



# **ACCOUNTS**

**BOOKS - SULTAN CHAND & SONS**

**ACCOUNTS (HINGLISH)**

**THEORY BASE OF ACCOUNTING ,**

**ACCOUNTING STANDARDS AND**

**INDIAN ACCOUNTING STANDARDS**

**(IND - AS)**

**Illustration**

1. While preparing the accounts of company, following issues are faced:

(i) Production Manager is interested in recording good industrial relations in the accounts.

(ii) Long - term succes of the company is doubtful due to market competition.

(iii) Although sales have not yet taken place , few reliable customers of the company have placed large orders from which huge profit is expected.

(iv) One of the shareholders of the company

has invested his savings in shares of another company.

(v) At the end of the accounting period , factory of the company is outstanding for Rs.10 ,000.

(vi) At present , market price of the fixed assets of the company is very high as compared to the book value and directors are interested to show the fixed assets in accounts at their current market price.

(vii) During the year , the company purchased pencils of Rs.50 . These had all been issued from stock and were still in use at the end of

the year.

(viii) Directors are interested to adopt Written Down Value (WDV) Method of charging depreciation in place of Straight Line Method (SLM) in the current accounting period to show higher profit.

(ix) A debtor who owes an amount to the company is likely to be declared insolvent. You are required to (a) state which accounting concept you would following in dealing with each of the above problems and (b) Explain briefly what each concept means.



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## Higher Order Thinking Skills Hots Questions

1. Rahul , the proprietor of M/s . R. K .& Co. purchased an air - conditioner and installed it at his residence. The payment was made by issuing a cheque from the account of M/s R. K. & Co. The Accountant debited the Drawings Account with the amount whereas Rahul is of the view that should be debited to the Fixed Assets . In your view , who is correct and why ?



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2. Which accounting principle requires that personal expenses of proprietor or partners should be debited to Drawings Account ?



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3. Production a factory had to stop for a week due to a labour strike . The owner estimated the loss of production and the likely loss of profit arising out of the situation . He directed

the accountant to record the loss in the books of account . Is the owner correct in recording the likely loss ? Give reasons.



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4. Under which accounting principle, quality of manpower is not recorded in the books of account?



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5. The assets of Standard Sugar Co. were acquired by the Government on 1st April , 2000 and the company received a compensation of Rs.10 crores . The also not ventured into any other business as on the date of acquisition and has also not ventured into any other business after aquisition of assets . The company placed the amount so received in a fixed deposit with a bank , which is a lying deposited with the as on date also . It has also filed a case in the Court seeking



higher compensation. Is the company a going concern?



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6. Which concept , (principle) assumes that a business enterprise will not be liquidated in the near future?



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7. An infrastructure company building highways has a contract to construct road of 25 kms . The project is likely to be completed in 4 years . It has approached a bank seeking finance . The bank has requested them to prepare projected yearly accounts whereas the company has argued that since the project shall be completed in 4 years , projected accounts should be prepared for thr end of the project . Is the company correct in its view? Give reasons.



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8. Which accounting principle requires that life of a business be broken into smaller parts?



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9. Gurpreet purchased 1,000 sq . Yards land to build a factory and paid Rs. 15 lakhs towards its cost including registration charges . At the end of the financial year , the value of the land came down to Rs.13 lakhs . Gurpreet recorded

the land at Rs. 13 lakhs and booked a loss of Rs. 2 lakhs . Is he correct in treating the fall in value as a loss ?



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**10.** Under which accounting concept asset is recorded at cost , even if the market price is more or less ?



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**11.** If one aspect of a transaction is not recorded , which accounting concept is not followed ?



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**12.** Under which concept if advance is received against sale of goods , the advance received is recorded as ' Advance Against Sale ' and not Sales?



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**13.** An enterprise prepares its accounts under the accrual basis . Salaries amounting to Rs.10,000 for the month of March , 2019 were not paid . The owner did not want to account it in the books of account on the ground that the amount was not paid. The enterprise closes its books of account on 31 st March every year . Is he correct?



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**14.** Rent for the month of March ,2019 is not paid . Under which accounting concept it should be recorded as expense for the year ended 31st March , 2019?



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**15.** Capital is a liability for the business , Explain statement with the principle applied.



