

**ANSWER KEY & MARKING SCHEME · CBSE CLASS 11****Theory Base of Accounting**

Accountancy · Chapter 2 · Use this with the Board Paper · Companion to Quick Drill

**HOW TO USE**

Attempt the Board Paper first (closed-book, full time). Then come here. For 2-mark+ questions, compare your answer to the model. For 3-4 mark questions, also consult the **Topper Templates** below — these show the exact step-by-step structure that scores full marks per CBSE marking-scheme conventions.

**MODEL ANSWERS · BOARD PAPER****Section A — Objective / VSA (1 mark x 6)****Q1. Expand GAAP. [1 mark]**

| **Ans:** Generally Accepted Accounting Principles.

**Q2. Name the concept under which the business is treated as separate from its owner. [1 mark]**

| **Ans:** The business entity concept.

**Q3. Write the accounting equation. [1 mark]**

| **Ans:** Assets = Liabilities + Capital.

**Q4. Valuing closing stock at the lower of cost or market value is an application of which concept? [1 mark]**

| **Ans:** The conservatism (prudence) concept.

**Q5. Name the three fundamental accounting assumptions. [1 mark]**

| **Ans:** Going concern, consistency and accrual.

**Q6. Which body issues Accounting Standards in India? [1 mark]**

| **Ans:** The Institute of Chartered Accountants of India (ICAI).

**Section B — Short Answer I (2 marks x 3)****Q7. State why the skill of employees is not recorded in the books. Name the concept involved. [2 marks]**

| **Ans:** Under the MONEY MEASUREMENT concept, only transactions and events that can be expressed in terms of money are recorded. The skill, honesty and morale of employees, though valuable, cannot be measured in money, so they are not recorded. This is also a recognised limitation of accounting.

**Q8. Explain the going concern concept in brief. [2 marks]**

| **Ans:** The GOING CONCERN concept assumes the business will continue to operate for the foreseeable future and has no intention or need to close down or sell its assets. This is why assets are recorded at cost (not break-up value) and depreciated over their useful life, and why prepaid expenses are carried forward to future periods.

**Q9. Differentiate, in any two points, between the cash basis and the accrual basis of accounting. [2 marks]**

| **Ans:** (1) RECOGNITION: Under the cash basis, revenue/expense is recorded only when cash is received/paid; under the accrual basis, when it is earned/incurred regardless of cash. (2) OUTSTANDING & PREPAID ITEMS: The cash basis ignores them; the accrual basis adjusts for them, giving a true and fair profit. The accrual basis is the one required by the Companies Act.

## Section C — Short Answer II (3 marks x 2)

**Q10. Explain the conservatism (prudence) concept with one example, and state why it is applied. [3 marks]**

**Ans:** The CONSERVATISM (prudence) concept follows the rule 'anticipate no profit, but provide for all possible losses.' An anticipated profit is not recorded until realised, but a foreseeable loss is provided for as soon as it is anticipated. It is applied so that the accounts do not present an over-optimistic, misleading picture and users are not misled by inflated profits. EXAMPLE: closing stock is valued at the lower of cost or market value; a provision for doubtful debts is created against debtors who may not pay.

**Q11. Explain the matching concept and how it helps determine correct profit. [3 marks]**

**Ans:** The MATCHING concept requires that the expenses of an accounting period be matched against (set against) the revenues of the SAME period to arrive at the correct profit. Once the revenues of the period are identified, every cost incurred to earn them — cost of goods sold, salaries, rent, depreciation — is charged in that same period, including outstanding expenses (incurred but unpaid) and excluding prepaid expenses (paid but not yet used). This ensures profit reflects the true cost of earning that period's income, which is why year-end adjustments are made.

## Section D — Long Answer (6 marks x 2)

**Q12. Explain the dual aspect concept and show, with at least three transactions, how it gives the accounting equation  $\text{Assets} = \text{Liabilities} + \text{Capital}$ . [6 marks]**

**Ans:** The DUAL ASPECT concept states that every business transaction has TWO aspects of EQUAL amount — a debit and a credit — so the total of all debits always equals the total of all credits. It is the foundation of the double-entry system and gives rise to the accounting equation  $\text{Assets} = \text{Liabilities} + \text{Capital}$  (or  $\text{Capital} = \text{Assets} - \text{Liabilities}$ ), in which both sides must always remain equal. ILLUSTRATION: (1) The owner invests ₹1,00,000 cash — Cash (asset) ₹1,00,000 = Capital ₹1,00,000; the equation balances. (2) Goods worth ₹20,000 are bought for cash — Goods rise by ₹20,000 and Cash falls by ₹20,000, so total assets stay ₹1,00,000 = Capital ₹1,00,000. (3) A loan of ₹50,000 is taken — Cash rises by ₹50,000 (asset) and a Loan of ₹50,000 (liability) is created, so now  $\text{Assets } ₹1,50,000 = \text{Liabilities } ₹50,000 + \text{Capital } ₹1,00,000$ . After every transaction the two sides remain equal, which is exactly what the dual aspect concept guarantees.

