Q5. 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?
Answer : Money Measurement Concept states that only those events that can be expressed in monetary terms are recorded in the books of accounts. For example, 12 television sets of Rs10,000 each are purchased and this event is recorded in the books with a total amount of Rs 1,20,000. Money acts a common denomination for all the transactions and helps in expressing different measurement units into a common unit, for example rupees. Thus, money measurement concept enables consistency in maintaining accounting records. But on the other hand, the adherence to the money measurement concept makes it difficult to compare the monetary values of one period with that of another. It is because of the fact that the money measurement concept ignores the changes in the purchasing power of the money, i.e. only the nominal value of money is concerned with and not the real value. What Rs 1 could buy 10 years back cannot buy today; hence, the nominal value of money makes comparison difficult. In fact, the real value of money would be a more appropriate measure as it considers the price level (inflation), which depicts the changes in profits, expenses, incomes, assets and liabilities of the business.

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