

# QB365 Question Bank Software Study Materials

## Conceptual Framework of Accounting Important 2, 3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Accountancy

Total Marks : 75

### 2 Marks

10 x 2 = 20

1) Define Book Keeping.

**Answer :** According R.N. Carter defines, "Book keeping is the science and art of recording correctly in the books of account all those business transactions of money or money's worth".

2) What is meant by accounting concepts?

**Answer :** (i) Accounting concepts are the basic assumptions or conditions upon which accounting has been based.  
(ii) Accounting concepts are the results of broad consensus.  
(iii) The word concept means a notion or abstraction which is generally accepted.  
(iv) Accounting concepts provide unifying structure to the accounting process and accounting reports.

3) Briefly explain about realisation concept.

**Answer :** (i) According to realisation concept, any change in value of an asset is to be recorded only when the business realises it.  
(ii) When assets are recorded at historical value, any change in value is to be accounted only when it realises.

4) What is "Full Disclosure Principle" of accounting?

**Answer :** (i) The accounts must disclose all material information.  
(ii) The Accounting reports should disclose full and fair information to the related parties.  
(iii) The financial position and performance should be disclosed very honestly to all the users.

5) Write a brief note on 'Consistency' assumption.

**Answer :** (i) The Consistency convention implies that the Accounting practice should remain the same from one year to another.  
(ii) The results of different years will be comparable only when same accounting methods are followed from year to year.  
(iii) The firm should not modify the method of charging the depreciation from one to another.  
(iv) If any change has to be incorporated, valid reasons for such a change should be emphasised.

6) Name the accounting concept or convention associated with the following.

(i) Assets are recorded at cost, irrespective of the market price.  
(ii) Life of a business should be divided into smaller periods.  
(iii) Accounting transactions should be free from bias of accountants and others

**Answer :** (i) Historical cost concept  
(ii) Accounting period concept  
(iii) Verifiable objective concept

7) Does every businessman need accounting knowledge?

**Answer :** No, Every business man does not need accounting knowledge. The business man is called sole trader. If he has little accounting knowledge, is enough, but he should have business skill.

8) What is GAAP's in accounting?

**Answer :** GAAP means Generally Accepted Accounting Principles. GAAP provide uniformity and consistency in the accounting methods and process.

9) What is business entity concept?

**Answer :** Under this concept owner and business are two different entities. Business is separate from its owners.

10) Write a short note on 'Going concern' concept.

**Answer :** It is the, basic assumption that business is a going concern and will continue its operations for a foreseeable future. Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

**3 Marks**

10 x 3 = 30

11) What is matching concept? Why should a business concern follow this concept?

**Answer :** (i) According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.

(ii) This concept is based on accrual concept and periodicity concept.

(iii) Periodicity concept fixes the time frame for measuring performance and determining financial status.

(iv) All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

12) "Only monetary transactions are recorded in accounting". Explain the statement.

**Answer :** (i) Only financial transactions are to be recorded because it is due to Money Measurement concept, which states that only those transactions are to be recorded in the books of accounts which consist of cash.

(ii) Hence it is concerned with the Nominal value not the real value.

(iii) For example Mohan purchase television for Rs.12,000. So this, will recorded in journal entry book as it has cash transactions.

13) "Business units last indefinitely". Mention and explain the concept on which the statement is based.

**Answer :** (i) "Business units last indefinitely". This statement is used in Going Concern Concept.

(ii) Going concern concept influences Accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and Incomes.

(iii) The values involved in the going concern concept are

**1. Growth:** By following the going concern concept, business activities are to be carried out for future growth.

**2. Preparing for future:** By following the going concern assumption, business firm always intends to prepare for the future.

14) Write a brief note on Accounting Standards.

**Answer :** (i) Accounting Standards provide the framework and norms so that the financial statements of different enterprises become comparable.

(ii) It becomes necessary to standardise the accounting principles and policies to ensure consistency, comparability, adequacy and reliability of financial reporting.

(iii) Accounting standards in India are issued by the Institute of Chartered Accountants of India (ICAI).

**Definition:**

In the words of Kohler, "Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally".

15) What is the need for accounting standards?

**Answer :** The need for accounting standards is as follows:

1. To Promote better understanding of financial statements.

2. To help accountants to follow uniform policies and practices.

3. To facilitate meaningful comparison of financial statements of two or more entities.

4. To enhance reliability of financial statements.

5. To meet the legal requirements effectively.

16) Which value is reflected in the Accounting standards issued by ICAI?

**Answer :** Value of consistency is reflected by the accounting standards issued by ICAI as following consistent set of standards, enables comparability of financial statements.

17) What are advantages of book-keeping?

**Answer :** The advantages of book-keeping are:

- (i) Transactions are recorded systematically in chronological order in the books of accounts.
- (ii) Book-keeping is useful to get financial information,
- (iii) It helps to have control over various business activities:
- (iv) Records provided by business serve as a legal evidence in case of any dispute.
- (v) Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- (vi) Book-keeping is useful to find out the tax liability.

