BCM-102

FINANCIAL ACCOUNTING

UNIT-2 ACCOUNTING CONCEPTS, CONVENTIONS AND STANDARDS

(B. Com. FIRST YEAR)

Compiled By

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Accounting Concepts

- The accounting concepts refer to necessary assumptions or conditions upon which accounting is based. These are conceived for accounting in a systematic manner. There are several concepts which have been developed on the basis of the relation of income and expenditure of the business.

- **1.Business Entity Concept:** This concept is very old. In accounting business is treated as a separate entity from its owner who is supplier of capital. Business and owner are two separate persons. Accounts are prepared to give information about the business and not of the owner.
- **2. Going Concern Concept:** Under this concept, it is taken that the life of the business is for indefinite period. It has no relation with the life of the owner. In other words, the business entity has a continuity of life. This concept is very important in relation to the preparation of financial statements. The fixed assets are valued on the basis of the going concern concept.
- **3. Money Measurement Concept:** It is the basic feature of the accounting that the business will record only those transactions which can be measured in terms of money. This concept fulfills this basic requirement of the accounting. This concept adds to usefulness to financial data.
- **4. Dual Aspect Concept:** This concept lies at the heart of the whole accounting system. The traditional and modern accounting systems are based on this concept. It is based on the Double Entry System. According to this concept, every transaction has two aspects i.e. one is receiving aspect and the other is giving aspect.

- **5. <u>Accounting Period Concept:</u>** The accounting period concept has came into use with a view to ascertaining profit or loss, financial position etc. of an organization during a particular period when the life of the organization is taken as indefinite and continuing. Under this concept, the accounts are prepared for a specific period i.e. for one year.
- **6. <u>The Cost Concept:</u>** This is very important concept from the point of view of valuation of asset. The accounting records are based on cost. The basic function of business is the exchange of goods and services through the medium of money.
- **7. <u>Realization Concept:</u>** This concept is related to the realization of revenue. The revenue is realized either by sale of goods or by the rendering of services. As a general principle, revenue is considered to be realized when sale is made and goods are delivered and the customer becomes legally liable to pay.

- **8 <u>Matching Concept:</u>** The aim of every business is to earn profit. The profit is insured by the process of matching expenditure against income. The difference between the cost and revenue will be profit or loss. This is done on the basis of accounting period concept.
- **9 <u>Objective Evidence Concept:</u>** According to this concept, the accounting entries made in the books must be supported by some objective evidences. This is needed to ascertain the correctness of the entries made in the books.

Accounting Conventions

- The accounting conventions mean the custom or traditions which are used as a guide to the preparation of accounting statements.
  - **1 <u>Convention of Disclosure:</u>** The convention of disclosure implies that all the books of accounts must be true and fair and all information must be disclosed therein. This convention requires the disclosure of such information which, if not disclosed, might adversely affect the decisions.

- **2. <u>Convention of Materiality:</u>** The concept expresses that all material information related to the financial statements must be disclosed. The information is material if its non-disclosure influences the decisions of users of financial statements. The term materiality is a subjective term.
- **3. <u>Convention of Consistency:</u>** It is said that the procedure and system of accounting should remain unchanged. In other words, the same accounting principles and procedure should be used for preparing books of accounts and final accounts for different periods.
- **4. <u>Convention of Conservatism:</u>** This convention is the convention of work cautiously or play safe. This convention ensures that risk and uncertainties inherent in the business transactions should be given a due consideration. It is takes into consideration a possibility of loss but ignore a prospect of profit or gain till realized.

Accounting Standards

- The objective of accounting is to provide true and fair information to the users of financial statements. This is possible only when the financial statements are prepared on the basis of common policies and standards. Thus, financial accounting process should be well regulated.
- An accounting standard is a broad guideline regarding the principles and methods. In other words, accounting standard is a written document issued from time to time by the accounting profession institutions. Such accounting institutions and bodies are Financial Accounting Standard Board (US), Accounting Standards Committee (UK), Accounting Standards Committee (Canada), Accounting Standards Board (India) etc.

Objective & Significance of Accounting Standards

- The objective of accounting standard is to standardized the diverse accounting policies and practices at present in use in India to ensure comparability and reliability to the financial statements.
- The accounting standard ensures uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The application of these standards ensures credibility and reliability of financial statements. It helps to the auditors in performing their duty and discharging their attest function.

Procedure for Issuing Accounting Standards

- Accounting standards in India are issued by the Institute of Chartered Accountants of India (ICAI). For the purpose, the Institute constituted an Accounting Standard Board (ASB) on 21st April, 1977. ASB will issue guidance notes on the accounting standards and give clarification on issues arising therefrom. ASB will also review the accounting standards at periodical intervals.

Accounting Standards Issued by ICAI

S. No.	Accounting Standard No. (AS) No.	Title of Accounting Standard
1.	AS-1	Disclosure of Accounting Policies
2.	AS-2 (Revised)	Valuation of Inventories
3.	AS-3 (Revised)	Cash Flow Statements
4.	AS-4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date
5.	AS-5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS-6 (Revised)	Depreciation Accounting
7.	AS-7	Accounting for Construction Contracts
8.	AS-8	Accounting for Research and Development
9.	AS-9	Revenue Recognition
10.	AS-10	Accounting for Fixed Assets
11.	AS-11	Accounting for the Effects of Changes in Foreign Exchange Rates
12.	AS-12	Accounting for Government Grants
13.	AS-13	Accounting for Investment
14.	AS-14	Accounting for Amalgamations
15.	AS-15 (Revised)	Accounting for Employee Benefits
16.	AS-16	Borrowing Costs
17.	AS-17	Segment Reporting
18.	AS-18	Related Party Disclosures
19.	AS-19	Leases
20.	AS-20	Earnings Per Share
21	AS-21	Consolidated Financial Statements
22.	AS-22	Accounting for Taxes on Income
23.	AS-23	Accounting for Investments in Associates in Consolidated Financial Statements
24.	AS-24	Discontinuing Operators
25.	AS-25	Interim Financial Reporting
26.	AS-26	Intangible Assets
27.	AS-27	Financial Reporting of Interest in Joint Ventures
28.	AS-28	Impairment of Assets
29.	AS-29	Previsions, Contingent Liabilities and Contingent Assets

Summary

- The accounting concepts refer to necessary assumptions or conditions upon which accounting is based. The accounting convention means the custom or traditions which are used as a guide to the preparation of accounting statements. Accounting standard is a broad guidelines regarding the principles and methods.
- The accounting standards ensure uniformity, comparability, credibility and reliability of the financial statements.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2