OGUN DIGICLASS

- **SUBJECT: FINANCIAL ACCOUNTING**
- **TOPIC: ACCOUNTING CONCEPTS AND CONVENTION**

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ACCOUNTING CONCEPTS AND CONVENTIONS

These are the principles that must be taken into consideration when preparing the accounting statements. They are so basic that if any of them is altered, the entire nature of financial accounting wound change.

1. **Business entity concept**

   In the preparation of accounting statements, the owners and the business are treated as separate entities i.e recognizing the business as a separate and distinct entity, only things that affect the business must be recorded. It is not concerned with the other wealths of the owner apart from those invested.

2. **Going concern concept**

The statements are prepared on the understanding that the business is a going or continuing business and not one on the verge of cessation. It assumes that it will continue to operate in the future and no major part will be disposed off.

3. **Money measurement**

The information in the financial statement must reflect only those facts which are capable of being expressed in monetary terms. It defines the type of information which will be selected and measured by accountants. There is no recording of good or bad management or co-operation between management .

4. **Cost concept**

The value of assets are shown at the cost of acquisition. The accountant cannot value assets in terms of the future returns it is expected to generate. The value in the books may not necessarily reflect the current value.

5. **Accruals concept**

This concept states that revenue and expenses are recognized and included in the profit and loss account as they are accrued not as they are paid or received. If a payment is made in advance, it must not be treated as an expense and the recipient must regarded as a debtor until it’s right to receive cash matures

6. **Matching concept**

This concept states that all the expenses are matched against the revenue generated at that period to determine the net income.

7. **Dual aspect concept**

All transactions must have two aspects; one debit and one credit. In accounting, there must be a giver and a receiver of value

8. **Realization concept**

This concept states that revenue is recognised as soon as goods are passed to the customer in exchange for valuable consideration

9. **Materiality convention**

In the preparation of accounts, amount of material value must be recorded. This convention states that the accountants should not report certain economic event when the result of doing so are insignificant as to affect the financial statement e.g depreciation of a stapler

10. **Convention of conservation:**

The accountant's view of his responsibility to the organization for whom he provides information is often expressed by this principle. It states that:

a. Income should not be anticipated and all possible losses must be provided for.

b. Given a choice between two methods of valuing an asset, the accountant should choose the lower value. e.g stock should be valued at the lower of cost and market value.

11. **Consistency convention**

This principle states that similar transactions within the same period and between one period and another must be dealt with, in consistent manner. Methods must not be changed at will as this will lead to a distortation of the profits.