# CH-3

(V.V.V. Imp)

## Theory Base of Accounting

→ **Accounting Principle** – Accounting principles are the rules adopted by accountants universally. They are the norms or the rules which are followed in accounting transactions.

**Accounting concept** (3)

These are basic assumptions or fundamental accounting assumptions which every accountant assumes to be followed by the business.

x —— x —— x —— x —— x

**Accounting convention** (12)

प्रथा

These are the outcomes of accounting practices which have been followed over the years.

x —— x —— x —— x —— x —— x

## * FUNDAMENTAL ACCOUNTING ASSUMPTIONS - GCA *

**Going concern** – चलना

enterprise (Business) (org'n)

↓

Business will continue for a forseeable future and there is no intention to close the Business

**Consistency**

↓

According to this assumption, accounting practices once selected and adopted, should be applied consistently year after year.

* The accounting practice

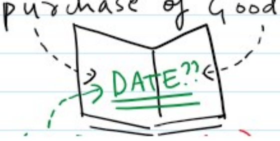
CH-4

**Accrual**

↓

Transactions are recorded when they are entered into, not when the settlement takes place.

purchase of Goods



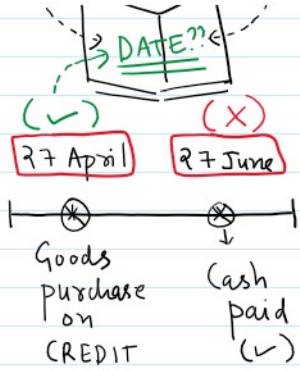
no intention to close the Business

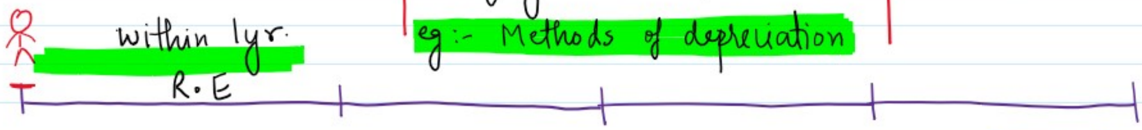
* Distinction between Revenue expenditure & Capital expenditure is made because of this only

year after year.

* The accounting practice may be changed only
a) if law requires
b) if Accounting Standard (AS) requires.
c) for better presentation of financial statements.

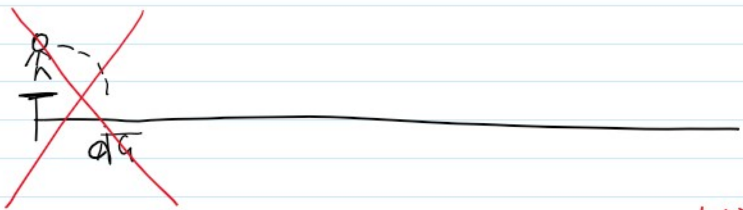
eg:- Methods of depreciation

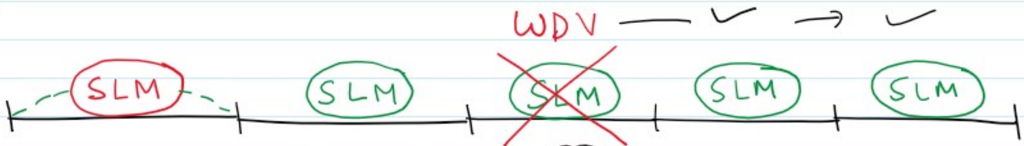



Revenue expenditure = goods for resale (छोटी) short.

Capital expenditure = Machine, Building Furniture - LONG




Depreciation calculate
- ~~SLM~~
- WDV.

is it possible ??

## * Features of Accounting Principles ( 1/3 Marks)

(i) Accounting principles are man-made

(ii) Accounting principle are flexible i.e they are not Rigid.

(iii) Accounting principles are generally accepted

GAAP
Generally accepted Accounting Principle.

## * Necessity of Accounting Principles

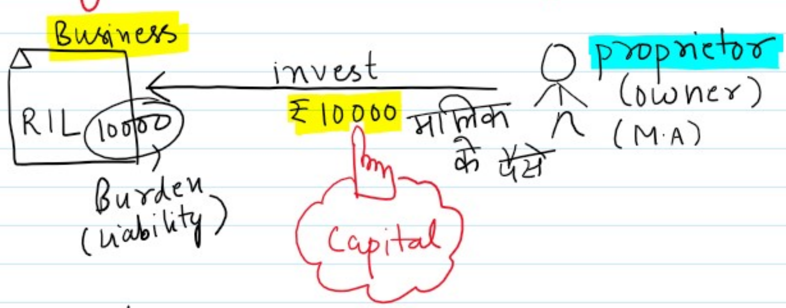
→ Accounting information becomes useful

→ Accounting information becomes useful only when it is prepared following some set of rules

→ To maintain uniformity & enables comparability.

