Theory Base of Accounting

Standard difficulty · 20 questions · 40 marks · Time: 44 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. The concept that treats the business as separate from its owner is the:
   (a) money measurement concept **(b)** dual aspect concept
   (c) going concern concept **(d)** business entity concept

2. Entries are made only on the basis of bills, receipts and other evidence. This follows the:
   (a) objectivity concept **(b)** accounting period concept
   (c) consistency concept **(d)** conservatism concept

3. The full disclosure concept means that:
   (a) losses are provided for but expected profits are not recorded
   (b) the life of the business is divided into periods
   (c) expenses are set against the revenues of the same period
   (d) all material information is shown in the statements or their notes

4. Which of these is true of the accrual basis of accounting?
   (a) fees earned but not received are left out
   (b) outstanding rent is ignored
   (c) income is recorded only when cash is received
   (d) income is recorded when earned, whether received or not

5. A dealer in Odisha sells goods worth ₹1,83,000 to a buyer in Assam. GST is 18%. How much IGST is charged?
   (a) ₹66,380 **(b)** ₹32,940 **(c)** ₹16,470 **(d)** ₹2,15,940

6. On 1 April a firm pays rent of ₹73,500 for 21 months. Under the matching concept, how much rent is the expense of the year ending 31 March?
   (a) ₹21,000 **(b)** ₹73,500 **(c)** ₹31,500 **(d)** ₹42,000

7. A machine is bought for ₹1,40,000; carriage on it is ₹4,500 and installation ₹4,000. Under the cost concept, at what amount is it recorded?
   (a) ₹1,44,000 **(b)** ₹1,40,000 **(c)** ₹1,48,500 **(d)** ₹1,44,500

8. In a year a firm sells goods worth ₹1,05,000, of which ₹90,000 is received in cash by the year end. What is the sales revenue under the accrual basis?
   (a) ₹15,000 **(b)** ₹90,000 **(c)** ₹1,05,000 **(d)** ₹1,95,000

Section B — Short answer — 8 × 2 = 16 marks

9. What are Generally Accepted Accounting Principles (GAAP)?

10. Explain each concept: (a) conservatism concept (b) consistency concept

11. Match each with its accounting concept: (a) A credit sale is recorded as revenue on the day of sale, before cash is received. (b) The owner's capital is shown as a liability of the business. (c) Each transaction is recorded in two accounts with equal amounts. Choose from: business entity concept; revenue recognition concept; dual aspect concept.

12. Goods worth ₹43,000 are sold within Bihar at 5% GST. Find (a) the CGST (b) the SGST (c) the invoice total.

13. Land was bought for ₹4,90,000. A year later its market value is ₹5,75,000. (a) At what amount is it shown in the books? (b) Name the concept.

14. A consultant earned fees of ₹1,35,000 in a year but received ₹50,000. Expenses incurred were ₹35,000, of which ₹15,000 were paid. Find the profit under (a) the cash basis (b) the accrual basis.

15. Salary of ₹19,000 a month is paid regularly, but salary for the last 2 months of the year is unpaid at the year end. Paid during the year: ₹1,90,000. (a) What salary expense is shown for the year? (b) Which concept is followed?

16. Cash basis or accrual basis? (a) rent due but unpaid is shown as an expense (b) prepaid insurance is all treated as this year's expense

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the going concern concept and why it matters.

18. Name the accounting concept followed in each case, and state what the concept says: (a) Entries are made only on the basis of bills, receipts and other evidence. (b) Salary for March paid in April is shown as an expense of the year ending in March. (c) Profit is worked out every year and not only when the business closes.

19. At 12% GST, a dealer in Haryana makes two sales: goods worth ₹18,000 to a buyer in Haryana, and goods worth ₹1,62,000 to a buyer in Assam. For each sale find the tax and say which government gets it.

20. A firm buys a machine for ₹3,90,000, pays ₹3,500 for carriage and ₹7,000 for installing it. At the year end a dealer offers ₹4,35,000 for it. (a) At what amount is the machine recorded? (b) Why is the dealer's offer ignored? (c) Which concept lets the firm show it at cost less depreciation rather than at a sale value?

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Answer key

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Q	Answer	Working
1	**(d) business entity concept**	—
2	**(a) objectivity concept**	—
3	**(d) all material information is shown in the statements or their notes**	—
4	**(d) income is recorded when earned, whether received or not**	—
5	**(b) ₹32,940**	IGST = 18% of ₹1,83,000
6	**(d) ₹42,000**	₹73,500 ÷ 21 = ₹3,500 a month; × 12
7	**(c) ₹1,48,500**	₹1,40,000 + ₹4,500 + ₹4,000
8	**(c) ₹1,05,000**	Revenue is recorded when earned, received or not
9	**Rules and guidelines adopted for recording and reporting business transactions so that accounts are uniform and comparable.**	—
10	**(a) losses are provided for but expected profits are not recorded (b) the same methods are followed year after year**	—
11	**(a) revenue recognition concept (b) business entity concept (c) dual aspect concept**	—
12	**(a) ₹1,075; (b) ₹1,075; (c) ₹45,150**	2.5% each of ₹43,000
13	**(a) ₹4,90,000 (b) cost concept**	Assets are recorded at cost, not market value
14	**(a) ₹35,000; (b) ₹1,00,000**	Cash: ₹50,000 − ₹15,000; accrual: ₹1,35,000 − ₹35,000
15	**(a) ₹2,28,000 (b) matching concept**	₹19,000 × 12
16	**(a) accrual basis (b) cash basis**	—
17	**The business is assumed to continue for a long time, so fixed assets are shown at cost less depreciation rather than at what they would fetch if sold today, and prepaid expenses are carried forward.**	—
18	**(a) Objectivity concept: records are based on verifiable evidence. (b) Matching concept: expenses are set against the revenues of the same period.**	—

Q	Answer	Working
	(c) Accounting period concept: the life of the business is divided into periods.	
19	**Sale within Haryana: CGST ₹1,080 (Central Government) and SGST ₹1,080 (State Government). Sale to Assam: IGST ₹19,440, collected by the Central Government and shared with the state of consumption.**	6% of ₹18,000; 12% of ₹1,62,000
20	**(a) ₹4,00,500 (b) Under the cost concept assets are recorded at cost, not market value. (c) The going concern concept.**	₹3,90,000 + ₹3,500 + ₹7,000