Accounting principles

The accounting principles are the general accounting procedures, Practices which guide the accountant in the preparation of accounting records. Accounting principles can be broadly classified into "accounting concepts" and "accounting conventions."

Accounting concepts

Accounting concepts are the necessary assumptions, conditions or postulates upon which the accounting is based. They are developed to facilitate communication of the accounting and financial information to all the readers of the financial-statements that enables them to intepet the statement in the same meaning and content.

The accounting concepts are as follows :-

1) Business entity concept
2) Dual aspect concept
3) Going concern concept
4) Money Measurement concept
5) cost concept
6) Accounting period concept
7) Accrual concept
8) Matching concept
9) Realization concept

Business entity concept

As per this concept, Business organisations are treated as a separate entity which can be distinguished from the "owners" or stakeholders who provide capital to it.

2) Dual Aspect concept

Dual Aspect principle is the basis for Double entry system of book keeping. All business transactions recorded in accounts have two aspects; receiving benefit and giving Benefit.

According to this concept for every Debit their is an equal an opposite credit for the transaction.

3) Going concern concept

As per this concept it is assumed that the organisations will continue for a long time, Unless and until it has entered into a state of liquidation.

4) Money Measurement concept

In accounting, all the transactions are recorded in terms of money in other words, events or transactions that cannot be expressed in terms of money are not recorded in the books of accounts.

5) cost concept

As per This concept, an asset is ordinarily recorded at the price paid to acquire it.

The asset recorded at cost at the time of purchase may systematically be reduced through Depreciation.

(Decrease in the value of asset)

6) Accounting Period concept

An accounting period is the interval of time, at the end of which the financial statements are prepared to ascertain the financial performance of the organisation. The preparation of financial statements at periodic intervals helps in taking timely corrective action and developing appropriate strategies.

The accounting Period is normally considered to be of twelve months and the accounting books are closed at the end of every year either at the end of March & December.

7) Accrual concept

Under the cash system of accounting, the revenues and expenses are recorded only if they are actually received or paid in cash, irrespective of the accounting period to which they belong. But under Accrual concept, Occurrence of claims and obligations in respect of incomes or expenditures, asset or liabilities based on happening of any event, passage of time, rendering of services, are recorded even though actual receipts or payments of money may not have taken place.

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8) Matching concept

Matching the revenues earned during an accounting period with the cost associated with the period to ascertain the result of the business concern is called the Matching concept.

9) Realisation concept

According to this concept, revenue should be accounted for only when it is actually realised or it has become certain that the revenue will be realised. This signifies that revenue should be recognized only when the services are rendered or the sale is affected. However, in order to recognize revenue, actual receipt of cash is not necessary, but the organisation should be legally entitled to receive the amount for the services rendered or the sale affected.

Accounting Conventions

Accounting conventions are the customs or traditions guiding the preparation of accounts. They are adopted to make financial statements clear and meaningful. Following are the four accounting conventions.

1) convention of Disclosure
2) convention of Materiality
3) convention of consistency &
4) convention of conservatism

1) convention of Disclosure :-

Accounting statements should disclose fully and completely all the significant information, based on which, decisions can be taken by various interested parties.

2) Convention of Materiality :-

The materiality principle requires the disclosure of the significant information, exclusion of which would influence the decisions.

3) convention of consistency

The convention of consistency facilitates comparison of financial performance of an entity from one accounting period to another, which is possible when the accounting principles followed by an entity are consistently applied over the years.

4) <u>Convention of conservatism</u>

As per this convention, the anticipated profits should be ignored but all the anticipated losses should be considered into the books of accounts of an entity.

The essence of this principle is "anticipate no profit and provide for all possible losses."

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Concept and preparation of final Accounts

FINANCIAL STATEMENTS

→ Every trader wants to know the result of the business at the end of a particular period which is generally one year and also the financial position on a particular date. For this purpose, the trader prepares various statements which are called as financial statements.

→ Financial statements (final accounts) are the statements that are prepared at the end of an accounting period. These consists of 'Trading Account, Profit & loss Account' [Income Statement] and 'Balance sheet' (position statement)

I Trading Account

→ Preparation of trading account is the first stage in final Accounts.

→ The Business organization purchases goods from others and sells the same to earn profit. This is known as trading activity and it is termed as 'Trading Account.'

→ Trading account is a nominal Account in Nature.

→ All the trading expenses should be debited and trading incomes should be credited to trading Account.

PROFORMA

TRADING ACCOUNT FOR THE YEAR ENDING -----

Cr

Particulars	Amount	Amount	Particulars	Amount	Amount
To, opening stock		xxx	By, sales	xxx	
To, purchases	xxx		Less:- Returns	-xx	xxx
Less:- Returns	-xx	xxx			xxxx
			By, closing stock		
Purchase Expenses:-					
To, carriage		xx			
To, cartage		xx			
To, freight		xx			
To, customs duties		xx			
To, Import duties		xx			
To, clearing charges		xx			
To, octroi		xx			
To, Excise Duties		xx			
Direct Expenses:-					
To, wages		xx			
To, factory Rent		xx			
To, factory Insurance		xx			
To, Gas and coal		xx			
To, water charges		xx			
To, factory Manager's salary		xx			
To, oil & fuel		xx			
To, Manufacturing expenses		xx			
To, Heating & lighting		xx	By, Gross Loss (Transferred to P/L A/c)		xxx
To, Gross profit transferred to P/L A/c		xxx			
		xxxxx			xxxxx

PROFORMA

Dr PROFIT & LOSS A/c OF XXXX FOR THE YEAR ENDING xx, xx, xxxx

Particulars	Amount	Amount	Particulars	Amount	Amount
To, Gross loss b/d		xxx	By, Gross profit b/d		xxx
To, Administrative expenses			By, Discount Received		xx
To, salaries		xx	By, Interest Received		xx
To, Rent		xx			
To, Rates & Taxes		xx	By, commission Received		xx
To, Insurance		xx			
To, Printing & stationery		xx	By, Rent Received		xx
To, Audit expenses		xx			
To, legal expenses		xx	By, Interest on Drawings		xx
To, General expenses		xx			
To, Repairs		xx	By, Apprentice premium		xx
To, Selling & Distribution expenses:-			By, profit on sale of assets		xx
To, carriage outwards		xx			
To, Advertisements		xx			
To, Bank charges		xx	By, Bad debts Recovered		xx
To, commission		xx			
To, Bad debts		xx			
To, Travelling expenses		xx			
To, Packing expenses					
To, Financial expenses:-					
To, Discount Allowed	xx				
To, Interest on capital	xx				
To, Interest on loans	xx				
To, losses:-					
To, loss on sale of assets	xx				
To, Depreciation					
To, loss due to fire accident	xx				
To, Net profit (transferred to Capital Account)		xxx	By, Net loss (transferred to capital Account)		xxx
		xxxxx			xxxxx

PROFORMA

BALANCE SHEET OF XXXX AS ON XX, XX, XXXX

LIABILITIES	Amount	Amount	ASSETS	Amount	Amount
Capital	XXX		Good will		XX
Add: Net profit/	XX		Building		XX
Less: Net Loss	(XX)		Machinery		XX
	XXX				
Less: Drawings	(XX)	XXX	furniture		XX
			Closing stock		XX
Loans		XX	Debtors		XX
Creditors		XX	Bills Receivable		XX
Bills Payable		XX	Bank Balance		XX
Over draft		XX	Cash		XX
			Tools & Equipments		XX
		XXXX			XXXX