

ATOMIC ENERGY CENTRAL SCHOOL -3, RAWATBHATA

ACCOUNTANCY

CLASS XI-2020-2021

Hand Out Module- I

THEORY BASE OF ACCOUNTING

➤ Introduction:

To maintain uniformity in recording transactions and preparing financial statements, accountants should follow Generally Accepted Accounting Principles.

➤ Meaning of Accounting Principles:

Accounting principles are the rules of action or conduct adopted by accountants universally while recording accounting transactions.

GAAP refers to the rules or guidelines adopted for recording and reporting of business transactions, in order to bring uniformity in the preparation and presentation of financial statements.

➤ Features of accounting principles:

- (1) Accounting principles are manmade.
- (2) Accounting principles are flexible in nature
- (3) Accounting principles are generally accepted.

➤ Necessity of accounting principles:

Accounting information is meaningful and useful for users if the accounting records and financial statements are prepared following generally accepted accounting information in standard forms which are understood.

➤ **Fundamental accounting assumptions or concepts**

1) 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.

2) 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.

3) 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.