Long Answer Type Questions:
Q1. 'The accounting concepts and accounting standards are generally referred to as the essence of financial accounting'. Comment.
Answer : Financial accounting is concerned with the preparation of the financial statements and provides financial information to various accounting users. It is performed according to the basic accounting concepts like Business Entity, Money Measurement, Consistency, Conservatism, etc. These concepts allow various alternatives to treat the same transaction. For example, there are a number of methods available for calculating stock and depreciation, which can be followed by various firms. This leads to wrong interpretation of financial results by external users due to the problem of inconsistency and incomparability of financial results among different business entities. In order to mitigate inconsistency and incomparability and to bring uniformity in preparation of the financial statements, accounting standards are being issued in India by the Institute of Chartered Accountant of India. Accounting standards help in removing ambiguities and inconsistencies. Hence, accounting standards and accounting concepts are referred as the essence of financial accounting.

Q2. Why is it important to adopt a consistent basis for the preparation of financial statements? Explain.
Answer :
Financial statements are drawn to provide information about growth or decline of business activities over a period of time or comparison of the results, i.e. intra-firm (comparison within the same organisation) or inter-firm comparisons (comparison between different firms). Comparisons can be performed only when the accounting policies are uniform and consistent.
According to the Consistency Principle, accounting practices once selected should be continued over a period of time (i.e. years after years) and should not be changed very frequently. These help in a better understanding of the financial statements and thus make comparisons easy. For example, if a firm is following FIFO method for recording stock, and switches over to the weighted average method, then the results of this year cannot be compared to that of the previous years. Although consistency does not prevent change in the accounting policies, but if change in the policies is essential for better presentation and better understanding of the financial results, then the firm must undertake change in its accounting policies and must fully disclose all the relevant information, reasons and effects of those changes in the financial statements.

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