Accounting – fundamentals

Questions

1. Transaction is used to mean a business performance of an act or an agreement.
2. Event is used to mean a happening, as a consequence of transactions.
3. Earning of surplus and having inventories in hand are examples of events.
4. Measurement in terms of money means measurement at the ruling currency of the country, for example, rupee in India.
5. Recording is done in a book called Journal.
6. Classification is concerned with the systematic analysis of recorded data, with a view to group transactions or entries of one nature at one place so as to put information in a compact and usable form.
7. The book containing classified information is called ledger.
8. Interpreting is concerned with explaining the meaning and significance of the relationship as established by the analysis of accounting data.
9. Social responsibility accounting is the formative process, which aims at accounting for social cost incurred by business as well as the social benefit created by it.
10. The term 'financial statements' means P&L a/c and Balance sheet.
11. Book- keeping is the recording phase.
12. Accounting is concerned with the summarizing phase of the accounting system.
13. Accounting starts where book-keeping ends.
14. Human resource accounting is an attempt to identify, quantify and report investments made in human resources of an organisation that are not presently accounted for under conventional accounting practice.
15. Internal audit is a management tool whereby an internal auditor thoroughly examines the accounting transactions and systems to ensure the management that the accounts are being properly maintained.
16. Book-keeping is a subfield of accounting. True/ false. FALSE
17. Ledger posting is a function of accounting- FALSE
18. Financial statements are part of Accounting (not book-keeping).
19. Financial position of the business is ascertained on the basis of financial reports.
20. Accounting is the language of business.
21. GAAP stands for Generally Accepted Accounting Principles
22. GAAPs is used to describe rules developed for the preparation of the financial statements and are called concepts, conventions, postulates, principles etc.
23. Accounting concepts defines the assumptions on the basis of which financial statements of a business entity are prepared.
24. Accounting principles are a body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist.
25. Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organisations over a period of time.
26. Entity concept states that business enterprise is a separate entity apart from its owner.
27. Transactions and events that cannot be expressed in terms of money are not recorded in the business books according to money measurement concept.

28. Entity and money measurement are viewed as basic concepts on which other procedural concepts hinge.
29. According to periodicity concept, accounts should be prepared after every period and not at the end of the life of the entity.
30. Usually accounting period is one calendar year.
31. In India, accounting period is from 1st April to 31st march in the following year.
32. Under accrual concept, the effect of transactions and events are recognised on mercantile basis.
33. Revenue is the gross inflow of cash, receivables and other consideration arising in the course of ordinary activities of an enterprise from sale of goods, rendering of services and from the use by others of enterprise's resources yielding interest, royalty and dividend.
34. According to matching concept, if any revenue is recognised than expenses related to earn the revenue should also be recognised.
35. Matching concept is based on the accrual concept as it considers the occurrence of expenses and income and not the actual inflow or outflow of cash.
36. Periodic profit = Periodic revenue – matching expenses.
37. **Accrual, matching and periodicity concepts work together for income measurement and recognition of assets and liabilities.**
38. According to going concern concept it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of operations.
39. Assets are kept for generating benefit in the future, not for immediate sale; current change in asset value is not realisable, so it should not be counted. This is indicated by Going concern concept.
40. According to the realisation concept any change in the value of an asset is to be recorded only when the business realises it.
41. Conservatism states that the accountant should not anticipate income and should provide for all possible losses.
42. No change should be counted unless it has materialised is stated by realisation concept.
43. For conservatism concept there should be three qualitative characteristics of financial statements, namely, prudence, neutrality and faithful representation of alternative values.
44. In order to achieve comparability of financial statements of an enterprise through time, accounting policies are consistently followed from one period to another.
45. In case of valuation of inventories, if the company applies the principles ' at cost or market price whichever is lower' and if this principle results in the valuation of inventories in one year at cost price and the market price in the other year. Is this a violation of consistency principle? NO
46. Accounting policy can be changed
    a) For compliance with the provisions of law
    b) For compliance with Accounting standards
    c) For better presentation
47. Materiality is an exception to full disclosure principle.
48. The three fundamental accounting assumptions are going concern, consistency and accrual.
49. For the qualitative characteristic of understandability, information about complex matters should be included in financial statements even if it is too difficult for certain users to understand.
50. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting their past evaluations.
51. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it purports to present.

