

Tagore Vidhya Pith H. S. School

Study Material:- 2020–21

Class:-11th

Subject:- Accountancy

Chapter:- 2

Theory Base of Accounting

Q1) What do you mean by Accounting Principles?

Ans- **Accounting Principles** – Accounting principles are guidelines for preparing financial statements and maintaining accounts to bring uniformity in the preparation and presentation of financial statements.

Q2) Write the characteristics of Accounting Principles.

Ans- Accounting principles have the following characteristics :

- 1) **Objectivity** – Accounting principles are based on observation of real facts. This principles are not determined by personal views, beliefs and fancies.
- 2) **Relevance and Usefulness** – Accounting principles should also have the quality of relevance and usefulness. Accounting information and its result should be meaningful and useful. So that these principles can be approved by all.
- 3) **Feasibility** – Accounting principles should be practical so that they can be easily put into practice and use.

Q3) Write the significance or advantages of Accounting Principles.

Ans- Following are the main advantages of these principles to various parties :

- 1) **For Investors** – Investors are concerned about their investment in the business. They want to know about the safety of their funds.
- 2) **For Accountants** – Principles of accounting have been developed for performing various accounting functions. For every aspect of accounting there is a separate principle or standard to be followed.
- 3) **For Auditors** – Every business keeps vouchers as evidence for their transactions. It is necessary for reliability of accounting information that account books and statements are free from errors and they are verified and audited from time to time.
- 4) **For Bankers, lenders and other financial institutions** – Banks scrutinise the financial statement and records of the business, so that they can assess its financial position and credit worthiness.

Q4) What do you mean by Accounting Standards?

Ans- Accounting is an information system. Its main objective is to provide financial information to investors, lenders, management and government. This information should present true and fair view of financial position of the business. To bring comparability, reliability and uniformity in statements of business organisations accounting concepts and conventions have been developed and accepted as 'Generally Accepted Accounting Principles' (GAAPs). The problem is that GAAPs give alternative solutions to one problem. As a result difference exists in their application and comparison does not become possible.

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Q5) What is Single Entry System (SES)?

Ans- **Single Entry System** – Under single entry system two aspects of all the transactions are not recorded. Though all personal accounts are opened but impersonal accounts like, rent, salaries, etc. may not be opened. This system does not make complete use of double entry system.

Q6) Write meaning and definitions of Double Entry System.

Ans- This system of accounting is based on Dual Aspect Concept. According to this concept, there are two effects of every business transaction, which are on two different accounts on different sides. In any one account effect is recorded on the debit side and in the other account it is recorded on credit side. Thus for every Debit there is a Corresponding Credit. Hence, it is clear that as a transaction is recorded in two accounts it is called 'Double Accounting System'.

“Double entry system accounting is that system according to which every transaction is debited in an account and credited in another account on the basis of certain rules.”

Q7) Write the characteristics of Double Entry System.

Ans- Double entry system have the following characteristics :

- 1) **Effect of every transaction on two or more accounts** – Under this system, every transaction affects two accounts. More than two accounts may also be affected in some transactions, but in every case the total of debit and credit remains same or equal.
- 2) **Two sides of every account** – Under this system, every account is divided into two sides. Left hand side is called debit and right hand side is called credit. These two sides are formed in ledger.
- 3) **Entry on the opposite side of affected accounts** – Entry is made on the debit side of one affected account and on the credit side of another affected account.
- 4) **Dual effect** – In every transaction for every debit there is a corresponding credit. This is based on the dual aspect principle of accounting.
- 5) **Definite accounting rules** – Under this system, every transaction is recorded on the basis of some definite rules of accounting.
- 6) **Legal validity** – This system is adopted worldwide and is legally valid as per the laws.