C O N C E P T S & CONVENTIONS

1.Business Entity Concept – This concept states that business and business man are two district entities and we record all the transactions from the view point of business and not from business man. That is why amount invested by business man in business is known as capital and money withdrawn from business for personal use is known as drawings. Due to this concept proprietor of business is treated as creditors to the extent of his capital.
2.Money measurement concept – The concept states that accounting records only monitory transactions i.e. the transactions which are being expressed in terms of money e.g. strike in factory and illness of manager will not be recorded in the books of accounts. Due to this concept accounting is having very serious limitations that it ignores qualitative aspect of information.
3.Going concern concept – This concept states that while recording business transactions in the book of accounts we assume that business will continue for an indefinitely long period of time that is why we have to make distinction between expense and expenditure. Expenditure refers to the amount incurred on the things whose benefit is derived for the long period of time and expense refers to amount incurred on things whose benefit is derived a for short period of time. Because of this concept the full cost of asset would not be treated as an expense in the year of its purchase.
4.Accounting period concept – The real position of the business is ascertained only after winding up of the business but we assume that business continue for an indefinitely long period of time. We divide the whole life of business into a period of 12 months termed as accounting period. We usually prepare profit & loss account and Balance sheet at the end to know about the profitability & financial position.
5.Cost Concept/ Historical Cost Concept – According to this concept all business transactions must be recorded in books of accounts at their monetary cost of acquisition. There is general tendency among people to show various assets have at less than its acquisition cost due to which accounting is having a serious limitation of not showing true picture.
6.Dual Concept – This concept states that every business transaction have at least two sides i.e.one is debit other is credit in other words at least two accounts are involved in recording a transaction for e.g. If a firm purchases goods worth Rs. 10000/- cash, it will increase an asset on one hand and reduce another on other. Similarly if the firm purchases a machine worth Rs. 300000/-on credit. It will increase the asset on one hand and liability on other. This type of dual concept takes place in all types of transaction and is known as duality principle. It is commonly expressed in terms of fundamental accounting equation which is as follow – Assets = Liability + Capital. We purchase the assets either on credit or from our own investment.
7.Conservatism Concept / Prudence Concept – This concept provide guidelines for recording transactions in the books of accounts. This concept states that "Do not anticipate profit but provide for all possible losses". According to this concept, profit should not be recorded until it is realized but all losses even those which have little possibility to arise are to be provided in the books of accounts e.g. closing stock should be valued at cost price or market price whichever is less, creating provisions of doubtful debt .

8.Materiality Concept – The concept of materiality requires that accounting should focus on material facts. Efforts should not be wasted in recording and presenting immaterial things. Fact is said to be material only it affects the decisions taken by users. E.g. money spent on creation of additional capacity of theatre would be a material fact as it is going to increase future earning capacity of enterprise.

9.Consistency Concept – The accounting information provided by financial statement would be useful in drawing conclusion regarding the working of firm only when it allows comparison over a period of time as well as with the working of another firm. For it, we require inter- firm and inter- period comparison. It can be possible only when accounting policies and practices followed by the firms are uniform and constant over a period of time for e.g. if an investor wants to know about financial performance of an enterprises in the current year as compared to that in the previous year, he may compare this year's net profit with last year's profit but only if accounting policies regarding depreciation adopted in two years are same.

10.Matching Concept – This concept states that expenses incurred in an accounting period should be matched with revenue during that period. It follows from this that these revenues and expenses incurred to these value must belong to same revenue period. According to this concept expenses for this period are matched against related value rather than cash paid. This concept should be followed while preparing financial statement to have a true and fair view of profitability. It implies that all revenues earned during an accounting year , whether received during that year, or not and all costs incurred whether paid or not during the year, should be taken into account while ascertaining profit or loss for that year.

11.Revenue Recognition/ Realisation Concept – This concept states that revenue for a business transaction should be included in the accounting records only when it is realized. Revenue is assumed to be realized when a legal right to receive it arises i.e. the point of time when goods have been sold or services have been rendered. Thus, credit sales are treated as revenue on the day sales are made and not when money is received from the buyer. e.g. a firm sells goods in March, 2020 and receives the amount in April, 2020 revenue of this sale should be recognized in March, 2020. It is so because the legal obligation has been established in April, 2020.

12.Verifiable Objective Concept – This concept states that accounting should be free from personal bias. It means all accounting transactions should be evidenced and supported by business document i.e. cash memo, invoices etc.

13.Full disclosure principle – This principle states that all material and relevant facts concerning financial performance of an enterprise must be fully and completely disclosed in the financial statements and their accompanying footnotes. It is to enable the users to make correct assessment of about the profitability and financial soundness of an enterprise and help them to take informed decisions. To ensure proper disclosure of accounting information , the Indian Companies Act 2013 has provided a format for the preparation of statement of profit and loss and Balance Sheet of a company, which needs to be compulsorily adhered to, for the preparation of these statements.