**Q13. Briefly explain any six accounting concepts/conventions: (a) Business entity (b) Cost (c) Revenue recognition (d) Full disclosure (e) Consistency (f) Materiality. [6 marks]**

**Ans:** (a) BUSINESS ENTITY: the business is treated as separate from its owner; the owner's investment is capital (a liability) and withdrawals are drawings, not expenses. (b) COST (historical cost): an asset is recorded at the price actually paid to acquire it, not at market value, and this cost is the basis for depreciation. (c) REVENUE RECOGNITION (realisation): revenue is recorded when it is earned/realised — usually on delivery of goods or rendering of services — not when cash is received. (d) FULL DISCLOSURE: all material information significant to users must be disclosed honestly, through the accounts and supporting notes. (e) CONSISTENCY: accounting policies once adopted should be applied uniformly from year to year so results are comparable; any change must be disclosed. (f) MATERIALITY: only information important enough to influence a user's decision needs separate recording/disclosure; trivial items may be treated in the simplest convenient way.

## ★ TOPPER TEMPLATE — 3-4 mark: 'Explain the dual aspect concept and derive the accounting equation.'

Most papers

<b>Step 1</b> [1 mark]	<b>State the concept</b>	Open: 'The DUAL ASPECT concept states that every transaction has TWO aspects — a debit and a credit of equal amount — so the total of all debits always equals the total of all credits.' This is the foundation of the double-entry system.
<b>Step 2</b> [1 mark]	<b>Give the equation</b>	State the resulting equation: 'Assets = Liabilities + Capital', or equivalently 'Capital = Assets – Liabilities'. Note that both sides are ALWAYS equal because every transaction affects two items keeping the equation balanced.
<b>Step 3</b> [2 marks]	<b>Prove with a worked example (mark-rich part)</b>	Illustrate: owner invests ₹1,00,000 → Cash (asset) ₹1,00,000 = Capital ₹1,00,000. Buys goods ₹20,000 cash → Goods +20,000, Cash –20,000 (assets reshuffle, total unchanged). Borrows ₹50,000 loan → Cash +50,000 (asset) = Loan +50,000 (liability). Show the equation balancing after each step. Examiners reward the demonstrated balancing, not just the statement.

**COMMON LOSS OF MARKS:**

- Writing only the equation without explaining the two-aspect logic.
- Not showing a numerical illustration that keeps both sides equal.
- Confusing the equation form (writing Assets = Capital – Liabilities).

## ★ TOPPER TEMPLATE — 3-4 mark: 'Distinguish between the cash basis and accrual basis of accounting.'

Frequent

<b>Step 1</b> [1 mark]	<b>State the basis of distinction</b>	Open each difference with a labelled BASIS (Recognition of revenue, Recognition of expense, Outstanding/prepaid items, Profit shown, Acceptability). Examiners award marks per labelled basis, not per loose sentence.
<b>Step 2</b> [2 marks]	<b>Two-column contrast (mark-rich part)</b>	CASH BASIS — records revenue only when cash is RECEIVED and expense only when cash is PAID; ignores outstanding and prepaid items; gives an incomplete profit. ACCRUAL BASIS — records revenue when EARNED and expense when INCURRED regardless of cash; adjusts for outstanding and prepaid; gives a true and fair profit.
<b>Step 3</b> [1 mark]	<b>Close with the verdict + which CBSE uses</b>	End: 'The accrual basis is recognised by the Companies Act and gives a truer picture, so it is the basis used in standard financial accounting; the cash basis is used only by very small concerns and professionals.' A clean closing line cements the mark.

**COMMON LOSS OF MARKS:**

- Reversing the two bases (saying accrual = when cash moves).
- Writing prose instead of basis-wise two-column points.
- Omitting the treatment of outstanding / prepaid items, which is the key practical difference.

## ★ TOPPER TEMPLATE — 3 mark: 'Explain the conservatism / matching / revenue recognition concept with an example' OR a case asking which concept applies.

Frequent

<b>Step 1</b> [1 mark]	<b>Name + define the concept precisely</b>	Name the concept and give its one-line rule. E.g. CONSERVATISM: 'anticipate no profit but provide for all possible losses.' MATCHING: 'expenses of a period are set against the revenues of the same period.' REVENUE RECOGNITION: 'revenue is recorded when it is earned/realised, normally when goods are delivered or services rendered, not when cash is received.'
<b>Step 2</b> [1 mark]	<b>State why the rule exists</b>	Give the rationale: conservatism avoids an over-optimistic, misleading profit; matching produces a correct period profit; revenue recognition prevents counting unearned income. One sentence on the purpose earns this mark.
<b>Step 3</b> [1 mark]	<b>Anchor with a textbook example</b>	Close with the standard example. Conservatism → closing stock at lower of cost or market value; provision for doubtful debts. Matching → charging this year's outstanding rent and depreciation against this year's sales. Revenue recognition → sale recorded on delivery, not on advance receipt. The example secures the application mark.

**COMMON LOSS OF MARKS:**

- Naming the concept but giving no example.
- Confusing matching with the cash-equality idea.
- Stating conservatism symmetrically (recording unrealised profits too).

**MARKING SCHEME — GENERAL NOTES**

- For 'name the concept' questions, the correct concept name earns the mark; a vague description without the right name does not.

- For the dual aspect / equation question, award marks for stating the two-aspect rule, writing the correct equation, AND demonstrating that the illustration balances after each transaction.
- For 'distinguish' questions (cash vs accrual), award marks per clearly-labelled basis of difference, not per loose sentence; the treatment of outstanding/prepaid items is the key point.
- An example, where asked, carries part of the mark — answers without the requested example lose that part.
- Stating conservatism symmetrically (recording unrealised profits too) or confusing the accrual basis with the cash basis is treated as a conceptual error — no mark for that point.