Q3. Discuss the concept-based on the premise 'do not anticipate profits but provide for all losses'.

Answer : According to the Conservatism Principle, profits should not be anticipated; however, all losses should be accounted (irrespective whether they occurred or not). It states that profits should not be recorded until they get recognised; however, all possible losses even though they may happen rarely, should be provided. For example, stock is valued at cost or market price, whichever is lower. If the market price is lower than the cost price, loss should be accounted; whereas, if the former is more than the latter, then this profit should not be recorded until unless the stock is sold. There are numerous provisions that are maintained based on the conservatism principle like, provision for discount to debtors, provision for doubtful bad debts, etc. This principle is based on the common sense and depicts pessimism. This also helps the business to deal uncertainty and unforeseen conditions.

Q4 . What is matching concept? Why should a business concern follow this concept? Discuss?

Answer : Matching Concept states that all expenses incurred during the year, whether paid or not, and all revenues earned during the year, whether received or not, should be taken into account while determining the profit of that year. In other words, expenses incurred in a period should be set off against its revenues earned in the same accounting period for ascertaining profit or loss. For example, insurance premium paid for a year is Rs1200 on July 01 and if accounts are closed on March 31, every year, then the insurance premium of the current year will be ascertained for nine months (i.e. from July to March) and will be calculated as,

Rs 1200 - Rs 900 = Rs 300

Thus, according to the matching concept, the expense of Rs 900 will be taken into account and not Rs 1200 for determining profit, as the benefit of only Rs 900 is availed in the current accounting period. The business entities follow this concept mainly to ascertain the true profit or loss during an accounting period. It is possible that in the same accounting period, the business may either pay or receive payments that may or may not belong to the same accounting period. This leads to either overcasting or undercasting of the profit or loss, which may not reveal the true efficiency of the business and its activities in the concerned accounting period. Similarly, there may be various expenditures like, purchase of machinery, buildings, etc. These expenditures are capital in nature and their benefits can be availed over a period of time. In such cases, only the depreciation of such assets is treated as an expense and should be taken into account for calculating profit or loss of the concerned year. Thus, it is very necessary for any business entity to follow the matching concept.

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