INDIAN SCHOOLAL WADI AL KABIR

Class: XI	Department: Commerce
Worksheet no: 1	Topic: Theory base of Accounting and Source Documents

I. Choose the Correct Answer

1. During the life-time of an entity accounting produce financial statements in accordance with which basic accounting concept:

(a) Conservation (b) Matching (c) Accounting period (d) None of the above

2. When information about two different enterprises have been prepared presented in a similar manner the information exhibits the characteristic of:

(a) Verifiability (b) Relevance (c) Reliability (d) None of the above

3. A concept that a business enterprise will not be sold or liquidated in the near future is known as:

(a) Going concern (b) Economic entity (c) Monetary unit (d) None of the above

4. The primary qualities that make accounting information useful for decision-making are:

(a) Relevance and freedom from bias (b) Reliability and comparability (c) Comparability and consistency (d) None of the above

5. Voucher is prepared for:

(i) Cash received and paid (ii) Cash/Credit sales (iii) Cash/Credit purchase (iv) All of the above.

6. Voucher is prepared from:

(i) Documentary evidence (ii) Journal entry (iii) Ledger account (iv) All of the above

II. Fill in the correct word:

1. Recognition of expenses in the same period as associated revenues is called ________________concept.

2. The accounting concept that refers to the tendency of accountants to resolve uncertainty and doubt in favour of understating assets and revenues and overstating liabilities and expenses is known as ________________.

3. Revenue is generally recognized at the point of sale denotes the concept of ________________.

4. The ________________concept requires that the same accounting method should be used from one accounting period to the next.

5. The________________concept requires that accounting transaction should be free from the bias of accountants and others

6 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 the ____________ concept.

7 The fact that a business is separate and distinguishable from its owner is best exemplified by the ____________ concept.

8 Everything a firm owns, it also owns out to somebody. This co-incidence is explained by the ____________ concept.

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

10. A firm may hold stock which is heavily in demand. Consequently,

the market value of this stock may be increased. Normal accounting procedure is to ignore this because of the ___________.

11. If a firm receives an order for goods, it would not be included in the sales figure owing to the ___________.

12. The management of a firm is remarkably incompetent, but the firms accountants cannot take this into account while preparing book of accounts because of ___________ concept.

III. Answer the following questions

1. Ruchica's father is the sole proprietor of 'Friends Gifts', a firm engaged in the sale of gift items. In the process of preparing financial statements, the accountant of the firm Mr. Goyal fell ill and had to proceed on leave. Ruchica's father was urgently in need of the statements as these had to be submitted to the bank, in pursuance of a loan of Rs 5 lakh applied for the expansion of the business of the firm. Ruchica who is studying Accounting in her school, volunteered to complete the work. On scrutinizing the accounts, the banker found that the value of building bought a few years back for Rs 7 lakh has been shown in the books at Rs 20 lakh, which is its present market value. Similarly, as compared to the last year, the method of valuation of stock was changed, resulting in value of goods to be about 15 per cent higher. Also, the whole amount of Rs 70,000 spent on purchase of personal computer (expected life 5 years) during the year had been charged to the profits of the current year. The banker did not rely on the financial data provided by Ruchica. Advise Ruchica for the mistakes committed by her in the preparation of financial statements in the context of basic concepts in accounting

2. A customer has filed a suit against a trader who has supplied poor quality goods to him. It is known that the court judgment will be in favour of the customer and the trader will be required to pay the damages. However, the amount of legal damages is not known with

certainty. The accounting year has already been ended and the books are now finalized to ascertain true profit or loss. The accountant of the trader has advised him not to consider the expected loss on account of payment of legal damages because the amount is not certain and the final judgment of the court is not yet out. Do you think the accountant is right in his approach?

IV. State the following statements as True or False

a. Generally Accepted Accounting principles refer to the rules or guidelines adopted for recording and reporting of business transactions in order to bring uniformity in the preparation and presentation of financial statements.

b. Business Entity: This concept assumes that business has distinct and separate entity from its owners. Thus, for the purpose of accounting, business and its owners are to be treated as two separate entities.

c. Money Measurement: The concept of money measurement states that only those transactions and happenings in an organisation, which can be expressed in terms of money are to be recorded in the book of accounts. Also, the records of the transactions are to be kept not in the physical units but in the monetary units.

d. Going Concern : The concept of going concern assumes that a business firm would continue to carry out its operations for a fairly short period of time.

e. Cost Concept : The cost concept requires that all assets are recorded in the book of accounts at their market price.

f. Dual Aspect : This concept states that every transaction has a dual or two fold effect on various accounts and should therefore be recorded at two places. The duality principle is commonly expressed in terms of fundamental accounting equation, which is : Assets = Liabilities + Capital.

g. Revenue Recognition :The concept of revenue recognition requires that the revenue for a business transaction should be considered realised when a legal right to receive it arises.

h. Matching : The concept of matching emphasises that expenses incurred in an accounting period should be matched with revenues during that period.

i. Consistency : This concepts states that accounting policies and practices followed by enterprises should be inconsistent year after year.

j. Conservatism : All anticipated losses should be accounted for but all unrealized gains should be ignored.

V. Discuss the concept-based on the premise 'do not anticipate profits but provide for all losses.

VI. What is matching concept? Why should a business concern follow this concept? Discuss.