Chapter - 1 (Accounts Theory)

Unit - 2 Accounting Concept, Principal (Rules) and convention.
(Assumption) (old Practice)

Going Concern Concept

- Going concern concept assume that the business entity will continue its operation for an indefinite period of time.
- There is no intension to close down the business necessity to scale down business activities
- The business firm will continue in operation for the foreseeable future.

Accrual Concept:-

- Accrual concept is basic assumption in accounting process. Accrual means when a payment or a due arise especially an ammount of money that is yet to be paid or received (accrued)

In other words, Accrual means identification of revenue and cost as they earned or Incurred and not as money is received or paid.

EXAMPLE :- Cost of goods =₹1,00,000 ₹80,000 Sold for 1,20,000

₹20,000 closing stock

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Business Entity Concept:

- According to this Concept Business is treated as a unit separate and distinct from its owner, creditor, manager & others.

• In other words, the owner of the business is always considered as distinct & separate from business he owns

• Business transaction are recorded in Business books of accounts and owner's transactions are recorded in ~~the~~ ~~boo~~ his personal books of accounts

Money Measurment Concept:

According to this concept only those transactions and events are recorded in accounting which are capable of being expressed in terms of Money

In other words, Money Measurement Concept associate to such transaction of a business, which can be recorded in terms of Money in the books of accounts.

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Consistency concept :

- This concept states that accounting principles and method should be remain consistent from one year to another

- These should not be change from year to year.

- ~~A~~ a change in an accounting Policy is made only in certain exceptional circumstances

⇒ An enterprise should change its accounting policy in following circumstances :

a) To bring the books of accounts in accordance with the issued Accounting Standards.

b) To comply with Provision of law

Periodicity | Accounting period Concept :

- It ~~reffy of reffers to~~ the users of the financial statement needs to know the result of the business at frequent Intervals.

- The entire life of firm is divided into time-intervals for the measurment of the profits of the business. 12 ~~Moth~~ Month period is usualy adopted for these purpose.

- According to amended Income tax law Business has compulsorily to adopt financial year from 1^{st} April to 31^{st} March in the next calendar year, as it accounting period.

Cost | Historical concept:

- According to this concept an asset is ordinarily recorded in books of accounts at the price at which it was acquired
- This cost become the basis of all subsequent accounting for asset.

IMP. Point

- As per cost concept, all ~~asset~~ assets are recorded in books of accounts at the purchase price which includes cost of ~~~~ acquisition, transportation, Installation and making the asset ready to use.

Dual Aspect Concept: According to this concept every business transaction is recorded as having a dual aspect

- In other words, every transaction affect atleast two accounts. if one is account is debited any other A/c must be credited

- The system of recording transaction based on this principle is called as 'Double entry system'

• Assets = Liabilities + capital OR capital = Assets − liabilities.

Realisation Concept: According to this concept Revenue should only be recorded when it is earned and realized,

In other words. the business has completed its obligation to deliver goods & Services and its reasonably certain customer will pay.

Matching Concept

- This concept is very important for correct determination of net profits
- According to this concept, in determining the net profit from business operation all cost which are applicable to revenue of the period should be charge againts revenue.

Materiality ~~Concept~~:

- According to this convention ~~concept~~ all the items having significant effect on the business ~~firm~~. of the enterprise should be disclosed in the financial statement and any insignificant items which will increase the burden of the accountant but will not be relevant to the users need should not be disclosed in the financial statement
- The term materiality is the subjective it is based on judgment, common sense and decision of accountant that which item is material or which is not.
- This principle is an exception to full discloure priciple.

Conservatism | Prudence ~~concept~~ :-

- According to this convention all anticipated ~~losses~~ losses should be recorded in books of account, but all anticipated or unrealized gain should be ignored. ~~other~~

- In other words, conservatism is the policy of playing safe. Provision is made for all known liabilities and losses even though the ammount can't be determined with certainity.