2. ACCOUNTING CONCEPTS, PRINCIPLE, CONVENTIONS

Accounting concepts: it may defined as the rules of action or conduct, which are derived from past experience & practices and when they prove useful , it is accepted as principle of accounting.

This is basically a set of rules, which govern the development of accounting technique.

This guides, how transactions should be recorded and reported.

1. **Accounting Concepts/Principle:-**
   1. **Entity Concept:-** It states that " Business has separate identity from its owner & other Accounting entities.
      RESULTS: Personal transactions & Business transactions, and transactions of other entities are distinguished.
   2. **Money Measurement Concept:-** According to this, only those transaction which is expressable in terms of money shall be recorded.[Transactions which are not able to be expressed in terms of money are ignored.]

   EX.Not recorded[1] self generated goodwill[2] loss of profit due to strike etc.

   3. **Going Concern Concept:-"Known as continuity assumption"** This concepts assumes that Business is a going concern & will continue its activities for the foreseeable future. (Not applicable on joint venture).

      RESULT:[1]Assets are classified as fixed and current.[2] Liabilities are classified as short terrn and long term etc.

   4. **Periodicity concept: According to this concept "economic life of an enterprises is artificially split into periodical intervals**(know as Accounting period) to know the financial performances and position of business.
      Implication:Expenditure has been divided into capital and revenue.

   5. **Accrual concepts:-** According to this "All revenues & Expenses are recognized in the year in which they are earned/incurred (Not as Money is received/paid)

   6. **Matching Concepts:-** According to this, "Expenses incurred, will be charges in the period in which its related Revenue/Benifite recognized or expired.
      This concept calls for adjustment to be made in respect of, Prepaid expenses Outstanding expenses, Accrued revenue,Unaccrued revenues

   7. **Cost Concept:-** According to this, "Assets should be valued at its "Historical Cost" (purchase cost) not at its Reliable value or Current value or present value.
   8. **Realisation Concept:-** It closely follows the cost concept. It states "Any changes in value of Assets is to be recorded only when business realises it.

   9. **Conservatism Concept:-[Prudence concept] According to this, anticipate no**

profit but provide for all losses “It means, all the probable losses should be provided for but not the probable gain.[Assets should be valued at cost or net realisable value which is lower.(It is an exception to the consistency principle.)

10. **Consistency Concept:-** According to this “whatever Accounting policies, procedure or Method selected for transactions(whether logical or illogical) should be followed year after year,to make the financial statement comparable.

11. **Materiality:-** An exception of full disclosure principle. It states” All items having significant economic effect on business should be disclosed in Financial statement.

Implication:(1) Small amount of capital expenditure is charged as revenue.
(2) Reporting to top management is given in approximation.

12 . **Full disclosure principle: It means financial statement should act as means of conveying not concealing.Accordingly financial statement should disclose all the information whether material or immaterial.(The practice of Appending notes has developed as a result of this concept.)**

13. **Dual aspects concept:-** It states every transactions effect at least two item. Hence, both should be recorded.
(Double entry system is based on this concept)