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BASIC ACCOUNTANCY PROCEDURES

ACCOUNTING PRINCIPLES

Accounting principles are the set of rules and guidelines adopted by organizations for preparing comparable financial statements. companies and other bodies must follow these rules and guidelines when they report financial data.

ACCOUNTING CONCEPTS

Accounting concepts are basic assumptions and conditions based on which a business entity records its financial transactions and prepares financial statements.

Example

Business entity concept, Money measurement concept

BUSINESS ENTITY CONCEPT

Business Entity Concept assumes that the organization and business owners are two independent entities. Hence, the business transactions and personal transaction of its owner are different.
Accounting transactions are recorded in the books of accounts from the organization's point of view and not the person owning the business.

Example

When the business owner invests his money in the business, it is recorded as a liability of the business to the owner.

MONEY MEASUREMENT CONCEPT

Money Measurement Concept states that only those transaction which can be expressed in monetary terms are recorded in the books of

accounts. But the transactions which cannot be expressed in monetary terms are not recorded in the books of accounts.

Example

- Car purchased for business worth 500000
- Raw material purchased for 500000

COST CONCEPT

Cost concept states all the business assets should be written down in the book of accounts at their actual Cost, including the cost of acquisition, and installation. The assets are not recorded at their market price.

Example

Machinery purchased worth 50000, transportation expenses paid 10000 and wages paid for installation 10000.Actual cost=70000
Machinery should be recorded in books of accounts at 70000

GOING CONCERN CONCEPTS

The Going concern concept in accounting states that a business activity will be carried by any firm for an unlimited duration This simply means that every business has continuity of life. Hence, it will not be dissolved shortly.

ACCOUNTING PERIOD CONCEPT

Accounting period concept assumption that business transaction is recorded for a specified period and profits on these transactions are to be ascertained for a specified period. This is known as accounting period concept.

This concept requires that a balance sheet and profit and loss account should be prepared at regular intervals. This is necessary for different purposes like, calculation of profit, ascertaining financial position, tax computation etc.

DUAL ASPECT CONCEPT

Dual aspect is the foundation of accounting. This concept assumes that every transaction has a dual effect it means every business transaction has two aspects.
Therefore, the transaction should be recorded at two places. It means, both the aspects of the transaction must be recorded in the books of accounts.

Example

- Machinery purchased worth 50000.
- One aspect is of this transaction is machinery increases and second aspect is cash decreases.

MATCHING CONCEPT

The matching concept states that the revenue and the expenses incurred to earn the revenues must belong to the same accounting period.
In matching concept revenues are compared with expenses If the revenue is more than the expenses, it is called profit. If the expenses are more than revenue it is called loss.

Example

- Revenue of year 2020-21 is 500000 and expenses is 400000 then we match revenue and expenses and we find difference between revenue and expenses is 100000 which is known as profit.

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REALISATION CONCEPT

Realisation concept states that revenue from any business transaction should be included in the accounting records only when it is realised. The term realisation means creation of legal right to receive money. Selling goods is realisation, receiving order is not.

Example

- Order is received on 5th July goods are sold on 15th July and cash received on 25th July.so according to realisation concept transaction is recorded in books of account on 15th July when legal right to receive money is created.

ACCRUAL CONCEPT

According to accrual concept accounting need to record revenues and expenses when a transaction occurs regardless of when payment for the same is received or made.
So expenses are recorded when they become payable whether cash is paid or not and revenue is recorded when they realised whether cash is received or not.

Example

Wages are payable by company on 30th June and company paid cash for wages on 10th July then wages is recorded in books of accounts on 30th June.

ACCOUNTING CONVENTIONS

Accounting conventions implies the customs or practices that are widely accepted by the accounting bodies and are adopted by the firm in the preparation of final accounts.

CONVENTION OF FULL DISCLOSURE

Convention of full disclosure convention states that the financial statement should be prepared in such a way that it fairly discloses all the material information to the users, so as to help them in taking a rational decision.

CONVENTION OF MATERIALITY

The convention of materiality states that, to make financial statements meaningful, only material fact should be disclosed and supplied to the users of accounting information.
Material fact means important and relevant information who will influence the decision of its user.

CONVENTION OF CONSISTENCY

The convention of consistency means that same accounting principles should be used for preparing financial statements year after year.by following convention of consistency we can compare financial statements with the previous year's financial statements.

Example

- **Method of depreciation**

CONVENTION OF CONSERVATISM

It is also known as 'doctrine of prudence'. Convention of Conservatism states to anticipate all the future losses and ignore gains. It provides guidance for recording transactions in the books of accounts
The main objective of this convention is to show minimum profit. Profit should not be overstated.