

ACCOUNTING PRINCIPLES, CONCEPTS AND CONVENTIONS

Every individual performs some economic activity. Such activities are performed through Transactions and Events.

Transactions: - it means a business activity which involves exchange of money or money's worth between parties. It is performance of an act or an agreement.

Events: - Event means happening due to any transactions. In other words result of any transaction. It can be measured in terms of money and changes in financial position.

Example:- Raising money through various sources are transaction and profit or loss at the end of year is an events.

Definition of Accounting: - It's an art of recording, classifying and summarizing transactions and events in monetary term. **It is also called Language of Business.** It also analyses and interprets the financial transaction and events.

As per American Institute of Certified Public Accountants (year 1961), " accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in art at least, of a financial character and interpreting the result thereof".

As per American Accounting Association (year 1966), "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of accounting".

Objectives of Accounting are as follows:-

- (1) Systematic recording of transaction: - **i.e. Book-Keeping.**
- (2) Ascertainment of results of above recorded transaction i.e **profit or loss account is prepared.**
- (3) Ascertainment of financial position of business: - **Balance Sheet is prepared.**
- (4) Assisting the management for decision making, exercising control, budgeting and forecasting.
- (5) Providing information to the users for rational decision making:-
- (6) To know solvency positions.

FUNCTIONS OF ACCOUNTING ARE AS FOLLOWS:-

1. **Measurement:-** It measures **past performance of business** and shows its current financial position.
2. **Forecasting:-** It helps in **forecasting future performance** and financial position using past data.
3. **Decision-making:-** It helps users to take rational decision.
4. **Comparison and Evaluation:-** It helps in comparing and evaluating financial results of different intervals.
5. **Control:-** Accounting identifies weakness of system and provides feedback for control.
6. **Meeting legal requirements(government regulation and taxation):-**
Accounting provides necessary information to government to exercise control and collecting tax.
Accounting records are accepted as evidence by the court of law.

Book-keeping :- As defined by carter, 'book keeping is a science and art of correctly recording in books of accounts all those business transactions that result in transfer of money or money's worth'.

It is a process of recording transaction and events of financial data related to business operation in order of its occurrence. It is basic function of accounting. In it proper books of account are prepared.

Book keeping is a mechanical task which involves:

- Collection of basic financial information.
- Identification of transactions and events with financial character(economic transaction)
- Measurement of economic transactions in terms of money.
- Recording financial effects of economic transactions in order of its occurrence.
- Classifying effect of economic transactions i.e recordings in ledger.
- Preparing organized statement known as trial balance.

Objective of book-keeping :-

- (1) **Complete Recording of transaction:-** It records all transaction in systematic manner
- (2) **Ascertainment of financial effect on business:-** It shows combined effect of transaction made during accounting year.

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Distinction between Accounting and Book-keeping

Book-keeping	Accounting
1. It is process of recording transaction or events	1. It is process of summarizing recorded Transactions.
2. It is a base for accounting	2. It is considered as language of business
3. Financial statements do not form part of this process.	3. Financial statement are prepared on the basis of book-keeping records
4. Managerial decisions are not taken on the basis of these records	4. Management takes decision on the basis of these records.
5. There is no sub-filed of book-keeping	5. It has several sub-filed like financial Accounting, cost accounting, management accounting etc.
6. Financial position cannot be known through book-keeping	6. Financial position are ascertained on the basis of accounting records.

ACCOUNTING CYCLE:- When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.

Steps/ phases of accounting cycle:

- i. Recording of transaction
- ii. Journal
- iii. Ledger
- iv. Trial balance
- v. Adjustment entries
- vi. Adjusted trial balance
- vii. Closing entries
- viii. Financial statements
- ix. Analysis and interpretation

Sub-field of Accounting are as follows:

1. **Financial Accounting:-** financial accounting is that branch of accounting which records financial transactions and events, summarises and interprets them and communicates the results to the users. It ascertains results (profit or loss) during an accounting period and financial position at the end. It is also called **stewardship accounting**.
2. **Cost Accounting:-** It ascertain the cost of products manufactured or services rendered and helps the management in fixing prices of product and exercising control over cost. It is also called **control accounting**.

3. **Management Accounting:-** it is concerned with generating accounting information relating to funds, cost, profits etc. as it enables the management in planning and decision making. It is also called **decision accounting**.

Basis of accounting:-

1. **Accrual basis of accounting:** Accrual basis of accounting is a method of recording transactions by which revenue, cost, assets and liabilities are **reflected in the accounts for the period in which they accrue**. The basis includes consideration relating to deferrals, allocations, depreciation and amortisation. It is also called mercantile basis of accounting.
2. **Cash basis of accounting:** cash basis of accounting is a method of recording transactions by which revenue, cost, assets and liabilities are **reflected in the accounts for the period in which actual receipts or actual payments are made**.

Note: Hybrid or mixed basis: under the hybrid system of accounting, incomes are recognised as in cash basis of accounting and expenses are recorded on accrual basis.

