

OBJECTIVE TYPE QUESTIONS

(A) Fill in the blanks :—

- (i) Concept of requires that the same accounting methods should be used from one accounting period to the next. *(Chandigarh, 2017)*
- (ii) Recognition of cost in the same period as associated revenues is called concept.
- (iii) Personal transactions are distinguished from business transactions in accordance with the concept of
- (iv) 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 convention. *(KVS 2018)*
- (v) The fact that a business is separate and distinguishable from its owner is best exemplified by the concept.
- (vi) Everything a firm owns, it also owes out to somebody. This co-incidence is explained by the concept. *(Chandigarh, 2017)*

- (vii) 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. (KVS 2018)
- (viii) A firm may hold stock which is heavily in demand. Consequently, the market value of this stock may be increasing. Normal accounting procedure is to ignore this because of the
- (ix) The management of a firm is remarkably incompetent, but the firm's accountant cannot take this into account while preparing books of accounts because of concept. (KVS 2018)

[Ans. (i) Consistency (ii) Matching (iii) Business Entity
(iv) Prudence (v) Business Entity (vi) Dual Aspect
(vii) Consistency (viii) Convention of Prudence
(ix) Money Measurement]

(B) Mention whether the following are true or false :—

- (i) Convention of Prudence results in understatement of profits and assets and overstatement of liabilities.
- (ii) Business entity concept is not applicable to sole trading concerns and partnership concerns.
- (iii) Only those facts and events are recorded in accounting which are capable of being expressed in terms of money.
- (iv) All items or facts whether material or immaterial are recorded in accounting.
- (v) Assets will be equal to capital if there are no liabilities.
- (vi) Revenues are matched with expenses in accordance with going concern assumption.
- (vii) Entire life of the firm is divided into time intervals for the measurement of profits in accordance with 'Going Concern Assumption'.
- (viii) Materiality principle is an exception to the 'Full Disclosure Convention'.
- (ix) If a firm adopts different accounting principles in two accounting periods it conflicts with the concept of consistency.
- (x) The essence of convention of prudence is to anticipate no profit and provide for all possible losses.

[Ans. : True : (i); (iii); (v); (viii); (ix); (x)

False : (ii); (iv); (vi); (vii)]

(C) Choose the best Alternate

1. As per Income Tax Act, accounting period is :

- (a) From 1st January to 31st December
- (b) From 1st April to 31st March
- (c) From 1st July to 30th June
- (d) From Diwali to Diwali

2. As per Dual Aspect Concept :

- (a) Assets = Liabilities – Capital (b) Assets = Capital – Liabilities
- (c) Assets = Liabilities + Capital (d) Capital = Assets + Liabilities

3. Concept of Consistency means :
- (a) All the firms in the same industry should use identical accounting principles and procedures
 - (b) All principles and procedures of accounting are utilised
 - (c) Accounting principles and methods should remain consistent from one year to another
 - (d) All of the above
4. Convention of conservatism takes into account :
- (a) All future profits and losses
 - (b) All future profits and not losses
 - (c) All future losses and not profits
 - (d) Neither profits nor losses of the future
5. According to Convention of Conservatism closing stock is valued at :
- (a) At cost Price
 - (b) At Realisable value
 - (c) Cost price or realisable value whichever is less
 - (d) At Real value
6. According to Convention of Conservatism :
- (a) Provision is made for bad and doubtful debts
 - (b) Depreciation is charged on assets
 - (c) Recording is made of outstanding expenses
 - (d) All of the above
7. According to which Concept even the proprietor of the business is treated as a creditor of the business :
- (a) Going concern Concept
 - (b) Cost Concept
 - (c) Business Entity Concept
 - (d) Accounting Period Concept
8. Due to which Concept qualitative transactions are not recorded in the books :
- (a) Business Entity Concept
 - (b) Money Measurement Concept
 - (c) Historical cost Concept
 - (d) Dual Aspect Concept
9. Accrual concept is based on :
- (a) Matching Concept
 - (b) Dual Aspect Concept
 - (c) Cost Concept
 - (d) Going concern Concept
10. According to which Concept the same accounting methods should be used each year :
- (a) Prudence
 - (b) Full Disclosure
 - (c) Materiality
 - (d) Consistency
11. Due to which of the following, contingent liabilities are shown in the Balance Sheet :
- (a) Dual Aspect Concept
 - (b) Convention of Full Disclosure
 - (c) Convention of Materiality
 - (d) Going Concern Concept
- (CA-CPT, June 2012)

