

UNIT – 2
CONCEPTUAL FRAMEWORK OF ACCOUNTING

2 Marks

Mrs.A.Vennila
Principal
Mydeen Matric. Hr. Sec. School,
Melacauvery - Kumbakonam

1. Define book – keeping.

Definition of Book-Keeping:

“Book – keeping is an art of recording business dealings in a set of books” - **J.R.Batlibai**

“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” - **R.N. Carter**

2. What is meant by accounting concepts?

Meaning of Accounting Concept:

- ✘ Accounting concepts are the basic assumptions or conditions upon which accounting has been laid.
- ✘ Accounting concepts are the results of broad consensus.
- ✘ The word concept means a notion or abstraction which is generally accepted.
- ✘ Accounting concepts provide unifying structure to the accounting process and accounting reports.

3. Briefly explain about revenue recognition concept.

Revenue Recognition Concept.

- ✘ According to accrual concept, the effects of the transactions are recognised on mercantile basis, i.e., when they occur and not when cash is paid or received.
- ✘ Revenue is recognised when it is earned and expenses are recognised when they are incurred.
- ✘ All expenses and revenues related to the accounting period are to be considered irrespective of the fact that whether revenues are received in cash or not and whether expenses are paid in cash or not.

4. What is “Full Disclosure Principle” of accounting.

“Full Disclosure Principle” of accounting:

- ✘ It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement.
- ✘ This is important because the management is different from the owners in most of the organisations.

5. Write a brief note on ‘Consistency’ assumption.

Note on ‘Consistency’ assumption:

- ✘ The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another.
- ✘ The results of different years will be comparable only when same accounting policies are followed from year to year.

3 Marks / 5 Marks

1. What is matching concept? Why should a business concern follow this concept?

Matching concept:

- ✎ According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period.
- ✎ This concept is based on accrual concept and periodicity concept.
- ✎ Periodicity concept fixes the time frame for measuring performance and determining financial status.
- ✎ All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

The following Reasons this concept should a business concern follow:

- On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues.
- Also due provisions are made for depreciation of the fixed assets, bad debts, etc., relating to the accounting period.
- Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

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

"Only monetary transactions are recorded in accounting". Explanation:

- ♣ This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the accounts.
- ♣ Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.
- ♣ Transactions which do not involve money will not be recorded in the books of accounts.
- ♣ For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.

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

"Business units last indefinitely" – Explanation:

- ✦ This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it.
- ✦ 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 business is liable to the owner for the capital contributed by him/her.
- ✦ According to this concept, only business transactions are recorded in the books of accounts. Personal transactions of the owners are not recorded.
- ✦ But, their transactions with the business such as capital contributed to the business or cash withdrawn from the business for the personal use will be recorded in the books of accounts.
- ✦ It implies that the business itself owns assets and owes liabilities.

4. Write a brief note on Accounting Standards.

Note on Accounting Standards:

- Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable.
- It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.
- Thus, Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions and events in the financial statements.

www.Padasalai.Net