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B. Com part -1 paper-1 Financial Accounting

Unit -1

Accounting : Principles, Concepts and Conventions

Q.1 Define Accounting. What is GAAP (Generally accepted Accounting Principles)? Explain briefly the Accounting Principles.

Ans -Accounting may be defined as the process of recording, classifying, summarizing and interpreting the financial transactions and communicating the results there of to the persons interested in such information.

GAAP (Generally Accepted Accounting Principles): It is a Technical concept that describes the basic rules, concepts, conventions and procedures that represent accepted accounting practices at a particular time.

Accounting principles can be divided into two parts:

1.Principle: The term concept includes those basic assumptions, conditions and ideas upon which the science of accounting is based.

2.Concepts Conventions: Conventions used to signify the customs or traditions as a guide to the preparation of accounting statements.

Accounting Concepts :

(1) Entity Concept: According to this concept business is treated as a Separate unit and distinct from its proprietors.

(2) Dual Aspect Concept: According to this concept every transaction Has two sides at least. If one account is debited, any other account Must be credited. Every business transaction involves duality of Effects. (i) Yielding of that benefit (ii) The giving of that benefit.

(3) Going Concern Concept: This concept assumes that the business Will continue to exist for a long period in the future. There is Neither the necessity nor the intention to liquidate it.

(4) Accounting Period Concept: According to this concept the entire Life of the concern is divided in time intervals for the measurement Of profit at frequent intervals.

(5) Money Measurement Concept: Only those transactions and events Are recorded in accounting which is capable of being expressed in Terms of money.

(6) Cost Concept : According to this concept:

(a) An asset is ordinarily entered in the accounting records at The price paid to acquire it.

(b) This cost is the basis for all the subsequent accounting for The asset.

(7) Matching Concept: In determining the net profit from business Operations all cost which is applicable to revenue of the period Should be charged against that revenue.

(8) Accrual Concept: This concept helps in relating the expenses to Revenue for a given accounting period.

(9) Realization Concept: According to this concept, revenue is Recognized when sale is made and sale is considered to be made When a goods passes to the buyer and he becomes legally liable to Pay for it.

(10) Verifiable objectivity Concept: This concept means that all Accounting transactions that are recorded in the books of accounts Should be evidenced and supported by business documents.

Conventions: Accounting conventions are of following types:-

(1) Convention of Disclosure: According to this convention Accounting reports should disclose fully and fairly the information They purport to represent. The information which are of material Interest to proprietors.

(2) Convention of Materiality: The accountant should attach Importance to material details and ignore insignificant details.

(3) Convention of Consistency: This convention describes that Accounting principles and methods should remain consistent in Order to enable the management to compare the results of the two Periods. These principles should not be changed year after year.

(4) Convention of Conservatism: According to this convention, in the Books of accounts all anticipated losses should be recorded and all Anticipated gains should be ignored.