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ACCOUNTING CONCEPTS AND CONVENTIONS AND OTHERS

2-4 marks

CONCEPT1:

CONCEPT AND CONVENTIONS

Meaning

Accounting Concepts and Conventions

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ACCOUNTING PRINCIPLES

Accounting Concepts

1. Money Measurement
2. Business Entity
3. Going Concern
4. Cost
5. Dual Aspect
6. Accounting Period
7. Matching
8. Realisation
9. Objectivity
10. Accrual

Accounting Conventions

1. Disclosure
2. Consistency
3. Conservatism
4. Materiality

Done in Accounting Policies Chapter

Done in Accounting Policies Chapter

Done in Accounting Policies Chapter

DIFFERENCE B/W CONCEPTS & 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

Which of the following do not have universal application?

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CONCEPT2:

TYPES

Concept is the basic idea that the business is separate from owner

ACCOUNTING CONCEPTS

Transaction between owner and business are recorded as per

- **Business Entity**
  - the entity is separate and distinct from the owners and the entity is liable to the owner
  - Hence, in a limited liability company, the enterprise is liable to the owner (shareholder) based on the proportion of the capital investment (share capital) made by the latter
- **Going Concern**
  - entities have a life of infinite duration, unless facts are known that indicate otherwise
  - the basis of valuation of resources is influenced more by their future utility to the business entity than by their current market valuation

The 'Going concern concept' if not applicable then asset are shown at realizable value

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Accounting does not record non-financial transactions because of

Money Measurement

- Meaning
  - All transactions of the business are recorded in terms of money
  - It provides a common unit of measurement
- Examples
  - Market conditions, technological changes and the efficiency of management would not be disclosed in the accounts

An Indian businessman buys goods from UK worth 20,000 Euro and the payment was made in US Dollars. This transaction will be recorded by him in

13

The determination of expenses for an accounting period is based on the principle of

Basic principle

Matching Concept:

- Expenses should be matched to the revenue of the appropriate accounting period.
- For Example- Salary paid in January 2011 relating to December 2010 should be treated as expenditure for the year 2010 and not 2011.

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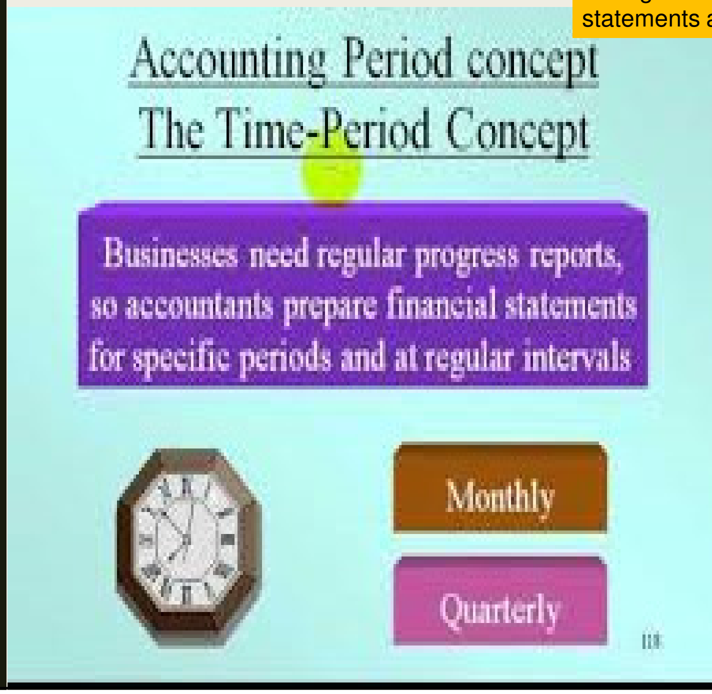
During life-time of an entity accountants prepare financial statements at arbitrary points of time as per



So, Period concept never specify any year it can be any interval

The Periodicity Concept

Economic transactions and events are to be accounted for in the accounting period and in the financial statements to which they relate.

