LESSON-2
ACCOUNTING CONCEPTS

SUMMARY

Accounting concepts refer to the basic assumptions which serve the basis of re-cording actual business transactions.

The important accounting concepts are business entity, money measurement, going concern, accounting period, cost concept, duality aspect concept, realisation concept, accrual concept, and matching concept.

MEANING OF ACCOUNTING CONCEPT

Accounting concepts refer to the basic assumptions, rules and principles which work as the basis for recording of business transactions and preparing accounts.

The main objective is to maintain uniformity and consistency in accounting records. These concepts constitute the very basis of accounting. All the concepts have been developed over the years from experience and thus, they are universally accepted rules.

Following are the various accounting concepts that have been discussed in the following sections

- **Business entity concept**

Business entity concept assumes that for accounting purposes, the business enterprise and its owner(s) are two separate entities.

- **Money measurement concept**

Money measurement concept assumes that all business transactions must be re-corded in the books of accounts in terms of money.

- **Going concern concept**

Going concern concept states that a business firm will continue to carry on activi-ties for an indefinite period of time.

- **Accounting period concept**

Accounting period concept states that all the business transactions are recorded in the books of accounts on the assumption that profits of transactions is to be ascertained for a specified time period. this concept assumes that, indefinite life of business is divided into parts. These parts are known as Accounting Period. It may be of one year, six months, three months, one month, etc. But usually one year is taken as one accounting period which may be a calender year or a financial year.

Year that begins from 1st of January and ends on 31st of December, is known as Calendar Year. The year that begins from 1st of April and ends on 31st of March of the following year, is known as financial year.

Accounting cost concept

Accounting cost concept states that all assets are recorded in the books of ac-counts at their cost price.

- **Duality aspect concept**

Dual aspect concept states that every transaction has a dual effect. Dual aspect is the foundation or basic principle of accounting. It provides the very basis of recording business transactions in the books of accounts. This concept as-sumes that every transaction has a dual effect, i.e. it affects two accounts in their re-spective opposite sides. Therefore, the transaction should be recorded at two places. It means, both the aspects of the transaction must be recorded in the books of ac-counts. For example, goods purchased for cash has two aspects which are (i) Giving of cash (ii) Receiving of goods. These two aspects are to be recorded.

- **Realisation concept**

Realisation concept states that revenue from any business transaction should be included in the accounting records only when it is realise. The concept of realisation states that revenue is realized at the time when goods or services are actually delivered.

Revenue is said to have been realised when cash has been received or right to receive cash on the sale of goods or services or both have been created.

- **Accrual concept**

The accrual concept under accounting assumes that revenue is realised at the time of sale of goods or services irrespective of the fact when the cash is received.

- Matching concept

Matching concept states that the revenue and the expenses incurred to earn the revenue must belong to the same accounting period

ACTIVITY

In our country business concerns are not following the same accounting period every year. Enquire from various sources and list various such periods prevailing in our country. One for example is given

1. Year ending 31st March (financial year)

2. ___________________________________

3. ___________________________________