



ACCOUNTANCY OF CLASS XI **CHAPTER - 3 & 4 THEORY BASE OF** **ACCOUNTING**

Q.1. In accordance with which principle, personal assets and liabilities of the owner is distinguished from the business assets and liabilities.

Q.2. Revenue is generally realized at the time of sale. Which accounting principle is involved in this situation?

Q.3. Which accounting principle states that a business enterprise shall not be sold or liquidated in the near future?

Q.4. What is meant by GAAP?

Q.5. What is money measurement concept? Does it hold good when prices are not stable?

Q.6. What is Going concern concept? Why is it necessary to assume that an economic activity will remain a going concern?

Q.7. When should revenue be recognized? Are there exceptions to the general rule?

Q.8. What is full disclosure principle? what are the expectations to the principle?

Q.9. Why should a business concern follow the consistency principle?

Q.10. Give two areas of application to conservatism principle?

Q.11. Write a note on Dual Aspect concept.



Q.12. 'Profit is a liability for the business.' Explain the statement with the help of principle applied.

Q.13. What are the limitations of historical cost?

Q.14. Give the concept of International Financial Reporting Standards?

Q.15. What is the difficulty in implementing the International Financial Reporting Standards?

Q.16. What is the difference between IFRs and Accounting Standards.

Q.17. 'Only financial transactions are recorded in accounting?' Explain the statement.

Q.18. How does principle of matching apply to depreciation?

Q.19. X Ltd gets a contract of ₹ 100 crore to build a Shopping Mall to be complete in 3 years. The management of the company wants to ascertain profit or loss on this contract only when contract is completed. Is the management justified?

Q.20. Following are the applications of some accounting principles. State the name and relevant accounting assumption or principle applied therein:

a) Classification of assets as current assets and fixed assets.

b) Appending notes to the financial statements.

c) Accounting for small calculator as an expense and not as an asset.

d) Following the written down method of depreciation a particular asset year after year.

e) Business transactions are recorded on the basis of documents.



f) Only those transactions or facts are recorded in accounting which can be expressed in monetary terms.

g) Transaction between owner and business are recorded.

Q.21. What are the differences IFRS and Indian GAAP?

Q.22. What are the objective of Accounting standards?

Q.23. A company lost its plant and important machinery in a fire on 25th Feb 2012 which will have an adverse impact on its production capacity. As a result it is likely to lose business to its competitors. The company has not disclosed this fact in its annual report for the year ended 31st MARCH 2012. Do you think it is complying with the Convention of Full Disclosure?

Q.24. The assets of Pavitra Dairy Ltd were acquired by the government on 1st April 2006 and the company received a compensation of ₹ 10 crore. The company did not have any other business as on the date of acquisition and also not ventured into any other business after acquisition of assets. The company placed the amount in a fixed deposit with a bank which is lying with the bank as on date also. It has also filed a case with the court seeking higher compensation. Is the company a going concern?

Q.25. A company prepares its account as per the accrual basis. Rent amounting to ₹ 50000 for the month of March 2013 was unpaid. The owner did not want to record it in the books as the amount was unpaid. The books are closed on 31st March 2013. Is he correct? Give reasons



Q.26. Harish purchased 1500 square yards building and paid ₹ 15 lakhs towards its cost including registration charges. At the end of the financial year, the value of the building came down to ₹ 13 lakhs. Harish recorded the land at ₹ 13 lakhs and booked a loss of ₹ 2 lakhs. Is he correct in treating the fall in value of asset?

Q.27. A company purchased goods for ₹ 500000 and sold 80% of such goods during the year. The market value of remaining goods was ₹ 90000. The company valued the closing stock at cost. Which principle is being violated?

Q.28. According to which accounting concept, the full cost of an asset is not treated as an expense the year of its purchase?

Q.29. Mohan the owner of a business receives an order for supply of goods worth ₹ 20000. He has also received ₹ 25000 against this order. Mohan wants to record it as a sale. Is Mohan correct in doing so?

Q.30. Raja Ltd purchased marketable securities for ₹ 50 lakhs. At the end of the year, the market value of such securities was ₹ 40 lakhs. While preparing the financial statements the company valued the securities at cost i.e. ₹ 50 lakhs. It is a correct statement?

Q.31. A firm is facing court case for claim against damages. The amount of legal damages is not known for certainty. When the accounts were finalised, the accountant of the trader advised that the expected loss on account of payment of legal damages can be ignored as the amount is not certain and the final legal judgment is not out. Which principle of accounting is violated in this case? Give reasons to support your answer.



Q.32. Raman started a business of clothes and bought merchandise worth ₹ 90000. The merchandise was sold for ₹ 130000. The customers paid him ₹ 110000 and assured to pay him ₹ 20000 soon. What will be profit under accrual basis of accounting?

Q.33. The production manager reports to the top management that the targeted production has been achieved. The targeted production for the year 2010 was 200 tons. However the actual production was 199000.98kg. which accounting principle was followed?

Q.34. The following two transactions are recorded in the books of Ram : a) A building costing ₹ 600000 was sold ₹ 700000. B) The goods costing ₹ 550000 were sold for ₹ 700000. He treated transaction (a) as a gain of ₹ 100000. Is he correct in doing so? Give reasons.

Q.35. A company is being 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?

Q.36. X ltd get a contract of ₹100 crore to build a Shopping Mall 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?

Q.37. M/s Future Ltd has invested ₹ 10000 in the shares of Reliance Industries Ltd. Current market value of these shares is ₹ 10500. Accountant of Future Ltd



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wants to show of ₹ 10500 as value of investment in the books of accounts,
which accounting convention restricts him from doing so?

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