Procedural Aspects of Accounting:- On the basis of above definition, procedure of accounting is divided into two parts:

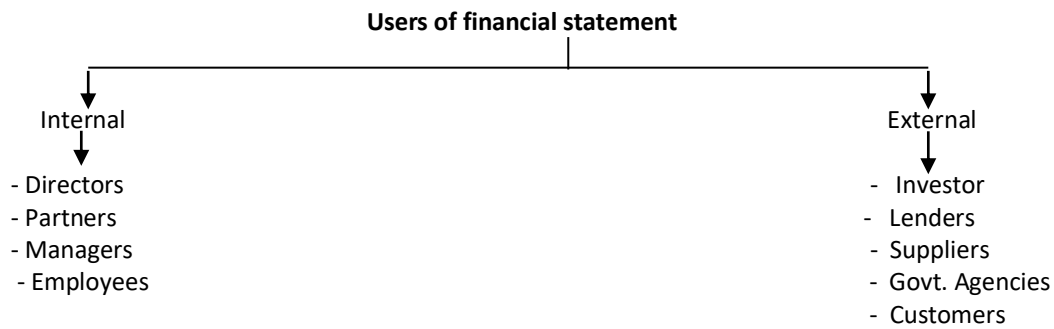
- 1) Generating financial information.
- 2) Using the financial information.

(I) **Generating financial information**

- (1) **Recording:** - It is basic function of accounting. All transaction or events are evidenced by some documents like Purchase Bill, Bank Pass Book, Sale Bill, Salary Slip etc. **Recording is done in a book called Journal.**
- (2) **Classifying:** - It is systematic analysis of recorded data. In this stage transaction or events of one nature are put at one place so as to make more useful or informatics for uses. **Book containing classified information is called Ledger.**
- (3) **Summarizing:** - It is preparation and presentation of classified data to internal as well as external users of financial statement. This process leads to preparation of Trial Balance, Profit and loss Account, Balance sheet.
- (4) **Analysis and interpretation:** financial data is analysed and interpreted so that the users of financial data can make a meaningful judgement of the financial performance(profit) and financial position of the business. Analysis helps in planning for future in better way. It is done through many tools like ratio analysis etc.
- (5) **Communicating:** - It is transmission of summarized, analyzed and interpreted information to users so that they can take rational decision. It is done through accounting reports like P & L A/c, Balance Sheet etc.

II **Using the financial information**

Users not only include proprietor or owner but also include investor, employees, lender, suppliers, government, customer and public at large. Accounting data is more useful if it stresses more on economic substance rather than technical form. Information is useless and meaningless unless it is relevant and material.



Users of Accounting Information:- There are two categories:-

- (1) Internal Management and owner
- (2) External uses or outsiders.

Following are various uses:-

- (1) **Investors:** They provide capital to business. They need information to assess whether to buy, hold or sell their investment.
- (2) **Employees:-** Growth of employee directly related to growth of organization. So they require much information.
- (3) **Lenders:-** They are interested to know capability of business to repay principal and interest.
- (4) **Supplier and creditors :-** They want to know ability of firm to pay their dues. It is generally done by credit policy of concern.
- (5) **Customer:-** Customers are also interested to know stability and functioning of business.
- (6) **Government and their agencies :-** They are also interested due to various reasons like for allocation of scarce resources among competing enterprises, tax rate, and collection.
- (7) **Public:-** They are interested in functioning of business since they contribute substantially too many ways.
- (8) **Management** as a whole is also interested in the accounts for various managerial decisions.

Note : they all above are collectively called stake-holders.

Relationship of Accounting with other discipline

- (1) **Accounting and Economics:-** Economics tells how scarce resources are utilized effectively. For that it is required to analysis the data of resources. Accounting provides major data base for same purpose.

- (2) **Accounting and statistics :-**

- In accounts all individual transactions or events are important but in statistics behaviour (i.e. trend analysis, degree of variation over a period). So here statistics methods help accounting to collect data in systematic manner. Statistic techniques like time series, cross-sectional comparison etc. are used for better presentation of accounting data.

- (3) **Accounting and Mathematics:-** Mathematics helps accounting in numbers of ways like calculation of interest, annuity to find out installments etc.

(4) **Accounting and law:-** Business enterprises require complying so many laws and making its accounting to comply their requirement. Partnership firms require to comply partnership act 1932, A company require to comply requirement of company act 2013, and so many other laws like labour laws, MRTP Act, Contract Act, Negotiable Instrument Act, The sale of good Act. Thus transaction and events of accounting are guided by law.

(5) **Accounting and Management:-** Accounting helps management in decision making process. Accounting data are used by management as basic source documents. Large portion of accounting informations are prepared for management decision making.

Limitation of Accounting:-- Generally it is assumed that account shows true and fair view of financial statement of an enterprise. But it has following limitation

- 1) **Accounts cannot reflect loyalty and skill of personnel** which are most valuable these days.
- 2) **Accounts never tell future of an enterprise. It only records past events that have occurred.** E.g- Balance sheet is prepared at the last moment of last day of accounting year. It never estimates what will happen in future.
- 3) Accounting mostly **ignores changes in money factor like inflation.**
- 4) In some occasions **accounting principles conflict with each other.**
- 5) Some **accounting estimates require personal judgment** like provisions for doubtful debts, method of depreciation adopted, writing of intangible assets etc.
- 6) Financial statements **consider only thing which are in monetary term.** Those which are not in monetary term are not considered by financial statement like human resources.
- 7) **Different Accounting policies for treatment of same item** increase the probability of manipulation.