12. The cost of a small calculator is accounted as an expense and not shown as an asset in a financial statements of a business entity due to.....
 (a) Materiality Convention (b) Matching concept
 (c) Periodicity concept (d) Convention of full disclosure
13. According to the Cost Concept
 (a) Assets are recorded at lower of cost and market value.
 (b) Assets are recorded by estimating the market value at the time of purchase.
 (c) Assets are recorded at the value paid for acquiring it.
 (d) Assets are not recorded
14. Providing depreciation on fixed asset is in accordance with which of the following principles/concepts.
 (i) Going concern (ii) Matching Concept (iii) Materiality
 (a) (i) & (ii) (b) (ii) & (iii)
 (c) (i) & (iii) (d) All the three
15. The owner of the firm records his medical expenses in the firms' income statement. Indicate the principle that is violated.
 (a) Cost Concept (b) Prudence
 (c) Full disclosure (d) Entity concept
16. M/s Future Ltd. has invested ₹10,000 in the shares of Relicam Industries Ltd. Current market value of these shares is ₹10,500. Accountant of Future Ltd. wants to show ₹10,500 as value of investment in the books of accounts, which accounting convention restricts him from doing so?
 (a) Full disclosure (b) Consistency
 (c) Conservatism (d) Materiality
17. Which of these is not a fundamental accounting assumption?
 (a) Going concern (b) Consistency
 (c) Accrual (d) Materiality
18. Omission of paise and showing the round figures in financial statements is based on.....
 (a) Conservatism convention (b) Consistency concept
 (c) Materiality convention (d) Money measurement concept
19. Income is measured on the basis of :
 (a) Matching Concept (b) Consistency Concept
 (c) Cost Concept (d) None of the above

(CA-CPT June, 2013)

- [Ans. 1. (b) 2. (c) 3. (c) 4. (c) 5. (c) 6. (a) 7. (c)
 8. (b) 9. (a) 10. (d) 11. (b) 12. (a) 13. (c) 14. (a)
 15. (d) 16. (c) 17. (d) 18. (c) 19. (a)]

HIGHER ORDER THINKING SKILLS (HOTS) QUESTIONS

- What is meant by GAAP?
- Proprietor of the business is treated as creditor to the extent of his capital under which Concept?

3. A customer of X Ltd. has discontinued his business. He used to purchase 30% of the total goods produced by X Ltd. Is it a relevant information in your opinion and should be disclosed by X Ltd.
4. X Ltd. gets a contract of ₹100 crore to build a Shopping-Mal 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?
5. Under which principle the calibre or quality of the management is not disclosed in the balance sheet?
6. Which accounting principle states that all anticipated losses should be recorded but all anticipated profits should be ignored?
7. According to which concept, depreciation is to be charged as per one particular method year after year? (KVS 2017)
8. Why the full cost of an asset is not treated as an expense in the year of its purchase?
9. During the year the company purchased ballpoint pens of ₹500. These were issued to employees and were still in use at the end of the year. Which accounting concept you would follow in dealing with this item?
10. A debtor who owes ₹ two lac to the Company is rumoured to be declared insolvent. Will you disclose this information in the books?
11. Goods withdrawn by the proprietor for his personal use has not been recorded in the books of accounts. Which accounting concept has been violated?
12. In a business provision for doubtful debts is created @5% on debtors every year. Name the two accounting principles followed in this process.
13. A firm has stationery stock amounting to ₹400 as at the end of financial year. Accountant of the firm has written it off to Profit & Loss Account. Is he right in doing so?
14. Why closing stock is valued at cost price or realisable value whichever is less?
15. Do you think that the Convention of conservatism results in creation of secret reserves?
16. Identify the values involved in the assumption of going concern. (KVS 2014)
17. Why fixed assets are not shown in the books at market value?
18. Why the entire life of the business enterprise is divided into time-intervals?
19. A company purchased goods for ₹5,00,000 and sold 80% of such goods during the year. The market value of remaining goods was ₹90,000. The company valued the closing stock at cost. Which principle is being violated?
20. On 25th March, 2017, a fire broke out in the premises of Kamal Ltd. and destroyed a part of its plant and machinery. On account of this, a sharp decline in production for the next six months is expected. The company did not disclose this fact in its annual report for the year ended 31st March, 2017. What is your opinion about this omission?