Theory Base of Accounting

- Rules and Guidelines followed for recording business transactions in the books of accounts to bring uniformity in the preparation and presentation of financial statements, is called **accounting principle.**
- Any work can be done in *a* systematic manner if it is based on some abstract idea. This abstract idea is called concept. The idea which is conceived for accounting in a systematic manner is called **accounting concept.**
- Statements or rules of practice, which by common concept, express or implied are employed in the solution of a given class of problems or guide behaviour in a certain kind of situation are called **accounting convention.**
- Information created in the forms of statement of accounts, reports, charts, f ratios etc. with the help of which correct decisions can be taken by their users is called **accounting information.**
- The directives issued by the authorities to maintain the quality and the standard of accounting are known as **accounting standard.** In India the appropriate authority is the Institute of Chartered Accountants of India's Accounting Standard Board. The need for accounting standards is based on the necessity of harmonising the diverse policies and practices adopted by different business firms. When accounting standards are followed, accounting information becomes transparent and, in effect, it helps towards meaningful comparison and study.
- According to **entity concept,** business is considered separate and distinct from the owners of the enterprise. This concept starts with the fact that the business unit is a separate entity with its own identity.
- Under **money measurement concept,** only those transactions which can be measured in terms of money are to be recorded in the books of account.
- **Going concern concept** assumes that the business unit will continue to operate year after year under the same economic conditions and in the same general environment.
- The **matching concept** requires that the expenses for an accounting period should be matched against related revenues, rather than recognising revenues as being earned at the time when cash is received or recognising expenses when cash is paid.

- **Full disclosure** requires that financial statements be designed and prepared to portray accurately the economic events that have affected the firm for the period and to contain information sufficient to make them useful and not misleading to the users.