Role of accountant in the society:-- There are few professions in the world having high esteem in public eyes, Accounting profession is one of them.

- It helps business to see its financial position and plan for the future.
- It serves for welfare of society in numbers of ways by having education, training and experience
- Accountants help not only in the matter of taxation, costing, management accounting, financial layout but also for financial planning and policies, budgetary policies even economics principle.
- Activities of accounting are not limited.

Area of service:-- Some of services are as follows:-

- (1) **Maintenance of books of accounts:**
 - Record transactions in systematic manner.
 - Help ascertaining profit and loss and financial position.
 - Help in planning, decision-making, controlling function.
- (2) **Statutory Audit:**
 - Every company requires to audit their accounts by an external auditor.
 - Accountant helps auditor to audit the accounts.
- (3) **Internal Audit:**
 - Internal auditor examines the accounting system and ensures management that accounts have been properly maintained.
 - It improves operational efficiency of business.
- (4) **Taxation:**
 - An accountant can handle taxation matter of business as well as of individual and can represent himself on their behalf to taxation authorities and settle tax liabilities.
 - It can also reduce tax liability by proper planning.
- (5) **Management Accounting and consultancy services:**

- Management accountant is mainly responsible for internal reporting to management. It provides services for planning controlling current operation, decision-making and special matter and making long term plans.
- Accountant also provides consultancy service in area of management information system, expenditure control, new investment, working capital management, corporate planning etc.

(6) **Financial advise:--** Financial advise in following area:-

- Investment, Insurance, Business expansion, Investigation etc,
 - To ascertain financial position
 - To make or buy decision
 - To ascertain reason of profit fallen
 - To increase efficiency
 - For valuation of business.
 - Pension scheme.

Other services

- 1) Secretarial work
- 2) Share Registration work
- 3) Company formation
- 4) liquidation of company.
- 5) Arbitrations
- 6) Cost Accounting.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

INTRODUCTION:-- a widely accepted set of rules, conventions, standards and procedures for reporting financial information, as established by the **Financial Accounting Standards Board(FASB)** are called **Generally Accepted Accounting Principles (GAAP)**.

They are common set of accounting principles, standards and procedures that companies/entities use to compile their financial statements.

GAAP is to be followed by companies so that investors have optimum level of consistency in the financial statements they use when analysing companies for investment purposes. **GAAP cover such aspects like revenue recognition, balance sheet items classification and their valuation, treatment and presentation.**

Suppose we give to prepare our accounts from five different Accountants. After some time all accountants come with their accounts by showing different profit, since all of them followed different accounting policies. In that case it will not serve the purpose of accounting. So it is necessary that there should be some principle, so that all accounts prepared by any number of accountant will show same amount of profit. So to avoid confusion and to ensure uniformity, **GAAP (Generally Accepted Accounting Principles)** are framed.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS:

Accounting information is published in the form of financial statements. The three basic financial statements are:

- i. Profit and loss account**
- ii. Balance sheet**
- iii. Cash flow statement**

As these statements are meant to be used by different stakeholders, it is necessary that the information contained therein is based on definite principles, concrete concepts and well accepted convention.

ACCOUNTING CONCEPTS:-- **These are basic assumptions and conditions on the basis of which financial statements are prepared.** Certain concepts are perceived, assumed and accepted in accounting to provide unifying structure and internal logic to accounting process. The concept means idea or notion, which has universal application. Financial statements are interpreted in the light of the concept, which govern accounting methods. **concepts are those basic assumptions and conditions, which form the basis upon which the accountancy has been laid.** Accounting concepts are only results of broad consensus. **These accounting concepts lay down the foundation on the basis of which the accounting principles are formulated.**

ACCOUNTING PRINCIPLES:-- **These are body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practices . They act as guide for selection of accounting procedures or conventions where alternative exists.** Accounting principle must satisfy following conditions:-

- 1) They should be based on Real Assumptions.
- 2) They must be Simple, Understandable and Explanatory.
- 3) They must be followed consistently.
- 4) They should Reflect Future Predictions.
- 5) They should be Informational for users.

ACCOUNTING CONVENTIONS:- **These emerge out of Accounting Practices, commonly known as accounting principles adopted by various organizations over a period of time.** These conventions are derived by usages and practices. It improves Quality of Accounting Information.

A. BASIC ASSUMPTION CONCEPTS/PRINCIPLES/CONVENTIONS:

I. Separate Entity Concept or Entity Concept or business entity concept Business Entity Concept considered business enterprises as a separate Entity & having separate identity distinct from its owner. Therefore business transactions are recorded in the books of accounts from business point of view and not from the owner. Therefore amount invested by owner into the business is also treated as liability (internal) for business.

II. Going Concern Concept :-- According to this concept, it is assumed that enterprise will continue its operation for indefinite period of time. It is assumed that an enterprise neither has intention nor the need to liquidate or wind up and curtail its scale of operation. **It is because of this concept a distinction is made between assets and expense, fixed and current assets / liabilities.**

III. Money Measurement Concept : -- According to this concept, only those transactions which can be expressed in money should be recorded in the books of accounts. Transactions and events, that cannot be expressed in money are not recorded in books of accounts, even if they are very useful or affect the result of business.

