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* Accounting Concepts or principles

Accounting Concepts are those assumptions, principles or conditions on which the accounting system is based. Principles are set of rules to be followed in accounting. The following are important accounting concepts or principles:

1. Business Entity Concepts: According to this, it is assumed that business will exist for a long time. There is no intention to liquidate the business in the immediate future

2. Going Concern Concepts: According to this, it is assumed that business will exist for a long time. There is no intention to liquidate the business in the immediate future.

3. Money measurement Concepts: Accounting records only those transactions which are expressed in monetary terms. Transactions which cannot be expressed in money do not find place in the books of accounts.

4. Cost Concepts: According to this concept, all transactions are recorded in the books of accounts at actual price involved.

5. Dual aspect Concepts: According to this concept, every transaction has two aspects. These two aspects are receiving aspect and giving aspects. These two aspects have to be recorded. The basis of this principle is that for every debit, there is an equal and corresponding credit.

6. Realization Concept: According to this principle revenue is said to be realized when goods or services are sold to be a customer. It emphasizes the fact that the mere receipt of an order for goods or services cannot be taken for the realization of revenue

So advanced payment received from a customer cannot be considered as revenue earned.

7. Matching Concept: According to this concept, cost of a business of a particular period is compared with the revenue of that period in order to ascertain net profit or net loss.

8. Accounting period Concept: According to this assumption, the life of a business is divided into different periods for preparing financial statements. Generally business concern adopt twelve months period for measuring the income of the concern. This time interval is known as accounting period.

* Accounting Conventions

Accounting Conventions are the customs and traditions which guide the accountant while preparing accounting statements. Some of the accounting conventions are :-

(1) Convention of Consistency :- This convention follows that the basis followed in several accounting periods should be consistent. This means the methods adopted in one accounting year should not be changed in another year. Then only comparison of results is possible.

(2) Convention of Conservatism :- This is a convention of playing safe, which is followed while preparing the Financial Statements. The idea of this convention is to consider all possible losses and to ignore all probable profits.

(3) Convention of materiality:- Materiality means relevance or importance or significance. It is generally accepted in the accounting circle that the accounting statements and records must reveal all material facts.

(4) Convention of Full disclosure:- The accounting convention of full disclosure implies that accounts must be honestly prepared and all material information must be disclosed therein.