Little Flower Matriculation Higher Secondary School
Nathakkarai, Thalaivasal – 636112

M.Varadarajan, M.Com., M.Ed., M.Phil.,
PG Assistant in Commerce
E-mail: mvaradarajan76@gmail.com
Mobile: 9786868699 & 9842868699

11 – Accountancy
Unit – 2 Conceptual Framework of Accounting

I. Choose the Correct Answers

1. The business is liable to the proprietor of the business in respect of capital introduced by the person according to
   (a) Money measurement concept **(b) Cost concept**
   (c) Business entity concept (d) Dual aspect concept

2. The concept which assumes that a business will last indefinitely is
   (a) Business Entity **(b) Going concern** (c) Periodicity (d) Conservatism

3. GAAPs are:
   (a) Generally Accepted Accounting Policies
   (b) Generally Accepted Accounting Principles
   (c) Generally Accepted Accounting Provisions
   (d) None of these

4. The rule of stock valuation 'cost price or realisable value' whichever is lower is based on the accounting principle of:
   (a) Materiality (b) Money measurement **(c) Conservatism** (d) Accrual

5. In India, Accounting Standards are issued by
   (a) Reserve Bank of India
   (b) The Cost and Management Accountants of India
   (c) Supreme Court of India
   (d) The Institute of Chartered Accountants of India

II. Very short answer

1. Define book-keeping.

R.N.Carter

- "Book-keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth".

2. What is meant by accounting concepts?

(i) Accounting concepts are the basic assumptions or conditions upon which accounting has been laid.

(ii) Accounting concepts provide unifying structure to the accounting process and accounting reports.

3. Briefly explain about concept.

(i) According to realisation concept, any change in value of an asset is to be recorded only when the business realises it.

(ii) When assets are recorded at historical value, any change in value is to be accounted only when it realises.

4. What is "Full Disclosure Principle" of accounting?

(i) Full Disclosure Principle implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement.

(ii) The disclosure should be full, fair and adequate.

(iii) The users of the financial statements can make correct assessment about the financial position.

5. Write a brief note on 'Consistency' assumption.

(i) The consistency assumption implies that the accounting policies must be followed consistently from one accounting period to another.

(ii) The results of different years will be comparable only when same accounting policies are followed from year to year.

III. Short answer

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

(i) According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.

(ii) This concept is based on accrual concept and periodicity concept.

(iii) Periodicity concept fixes the time frame for measuring performance and determining financial status.

(iv) All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

2. "Only monetary transactions are recorded in accounting". Explain the statement.

(i) Monetary transactions are those transactions, which can be expressed in terms of money, are recorded in the accounts.

(ii) Since, money serves as the medium of exchange transactions expressed in money are recorded.

(iii) The ruling currency of a country is the measuring unit for accounting.

3. "Business units last indefinitely". Mention and explain the concept on which the statements based?

(i) Business units last indefinitely statements comes under Going Concern Concept.

(ii) It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future.

(iii) Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues.

4. Write a brief note on Accounting Standards.

(i) Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable.

(ii) It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

(iii) In the words of Kohler, "Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally".

(iv) In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI).

Thank You

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