IV. Periodicity Concept/Accounting period concept :-- According to this concept, the life of an enterprise is broken into smaller periods so that its performance can be measured at regular interval. Generally one year period is taken up for performance measurement and appraisal of financial position. So life of the enterprise is divided into smaller periods (usually one year) which is termed as 'accounting period.' At the end of accounting period, we prepare financial statements.

V. Accrual Concept :-- Accrual means recognition of revenue and expenses as they are earned or incurred and not when cash or money is received or paid.

Revenue means gross inflow of cash, receivables and other consideration arises in the ordinary course of business activities from sale of goods, rendering services and using other enterprises resources yielding interest, royalties and dividends. Expenses are cost relating to revenue earned for a particular period.

B. Following are basic accounting Principles/concept/Convention-

i. Revenue realisation concept:- this concept speaks about recording of only those transactions which are actually realised. For example, sale will be taken into account only when cash is received or legal ownership is transferred.

ii. Matching concept : For ascertaining profit and loss for a particular period, expenses should be matched with revenue of that period. In financial statement, it is necessary to match revenue of the period with the expenses of that period to determine correct profit or loss.

iii. Full disclosure concept : as per this concept, all significant information must be disclosed. Accounting data should properly be clarified, summarised, aggregated and explained for the purpose of presenting the financial statements which are useful for the users of accounting information.

iv. Duality concept: according to this concept every transaction has two aspects i.e. the benefit receiving aspect and benefit giving aspect. These two aspects are to be recorded in the books of accounts.

v. Verifiable objective evidence concept: under this concept, accounting data must be verifiable. It means documentary evidence of transactions must be made which are capable of verification by an independent respect.

vi. Historical cost concept : According to this concept, value of asset is determined on the basis of historical cost or acquisition cost or price paid for acquisition of asset.

vii. Balance sheet equation concept : it means every debit must have a corresponding credit and vice- versa. So we can write the above in the following forms –

Expenses + losses + assets = revenues + gains + liabilities.

And if expenses/losses and income/gains are set off, the equation takes the following form:

Assets = equity (capital)+ external liabilities

C. Following are Modifying accounting Principles/Convention concept-

i. Materiality concept : the materiality could be related to information, amount, procedure and nature. According to **American Accounting Association**, “an item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of an informed investor. Thus whether an amount is material or not, will depend on its amount, nature, size of business and level of person taking decision.

- **It is an exception of full disclosure principal.** As per this principle the items effecting significantly on the business of enterprises should be only disclosed separately in the financial statements.

ii. Consistency concept : this concept says that the accounting practices should not change or must remain unchanged over a period of several years. The accounting policies are followed consistently from one period to another to achieve comparability of financial statements from one period to another period. The concept of consistency is applied where different methods of accounting are equally acceptable.

For e.g. A company may adopt any depreciation method, straight line method, WDV method etc, similarly there are many methods for valuation of stocks in hand. But the company should follow the principal of consistency over years.

An enterprise should change its accounting policy in any of the following circumstances only.

- a. Bringing books of accounts in accordance with the issued accounting standards,
- b. To compliance with provision of law.
- c. When it is felt that new method will reflect more true and fair picture in the financial statement .

○ **iii. Conservatism/ prudence concept :-**

- It states that accountant should not anticipate possible income but should provide for all possible losses.
- Where there are many alternative method to value an asset, an accountant should choose method which shows lesser value.

iv. Timeliness concept: under this principle, every transaction must be recorded in proper time. Normally , when the transaction is made, the same must be recorded in the proper books of accounts.

V. industry practice concept: as there are different types of industries, each industry has its own characteristics and features. The entity should follow such accounting practices which are prevailing in that industry. For example, electricity companies, insurance companies, banking companies maintain their accounts in a specific manner.

Fundamental Accounting assumptions(FAA) : There are three fundamental accounting assumptions:

1. Going Concern
2. Consistency
3. Accrual

When nothing is written about the fundamental accounting assumptions in the financial statements then it is assumed that these accounting assumptions have been followed in preparation of financial statements. It should be specifically disclosed if any of these assumption is not followed.

▪ **Financial statements:**

-The aim of accounting is to keep records systematically to ascertain financial performance and financial position of enterprises and communicate the relevant financial information to management and public at large.