52. The four principal qualitative characteristics of financial information are understandability, relevance, reliability and comparability.
53. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.
54. Where rights and beneficial interest in an immovable property are transferred but the documentation and legal formalities are pending, the acquisition is recorded in keeping with substance over form.
55. Neutrality refers to the quality of information being free from bias.
56. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty.
57. The principle of full disclosure implies that nothing should be omitted.
58. The principle of fair disclosure implies that all transactions recorded should be accounted in a manner that the financial statements purport a true and fair view.
59. The concept of conservatism when applied to the balance sheet results in understatement of assets.
60. The determination of expenses for a period is based on the principle of matching.
61. If an individual asset is increased there will be a corresponding increase of another liability or decrease of another asset.
62. Accounting standards are written policy documents issued by an expert accounting body or by the government or other regulatory body.
63. Accounting standards cover the aspects of recognition, measurement, presentation and disclosure.
64. The main function of Accounting standards board is to formulate accounting standards so that such standards may be established in India by the council of the ICAI
65. There are 27 accounting standards at present.
66. Accounting standards are issued by the ICAI.
67. Accounting standards harmonise accounting policies, eliminate non- comparability and improve reliability.
68. 32 accounting standards have been issued by the ICAI
69. Accounting policies refer to specific accounting principles and the methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements.
70. Accounting policy for inventories to be valued at the lower of cost or NRV follows the accounting principle of prudence.
71. The areas where different accounting policies can be adopted include valuing inventories, valuing investments etc.
72. The three basic elements of measurement are
    a) Identification of objects and events to be measured
    b) Selection of standard or scale to be used
    c) Evaluation of dimension of measurement standard or scale
73. In accounting money is the scale of measurement.
74. Money as a unit of measurement has universal applicability across the boundary of a country when there is no common currency. FALSE
75. Is accounting a measurement discipline? No
76. The four generally accepted valuation principles are
    a) Historical cost
    b) Current cost
    c) Realisable value
    d) Present value

77. Historical cost means acquisition price.
78. Current cost means that assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently.
79. As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.
80. As per present value, an asset is carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business.
81. Value relates to the benefits to be derived from objects, abilities or ideas.
82. Change in accounting estimate means difference arising between certain parameters estimated earlier and re-estimated during the current period or actual result achieved during the period.
83. Future value is a valuation principle. FALSE
84. Book Value as 31.3.2011 -10,00,000
    Market value as on 31.3.2011 - 11,00,000
    If the company values the machinery at 11,00,000 the valuation principle followed is realisable value.
85. The problems relating to price rise are handled under Inflation accounting.
86. Net profit or loss will be derived at Summarising stage of accounting.
87. The accounting equation is based on Dual aspect concept.
88. Omission of paise and showing round figures in financial statements is based on Materiality concept.
89. Fixed assets and current assets are categorized as per the concept of going concern.
90. Estimated selling price less estimated cost of sales is Net realisable value.
91. In the accounting period, according to cost concept, cost incurred to acquire an asset is shown in the balance sheet.
92. Outstanding expenses is included in profit and loss a/c at the year-end according to accrual concept.
93. Contingent liabilities are shown as footnote in the balance sheet as per Disclosure concept.
94. According to Entity concept, the owner of an enterprise pays the interest on drawings.
95. Cost concept basically recognises Historical cost.
96. Provision for bad and doubtful debts is a result of Conservatism concept.
97. The comparison of financial statements of one accounting period with that of another is possible only when Consistency concept is followed.
98. If nothing is mentioned about the fundamental accounting assumptions it is assumed that they have been followed.
99. Accounting standards cannot over-ride the statute
100. AS 2 is on Valuation of inventories.
101. The matching concept requires the practice of crediting closing stock in the trading account.