

Accounting Concepts and Conventions

Financial accounting has been called by many eminent persons in the field, as a set of tenets associated with well established procedures of accounting; it is a guide, which directs the persons or places for choosing of procedures or conventions.

Formation of financial accounting axioms and rules governing them have emanated from empiric knowledge, statements by individuals, professional bodies and regulation of governmental agencies.

To convey a uniform meaning to all persons or places concerned, the professional accountants follow a set of well established concepts, which are important for Financial Accounting.

Concepts:

- Business entity concept
- Going concern concept
- Cost concept
- Money measurement concept
- Accounting period
- Duality or dual aspect concept
- Accrual concept
- Objectivity
- Consistency
- Realization concept
- Matching concept

Accounting Period:

The performance of a business enterprise can be better evaluated only if there is a fixed period or accounting period from and to a given period and given resources.

At the end of the period the financial statements namely balance sheets profit and loss accounts are prepared.

A year is the common period followed by many organizations. At the end of this period (calendar year, financial year) the Accountant reports all the financial activities taken place during that period.

This external reporting is done by a management once in a year to the public, share holders etc.

For internal reporting, once in 4 months period is adopted.

While matching the earnings and the cost of these earnings for any accounting period, all the revenues and all the costs relating to the year in question have been taken into account.

Duality or Dual Aspect Concept:

-The assets are owned by the business enterprise, the claims made by various parties against these assets are called 'equities'.

-Liabilities, which are the claims of creditors

-Owner's equity, which are the claims of owners of business

Since the entire assets of the business is claimed by someone and then total claims cannot and should not exceed the total sum of assets, it is such that