Slide 1

THEORY BASE OF ACCOUNTING

MODULE- II

Prepared By,
Appa D. Awaghade
Atomic Energy Central School No.3, Rawatbhata

Slide 2

Topics to be covered in this module

- Accounting Principles

a) Business Entity
b) Money Measurement
c) Accounting Period
d) Full Disclosure
e) Materiality
f) Prudence or Conservatism
g) Matching
h) Dual Aspect or Duality
i) Revenue Recognition
j) Verifiable Objective
k) Cost Concept or Historical cost

ACCOUNTING PRINCIPLES

a)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.

b)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.

c)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)

d)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

e) 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.

f) 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.

g) 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.

h) 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.

i) Revenue Recognition Concept

According to revenue recognition concept, revenue is considered to have been realised when a transaction has been entered in to and the obligation to receive the amount is established. It is noted that recognizing revenue and receipt of an amount are two separate aspects.

j) Verifiable Objective

The verifiable objective concept holds that accounting should be free from personal bias. Measurement that are based on verifiable evidences are regarded as objective. It means all accounting transactions should be evidenced and supported by documents. For e.g. cash memo, invoices, sales bills etc.

k) Cost Concept or Historical cost

According to the Cost Concept, an assets is recorded in the books of account at the price paid to acquire it and the cost is the basis foe all subsequent accounting of the assets. Assets is recorded at cost at the time of its purchase but is systematically reduced by charging depreciation.

Slide 9