

THEORY BASE OF ACCOUNTING

MODULE- I

**Theory base
of
Accounting**

**Concepts
&
principles**



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TOPICS TO BE COVERED IN THIS MODULE

- Meaning and nature of Accounting Principle
- Features of Accounting Principle
- Necessity of Accounting Principle
- Fundamental Accounting Assumptions or concepts
 - a) Going concern
 - b) Consistency
 - c) Accrual



MEANING AND NATURE OF ACCOUNTING PRINCIPLE

Accounting Principles, concepts and conventions commonly known as Generally Accepted Accounting Principles or GAAPs are the basic rule that define the parameters and constrains within which accounting operates.

According to American Institute of Certified Public Accountants “Principles of Accounting are the general law or rule adopted or proposed as a guide to action, a settled ground or basis of conduct or practice.”

- 1. Accounting Concepts:** Accounting Concepts are the basic assumptions or fundamental propositions within which accounting operates.
- 2. Accounting Conventions:** Accounting conventions are the outcome of accounting practices or principles being followed by the enterprises over period of time.

FEATURES OF ACCOUNTING PRINCIPLE

1. Accounting Principles are Man-Made:

Accounting Principles are man-made and therefore, they are the best possible suggestions based on practical experiences. They are recommended for use by all enterprises to ensure uniformity and understandability.

2. Accounting principle are flexible:

Accounting principle are not rigid but flexible. Accounting principles are not permanent but change with time.

3. Accounting Principles are Generally Accepted:

Accounting Principles commonly known as Generally Accepted Accounting Principles usually depends on how it meets three criteria, i.e.

i) Relevance: They are relevant if they in information that is useful to the users of accounting information.

ii) Objective: They are objective if they are not influenced by personal bias of the person preparing accounting information.

iii) Feasible: They are feasible if they can be applied without undue complexity and cost

NECESSITY OF ACCOUNTING PRINCIPLES

Accounting information is better if it is prepared following the set of Accounting Principles uniformly.

It means the same Accounting Principles are followed by all entities in preparing their final accounts. Accounting information is meaningful and useful for users of accounting information if the accounting records and financial statements are prepared following generally accepted accounting principles.

FUNDAMENTAL ACCOUNTING ASSUMPTIONS OR CONCEPTS

Going Concern Concept

This concept assumes that every business has a long and indefinite life. Since financial statements are prepared on the basis of this concept, all fixed assets are shown in the books at their cost ignoring their market value.

Consistency

This principle requires that accounting practices, methods and techniques used by a business unit should be consistent. A business unit can adopt any accounting practice, but once a particular practice is chosen, it must be used for a number of years.

Accrual Assumptions

According to the accrual assumption, a transaction is recorded in the books of account at the time when it is entered into and not when the settlement takes place. Thus, revenue is recognized when it is realised. i.e., when sale is complete or services are rendered; It is immaterial whether cash is received or not .

