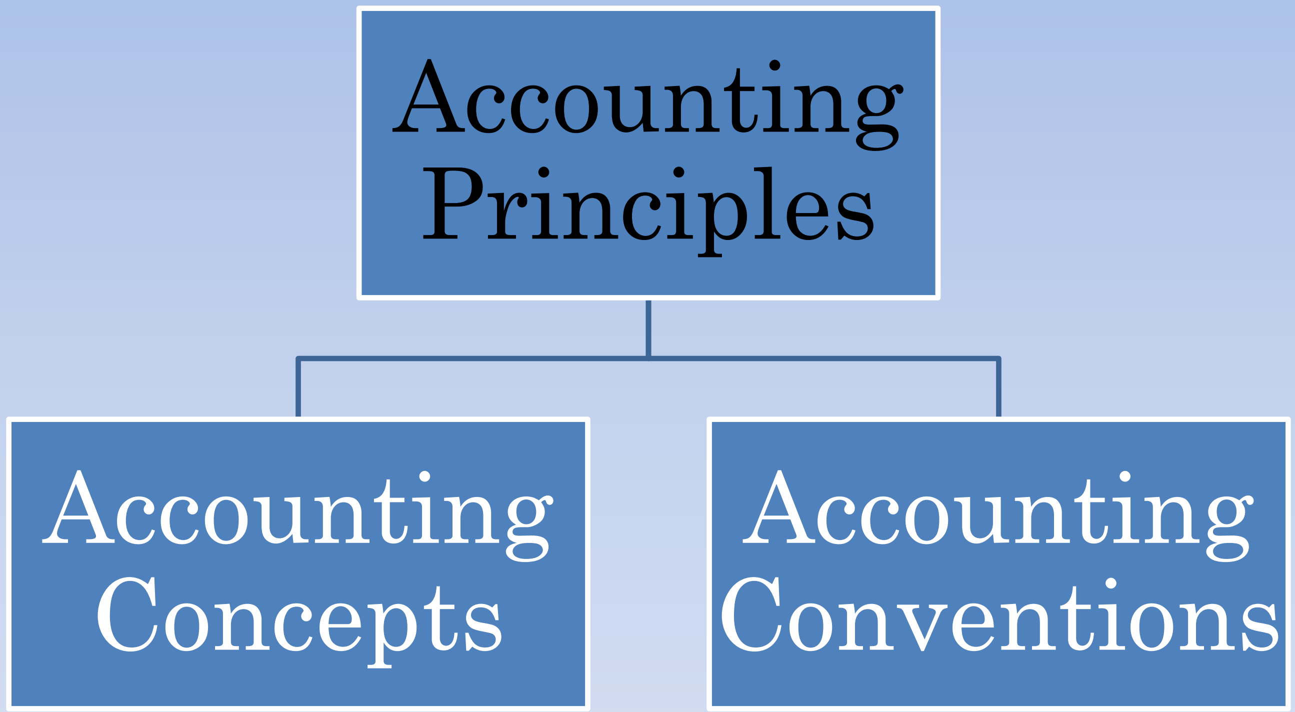
Accounting Principles, Concepts and Conventions

Accounting Principles: Accounting Principles are the rules and guidelines that companies must follow when reporting data. These rules and principles represent a consensus view by the profession of good accounting practices and procedures and are commonly referred to as “Generally Accepted Accounting Principles” (GAAP).


Accounting Principles
Accounting Concepts
Accounting Conventions

Accounting Concepts

Accounting concept refers to the basic assumptions and rules which work as the basis of recording of business transactions and preparing accounts.

The main objective is to maintain uniformity and consistency in accounting records. These concepts constitute the very basis of accounting. All the concepts have been developed over the years from experience and thus they are universally accepted rules.

Business Entity Concept

•Business is treated as a separate entity distinct from its owners.

•Separate set of books are maintained for business.

•Owners are treated as creditor of the business.

•Money or goods withdrawn for personal purpose is treated as drawings and not as a business expense.