- All enterprises prepare financial statements **like balance sheet, profit and loss account, cash flow statement** by following various concepts, principles and conventions etc, to know financial position

Qualitative Characteristics of financial statements :-

1. **Understandability:** The information in the financial statements must be easily understandable.
2. **Relevance:**
 - Information must be relevant for decision making need of users.
 - they must be able to evaluate past, present and future events.
3. **Reliability:** - Information must be reliable to be useful for the need of users. it should be free from errors and bias. user can depend upon it and can take their decisions.
4. **Comparability:-** User must be able to compare financial statement of different period to know financial position, performance and cash flows.
5. **Materiality :-** Relevance of information is affected by its materiality.
6. **Faithful Representation:-**Information must be presented faithfully. the transaction and events to be reliable for user.
7. **Substance over form :-** the transactions and other events in financial statement should be accounted and presented in accordance **with their substance and economic reality and not merely their legal form.** For example, assets taken on lease are shown as an asset in balance sheet, even firm is not a legal owner.
8. **Neutrality :-**Information contained in financial statement must be that, it is free from bias.
9. **Prudence:-**Prudence means degree of caution in exercise of judgments requires to estimate condition of uncertainty so that assets and income are not overstated and liabilities and expenses are not understated.
10. **Full, Fair and adequate Disclosure :-**
 - The disclosure should be full and final to assess financial position of enterprises. Principle of full disclosure implies nothing should be omitted.
 - Principle of fair disclosure implies all transaction recorded in financial statement present true and fair view result of business.
 - Adequate disclosure implies that information influencing the decision of users should be disclosed in details and should make sense.
11. **Completeness :-** Information in financial statement must be complete. An omission may cause false or misleading and unreliable information.

MULTIPLE CHOICE QUESTIONS: PRACTICE SESSION 1

1. **According to the Money Measurement, currency transactions & events are recorded in books of accounts**
 - (a) In the ruling currency of the country in which transaction takes place.
 - (b) In the ruling currency of the country in which books of accounts are prepared.
 - (c) In the currency set by ministry of finance.
 - (d) In the currency set by government.
2. **The determination of expenses for an accounting period is based on the concept of**
 - (a) Objectivity
 - (b) Materiality
 - (c) Matching
 - (d) Periodicity
3. **Decrease in the amount of creditors results in**
 - (a) Increase in cash
 - (b) Decrease in cash

- (c) Increase in assets
- (d) No change in assets

4. Ram purchased a car Rs.10,000 paid Rs. 3000 as cash and balance amount will be paid in three equal installments/ Due to this

- (a) Total assets increase by Rs.10,000
- (b) Total liabilities increase by Rs 3000
- (c) Assets will increase by Rs.7000 with corresponding increase in liability by Rs.7000
- (d) Both (b) and (c)

5. Accounting does not record non-financial transactions because of

- (a) Entity concept
- (b) Accrual Concept
- (c) Cost Concept
- (d) Money Measurement Concept

6. Provision for bad debt is made as per the

- (a) Entity concept
- (b) Conservatism Concept
- (c) Cost Concept
- (d) Going Concern Concept

7. Fixed Assets and Current Assets are categorized as per concept of

- (a) Separate Entity
- (b) Going Concern
- (c) Consistency
- (d) Time Period

8. Omission of paise and showing the round figures in financial statements is based on

- (a) Conservatism Concept
- (b) Consistency concept
- (c) Materiality Concept
- (d) Realization Concept

9. Income tax of the sole trader paid is

- (a) Debited to P&L Account
- (b) Debited to Trading Account
- (c) Debited to his Capital Account
- (d) None

10. Payment of salary is recorded by

- (a) Dr. Salary, Cr. Cash Account
- (b) Dr. Cash Account, Cr. Salary Account
- (c) Dr. Employee Account, Cr. Cash Account
- (d) Dr. Employee Account, Cr. Salary Account

11. Purchase of furniture for cash would

- (a) Increase fixed assets & reduce current assets
- (b) Reduce fixed assets & increase current assets
- (c) Increase total assets
- (d) Both (a) & (b)

12. Narration are given at the end of

- (a) Final accounts
- (b) Trial Balance Each Ledger Account
- (c) Each ledger accounts

(d) Each journal entry

13. Which of the following is an example of Personal Account?

- (a) Machinery
- (b) Rent
- (c) Cash
- (d) Creditor

14. P & L Account is prepared for period of one year by following

- (a) Consistency Concept
- (b) Conservatism concept
- (c) Accounting Period Concept
- (d) Cost Concept

15. Current Liabilities means

- (a) Liabilities which are payable within 12 months
- (b) Liabilities which are payable immediately
- (c) Liabilities which payable after one accounting year
- (d) Liabilities which are readable within 3 months

16. Valuing inventory at market value though cost is lower for such inventory violates the concept of

- (a) Money measurement
- (b) Conservatism
- (c) Cost
- (d) Periodicity

17. A company deals in electronic goods (AC, Fridge, TV, etc) purchases two TV sets and install in its showroom. The expenses will be recorded in

- (a) Drawing A/c
- (b) Purchase A/c
- (c) Fixed Assets A/c
- (d) P & L A/c

18. If an individual asset is increased, there will be a corresponding

- (a) Increase of another asset or increase of capital
- (b) Increase of drawings and liability
- (c) Decrease of another asset or increase of liability
- (d) Increase of specific liability or decrease of capital

19. Which of the following statements is not true?

- (a) Depreciation is a nominal account
- (b) The balances of Nominal accounts are transferred to trading account/ Profit & Loss a/c
- (c) Rent a/c is a personal account but outstanding rent account is a nominal account
- (d) In ledger, accounts are opened separately

20. Mr. Y purchased goods for Rs.9,00,000 and sold 4/5th of the goods for Rs.10,80,000 and met expenses amounting to Rs.2,00,000 during the year, 2019. He counted net profit as Rs. 1,20,000. Which of the accounting concepts was followed by him?

