

# Chapter - 2 Theory Base of Accounting

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## Question 1

What is the meaning of Basic Accounting Terms?

**Answer:** There are definite basic accounting terms which are used on a daily basis in the world of business. Before recording the transactions in the books, it is required to comprehend these terms as they have their particular meaning in Accounting. These basic terms are known as Accounting Terminologies.

## Question 2

How is the total amount of Capital calculated?

**Answer:** Capital = Assets – Liabilities

## Question 3

How is the total amount of Liabilities calculated?

**Answer:** Liabilities = Assets – Capital

## Question 4

Give 2 examples of Capital receipts.

**Answer:**

- The amount received by way of loans
- The amount received from the sale of fixed assets or investments

## Question 5

Mention different types of liabilities.

**Answer:**

- Internal liabilities
- External liabilities
- Current liabilities
- Non-current liabilities

## Question 6

What are the drawings?

**Answer:** Drawings refer to any value of commodities or cash withdrawn by the owner for personal use.

### **Question 7**

Give 2 examples of Tangible assets.

**Answer:**

- Stock
- Land and Building

### **Question 8**

The amount which the proprietor has invested in a business is known as,

**Answer:** Capital

### **Question 9**

A Ltd. imported from London one machinery for sale in India and other machinery for production purpose. Will you treat them as goods or fixed assets?

**Answer:** First machinery will be treated as goods and the second machinery will be treated as Fixed Asset.

### **Question 10**

What is income?

**Answer:** Excess of revenue over expenses is called as Income.

Income = Revenue – Expenses

### **Question 11**

What is the nature of accounting principles?

**Answer:** Nature of accounting principles are,

- Accounting principles are a uniform set of rules that are developed to assure the uniformity and easy comprehension of the accounting information
- Accounting principles are man made and are derived from experience and reason
- Accounting principles are not static

### **Question 12**

What are the different bases of accounting?

**Answer:** Different bases of accounting are,

- Cash basis
- Accrual basis