Money Measurement Concept

•Transactions which can be expressed in money terms i.e. transactions of only financial nature are recorded in books of accounts.

•Money is the medium of exchange and it has universal acceptability. In India rupee is legal currency for measure.

• Qualitative information isn't recorded in books, even though of great importance to business.

Going Concern Concept

- It is assumed that business will continue to exist for an indefinite period of time in future.

- Because of this business enters into long term contacts with outside parties.

- Assets are shown at their original costs and not at their realisable values.

Accounting Period Concept

- In order to assess the operational efficiency of the business the entire life of business is divided into equal time intervals which is known as accounting period.

- It can be Financial year (1st April to 31st March) & Calendar year (1st Jan to 31st Dec).

- For taxation purpose financial year is adopted as prescribed by Government of India.

- Companies whose shares have been listed on stock exchanges publishes quarterly results.

Cost Concept

•Assets are recorded at their original costs or acquisition cost less depreciation.

•This cost serves the basis for further accounting treatments in books of accounts.

•Acquisition costs relate to the past i.e. It is also known as historical cost.

• Assets which are not paid like reputation, brand value, loyalty of customers etc. will not be recorded.

Justification

•This brings objectivity in books of accounts and can be varified

•Eliminates subjectivity in determining the current values of assets.

•Justified with Concept of going concern

•Difficult to keep track of up and down in the market price of assets.

Dual aspect Concept

- Every trasaction has two fold aspects and affects at least two accounts.
- One account is debited and other one is credited with the same amount
- This is also known as Double entry System.
- At all times the sum of assets will always be equal to the sum of capital & liabilities i.e.

ASSETS= LIABILITIES+ CAPITAL

Matching Concept

•In order to determine the true profit or loss of a particular period all the revenue of that period should be matched with the cost of that particular period.

•For matching costs with revenue, first revenue should be recognised then the cost incurred for earning that revenue should be recorded.

•The purpose of this concept is to avoid misstating earnings for a period

Accrual Concept

- Revenue should be recorded in books of accounts when the right has accrued to receive it.

- Expenditure should be recorded at the time when the liability to pay it has arisen.

Objectivity Concept

•The transactions recorded in books of accounts should be based on evidence or should be verifiable with some documentary proof.

•The purpose is to make the financial statements more objective and free from the personal biasness and judgement of the accountant.

•So the financial reporting should be independent and supported with unbiased evidence.

Accounting Conventions

An accounting convention consists of the guidelines that arise from the practical application of accounting principles. It is not a legally binding practice; rather, it is a generally accepted convention based on customs and designed to help accountants overcome practical problems that arise out of the preparation of financial statements. It serves to fill in the gaps not yet addressed by accounting standards.

Convention of Consistency

- The convention states that uniform accounting policies should be used in preparation of financial statements over the different years.

- This facilitates intra firm and inter firm comaprison.

- This does not mean that a firm cannot change the accounting methods. A better method can be used under changing circumstances after giving disclosure in financial statements

Convention of Conservatism

- It is also called convention of Prudence.

- All anticipated losses should be recorded but all anticipated gains should be ignored.

- Provision for all loses is made even the amount of the loss can not be determined with certainity.

Convention of Full Disclosure

•The material information related to economic affairs of the business should be completely disclosed in the book of accounts.

•The information which affect the decisions of the users is called the material information.

•Full, adequate and complete disclosure of information is required to present true and fair view of affairs of the business.

Convention of Materiality

•According to American Accounting Association "An item should be recognised as material if there is reason to believe that knowledge of it would influence decision of informed investor"

•It is an exception to the convention of full disclosure.

•Items of insignificant influence on decisions of users of financial information need not to disclosed.

Difference Between Concepts and Conventions

Basis	Accounting Concepts	Accounting Conventions
Established	By Law	Guidelines based upon customs or usage
Biasness	No space for personal biasness in the adoption	Biasness in adoption
Uniformity	Uniform adoption	No uniform adoption

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Thank You