- (a) Entity
- (b) Matching
- (c) Periodicity
- (d) Conservatism

21. business activity which involves exchange of money or money's worth between parties.

- a. transaction b. event c. expense d. liability.

22. Accounting is an art of.....transactions and events in monetary term.

- a. recording, classifying and summarizing.
b. recording, summarizing and classifying
c. classifying, summarizing and recording.
d. recording and classifying

23. is also called Language of Business.

- a. book keeping b. balance sheet
c. accounting d. cash flow statement

24. Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in art at least, of a financial character and interpreting the result thereof". This definition is given by.....

- a. GAAP b. Accounting standard board
c. CBSE Board d. American Institute of Certified Public Accountants

25. Objectives of Accounting are

- a. Systematic recording of transaction
b. Ascertainment of results of above recorded transaction.
c. Ascertainment of financial position of business.
d. All of the above

26. FUNCTION OF ACCOUNTING ARE-

- a. Measurement
b. Forecasting
c. Decision-making
d. All of the above

27. As defined by "book keeping is a science and art of correctly recording in books of accounts all those business transactions that result in transfer of money or money's worth'.

- a. ICAI b. ICAI c. Carter d. COC Ltd

28. Following are features of book keeping except....

- a. It is process of recording transaction or events
b. It is a base for accounting
c. Financial statements do not form part of this process.
d. Managerial decisions are taken on the basis of these records

29. When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, It is called

- a. accounting cycle . b. book keeping

- c. accounting. d. financial statements.

30. Following are Sub-fields of Accounting except...

- a. financial accounting b. cost accounting
c. management accounting d. book keeping

31. Following are basis of accounting except:-

- a. Accrual basis of accounting b. cash basis of accounting
c. hybrid basis of accounting d. financial accounting

32. Recording (primary recording) is done in a book called -----.

- a. Journal b. ledger c. trial balance d. trading account

33. Book containing classified information is called

- a. Journal b. ledger c. trial balance d. trading account

34. external user of financial statement are.....

- a. Directors b. Partners c. Managers d. Investor

35. a widely accepted set of rules, conventions, standards and procedures for reporting financial information are called

- a. accounting b. book keeping
c. Generally Accepted Accounting Principles (GAAP) d. all of the above

36. following are considered as basic financial statements except:

- a. profit and loss account b. balance sheet
c. cash flow statement d. fund flow statement

37. The means idea or notion, which has universal application.

- a. concepts b. principles.
c. conventions. d. imaginations.

38..... emerge out of Accounting Practices, commonly known as accounting principles adopted by various organizations over a period of time.

- a. accounting concepts b. accounting principles.
c. accounting conventions. d. imaginations.

39. A change in accounting policy is justified

- a. To comply with accounting standard.
b. To ensure more appropriate presentation of the financial statement of the enterprise.
c. To comply with law.
d. All of the above.

40. Accounting policy for inventories of Xeta Enterprises states that inventories are valued at the lower of cost determined on weighted average basis or net realizable value. Which accounting

principle in followed in adopting the above policy?

- a. Materiality. b. Prudence/conservatism.
- c. Substance over form. c. All of the above.

41. Accounting policies refer to specific accounting.....

- a. Principles. b. Methods of applying those principles.
- c. Both (a) and (b). d. None of the above.

42. Which financial statement represents the accounting equation, assets = Liabilities + Owner's equity:

- (a) Income Statement (b) Statement of Cash flows
- (c) Balance Sheet (d) None of the above

43. Which account is the odd one out?

- (a) Office furniture & Equipment. (b) Freehold land and Buildings.
- (c) Stock of materials. (d) Plant and Machinery.

44. Indicate the alternative which you consider to be correct: In Double Entry System of Book-keeping every business transaction affects:

- (a) At least two accounts. (b) Two sides of the same account.
- (c) The same account on two different dates, (d) All of the above

45. Business transactions are recorded in the books of accounts from business point of view and not from the owner because of

- a. accounting period concept b. separate entity concept
- c. accrual concept d. money measurement concept

46. According to concept, it is assumed that enterprise will continue its operation for indefinite period of time.

- a. accounting period concept b. separate entity concept
- c. accrual concept d. going concern concept

47. According to concept, only those transactions which can be expressed in money should be recorded in the books of accounts.

- a. accounting period concept b. separate entity concept
- c. accrual concept d. money measurement concept

48. According to concept, the life of an enterprise is broken into smaller periods so that its performance can be measured at regular interval.

- a. accounting period concept b. separate entity concept
- c. accrual concept d. money measurement concept

49. means recognition of revenue and expenses as they are earned or incurred and not when cash or money is received or paid.

- a. accounting period concept b. separate entity concept
- c. accrual concept d. money measurement concept

50. For ascertaining profit and loss for a particular period, expenses should be matched with revenue of that period.

- a. matching concept b. full disclosure concept
- c. dual aspect/duality concept d. historical concept

51. As per concept, all significant information must be disclosed.

- a. matching concept b. full disclosure concept
- c. dual aspect/duality concept d. historical concept

52. According to ----- concept every transaction has two aspects.

- a. matching concept b. full disclosure concept
- c. dual aspect/duality concept d. historical concept

53. Under ----- concept, accounting data must be verifiable.

- a. matching concept b. full disclosure concept
- c. Verifiable evidence concept: d. historical concept

54. According to ----- concept, value of asset is determined on the basis of price paid for acquisition of asset.

- a. matching concept b. full disclosure concept
- c. Verifiable evidence concept: d. historical concept

55. as per ----- concept, an item should be regarded as important if there is reason to believe that knowledge of it would influence the decision of an informed investor.

