CONCEPTS AND CONVENTIONS OF ACCOUNTING

MEANING OF ACCOUNTING CONCEPTS :

Accounting concepts can be described as something which signifies a general notion regarding accounting principle. The assumptions, so made, are most natural and are not forced ones. A concept is self-evident proposition i.e., something taken for granted. There is no authoritative list of these concepts.

1.Business Entity Concept :

Business is treated as separate from the proprietor. This concept is important and implies that a business is separate and distinct from the persons who supplied capital to the firm. All transactions of the business are recorded in the books of the firm. It is important to note that transactions of the business affairs and private affairs are separated for recording only and in law, no such distinction is recognized except for an incorporated company.

2.Money Measurement Concept :

Only those transactions, which can be expressed in monetary terms, are recorded in accounting though their quantitative records may also be kept. All business transactions should be expressed only in money.

3.Going Concern Concept:

This concept relates with the long life of the business. A business is intended to continue for an indefinitely long period. For all practical purposes, a business firm comes under going concern concept, when there is no evidence to the contrary. All firms that continue to operate on a profitable footing are treated as going concerns.

4.Accounting Period Concept:

Accounting is a continuous process in any business undertaking. Every businessman wants to know the result of his investment and efforts at frequent intervals. Accountants choose some shorter period to measure the result. Therefore, one year has been, generally, accepted as the accounting period. It may be 3 months or 2 years also. This period is called accounting period. One year accounting period is recognised by law and the taxation is assessed annually. Reports to the outsiders are provided on this accounting period.

5.Accrual Concept:

According to this concept the revenue is recognised on its realisation and not on its actual receipt. Similary, the costs are recognised when they are incurred and not when payment is made. This assumption makes it necessary to give certain adjustments in the preparation of income statement regarding revenues and costs.

6.Cost Concept:

Under this concept, fixed assets are recorded in the account books at the price at which they are acquired. This price paid to acquire the assets is termed as cost and this cost is the basis for all the subsequent accounting for the asset.

7. **Reliasation Concept :**

According to realisation concept, which is also known as the "revenue recognition concept", revenue is considered as being earned on the date on which is realised i.e., the date on which goods and services are transferred to customers either for cash or for credit. The realisation concept is important in ascertaining the exact profit earned during a period in business concern. This concept is very important as it prevents firms from inflating profits by recording sales and incomes that are likely to accrue.

8.Dual Aspect Concept :

This concept signifies that every business transaction involves a two-fold aspect a. the yielding of benefit and b. the giving of the benefit. For an exchange of value, two parties are required-a giver and a receiver, the assets of a business entity will always be equal to its liabilities i.e.,

Total Assets = Total Liabilities

Total Assets = Capital + Outsiders' liabilities

Capital = Total Assets - Outsiders' liabilities.

9.Matching Concept :

According to this concept, it is necessary to match the expenses incurred during the accounting period with the revenues recognised during the same period. Since profit is an excess of revenue over expenses, it becomes necessary to bring together all revenues and expenses pertaining to a particular period. In other words, expenses incurred in an accounting year should be matched with the revenues recognised in that year.

10.Objectivity Concept:

This concept implies that all accounting transactions should be evidenced and supported by business documents i.e., invoices, vouchers etc.

MEANING OF ACCOUNTING CONVENTION:

An accounting convention is a common practice which is universally followed in recording and presenting accounting informations of business. They are like customs that are followed in a society. Conventions help in comparison of accounting data of different business units or of the same unit for different periods. The object is to make accounting data more useful. Following are the accounting conventions in the use:

1.Convention of Disclosure:

The convention requires that accounting statements should be honesty prepared and all significant information should be disclosed therein. That is, while making accountancy records, care should be taken to disclose all material information. Here the emphasis is only on material information and not on immaterial information.

In short, full disclosure of all relevant facts in accounts is a necessity in order to make accounting record useful. Therefore, full disclosure is a very healthy convention, and is important.

2.Convention of Conservatism :

“Anticipate no profit and provide for all possible losses” is the essence of this convention. Future is uncertain. Fluctuations and uncertainties are not uncommon.

Conservatism refers to the policy of choosing the procedure the leads to under-statement as against overstatement of resources and income.

3.Convention of Materiality :

American Accounting Association defines the term materiality as “an item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investor.” In short, all material information should be disclosed that it is necessary to make the financial statements clear and understandable.

4.Convention of Consistency :

Rules and practices of accounting should be continuously observed and applied. In order to enable the management to draw conclusions about the operation of a company over a number of years, it is essential that the practices and methods of accounting remain unchanged from one period to another. Comparisons are possible only if a consistent policy of accounting is followed.