CHAPTER	
1	**Accounting Process**
Unit : 5	**Accounting as a Measurement Discipline–Valuation Principles, Accounting Estimates**

[1] (b) In accounting process money is the scale of measurement, although now-a-days qualitative information is also communicated alongwith the monetary information. Money as a measurement of scale has no universal denomination. It takes the shape of currency ruling in a country. There is no constant exchange relationship among the different currencies.

[2] (c) Money as a measurement scale has no universal denomination as the exchange rate between the different currencies keeps on fluctuating. Money takes the shape of the currency ruling in the country of measurement.

Eg. In India it is ₹ in U.S. it is Dollar ($); in U.K. It is Pound (£) and so on.

[3] (b) According to Cost Concept the assets are recorded at their historical cost i.e. cost of acquisition. It is also known as it's Gross Book Value. The term Net Book Value will mean Cost less depreciated value of an asset.

[4] (c) Current Cost provides an alternative measurement base. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently.

Therefore, the value of ₹ 1,50,00,000 will be designated as current cost as it is required to purchase a similar building currently.

In the same way when Current Cost measurement base is followed, the liabilities are carried at the undiscounted amount of cash or cash equivalent that would be required to settle the obligation currently.

[5] (d) Estimates have to be made for certain items that have not occurred on the balance sheet date and therefore they cannot be measured using valuation principles. In such a situation a reasonable estimate based on the existing situation and past experience is made.

Such estimates are made in connection with the computation of depreciation, amortisation and impairment losses as wells as accruals, provisions and employee benefit obligations. The process of estimation involves judgments based on the latest information available.

An estimate may require revision if any change occurs regarding circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments.

Change in accounting estimate means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual result achieved during the current period.

[6] (c) There are **four** generally accepted measurement basis or valuation principles.

There are:

(1) Historical Cost
(2) Current Cost
(3) Realisable Value
(4) Present Value.

[7] (c) The four valuation principles are:

(1) Historical Cost
(2) Current Cost
(3) Realisable Value
(4) Present Value.

Hence, future value is not a valuation principle.

[8] (a) Historical Cost concept requires the asset to be recorded at its original cost (inclusive of acquisition cost).

[9] (d) Estimates have to be made for certain items that have not occurred on the balance sheet date and therefore, they cannot be measured using valuation principles. In such a situation, a reasonable estimate based on the existing situation and past experience is made.

Such estimates are made in connection with the computation of depreciation, amortization and impairment losses as well as accruals provisions and employee benefit obligations. The process of estimation involves judgements based on the latest information available.

An estimate may require revision if any change occurs regarding circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments.

Change in accounting estimate means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual result achieved during the current period.

Thus, correct answer is **both A and B.**

[10] (d) An estimate may require revision if changes occur regarding circumstances on which the estimate was based, or as a result of new information, more experience or subsequent development. Change in accounting estimate means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual result achieved during the current period.

Hence, both (A) and (B) are correct.