

JAIIB AFM Module A (Unit 2- Basic Accounting Procedures)

Cost concept:

Every business transaction is recorded in the books of accounts at cost price, irrespective of the market price, all the monetary transactions are recorded at the historical cost.

PRESENT DAY



AFTER 1 YEAR

Money measurement concept:



Business entity concept:

BUSINESS



OWNER



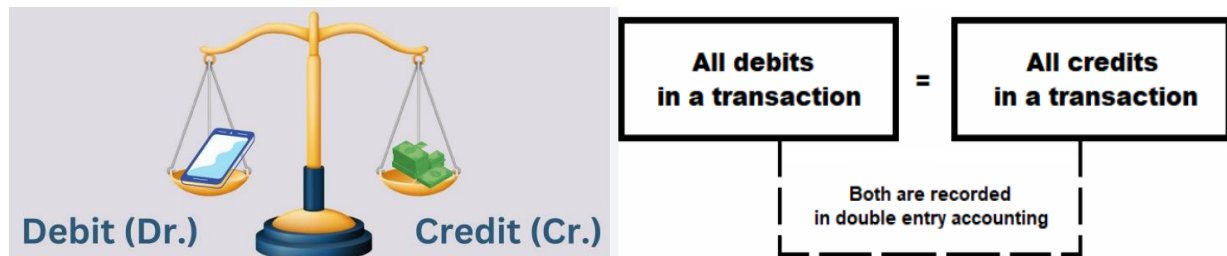
Accounting Period Concept:

- It is assumed that the business will run for a long period, therefore, accounts of each period are recorded.



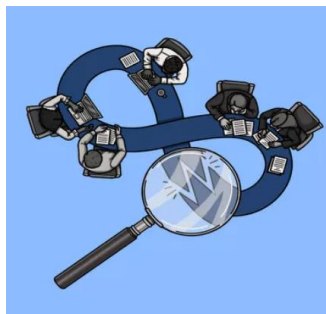
Dual aspect concept:

- This concept explains that every transaction has a double effect.
- One is debit and the other is credit.



Going concern concept:

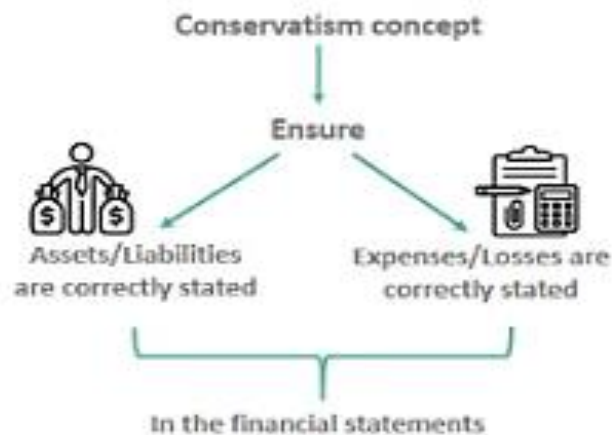
It means that the business continues with its activities as usual and the transactions are recorded accordingly.



Main Conventions of Accounting

Convention Of Conservatism:

While recording transactions, all possible losses must be taken into consideration, while all anticipated profits should be ignored. Also known as principle of prudence.



Convention Of Full Disclosure:

Entries are made in such a way, that they provide honestly all information relating to the activities of the business. The records should not conceal anything from outsiders.



Convention of materiality:

All material information, must be recorded.

What is material depends upon the value of the item involved and the circumstances of individual case of business.



**Rs. 80,000
of goods destroyed.**



Q1. The convention of conservatism, which advocates “anticipate no profit, provide for all possible losses” is also commonly referred to as:

- (a) Convention of Consistency
- (b) Convention of Materiality
- (c) Convention of Disclosure
- (d) Convention of Prudence

Ans: (d)

Q2. What is the accounting period which we generally follow?

- (a) 1 Jan to 31 March
- (b) 1 Jan to 31 Dec
- (c) 1 April to 31 March
- (d) Follow as business wish

Ans: (c)

Q3. What does the going concern assumption imply?

- (a) The business will operate indefinitely unless there is evidence to the contrary.
- (b) The business will cease operations within the next financial year.
- (c) The business will only operate until it breaks even.
- (d) The business intends to liquidate its assets immediately.

Ans: (a)

Q4. Which accounting system is often perceived as time saving and economical, but criticized for being unscientific due to incomplete or partial recording of certain transactions?

- (a) Double Entry System
- (b) Accrual Accounting System
- (c) Cash Basis Accounting System
- (d) Single Entry System

Ans: (d)