



ACCOUNTS

BOOKS - ARYA ACCOUNTS (HINGLISH)

ACCOUNTING PRINCIPLES

Short Answer Questions

1. Explain the business entity concept with example.



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2. "Capital is a liability for the business."

Explain this statement with the principle applied.



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



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4. What is the basic accounting equation?



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5. Discuss the principle based on the premise "do not anticipate profits but provide for all losses."



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1. Give two characteristics of accounting principles.



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2. What is business entity Concept?



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3. MONEY MEASUREMENT CONCEPT





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4. GOING CONCERN CONCEPT



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5. ACCOUNTING PERIOD CONCEPT



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6. COST CONCEPT





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7. DUAL ASPECT CONCEPT



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8. What is matching concept?



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9. How does the matching concept apply to depreciation?



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10. What is accrual concept?



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11. What is convention of full disclosure?



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12. What is concept of consistency?



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13. What is convention of prudence or conservation?



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14. What is convention of materiality?



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15. Which principle states that the financial statements should disclose all significant informations?



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16. Closing stock is valued at lower of cost or realisable value'. Which principle of Accounting is applied here?





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17. Why should a business follow the consistency Concept?



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18. State one limitation of historical cost.



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19. Why the entire life of business is divided into time intervals?



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20. Under which principle, resignation by a Marketing Manager is not recorded in books of accounts?



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1. Concept ofrequires that the same accounting methods should be used from one accounting period to the next.



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2. Recognition of cost in the same period as associated revenues is calledconcept.



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3. Personal transactions are distinguished from business transactions in accordance with the concept of



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4. If a firm believes that some of its debtors may 'default'. It should act on this by making sure that all possible losses are recorded in the books. This is an example of theconvention.



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5. The fact that a business is separate and distinguishable from its owner is best exemplified by theconcept.



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6. Everything a firm owns, it also owes out to somebody. This co-incidence is explained by theconcept.



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7. The.....concept states that if straight line method of depreciation is used in one used in one year, then it should also be used in the next year.



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8. A firm may hold stock which is heavily in demand. Consequently, the market value of this stock may be increasing. Normal

accounting procedure is to ignore this because of the



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9. The management of a firm is remarkably incomponent, but the firm's accountant cannot take this into account while preparing books of accounts because ofconcept.



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B Mention Whether The Following Are True Or False

1. Convention of Prudence results in understatement of profits and assets and overstatement of liabilities.



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2. Business entity concept is not applicable to sole trading concerns and partnership concerns.



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3. Only those facts and events are recorded in accounting which are capable of being expressed in terms of money.



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4. All items or facts whether material or immaterial are recorded in accounting.



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5. Assets will be equal to capital if there are no liabilities.



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6. Revenue are matched with expenses in accordance with going concern assumption.



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7. Entire life on the firm is divided into time intervals for the measurement of profits in accordance with 'Going Concern Assumption'.



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8. Materiality principle is an exception to the 'Full Disclosure Convention'.



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9. If a firm adopts different accounting principles in two accounting periods it conflicts with the concept of consistency.



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10. The essence of convention of prudence is to anticipate no profit and provide for all possible losses.



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C Choose The Best Alternate

1. As per Income Tax Act, accounting period is :

A. From 1st January to 31st December

B. From 1st April to 31st March

C. From 1st July to 30th June

D. From Diwali to Diwali

Answer: B



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2. As per Dual Aspect Concept :

A. $\text{Assets} = \text{Liabilities} - \text{Capital}$

B. $\text{Asset} = \text{Liabilities} + \text{Capital}$

C. $\text{Assets} = \text{Capital} - \text{Liabilities}$

D. $\text{Capital} = \text{Assets} + \text{Liabilities}$

Answer: C



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3. Concept of Consistency means :

A. All the firms in the same industry should use identical accounting principles and procedures

B. All principles and procedures of accounting are utilised

C. Accounting principles and methods should remain consistent from one year to another

D. All of the above

Answer: C



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4. Convention of conservation takes into account :

A. All future profits and losses

B. All futures profits and not losses

C. All future losses and not profits

D. Neither profits nor losses of the future

Answer: C



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5. According to Convention of Conservation closing stock is valued at :

A. At cost price

B. At Realisable value

C. Cost price or realisable value whichever
is less

D. At Real value

Answer: C



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6. According to Convention of conservation :

A. Provision is made for bad and doubtful
debts

B. Depreciation is charged on assets

C. Recording is made of outstanding expenses

D. All of the above

Answer: A



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7. According to which Concept even the proprietor of the business is treated as a creditor of the business :

A. Going concern Concept

B. Cost Concept

C. Business Entity Concept

D. Accounting Period Concept

Answer: C



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8. Due to which Concept qualitative transactions are not recorded in the books :

A. Business Entity Concept

B. Money Measurement Concept

C. Historical cost Concept

D. Dual Aspect Concept

Answer: B



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9. Accrual concept is based on :

A. Matching concept

B. Dual Aspect Concept

C. Cost Concept

D. Going concern Concept

Answer: A



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10. According to which Concept the same accounting methods should be used each year

:

A. Prudence

B. Full Disclosure

C. Materiality

D. Consistency

Answer: D



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11. Due to which of the following, contingent liabilities are shown in the Balance Sheet :

A. Dual Aspect Concept

B. Convention of Full Disclosure

C. Convention of Materiality

D. Going Concern Concept

Answer: B



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12. The cost of a small calculator is accounted as an expense and not shown as an asset in a

financial statement of a business entity due to

.....