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**16.** Closing Stock is valued at lower of cost or market price '. Which concept of Accounting is applied here?



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**17.** A company lost vital machinery in an accident on 2nd March , 2019 which will have adverse impact on its production capacity . As a result , it is likely to loose business to its competitors . The company has not disclosed this fact in its annual report for for the year



ended 31 st March ,2019 . Do you think it is complying with the Convention of Full Disclosure?



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**18.** An investment company has been valuing its inventory of land at lower of market price or cost. It now wanted to value its inventory at the current market price which is higher than the cost. Which accounting concept will be violated?



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**19.** An investment company has securities as current assets having market value substantially lower than the cost price . The company continues to show them at cost . Do you think the Concept of Prudence is being followed?



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[Multiple Choice Questions Mcqs](#)

## 1. According to the Business Entity Concept

A. transactions between the business and its owners are not recorded.

B. transaction between the business and its owners are recorded considering them to be one single entity.

C. transactions between the business and its owners are recorded from the business point of view.

D. None of the above.

**Answer: c**



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2. According to the Money Measurement Concept

A. all transaction and event which can be estimated in money terms are recorded in the books of account.

B. all transactions and events which can be estimated in money terms are recorded in the books of account.

C. all transactions and events which can be measured in money terms are recorded in the books of account.

D. None of the above.

**Answer: c**



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### 3. According to the Cost Concept

A. assets are recorded at the value paid for acquiring them.

B. assets are recorded by estimating the market value at the time of purchase.

C. assets are recorded at lower of cost or market value.

D. None of the above.

**Answer: a**





#### 4. According to the Going Concept

A. assets are recorded at cost and are depreciated over their useful life.

B. assets are valued at their market value at the year - end are recorded in the books of account .

C. assets are valued at their market value , recorded in the books and depreciation

is charged on the market value.

D. None of the above.

**Answer: a**



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**5. According to the Accrual Concept**

A. transactions and events are recorded in the books at the time of their settlement in cash.



B. transaction and events are recorded in the books at the time when they are entered into.

C. transactions and events may be recorded either at the time of the settlement or when they are entered into.

D. None of the above.

**Answer: b**



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## 6. According to the Convention of Consistency

A. accounting policies and practices once adopted should be consistently followed.

B. accounting policies and practices adopted may be changed as per the management's decision.

C. accounting policies and practices once adopted cannot be changed under any circumstances.

D. None of the above.

**Answer: a**



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7. According to Going Concern Concept, a business is viewed as having

- A. a limited life
- B. a very long life.
- C. an indefinite life.
- D. None of these

**Answer: c**



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8. According to which of the following accounting concepts, even the proprietor of a

business is treated as creditor to the extent of his capital?

A. Money Measurement Concept

B. Dual Aspect Concept

C. Cost Concept

D. Business Entity Concept

**Answer: d**



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9. According to which of the following concepts, in determining the net income from business, all costs which are applicable to the revenue of the period should be charged against that revenue?

A. Matching Concept

B. Money Measurement Concept

C. Cost Concept

D. Dual Aspect Concept

**Answer: a**



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**10.** Valuation of stock at lower of cost or net realisable value is an example of

A. Consistency Convention

B. Conservatism Convention.

C. Realisation Concept.

D. Matching Concept.

**Answer: b**



11. During the life- time of an entity ,accounting produces financial statements in accordance with which of the following accounting concept?

- A. Matching
- B. Conservatism
- C. Accounting period
- D. Cost



**Answer: c**



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**12.** X Ltd . Follows the Written Down value Method of depreciating machinery year after year due to

A. comparability.

B. convenience.

C. consistency.

D. All of these.

**Answer: c**



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**13.** The Convention of Conservatism takes into account

A. all prospective profits and prospective losses.

B. all prospective profits and leaves out prospective losses.

C. all prospective losses but leaves out prospective profits.

D. None of the above.

**Answer: c**



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**14.** IASB upon coming into existence has adopted

A. all IAS and SIC.

B. some IAS and SIC.

C. none of the IAS and SIC.

D. None of these.

**Answer: a**



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**15. IFRS are**

A. rule based accounting standards.

B. principle based accounting standards.

C. partially rule based and partially  
principle based accounting standards.

D. None of the above.

**Answer: b**



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**16. IFRS are based on**

A. historical cost.

B. fair value.

C. both historical cost and fair value.

D. None of these.

**Answer: b**



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**17. Ind - AS are**

A. rule bases accounting standards.

B. principle based accounting standards.

C. partially rule based and partially  
principle based accounting standards.

D. None of these.

**Answer: b**

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**18.** Assets (except Securities) may be valued  
under Ind-AS on.