18) Briefly explain the relationship among accounting, accountancy and book-keeping.

**Answer :** Book-keeping is part of Accounting. It is the primary stage in accounting. It is the process of recording transactions in the books of accounts.

Accounting is part of Accountancy. Accounting is the process of recording, classifying, analysing and interpreting of financial data. Accountancy is the systematic knowledge of accounting process and contains the standards, principles, policies and procedures to be followed in accounting.

19) List out the basic objectives of book keeping.

**Answer :** i) To have a complete and permanent record of all business transactions in chronological order and under appropriate headings.

ii) To facilitate ascertainment of the profit or loss of the business during a specific period.

iii) To facilitate ascertainment of financial position.

iv) To know the progress of the business.

v) To find out the tax liabilities.

vi) To fulfil the legal requirements

20) Bring out the need for accounting standards.

**Answer :** The need for accounting standards is as follows:

a) To promote better understanding of financial statements

b) To help accountants to follow uniform procedures and practices

c) To facilitate meaningful comparison of financial statements of two or more entities.

d) To enhance reliability of financial statements

e) To meet the legal requirements effectively

**5 Marks**

5 x 5 = 25

21) Explain the meaning of Book-keeping and its features

**Answer : Meaning of Book-keeping:**

(i) Book-keeping is the process of recording financial transactions in the books of accounts.

(ii) It is the primary stage in the accounting process.

(iii) It includes recording the transactions and classifying the same under proper heads.

(iv) Book-keeping work is of routine nature.

**Features of Book-Keeping :**

Following are the features of book-keeping :

(i) It is the process of recording transactions in the books of accounts.

(ii) Monetary transactions only are recorded in the accounts.

(iii) Book-keeping is the primary stage in the accounting process.

(iv) Book-keeping includes journalising and ledger processing.

22) Explain the advantages of Book-keeping.

**Answer :** Book-keeping has the following advantages:

- (i) Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- (ii) Book-keeping is useful to get the financial information.
- (iii) It helps to have control over various business activities.
- (iv) Records provided by business serve as a legal evidence in case of any dispute.
- (v) Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- (vi) Book-keeping is useful to find out the tax liability.

23) What do you mean by accounting concepts? Explain any five concepts.

**Answer :** (i) Accounting principles are the rules of action or conduct which are adopted by the accountants universally. Such accounting principles are known as Generally Accepted Accounting Principles (GAAP).

(ii) Accounting concepts are bye laws whereas conventions are guidelines based upon customs or usage. The important Accounting concepts are listed out below :

**1. Business entity concept:**

- a) This concept implies that a business unit is separate and distinct from the persons who supply capital to it.
- b) Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view. Hence, the capital contributed by the owner is treated as a liability of the business.
- c) This concept helps in keeping business affairs free from the influence of personal affairs of the owner.

**2. Money measurement concept:**

- a) This concept implies that in Accounting, every transaction, or happening or event is recorded in terms of money.
- b) In other words, only those transactions, which can be expressed in terms of money, are recorded in the accounts.

**3. Going concern concept:**

- a) It is the basic assumption that business will continue for a quite long time and it will go on and will not be closed down or stopped for quite a long time.
- b) Going concern concept influences Accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and incomes.

**4) Cost concept:**

- a) As asset is recorded in the books at the value of price paid for it at the time of its purchase and the cost paid will be the base for all further Accounting.
- b) It is recorded at cost at the time of its purchase, but is systematically reduced in its value by charging depreciation.

**5) Accounting period concept:**

- a) The true profit or loss earned by a business unit can be ascertained only when the business is liquidated.
- b) But many persons such as proprietors, investors, creditors, employees and the government are interested in knowing the performance of the business unit.

24) What are the differences between Book keeping and Accounting?

**Answer :**

s.no	Basis of distinction	Book-keeping	Accounting
1	Scope	It is concerned with recording and classification the business transaction	It is concerned with recording, classification, summarising, analysing and interpreting the financial data
2	Stage	Book-keeping is the primary stage in accounting. It is the base for Accounting.	Apart from the primary stage, it includes secondary stage of analysis and interpretation.
3	Nature of job	It is routine and clerical in nature.	It is analytical in nature
4	Knowledge required	It requires basic knowledge of the principles of journalising and posting	It requires thorough knowledge of accounting principles, procedures, and practices.
5	Skill required	Analytical skill is not required for book-keeping.	It requires analytical skill

25) What are the advantages of book keeping?

**Answer :** Book-keeping has the following advantages:

- i) Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- ii) Book-keeping is useful to get the financial information.
- iii) It helps to have control over various business activities.
- iv) Records provided by business serve as a legal evidence in Case of any dispute.
- v) Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- vi) Book-keeping is useful to find out the, tax liability