- a. consistency concept b. materiality concept
- c. Verifiable evidence concept: d. full disclosure concept

56. ----- is an exception of full disclosure principal.

- a. consistency concept b. materiality concept
- c. Verifiable evidence concept: d. full disclosure concept

57.----- concept says that the accounting practices should not change or must remain unchanged over a period of several years.

- a. consistency concept b. prudence concept
- c. timeliness concept: d. industry practices concept

58. ----- states that accountant should not anticipate income but should provide for all possible losses.

- a. consistency concept b. prudence/conservatism concept
- c. timeliness concept d. industry practices concept

59. as per ----- where there are many alternative value of asset, an accountant should choose method which shows lesser value.

- a. consistency concept b. prudence concept
- c. timeliness concept: d. industry practices concept

60. Under ----- principle, every transaction must be recorded in proper time.

- a. consistency principle b. prudence principle
- c. timeliness principle d. industry practices principle

61. as per ---- principle, the entity should follow such accounting practices which are prevailing in that industry

- a. consistency principle b. prudence principle
- c. timeliness principle d. industry practices principle

Answer:-

- | | | | | | | | | | | | | |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 1.(b) | 2.(c) | 3.(b) | 4.(c) | 5.(d) | 6.(b) | 7.(b) | 8.(c) | 9.(c) | 10.(a) | | | |
| 11.(a) | 12.(d) | 13.(d) | 14.(c) | 15.(a) | 16.(b) | 17.(c) | 18.(c) | 19.(c) | 20.(b) | | | |
| 21.(a) | 22.(a) | 23.(c) | 24.(d) | 25.(d) | 26.(d) | 27.(c) | 28.(d) | 29.(a) | 30.(d) | 31.(d) | 32.(a) | 33.(b) |
| 34.(d) | 35.(c) | 36.(d) | 37.(a) | 38.(c) | 39.(d) | 40.(b) | 41.(c) | 42.(c) | 43.(c) | 44.(a) | 45.(b) | 46.(d) |
| 47.(d) | 48.(a) | 49.(c) | 50.(a) | 51.(b) | 52.(C) | 53.(C) | 54.(d) | 55.(b) | 56.(b) | 57.(a) | 58.(b) | 59.(b) |
| 60.(c) | 61.(d) | | | | | | | | | | | |

Multiple choice question - Practice session 2

1. Which of the following is not a subfield of accounting?

- (a) Management accounting. (b) Cost accounting,
(c) Financial accounting. (d) Book-keeping,

2. Purposes of an accounting system include all the following except

- Interpret and record the effects of business transaction.
- Classify the effects of transactions to facilitate the preparation of reports.
- Summarize and communicate information to decision makers.
- Dictate the specific types of business enterprise transactions that the enterprises may engage in.

3. Financial accounting information is characterized by all of the following except

- a. It is historical in nature.
- b. It is factual.
- c. It results from inexact and inappropriate measures.
- d. It is enhanced by management's explanation,

4. Book-keeping is mainly concerned with

- a. Recording of financial data.
- b. Designing the systems in recording, classifying and summarizing the recorded data.
- c. Interpreting the data for internal and external users.
- d. None of the above.

5. All of the following are functions of Accounting except

- | | |
|----------------------|---------------------|
| (a) Decision making. | (b) Measurement. |
| (c) Forecasting. | (d) Ledger posting, |

6 Financial statements are part of

- | | |
|-----------------------|------------------------|
| (a) Accounting. | (b) Book-Keeping. |
| (c) All of the above. | (d) None of the above, |

7. DELETED**8. Users of accounting information include**

- | | |
|------------------|-----------------------|
| (a) Creditors. | (b) Lenders. |
| (c) Customers. . | (d) All of the above, |

9. Financial statements only consider

- a. Only Assets expressed in monetary terms.
- b. Only Liabilities expressed in monetary terms.
- c. Assets expressed in non-monetary terms.
- d. Assets and liabilities expressed in monetary term.

10. On January 1, 2021, Sohan paid rent of Rs. 5,000. This can be classified as

- (a) An event. (b) A transaction.
(c) A transaction as well as an event. (d) Neither a transaction nor an event,

11. On March 31, 2021 after sale of goods worth Rs. 2,000, he is left with the closing stock of Rs. 10,000. This is

- (a) An event. (b) A transaction.
(c) A transaction as well as an event. (d) Neither a transaction nor an event.

ANSWERS

1. (d) 2. (d) 3. (C) 4.(a) 5. (d) 6. (a) 7. (Deleted) 8. (d) 9. (d) 10.(b) 11.(a)

MULTIPLE CHOICE QUESTION- PRACTICE SESSION 3

Pick up the correct answer from the given choices:

1. All the following items are classified as fundamental accounting assumptions except

- (a) Consistency, (b) Business entity, (c) Going concern. (d) Accrual.

