INDIAN SCHOOL DARSAIT
DEPARTMENT OF COMMERCE

Subject : Accountancy	Topic : Theory Base Accounting – 1 (Principles and Concepts)	Date of Issue: __/ __/ 2019 Worksheet No.2
Resource Person: JMC		Date of Submission:__/__/ 2019
Name of the Student :________________	Class & Division : XI ___	Roll Number : __

BASIC ACCOUNTING ASSUMPTIONS/CONCEPTS OF ACCOUNTING:

1.	**GOING CONCERN ASSUMPTION** • Business is said to be having an indefinite life. • On the basis of the assumption transactions are classified into capital and revenue items. • If this assumption is not made people will not enter into long-term contracts as they fear that the business can wind up at any time.
2.	**CONSISTENCY ASSUMPTION** • Accounting procedures or practices should remain the same from one year to another. • This will enable the business to compare it results from year to year. • If any change of method is effected it should be disclosed in that year's financial statement.
3.	**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. • It recognizes the assets, liabilities, incomes and expenses as and when transactions relating to it are entered into.

ACCOUNTING PRINCIPLES

4.	**ACCOUNTING ENTITY OR BUSINESS ENTITY PRINCIPLE:** • Business is considered as a separate entity different from that of the owner. • All transactions are analyzed from the point of view of business only • Distinction is made only to differentiate the private transactions of the owner from that of the business. • This principle is applicable to all forms of business organizations.
5.	**MONEY MEASUREMENT PRINCIPLE** • Only transactions that are measured in terms of money are recorded in the books of accounts. • Non-monetary transactions like quality of a product, labour unrest, competent management, even though are important are not recorded in the book of accounts.
6.	**ACCOUNTING PERIOD PRINCIPLE** • For the purpose of reporting the entire life of a firm is divided into time intervals. Each time interval is known as accounting period. • It is usually for a year. • The accounting year can be a calendar year, financial year and fiscal year or natural year.
7.	**FULL DISCLOSURE PRINCIPLE** • All material (significant) information should be disclosed in financial statements. • Assets, expenses & revenues should be clearly stated along with their methods of valuation and grouping. • The legal requirements if any must also be followed. • Examples. : a] stating the methods of valuation of stock (b) stating contingent liability (c) stating the method of depreciation.
8.	**MATERIALITY CONVENTION OR MATERIALITY PRINCIPLE** • Accounting statements should disclose all items, which are material enough to affect evaluations or decisions. • Only those transactions, which are significant from the point of view of income determination, should be recorded. • Insignificant matters can be ignored.

9.	**CONSERVATISM (PRUDENCE) PRINCIPLE** • "ANTICIPATE NO PROFIT BUT PROVIDE FOR ALL POSSIBLE LOSSES" • Valuing stock at cost or market price whichever is lower, providing for bad and doubtful debts are the examples of the application of this principle. • This principle tries to prevent window dressing (painting a better picture of the business when it actually not)
10.	**HISTORICAL COST PRINCIPLE OR COST CONCEPT** • All business transactions must be recorded in the books of accounts at Their monetary cost of acquisition. • The balance of assets and liabilities is carried forward from year to year at its acquisition cost, irrespective of increase or decrease in the market value of assets. • The use of Historical cost provides verifiable and objective Accounting information.
11.	**MATCHING CONCEPT OR MATCHING PRINCIPLE** • This principle indicates the procedures / rules to be followed while matching revenue and expenditure. • Revenue should be matched with the expense if the benefit is likely to accrue in the same year. Otherwise it should not be matched. • Certain expenses are shown in the P/L a/c and certain expenses are shown in the B/S due to operation of matching principle.
12.	**DUAL ASPECT OR DUALITY PRINCIPLES** • Every business transaction has two-fold aspect as it affects two parties. • Every financial transaction involves (a) yielding of a benefit and (b) giving of that benefit. Every debit has a corresponding credit. • That is why it is always said that ASSETS = LIABILITIES + CAPITAL. Hence any increase or decrease in total assets must simultaneously produce a corresponding increase or decrease in total equities.
13.	**REVENUE RECOGNITION CONCEPT** • Revenue is the amount, which as a result of operations is added to the capital.