ALL BALANCE SHEET ACCOUNTS carry their ledger account balances forward each year; therefore, **<u>ALL BALANCE SHEET ACCOUNTS ARE PERMANENT ACCOUNTS</u>**.

Beginning Balance Sheet as of 1/1/X1 ↔ Ending Balance Sheet As of 12/31/X1

Assets
Liabilities
Equity

Beginning Balance Sheet As of 1/1/X2 ↔ Ending Balance Sheet As of 12/31/X2

Beginning Balance Sheet As of 1/1/X3

ALL Income Statement and Dividend Accounts are CLOSED EACH Year into Retained Earnings (i.e. a PERMANENT ACCOUNT); therefore, **<u>ALL Income Statement and Dividend Accounts are TEMPORARY ACCOUNTS</u>**.

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5. Accounting Cost Concept:

Recording of Fixed Assets at Cost ensures adherence of

Meaning :

Also Known as Historical Cost

-It state that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transportation and installation and not at its market price.

6) DUAL ASPECT CONCEPT

- Every transaction recorded in books affects at least two accounts.
- If one is debited then the other one is credited with same amount.
- This system of recording is known as "DOUBLE ENTRY SYSTEM".
- ASSETS = LIABILITIES + CAPITAL

The Accounting Equation is based on

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7. Realization concept

When is revenue recognized?

Revenue from sale of products, is generally, realized in the period in which

Revenue from sales transaction

- When the seller of goods has transferred to the buyer property (ownership) in the goods, for a price and the buyer becomes legally liable to pay.

Holding gains in relation to stocks should not be used for payment of dividend." Which one of the following accounting principle

Revenue from services

- When service has been rendered.

OBJECTIVITY

- Meaning
  - The accounting information should be free from bias and capable of independent verification
  - The information should be based upon verifiable evidence such as invoices or contracts

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Principle Of Full Disclosure

All necessary information must be reported in the financial statements.

Contingent liability is shown in Foot Notes due to

1.MATERIALITY
principle is an exception of full disclosure principle

2.The cost of a small calculator is accounted as an expense and not shown as an asset in a financial statement of a business entity due to –

3. Omission of paise and showing the round figures in financial statements is based on

On 31-3-2009, Amar purchased a typewriter from Akbar for Rs. 8,000

CONCEPT3:

TRANSACTION VS EVENT

Payment of Rent, Salary, Purchase of goods, sale of goods, etc. can be termed as

Stock, Debtors etc i.e. items of Balance sheet can be termed as

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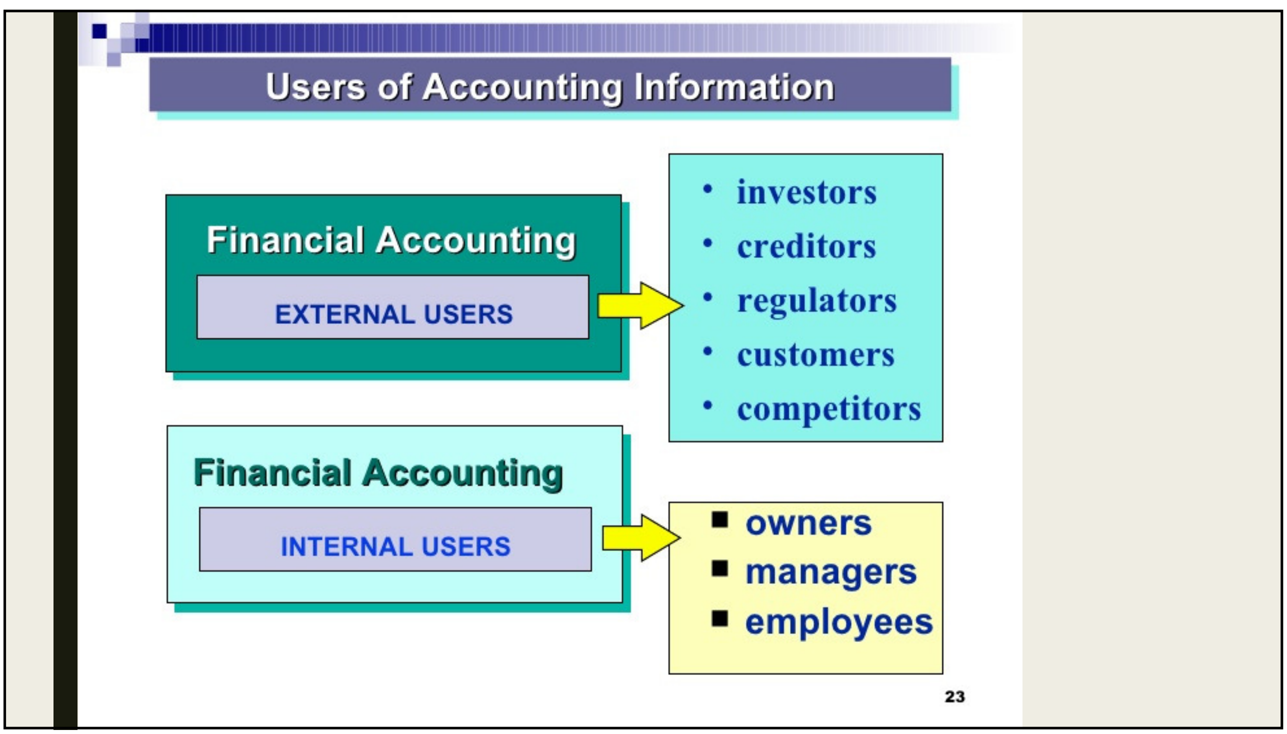
CONCEPT 4:

USER OF ACCOUNTS



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CONCEPT 5:

BRANCHES OF ACCOUNTS

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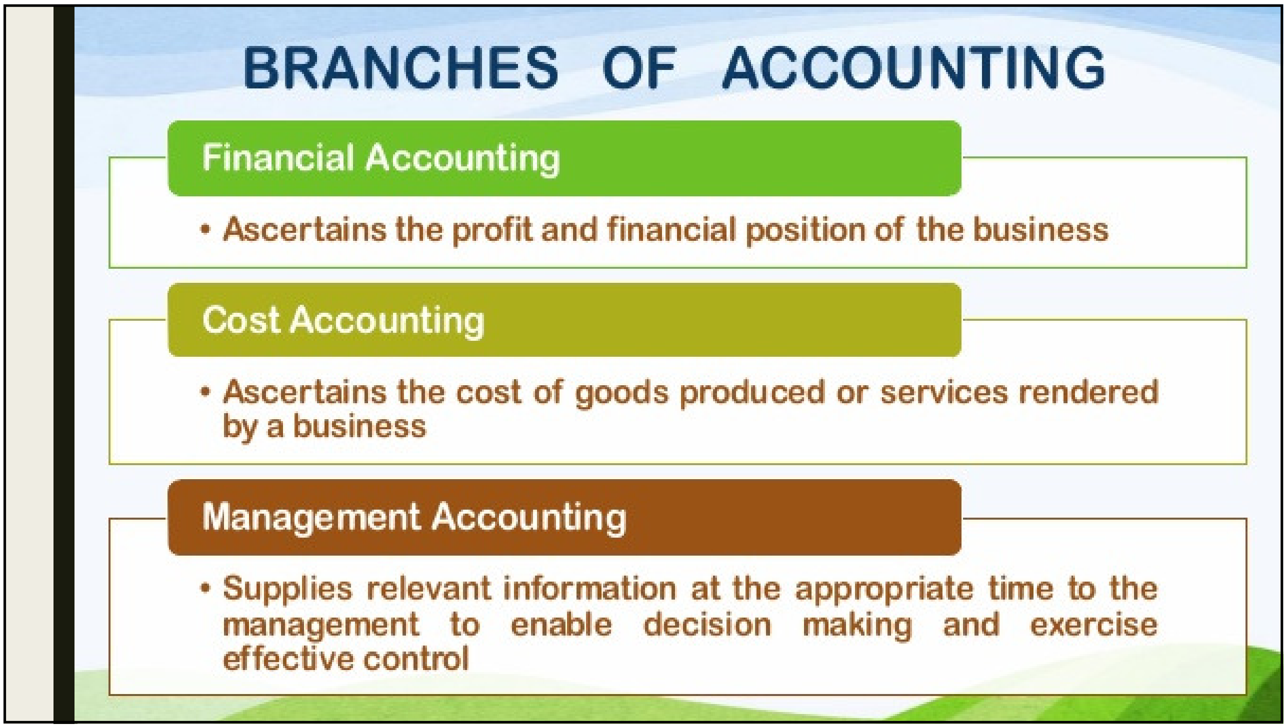

