

Accounting Concepts and Conventions: revision notes

Concept list as in NCERT Class 11 Accountancy Part I, chapter 2 "Theory Base of Accounting" (reprint 2026-27), plus accrual. The concept/convention grouping is the usual B.Com textbook split; NCERT and the ICAI Foundation study material use the terms interchangeably. All rupee examples are hypothetical.

Concept or convention	Usual textbook group	Meaning in one line	Example (hypothetical)
Business entity	Concept	The business is treated as separate from its owner.	Ravi pays his son's ₹15,000 school fee from the shop's bank account: drawings, not a business expense.
Money measurement	Concept	Only events that can be measured in money are recorded.	A skilled, loyal cashier adds value but appears nowhere in the books.
Going concern	Concept	The business is assumed to continue for the foreseeable future.	A ₹60,000 laptop used for 3 years is charged ₹20,000 a year, not all in year one.
Accounting period	Concept	Results are measured for fixed periods, usually a year.	Accounts are closed for 1 April 2026 to 31 March 2027.
Cost	Concept	Assets are recorded at what was paid to acquire them and make them ready for use.	Machine ₹2,00,000 + transport ₹8,000 + installation ₹12,000 = ₹2,20,000 in the books.
Dual aspect	Concept	Every transaction has two effects of equal amount; Assets = Liabilities + Capital.	Goods bought on credit for ₹40,000: stock up ₹40,000, creditors up ₹40,000.
Revenue recognition (realisation)	Concept	Revenue is recorded when it is earned (goods sold or service rendered), not when cash arrives.	Credit sale of ₹80,000 on 25 March, cash on 10 April: revenue of the year ending 31 March.
Matching	Concept	Expenses are set against the revenue of the same period.	Bought 500 shirts at ₹400, sold 400 at ₹600: cost of goods sold is ₹1,60,000, not ₹2,00,000.
Accrual	Concept	Revenue and costs are recorded when earned or incurred, not when cash moves.	March rent of ₹25,000 paid on 5 April is an outstanding expense of the March year.
Objectivity	Concept (some books: convention)	Entries rest on verifiable evidence, free from personal bias.	A purchase is recorded from the tax invoice, not from the owner's guess of value.
Consistency	Convention	The same accounting policies are used from one period to the next.	Stock valued on FIFO every year; a material switch to weighted average is disclosed.
Full disclosure	Convention	All material and relevant facts are disclosed in the statements and notes.	A pending customer claim against the firm is explained in the notes.
Conservatism (prudence)	Convention	Do not anticipate profits; provide for known losses.	Stock costing ₹1,00,000 now worth ₹90,000 is shown at ₹90,000.
Materiality	Convention	Focus on items whose knowledge would influence a user's decision.	A ₹350 stapler is charged as an expense, not shown as an asset.

The three fundamental accounting assumptions (ICAI, AS 1, paras 10 and 27)

Going concern: the enterprise is viewed as continuing in operation for the foreseeable future. **Consistency:** accounting policies are consistent from one period to another. **Accrual:** revenues and costs are recognised as they are earned or incurred, not as money is received or paid.

If they are followed, no specific disclosure is needed. If one is not followed, that fact must be disclosed. AS 1 (para 17) also names three considerations for choosing accounting policies: prudence, substance over form and materiality.

Concepts vs conventions

Point	Accounting concepts	Accounting conventions
Origin	Assumed and accepted to give accounting a logical structure	Developed out of accounting practice over a period of time
Purpose	Decide what is recorded and how it is measured	Guide judgement in measuring and presenting results
Judgement	Less judgement	More judgement, especially for materiality and prudence
Examples	Business entity, money measurement, going concern, dual aspect, accrual	Consistency, full disclosure, conservatism, materiality

Quick practice

1. The owner takes ₹5,000 from the till for household shopping. Which concept says this is drawings?
2. Closing stock is valued at cost or market price, whichever is lower. Which convention?
3. A firm values its stock on the FIFO basis every year. Which convention?
4. Salary for March is unpaid on 31 March but is still charged to that year. Which concept?
5. A building bought for ₹50 lakh is still shown at cost though its market value has risen. Which concept?
6. Every transaction affects at least two accounts. Which concept?

Answers: 1. Business entity; 2. Conservatism (prudence); 3. Consistency; 4. Accrual (and matching); 5. Cost (and realisation); 6. Dual aspect.

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