## * Other Accounting Principles

### 1. Accounting Entity or Business Entity Principle




→ Accounting is done from BUSINESS point of view.

1M → According to this principle, owner & Business are treated as separate entities

→ Eg: Capital is treated as liability (internal) by the business.

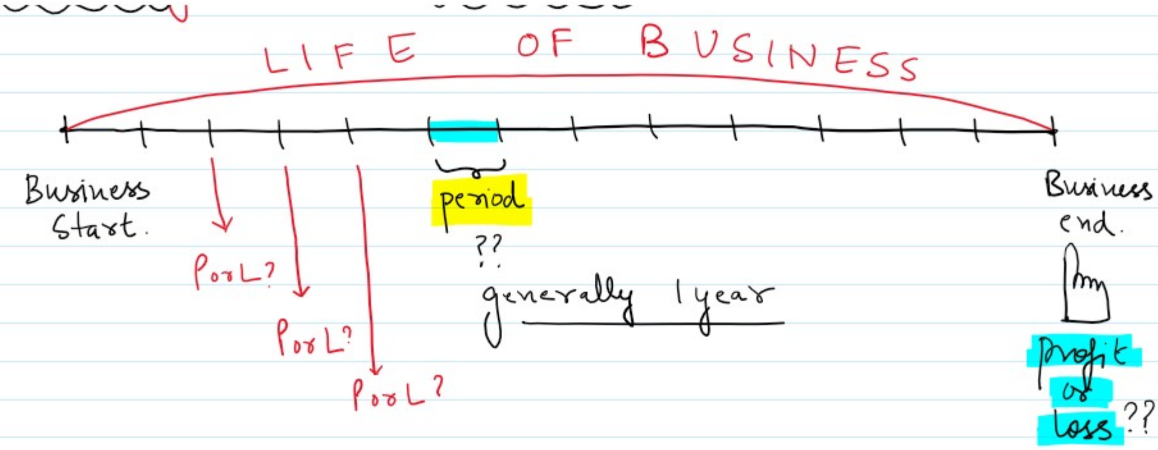
### 2) Money Measurement principle

→ Transactions & events that can be measured in money terms are recorded.

→ Accounting ignores qualitative aspect.

### 3) Accounting Period Principle

LIFE OF BUSINESS




→ Life of the Business is broken into smaller periods ( generally 12 months ) , & is Known as Accounting period

## 4) Full Disclosure principle

→ According to this principle, there should be complete and understandable reporting on the financial statements of all significant information relating to the economic affairs of the entity

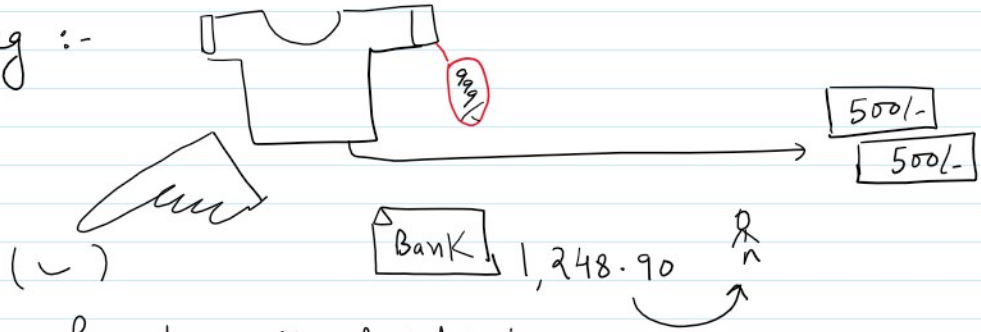
(R)
→ eg :- Contingent liabilities are shown as Foot note.


