, say 2-3 years to complete, proportionate amount of revenue, based on the part of contract completed by the end of the period is treated as realised. Similarly, when goods are sold on hire purchase, the amount collected in installments is treated as realised.

9. Fill in the correct word: 1. Recognition of expenses in the same period as associated revenues is called _______________concept. 2. The accounting concept that refers to the tendency of accountants to resolve uncertainty and doubt in favour of understating assets and revenues and overstating liabilities and expenses is known as _______________. 3. Revenue is generally recongnised at the point of sale denotes the concept of _______________. 4. The _______________concept requires that the same accounting method should be used from one accounting period to the next. 5. The_______________concept requires that accounting transaction should be free from the bias of accountants and other.

Ans: 1.Matching.
2.Conservatism/Prudence.
3.Revenue Recognition.
4.Consistency.
5.Objectivity.