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CLASS: XI (ACCOUNTANCY)
THEORY BASE OF ACCOUNTING

Brief Introduction of Accounting Principles:

1. Money Measurement Concept: Only those transactions which are capable of being measured in terms of money are to be recorded in the books of accounts.
2. Going Concern Concept: The business will continue in operation for as long as possible and will not be dissolved in the foreseeable future, unless there is some strong evidence to suggest that this is not the case.
3. Realisation Concept: Revenue is recognized at the point of sale or at the performance of service.
4. Business Entity Concept: The organization is a separate entity with its own identity and the accounts and transactions are classified and analysed from the point of view of that entity.
5. Accrual Concept: An accounting system which recognizes revenues and expenses as they are earned or incurred, respectively, without regard to the date of receipt or payment.
6. Historical Cost Concept: An asset is recorded at its cost and this cost becomes the basis for subsequent accounting for the asset.
7. Materiality Concept: An item is recorded only when it is considered to be useful or important to the user of a financial statement.
8. Consistency Concept: Whatever accounting method a business unit decided to adopt, a consistent approach has to be followed.
9. Conservatism Concept: Where there is a reasonable choice of accounting treatments, it is desirable to have early recognition of unfavorable events.
10. Full disclosure concept: There should be complete and understandable reporting on the financial statements of all significant information relating to the economic affairs of the entity.

Answer the following questions:

1. 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 which principle of accounting? Explain the principle.

2. A businessman purchased goods for Rs. 30,00,000 and sold 80% of such goods during the accounting year ended 31st March, 2013. The market value of the remaining goods was Rs. 5,00,000. He valued the closing stock at Rs. 6,00,000. Whether any principle of accounting is violated, if yes than identify and explain the principle.

3. Whether contingent liabilities are shown in the balance sheet or not? If yes, why?

4. In an accident on 13st March, 2013, a company lost its plant and machinery, which will have a negative 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 the year ended 31st March, 2013. State the principle being violated by the company and explain the principle.

5. Everything a firm owns, it also owe to somebody. This coincidence is explained by which concept? Identify and explain the concept.

6. While preparing the books of accounts, an accountant face this problem that a debtor who owes a large amount to the company is rumored to be going into liquidation. State and explain which accounting concept the accountant should follow in dealing with this problem.

7. While preparing the books of accounts, an accountant face this problem that during the year, the company purchased Rs. 100 worth of pencils; these had all been issued from stock and were still in use at the end of the year. State and explain which accounting concept the accountant should follow in dealing with this problem.

8. The company had has a poor trading year, and the owners believed that a more balanced result could be presented if a weighted average stock valuation method was adopted, instead of present FIFO method. Do you believe that the owner is correct in his thinking? Support your answer with correct reason.

9. Accounting is influenced by personal judgement of accountant. Do you believe that the statement is true, if yes than explain how?

10. What do you mean by window dressing in accounting?

11. State whether huge loss occurred due to strike by employees will be recorded or not?

12. 'Capital is a liability for the business.' Explain this statement with principle applied.

13. What is the money measurement concept? Which one factor can make it difficult to compare the monetary values of one year with the monetary value of another year?

14. Explain the fundamental accounting assumptions stated in AS-I and IAS-I.

15. Fill in blanks with appropriate words:
    i) Principle is ……. if the accounting information is not influenced by the personal bias of those who furnish the information.
    ii) Accounting concepts are the …… upon which the science of accounting is founded.
    iii) Accounting equation is a statement of …… between debits and credits.
    iv) A principle is …….. to the extent that it can be applied without undue complexity or cost.
    v) …… is the cost of goods sold plus selling and administrative expenses.

16. Accrual concept is essentially based on which other concept of accounting. Identify and explain.

17. Calculate total assets if capital is Rs. 40,000; creditor Re. 25,000; revenue during the period Rs. 50,000 and the total liabilities and expenses during the same period are Rs. 40,000.
18. Give one transaction for each of the following:
    Increase in assets and increase in liability.