	• It is realized when the goods have been transferred or the services have been rendered to a customer. • It can be realized on the basis of (1) sales (2) cash (3) production
14.	**VERIFIABLE OBJECTIVE PRINCIPLE** • All accounting transactions should be supported and evidenced by business documents (like voucher, cash memos, invoices etc.,) • Such documents help in conducting audit. • This principle also states that accounting should be free from personal bias of the person who is recording the transactions.
15.	**EXPENSE PRINCIPLE** • Expense is the cost of the use of things or services for the purpose generating revenue. • It is useful for the purpose of estimating profits or losses. Because only expenses are matched with revenue. • It is recognized when assets or services are used to produce revenue during a period.

MODIFYING PRINCIPLES:

16.	**TIMELINESS** • IT MEANS APPROPRIATE RECORDING OF TRANSACTIONS AT APPROPRIATE TIME. • All accounting information's must be made available at the earliest time possible • The delay in recording might encourage fraud, embezzlement manipulation. • BETTER TO HAVE LEES INFORMATION IN TIME RATHER THAN MORE RELIABLE INFORMATION VERY LATE.
17.	**INDUSTRY PRACTICE (VARIATIONS IN ACCOUNTING PRACTICES)** • Each industry has to adopt accounting assumptions, basic principles and practice that are prevailing in that industry. • Even though they are not in consonance with the established principles and assumptions it is accepted as industry practice. • Example: (a) valuing stock at market price instead of cost or market price whichever is lower.

18.	**SUBSTANCE OVER FORM** • Accounting Must communicate the material use and substantial information to all those who are directly or indirectly interested in its information. • Transactions and events recorded in the books should be governed by substance of such transaction or event and not the legality of such transaction. • Example: In the case of financial lease the lessee has no legal right on the leased assets. However, leased assets are shown in the books of lessee in accordance with this principle.

➢ Accounting standards

The Accounting Standards are a set of guidelines, i.e., Generally Accepted Accounting Principles, issued by the accounting body of the country such as The Institute of Chartered Accountants of India, that are followed for the preparation and presentation of financial statements.

According to Kohler has defined Accounting Standards as "a code of conduct imposed on an accountant by custom, law and a professional body".

➢ Nature of accounting standards

a) Accounting standard are guidelines providing the framework for financial statements.
b) Accounting standards bring uniformity in accounting practices.
c) It is prepared by keeping in view the business environment and laws of the country.
d) It is mandatory.
e) It is flexible.

➢ Objectives of accounting standards

a) Minimize the diverse accounting policies and practices.
b) Promote better understanding of financial statements.
c) Enhancing reliability of financial statements.
d) Facilitating meaningful comparison of financial statements of two or more entities.
e) Understand significant Accounting Policies and adopted and applied.

➢ IFRS(International financial Reporting standards)

IFRS are a set of accounting standards developed by the International Accounting Standards Board based on sound and clearly stated principles. IFRS are referred to as principles – based accounting standards.

➢ BASES OF ACCOUNTING

1. Distinguish Between Accrual Basis of Accounting And Cash Basis of Accounting

Basis	Accrual Basis of Accounting	Cash Basis of Accounting
Nature of Transactions	This basis records both cash as well as credit transactions	This basis records only Cash transactions
Legal Position	This basis is the only system recognized by the Companies Act.	This system is not recognized by the Companies Act.
Suitability	This basis is adopted by business enterprises with profit motive	This basis is suitable for professionals like doctors, lawyers etc.
Reliability	It is a reliable basis of accounting because it records all cash as well as credit transactions for calculating Profit/loss	It is not a reliable basis of accounting because only cash transactions are recorded for calculating profit/loss.
Technical knowledge	This basis of accounting is technical because it involves the adjustments of accounts for preparing final accounts	This basis of accounting is simple because it does not require any technical knowledge

2. Distinguish Between Trade Discount And Cash Discount.

Basis	Trade Discount	Cash Discount
Nature	It is allowed on a certain quantity being purchased	It is allowed on payment being made on or before a certain date
Recording	Trade discount is not recorded separately in the books of account.	Cash discount is recorded separately in the books of account.
Deduction from invoice	The amount of Trade discount is deductible from the invoice	The amount of Cash discount is not deductible from the invoice
Nature of Transaction	It is allowed both on cash and credit transactions	It is allowed only on payment.
Consideration	The consideration for allowance is Purchase	The consideration for allowance is Payment
Relation	It is related to Sales and Purchase	It is related to Payment.

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