## 5) Materiality Principle

→ Material means IMPORTANT


→ An item is disclosed if it is material

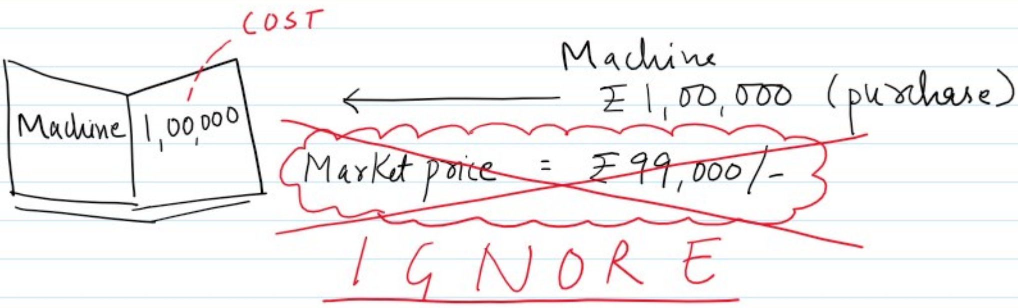
→ eg :-




Rounding off of interest by Bank.

1249 ✓

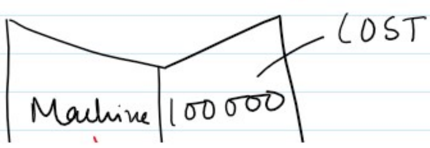
## ⑥ Cost Concept OR Historical Cost principle




→ According to this principle, fixed assets are always recorded in the Books AT COST

→ It ignores the Market price of asset.

## ⑦ Realisation Concept (principle)




M.P = 99000 X
M.P = 95000 X

| Machine | 100000 |
|---|---|

M.P = 99000 ✗
M.P = 95000 ✗
M.P = 80000 ✗
MP = $\boxed{82000}$

Sale (Realise)

Record ₹ 82,000

→ According to this principle, Market price or Realisable value is recorded in the books only when the asset is actually sold.

## 8 $\boxed{\text{Conservatism (or Prudence) Principle}}$

V.Imp.

Test — ठीक हुआ — Mother

| Prudent (100) | Marks?? |
|---|---|
| 90 → | 85 |
| 80 → | 75 |
| 75 → | 65 |
| 70 → | 95 |

exam → ~~Result // Sweet~~

→ According to conservatism principle, $\boxed{\text{provide for}}$ (record) all anticipated losses but donot account (record) anticipated profits.

expected losses (मान रहा है)

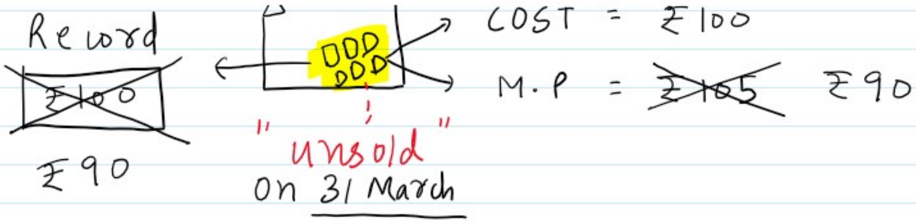
"doubt" 5000 — debtors

Record

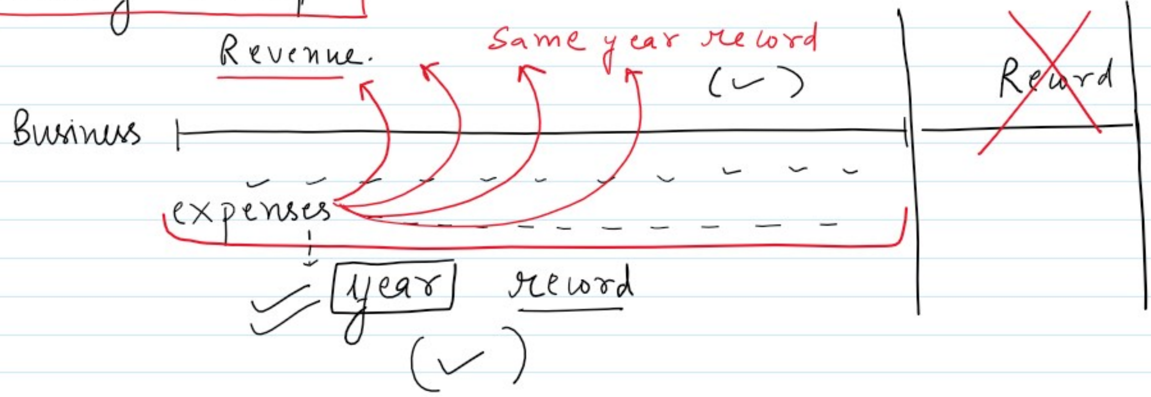
(R) * → eg :- Provision for doubtful debts.