- A. Materiality Convention
- B. Matching concept
- C. Periodicity concept
- D. Convention of full disclosure

Answer: A



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13. According to the Cost Concept

A. Assets are recorded at lower of cost and market value.

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

C. Assets are recorded at the value paid for acquiring it.

D. Assets are not recorded

Answer: C



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14. Providing depreciation on fixed asset is in accordance with which of the following principles/concepts.

A. (i) & (ii)

B. (ii) & (iii)

C. (i) & (iii)

D. All the three

Answer: A



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15. The owner of the firm records his medical expenses in the firms' income statement.

Indicate the principle that is violated.

A. Cost Concept

B. Prudence

C. Full disclosure

D. Entity concept

Answer: D



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16. M/s Future Ltd. Has invested ₹ 10,000 in the shares of Relicam Industries Ltd. Current market value of these shares is ₹ 10, 500. Accountant of Future Ltd. Wants to show ₹ 10,500. as value of investment in the books of accounts, which accounting convention restricts him from doing so?

A. Full disclosure

B. Consistency

C. Conservation

D. Materiality

Answer: C



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17. Which of these is not a fundamental accounting assumption?

A. Going concern Concept

B. Consistency

C. Accrual

D. Materiality

Answer: D



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

.....

A. Conservation convention

B. Consistency concept

C. Materiality convention

D. Money measurement concept

Answer: C



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19. Income is measured on the basis of :

A. Matching Concept

B. Consistency Concept

C. Cost Concept

D. None of the above

Answer: A



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Higher Order Thinking Skills Hots Questions

1. What is meant by GAAP?



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2. Proprietor of the business is treated as creditor to the extent of his capital under which Concept?



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3. A customer of X Ltd. Has discontinued his business. He used to purchase 30% of the total goods produced by X Ltd. Is it a relevant information in your opinion and should be disclosed by X Ltd.





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4. X Ltd. Gets a contract of ₹ 100 crore to build a Shopping-Mal to be completed in 3 years. The management of the company wants to ascertain profit or loss on this contract only when the contract is completed. Is the management justified?



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5. Under which principle the calibre or quality of the management is not disclosed in the balance sheet?



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6. Which accounting principle states that all anticipated losses should be recorded but all anticipated profits should be ignored?



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7. According to which concept, depreciation is to be charged as per one particular method year after year?



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8. Why the full cost of an asset is not treated as an expense in the year of its purchase?



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9. During the year the company purchased ballpoint pens of ₹500. These were issued to employees and were still in use at the end of the year. Which accounting concept you would follow in dealing with this item?



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10. A debtor who owes ₹ two lac to the Company is rumoured to be declared

insolvent. Will you disclose this information in the books?



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11. Goods withdrawn by the proprietor for his personal use has not been recorded in the books of accounts. Which accounting concept has been involved?



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12. In a business provision for doubtful debts is created @5% on debtors every year. Name into two accounting principles followed in this process.



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13. A firm's has stationery stock accounting of ₹400 as at the end of financial year. Accountant of the firm has written it off to profit & Loss Account. Is he right in doing so?





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14. Why closing stock is valued at cost price or realisable value whichever is less?



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15. Do you think that the Convention of conversation results in creation of secret reserves?



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16. Identify the value involved in the assumption of going concern.



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17. Why fixed assets are not shown in the books at market value?



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18. Why the entire life of the business enterprise is divided into time-intervals?



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19. A company purchased goods for ₹5,00,000 and sold 80% of such goods during the year. The market value of remaining goods was ₹90,000. The company valued the closing stock at cost. Which principle is being violated?



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20. On 25th March, 2017, a fire broke out in the premises of Kamal Ltd. And destroyed a part of its plant and machinery. On account of this, a sharp decline in production for the next six months is expected. The company did not disclose this fact in its annual for the year ended 31st March, 2017. What is your opinion about his omission?



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21. R Ltd. Purchased 500 Sq. Metre Land for ₹1.5 crore to build a factory. At the end of year, the market value of land was ₹1.35 crore. R Ltd. Treated ₹ 15 Lakh as loss and recorded the land at ₹1.35 crore. Is it a correct treatment?



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22. Raja Ltd. Purchased securities for ₹50 lakh. At the end of the year, the market value of such securities was ₹40 lakh. While preparing

the financial statement, the company valued the securities at cost i.e. at ₹50 lakh. Is it a correct treatment?



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23. A company has been charging depreciation @ 10% p.a. on original cost method. It now wants to change the method from original cost to diminishing balance method. The rate of depreciation being 15% p.a. Can it do so?



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24. Mohan, the owner of a business receives an order for supply of goods worth ₹2,00,000. He has also received ₹25,000 against this order. Mohan wants to record it as a sale. Is Mohan correct in doing so?



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25. Land and Building are shown at ₹ 10 Lac in the Balance Sheet of the business owner by Mr. Yuvraj. However, as per the certificate of

Govt. approved valuer the realisable value of Land and Building is ₹200 Lac. Mr. Yuvraj wants to show the Land and Building at this books. Can he do so?



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26. Shyam purchased a building for ₹20 lakh. However, due to boom in the property market, the current market value of the building is ₹28 lakh. State the value at which building should

be recorded in the books of accounts. Also, give reasons for the same.



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