

class 11th
account
chapter 2
Theory base of accounting and accounting standard

Q. Explain the meaning and characteristics of accounting principles?

Ans- Accounting principles are those rules, Doctrine and standard which are followed by all the accounting universally at the recording of business transactions and preparation of financial statement.

characteristics:-

1. man made principal --these are framed by man which are the best possible suggestions based on practical, experience, reasons and observations.
2. flexibility-- accounting principles are flexible not rigid, these are also change in accordance to a particular situation.
3. usefulness --An accounting Principles increase the utility of records to its users by making the information more meaningful and useful.
4. Relevant --the accounting Principles should be relevant to the extent that they provide Useful information to those who need to know about business.

Q. Explain some basic assumptions of accounting?

Ans-1. Business entity or separate entity concept- according to this concept business and business man should be treated as separate entities at the time of recording business transactions in the book of accounting.

2. Money Measurement Concept--- according to this principal only the trade transactions and events which are of financial nature are recorded but those transactions which cannot be measured in terms of money, they are not recorded in the books of account.

3. Going concern concept-- as per this assumption the business will exist for a long and indefinite period and transactions are recorded from this point of view that business entity will remain for a long time.

4. Accounting period concept-- as per going concern concept the life of the business is considered to be indefinite with connections of accounting period concept whole life of business enterprise is divided into smaller period known as accounting period.

Q. Explain the basic principles of accounting?

Ans- 1. Principle of historical cost concept --all assets are recorded in the books of account as their acquisition cost, which includes cost of purchasing the assets. It should not be recorded at market price, it means that fixed assets like building, plant, machinery at etc. are recorded in the books of account at a price paid for them.

2. Dual aspect concept--- according to this concept every business transaction has two aspects namely one account received certain benefits and other account is giving certain benefits. Basically based on double entry system.

3. Revenue recognition concept-- as per this concept the revenue must be recognised when at the point of time on which goods or services being sold or rendered to the customers and also transferred legal right to him.

4. principle of full disclosure ---the disclosure of accounting principle means the account of business should be prepared so honestly that all the important information related to them should be disclosed properly.

Q what are the importance or advantages of accounting principles?

Ans-1 guidance.

2. uniformity

3. understandability

4. control

5. need for best accounting.

Q. Explain basis of accounting?

Ans-1. cash basis of accounting-- under cash basis and entries are recorded only when cash is received or paid. The actual cash receipts and actual cash payments are recorded.

2. Actual basis or mercantile basis--- under this system revenue is recognised when it is received or accrued. Both cash and credit transactions are recorded in the books of accounts. Income are credited to the period in which they are whether cash received or not.

3. Hybrid basis of accounting --this system is mixture of cash basis and accrual basis of accounting. under this basis revenue and assets are recorded on cash basis but expenses and liabilities are recorded on accrual basis.

Q. Explain the meaning and objectives of accounting standard?

Ans- Accounting standards are the written statement, issued by Institutions of accounting for providing uniform accounting rules and guidelines which are followed by accountants, for the Preparing of uniform and consistent financial statement.

OBJECTIVES:-

1. Uniformity of financial statement:- accounting standards ensure uniformity in the preparation and presentation of financial statement.

2. Reliability and credibility-- Accounting standards generate confidence among the users of the accounting informations by providing definite structure of uniform guidelines.

3. Helpful to auditors --the auditors follow accounting standard when they prepare financial statement.

4. Reduce the chances of manipulation-- chances of manipulation has been reduced by adopting the accounting standard at the prepare of financial statement.

Q. Explain the meaning and principles of double entry system?

Ans- Every business transactions is having a two aspects one aspect will be benefit receiving aspect, this is termed as the debit aspects and other aspect will be benefit giving aspect, this is termed as the credit aspect. The recording is made on the basis of these two aspects that States every debit, has a corresponding and equal amount of credit.

PRINCIPLE:-

1. Effect of transaction on two accounts-- each business transaction effects two accounts in the books of a particular businessman one of the receiver and the other of the giver.
2. Recording in two accounts-- two accounts are affected in each business transaction, simultaneously recording is made in the two accounts under the double entry system.
3. Two aspect of each account --the double entry system of bookkeeping each account has two aspect or side that is debit and the credit. The left-hand side of an account is called a debit side and the right hand side is called credit side.
4. Entry in opposite sides --according to the principle of double entry system entry is made in the two affected accounts on the opposite side. Entry will be made on the debit side of one account and credit side of other account.
5. Two parties --under double entry system every business transaction concerned with two parties one party is debited and the other is credited.

Q Explain the limitations of double entry system?

Ans- 1. Error of principle

2. Expensive system

3. Need of training

4. Not suitable for a small businessman.

1. Error of principle-- if there is an error of principle in recording a transaction in the original book, it will adversely affect the actual profit and loss and also the financial position of business.

2. Expensive system-- a number of books are kept and trained staff is required to maintain them, as such the system is quite expensive.

3. Need of training-- double entry system needs proper training and practical knowledge.

4. Not suitable for small business--- the method requires the maintenance of many books which is laborious and costly for a small business with few transactions.