Closing Stock is valued at COST or Market price, whichever is $\boxed{\text{LOWER}}$

Record ~~₹100~~ ← COST = ₹100
M.P = ~~₹105~~ ₹90




## ⑨ Matching Principle

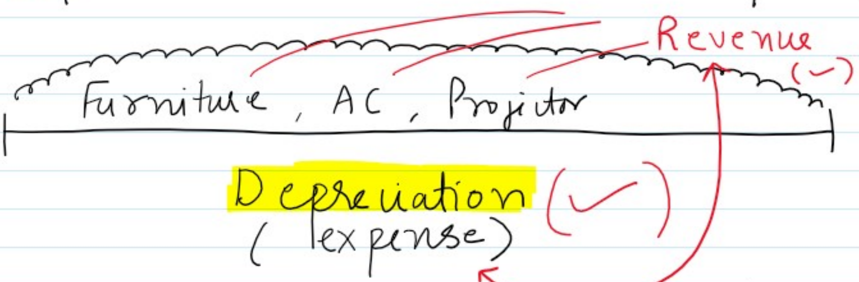


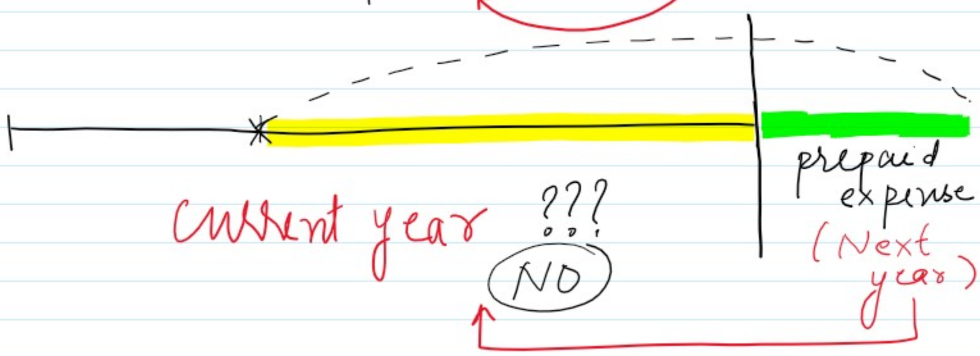

→ According to this principle expenses incurred to earn the revenue should be recognised as expense in the same year.

RECORD

Ⓡ → eg :- Depreciation is recorded due to this principle.

→ Adjustment of prepaid expenses & outstanding expenses is made due to this principle




## ⑩ Dual aspect principle ( Refer CH-5 )

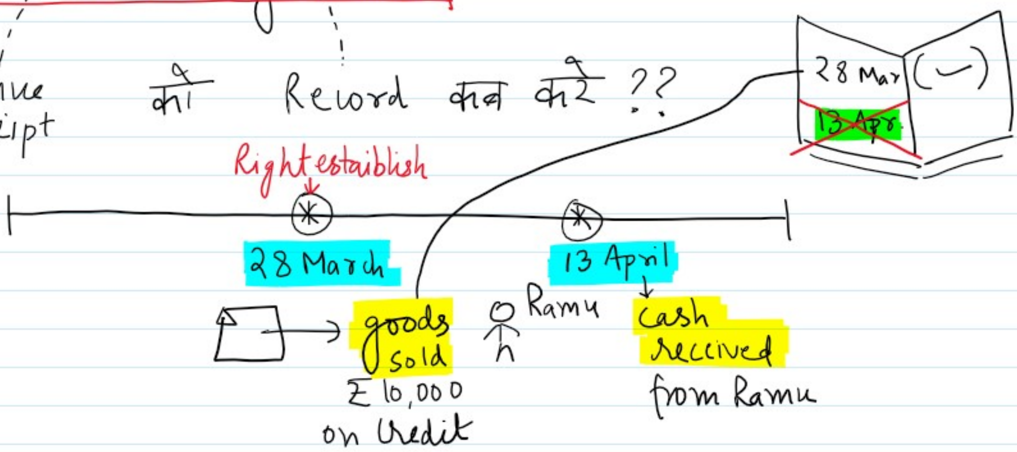
(10) **Dual aspect principle** ( Refer (H-5) )

→ Every transaction has $\boxed{\text{TWO ASPECTS}}$ i.e.
DEBIT & CREDIT

→ $\boxed{\text{ASSETS = Capital (+) liability (outside)}}$

(11) **Revenue Recognition**

Revenue Receipt को Record कब करे ??




→ According to this principle, revenue is recognised when the right to receive is established

अधिकार

(12) **Verifiable Objective Concept**

→ According to this principle transaction is recorded on the Basis of evidence.

X ——— X ——— X ——— X ——— X ——— X ——— X ——— X ——— X ——— X