2. deleted

3. Kanika Enterprises follows the written down value method of depreciating machinery year after year due to:

- (a) Comparability, (b) Convenience, (c) Consistency, (d) All of the above.

4. A purchased a car for Rs.5,00,000, making a down payment of Rs.1,00,000 and signing a Rs.4,00,000 bill payable due in 60 days. As a result of this transaction

- a. Total assets increased by Rs.5,00,000.
b. Total liabilities increased by Rs.4,00,000.
c. Total assets increased by Rs.4,00,000.
d. Total assets increased by Rs.4,00,000 with corresponding increase in liabilities by Rs.4,00,000.

5. Mohan purchased goods for Rs. 15,00,000 and sold 4/5th of the goods amounting Rs.18,00,000 and met expenses amounting Rs.2,50,000 during the year, 2019. He counted net profit as Rs.3,50,000. Which of the accounting concept was followed by him?

- (a) Entity. (b) Periodicity. (c) Matching. (d) Conservatism.

6. A businessman purchased goods for Rs.25,00,000 and sold 80% of such goods during the accounting year ended 31 March, 2021. The market value of the remaining goods was Rs.4,00,000. He valued the closing stock at cost. He violated the concept of

- (a) Money measurement. (b) Conservatism/ prudence. (c) Cost. (d) Periodicity.

7. Capital brought in by the proprietor is an example of

- a. Increase in asset and increase in liability.
b. Increase in liability and decrease in asset.
c. Increase in asset and decrease in liability.
d. Increase in one asset and decrease in another asset.

8. Assets are held in the business for the purpose of
(a) Resale. (b) Conversion into cash. (c) Earning revenue. (d) None of the above,
9. Revenue from sale of products, is generally realized in the period in which
(a) Cash is collected. (b) Sale is made. (c) Products are manufactured. (d) None of the above,
10. The concept of conservatism when applied to the balance sheet results in
(a) Understatement of assets. (b) Overstatement of assets. (c) Overstatement of capital. (d) Understatement of capital,
11. Decrease in the amount of creditors, generally results in
(a) Increase in cash. (b) Decrease in cash. (c) Increase in assets. (d) No change in assets,
12. The determination of expenses for an accounting period is based on the principle of
(a) Objectivity. (b) Materiality. (c) Matching. (d) Periodicity,
13. The 'going concern concept' is the underlying basis for
a. Stating fixed assets at their realizable values.
b. Disclosing the market value of securities.
c. Distinction between assets and expense.
d. None of the above.
14. Economic life of an enterprise is split into the periodic interval as per
(a) Periodicity. (b) Matching. (c) Going concern. (d) Accrual.
15. If an individual asset is increased, there will be a corresponding
a. Increase of another asset or increase of capital.
b. Decrease of another asset or increase of liability.
c. Decrease of specific liability or decrease of capital.
d. Increase of drawings and liability,
16. Purchase of machinery for cash
(a) Decreases total assets. (b) Increases total assets, (c) Retains total assets unchanged, (d) Decreases total liabilities.

17. Consider the following data pertaining to Alpha Ltd.:

Cost of machinery purchased on 1st April, 2020	10,00,000
Installation charges	1,00,000
Market value as on 31 st March, 2021	12,00,000

While finalizing the annual accounts, if the company values the machinery at Rs. 12,00,000. Which of the following concepts is violated by the Alpha Ltd.?

- (a) Cost (b) Matching. (c) Realization. (d) Periodicity.

18. A proprietor, Mr. A has reported a profit of Rs. 1,25,000 at the end of the financial year after taking into consideration the following amount:

- (I) The cost of an asset of Rs. 25,000 has been taken as an expense.
- (II) Mr. A is anticipating a profit of Rs. 10,000 on the future sale of a car shown as an asset in his books.
- (III) Salary of Rs. 7,000 payable in the financial year has not been taken into account.
- (IV) Mr. A purchased an asset for Rs. 75,000 but its fair value on the date of purchase was Rs. 85,000. Mr. A recorded the value of asset in his books by Rs. 85,000.

On the basis of the above facts answer the following questions from the given choices:

(i). What is the correct amount of profit to be reported in the books?

- (a) Rs. 1,25,000, (b) Rs. 1,35,000, (c) Rs. 1,50,000, (d) Rs. 1,33,000,

(ii) Which measurement base should be followed in the statement (IV)?

- (a) Historical cost, (b) Current cost (c) Replacement cost (d) Present value

(iii) Which concept should be followed in the statement (II)?

- (a) Conservatism, (b) Materiality, (c) Historical cost, (d) Accrual,

(iv) Which concept should be followed in the statement (iii)?

- (a) Materiality, (b) Historical cost, (c) Current cost, (d) Accrual,

ANSWERS

1. (b) 2. (deleted) 3. (c) 4. (d) 5. (c) 6. (b) 7. (a) 8. (c) 9. (b) 10. (a) 11. (b) 12. (c) 13. (c)
14. (a) 15. (b) 16. (c) 17. (a) 18. (i)-(d), (ii)-(a), (iii)-(a), (iv) (d)