A. historical cost.

B. fair value.

C. both historical cost and fair value.

D. None of these.

**Answer: a**



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**19.** (i) The calibre or quality of the management team is not disclosed in the Balance Sheet.

(ii) Advance received from a customer is not



taken as income or sales.

(iii) Assets are recorded in books at the cost incurred for acquisition of such assets.

(iv) Revenue must be recognised when it is realised and expenses are recognised when incurred.

(v) A business for which financial statements are prepared is separate and distinct from the owner of the entity.

(vi) The assumption is made that the entity in question will remain in business for an indefinite period of time.

(vii) Capital contributed by the proprietor is credited to

his Capital Account.

(viii) Financial statements of the firm are prepared every year on 31st March.

(ix) Goods sold on credit to Ramesh - Ramesh 's A/c is debited and Sales A/c is credited.

(x) Sales has been made in the year ended 31st March ,2018 but the amount has not been realised . Revenue should be recognised as earned in the year ended 31st March,2018.

(xi) Sale is recognised on the basis of Cash Memo or Invoice.

(xii) Closing Stock is valued at lower of cost or market value.

(xiii) Harpreet has entered into agreement whereby he will earn Rs.10 lakhs for the services to be provided in the next year . The income should be recognised as revenue in the next year after services have been provided.

(xiv) Purchase of pen is treated as expense.



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**Very Short Answer Type Questions**

1. What do you understand by Accounting Concepts ?



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2. Explain Dual Aspect Concept.



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3. Explain Business Entity Concept,



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4. Explain Going Concern Concept.

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5. Explain Revenue Recognition Concept.

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6. Explain Verifiable Objective Concept.

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7. Explain Historical Cost Concept.



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8. Explain Accounting Period Concept.



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9. Explain Consistency Convention.



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**10. Explain Money Measurement Concept.**



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**11. Explain Accrual Concept.**



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**12. Explain Principle of Matching Revenue with Cost.**



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**13.** Why is it necessary for accounts to assume that a business entity will remain a going concern ?



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**14.** How does the Matching Principle apply to depreciation?



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**15.** Why should a business follow the consistency principle?



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**16.** Explain any three of the following accounting convention :

(i) Full Disclosure,

(ii) Consistency,

(iii) Materiality and

(iv) Conservatism.



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**17.** Give the meaning of 'Full Disclosure Principle' of Accounting.



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**18.** Explain Accounting Standards briefly.



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**19.** What is the main objective of setting accounting standards ? Or What is meant by Accounting Standards ? Explain one objective of Accounting



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**20.** Accounting Standards have been evolved to improve the reliability and credibility of Financial Statements . Accounting Standards provide the solution in case of conflicts among

various groups' In the light of this statement, enumerate the objectives of Accounting Standards.



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21. Briefly explain your understanding of IFRS.



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22. Which financial statements are prepared under IFRS?



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**23.** Briefly explain the elements of Statement of Financial Position.



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**24.** Briefly explain the elements of Statement of Comprehensive Income.



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**25.** Briefly explain your understanding of Ind - AS.



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**26.** Which financial statements are prepared under Ind -AS?



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**27.** Briefly explain the elements of Statement of Comprehensive Income.



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**28.** What are the objectives of Ind - AS ? (Any two)



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**29.** What are Accounting Standards ? Name any two Accounting Standards.



**View Text Solution**

**30.** What are the two basic objectives of having Accounting Standards?



**View Text Solution**



**31.** Accounting Standards have been evolved to improve the reliability and credibility of financial Statement. Accounting Standards provide the solution in case of conflicts among various group' In the light of statement enumerate the objectives of Accounting Standards.



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**32.** What are the objectives of IFRS ? (Any two)





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