CONCEPT 6:

QUALITATIVE CHARACTERISTICS

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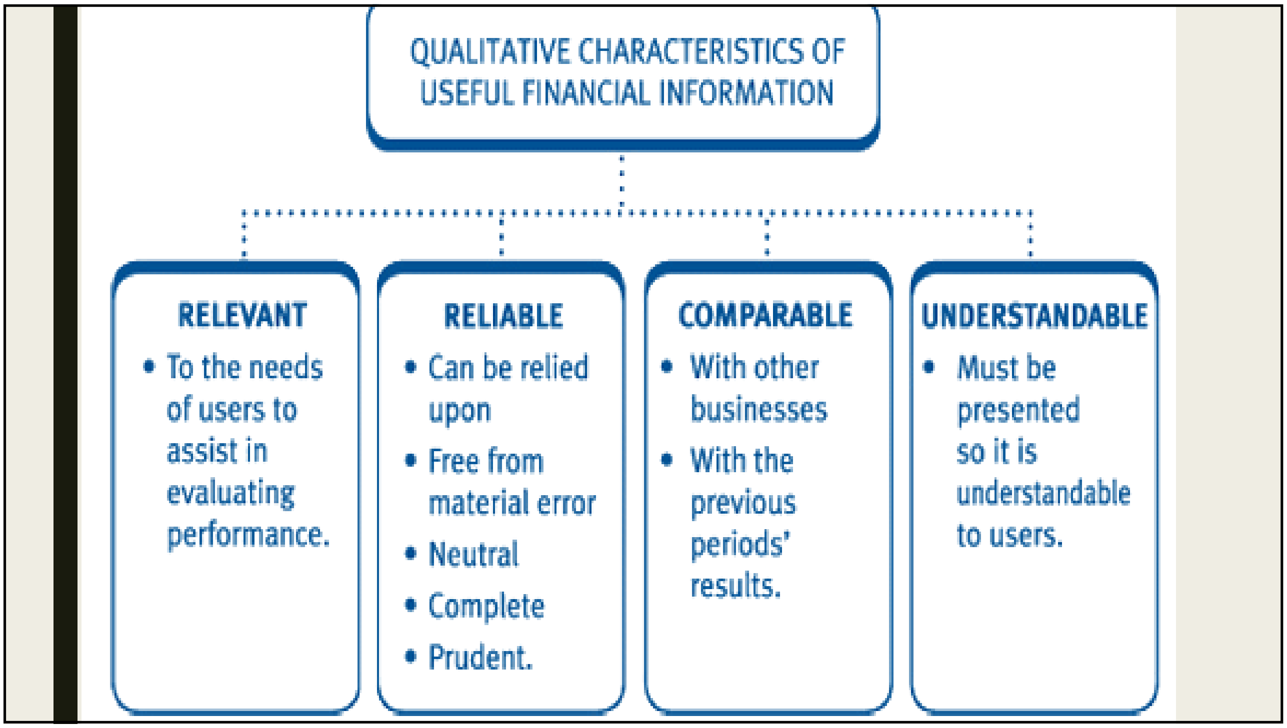

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