Decrease an asset and increases capital.
Increase in one liability and decrease in another liability.
Increase in one asset and increase in another asset.
Increase in two assets and decrease in one asset.
Decrease in asset, decrease in liability and decrease in owner's equity.
Decrease in liability and increase in owner's equity.
Increase in liabilities and decrease in owner's equity.

19. From the following information, calculate total assets of the business:
Capital Rs. 40,000; Creditors Rs. 30,000; Revenue earned during the period Rs. 75,000; Expenses incurred during the period Rs. 20,000; value of stock unsold Rs. 20,000.

20. State with reasons whether the following events are transactions or not to Mr. X.
Mr. X started business with cash Rs. 50,000.
Purchases machinery for Rs. 20,000 in cash.
Placed an order with Sen & Co. for goods for Rs. 5,000.
Appointed Mr. B as manager on a salary of Rs. 4,000 p.m
Opened a bank account by depositing Rs. 3,500.
Received free sample for Rs. 1,000.
Sent peon to post office to collect V.P.P of Rs. 6000.

21. Define a transaction. Explain how do you classify a transaction?

22. On 31st March 2012, the total assets and external liabilities were Rs. 2,00,000 and Rs. 6,000 respectively. During the year, the proprietor had introduced additional capital of Rs. 20,000 and had withdrawn Rs. 12,000 for personal use. He made a profit of Rs. 20,000 during the year. Calculate the capital as on 1st April 2013.

23. Calculate the total equity if
i Owner's equity in the beginning is Rs. 12,000.
ii Equity of creditor at the end is Rs. 1,00,000.
iii Revenue during the period is Rs. 1,40,000.
iv Expenses during the same period are Rs. 1,30,000.
Also calculate the amount of owner's equity at the end.

24. Analyse the effect of each transaction and prove that the accounting equation always remains balanced.
i) Introduced Rs. 4,00,000 as cash and Rs. 25,000 as stock.
ii) Purchased plant for Rs. 1,50,000 by paying Rs. 25,500 in cash and balanced at a later date.
iii) Deposited Rs. 3,00,000 into the bank.
iv) Purcahsed office furniture for Rs. 50,000 and payment made by cheque.
v) Goods costing Rs. 40,000 was sold for Rs. 62,500 on credit basis.
vi) Paid 3 months advance rent for office accommodation Rs. 2,520.
vii) Sold extra furniture at cost to Amar for Rs. 1,200. Amar paid Rs. 750 in cash and accepted a bill at 3 months for the balance.
viii) Goods costing Rs. 2,25,000 sold at a profit of 33.33%. Half the payment received in cash.
ix) Interest on capital Rs. 3,000.
x) Creditor accepted a bill for Rs. 30,000.
xi) Purchased household goods for Rs. 30,000, giving Rs. 10,000 in cash and balance through a loan.

xii) Prepaid insurance Rs. 4,000.

25. Savita'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. Raman fell ill and had to proceed on leave. Savita'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. 5,00,000 applied for the expansion of the business of the firm. Savita who is studying Accounting in her school. Volunteered to complete the work. On srcutinising the accounts, the banker found that the value of building bought a few years back for Rs. 7,00,000 has been shown in the books at Rs. 20,00,000, which is its present market value. Similarly, as compared to the last year, the method of valuation of stock was changed, resulting in the value of goods to be about 15% 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 Savita. Advise Savita for the mistakes committed by her in the preparation of financial statements in the context of basic concepts in accounting. Also suggest the remedies.
26. A customer has filed a suit against a trader who has supplied poor quality goods to him. It is known that the court judgement will be in favor of the customer and the trader will be required to pay the damages. However, the amount of legal damages is not known with certainity. 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 judgement of the court is not yet out. Do you think the accountant is right in his approach. Expalin with reason.
27. All expenses are classified into two groups i.e. revenue expenses and capital expenses due to which accounting principles? Identify and explain the principle.

28. Briefly explain your understanding of IFRS. Also state assumptions and benefits of IFRS.

29. An accountant worked for 12 months @ 8,000 pm but salaries paid to him amounted to Rs. 84,000. Under cash basis of accounting, which amount of salary will be shown in Profit and Loss Account and in Balance Sheet?
30. Explain the following with suitable example:

    a) Net worth b) Working capital