ATOMIC ENERGY CENTRAL SCHOOL -3, RAWATBHATA

ACCOUNTANCY

CLASS XI-2020-2021

Hand Out Module- II

THEORY BASE OF ACCOUNTING

- **Business Entity Concept**

This concept considers a business unit as a separate entity. Business and businessman are two separate entities and all the business transactions are recorded in the books of accounts from business point of view.

- **Dual Aspect Concept**

This Concept also known as equivalence concept signifies that every business transaction has two fold effects or every transaction affects at least two accounts. This concept is, in fact, the base on which Double Entry System of Book-Keeping is based. According to this principle, every debit has a corresponding credit.

- **Accounting Period Concept**

According to this concept the long life of business is divided into justifiable accounting periods so as to help businessman to know the results of his investment during each such period. This period is known as accounting period and the length of this period depends on the nature of business. Accounting period may be either a calendar year (From January 1 to December 31) or the fiscal year of the Govt. (April 1 to March 31)

- **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.

- **Cost Concept**

According to this concept all fixed assets are recorded in the books at cost i.e. the price paid to acquire them. Any subsequent increase or decrease in their value will not be shown in the records except the depreciation of these assets. In subsequent years, therefore fixed assets are shown at cost less depreciation provided on them up to date. Continuous charging of depreciation on the asset will ultimately eliminate the asset from the books.

- **Money Measurement Concept**

According to this concept only those transactions are recorded in the books of accounts which can be expressed in monetary terms. The non-financial or non-monetary transactions do not find any place in the accounting records. Money is the common denominator to denote the value of the various assets of diverse nature to give a meaningful total of these assets.

- **Matching Concept**

This concept states that it is necessary to charge all the expenses incurred to earn revenue during the accounting period against that revenue in order to ascertain the net income or trading results of the business. The matching concept which is so closely related to accrual concept and accounting period concept helps a businessman in realizing his objective i.e. in ascertaining the trading results or profit or loss from the business. For ascertaining the net income.

- **Realisation Concept**

According to this concept income is treated as being earned on the date on which it is realized i.e. the date on which goods or services are transferred to the customers. Since this exchange of goods or services may be for cash or on credit, it is not important whether cash has actually been received or not.

- **Verifiable Objective Concept**

This concept justifies the significance of verifiable documents supporting various transactions. According to it, each transaction should be supported by objective evidences like vouchers. Objective evidence, here, means evidence free from bias of the accountant.

- **Materiality**

This principle emphasizes that only those transactions should be recorded which are material or relevant for the determination of income from the business. All immaterial facts should be ignored.

- **Full Disclosure**

This concept implies that financial statements should disclose all material information which is required by the proprietor and other users to assess the final accounts of the business unit

- **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 or years.

- **Conservatism or Prudence**

This principle is nothing but a formal expression of the maxim "Anticipate no profits and provide for all possible losses." In other words, it considers all possible losses but ignores all possible profits.