

ACCOUNTANCY · CHAPTER 2

Theory Base of Accounting

A 1-page guide for parents · 90-second read.

EXPECTED MARKS

6-8 out of the marks this chapter carries. Because it is concept-based theory, full marks are achievable with two focused revisions plus practising 'identify the concept' questions.

TIME TO MASTER

5-7 hrs

HELPLINE

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WHAT THIS CHAPTER IS, IN PLAIN ENGLISH

Chapter 1 taught the words of accounting; this chapter teaches the RULES — the agreed principles (called GAAP) that every accountant in the world follows so that accounts are consistent, fair and comparable. Your child is learning ideas like: the business is treated as separate from its owner (entity); only money-measurable facts are recorded (money measurement); a firm is assumed to keep running (going concern); every transaction has two equal sides giving $\text{Assets} = \text{Liabilities} + \text{Capital}$ (dual aspect); profit is measured by matching this year's costs against this year's sales (matching); and one should never overstate profit but always provide for losses (conservatism). It also covers cash basis vs accrual basis and a first look at Accounting Standards / IFRS. There are no big calculations — it is the 'rulebook' chapter that silently governs every entry for the next two years.

5 QUESTIONS TO ASK YOUR CHILD

- Why is the business treated as separate from its owner?
- What is the accounting equation, and why do both sides always stay equal?
- What's the difference between the cash basis and the accrual basis of accounting?
- What does 'conservatism' (prudence) mean — give an example?
- What are the three fundamental accounting assumptions?

WEAK-SPOT INDICATORS

- Thinks the owner and the business are the same for accounts (entity concept not grasped).
- Can't show why $\text{Assets} = \text{Liabilities} + \text{Capital}$ stays balanced.
- Says accrual basis means recording only when cash moves (that's the cash basis).
- States conservatism symmetrically — recording unrealised profits as well as losses.
- Shows assets at market value instead of cost in the balance sheet.

WHEN TO WORRY — AND WHAT TO DO

These concepts look like 'just theory' but they are the reasons behind every later adjustment — depreciation, outstanding expenses, provisions, stock valuation. If your child can recite the names but cannot APPLY a concept to a simple situation ('which concept is this?'), that gap will quietly

cost marks in every chapter that follows. A shaky Chapter 2 is an early warning to fix now, not later.

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