

Theory Base of Accounting

Q1. Consider the following data pertaining to Ananya Ltd:

| Particulars | Rs. |
|---|----------|
| Cost of Machinery purchased on 1 st April,2012 | 5,00,000 |
| Installation Charges | 50,000 |
| Market value as on 31 st March, 2013 | 8,00,000 |

While preparing the annual accounts, if the company values the machinery at Rs. 8,00,000 which principle is being violated by Ananya Ltd.?

Ans. Historical cost concept.

Q2. Accounting to which concept, all expenses incurred to earn revenue of a particular period should be charged against that revenue to determine the net income?

Ans. Matching concept.

Q3. A business purchased goods for Rs. 2,00,000 and sold 75% of such goods during accounting year ended 31st March, 2013. The market value of remaining goods was Rs. 48,000. He valued closing stock at cost. Name the concept being violated in this situation.

Ans. Prudence or conservatism.

Q4. Under which concept, Owner of business is treated as creditor to the extent of his capital?

Ans. Business entity concept.

Q5. Financial statements of an entity are prepared at regular intervals in accordance with which accounting concept?



Ans. Accounting period concept.

Q6. According to which concept, each accounting transaction has at least two effects?

Ans. Dual aspect concept.

Q7. According to which convention, depreciation is being charged as per one particular method year after year?

Ans. Consistency.

Q8. Which accounting convention takes into account all prospective losses but leaves all prospective Profits?

Ans. Conservatism/prudence.

Q9. Name the concept under which the skills or quality of the management team is not disclosed in the financial statements.

Ans. Money measurement concept.

Q10. Name the concept under which assets are recorded in books at the cost incurred for acquisition of such assets.

Ans. Historical cost concept

Q11. Name the concept under which advance received from the supplier is not taken as income or Sale.

Ans. Revenue recognition concept

Q12. Under which basis of accounting only cash transactions are recorded in the books?

Ans. Cash basis of accounting.

