



**FACULTY OF AGRICULTURAL SCIENCES & ALLIED INDUSTRIES**

## Accounting- Concepts & Conventions of Accounting

### 1. Business entity concept

The business is viewed as a distinctly different and independent of the owner and is to be viewed as an entity on its own. This means that the business transactions are to be recorded and the factors of the dual aspect are to be determined from the point of the view of the business. This means even in the case of a sole trader the owners transactions are to be recorded as if it is from any other person like.

### 2. Going concern concept

The business transactions are to be recorded on the basic assumption that the business will be there for a longer period and will not necessarily come to end at the close of the accounting period. This necessitates the classification of the transactions as both Capital and Revenue. To put in simple terms, if the transactions relates to the accounting period only, it may be classified as *Revenue* whereas in all other cases generally they may be classified as *Capital*. For example, *Lease* rent payments give benefits only during the month, the same is to be treated as the revenue whereas the Lease advance, the benefit of such payment being available during the entire tenure of the lease is to be classified as Capital. This distinction is very much important to determine the financial performance and to ascertain the correct financial position of a business from the financial records.

### 3. Money measurement concept

The accounting system attempts to record those transactions which are expressed in terms of money or money's worth. This means that those transactions which are of subjective nature however worth they may be from the point of view of the business will not be recorded. For instance, a small payment of wages may be recorded whereas the adverse effect of a government policy on the labour cost will not be recorded.

## **4. Accounting period concept**

Even though the business is assumed to exist indefinitely in terms of the going concern concept, it is customary to study the financial performance and the financial position at regular intervals as a measure of control. Such operational results studied at regular intervals are generally referred to as accounting periods. Normally, a period of 12 months is considered to be the accounting period by the accountants and each business may adopt their accounting period to suit their needs.

Thus, a Calendar year -- January to December,

Financial year -- April to March,

or any other period like academic year, oil year, sugar year may be adopted as the accounting year comprising of 12 months therein.

## **5. Cost Concept**

All business transactions will be recorded on the basis of the costs and not on the basis of its value to the business even though it may be important from the point of the business.

## **6. Revenue realization concept**

Accounts record only such revenues which are actually realised or there arises a legal right has accrued to the business to receive the same.

## **7. Full disclosure concept**

Accountants try to reveal the contents in the financial statements in such a way that the true and fair position of the financial performance and the financial position is revealed. The disclosure should be such that the classification of the items are of intelligible nature to have a correct assessment of the situation disclosed.

## 8. Dual aspect concept

As referred earlier, the dual aspect of the transaction – both the benefit receiving and the benefit giving aspect-- is to be recorded following the accounting rules relating to the various types of accounts

## 9. Matching concept

The accounts are to be recorded in such a way that if any income is recorded, the expenditure relating to the same is also recorded to find out a true financial results. Vice-versa holds good in relation to the recording of the expenditures.

## Accounting conventions

Besides the above accounting concepts, the accountants should also bear in mind the following accounting conventions for the maintenance of the accounting system

- **Convention of Disclosure:** The accounts are to disclose all material particulars so that a rational judgement may be made of the financial position and financial performance. For example, the particulars relating to the aging of the debtors will give a better idea about the possible realization thereof. Since accounting is an art, what is to be disclosed depends upon the circumstances of the business. Disclosure should comply with the legal requirements related thereto.
- **Convention of Materiality:** The accounts are to be recorded in consideration with the material aspects involved. Materiality refers to the factors that are relevant for the purpose of giving knowledge to the users of the data so that they may have a better understanding of the financial statements on their hand.
- **Convention of Consistency:** It is important that the accounts are to be drawn on the basis of the accepted accounting policies and there should not be any deviation from it year or after year. This means that accountants have to

follow the policies consistently throughout the business life of the organisation to enable the users of the data to have knowledge about the business.

- **Convention of Conservatism:** The accountants always have the practice of conservatism as hallmark in the preparation of the financial statements. This means that the losses will be accounted at the earliest and the incomes will be recorded only when they get a definite right over the receipts.