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Concepts of Accounting

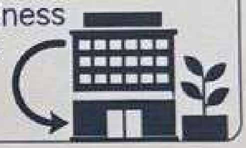
Fundamental concepts that guide how business transactions are recorded

Money Measurement Concept

- Record only transactions that can be measured in money.
- Non-monetary items like employee morale or reputation are not recorded.
- Example: Purchase of machinery for ₹5,00,000 is recorded, but 'hardworking staff' is not.

Going Concern Concept

- Business is assumed to continue in the foreseeable future.
- Assets are shown at cost and depreciated over many years, not at quick-sale value.
- Example: Factory building is depreciated over its useful life because the business will keep using it.



Business Entity Concept

- Business is separate from the owner.
- Only business transactions are recorded in the books.
- Example: Owner's personal rent is not a business expense; withdrawal of cash is recorded as drawings.

Realization Concept

- Revenue is recorded when it is earned.
- Cash receipt and earning may happen on different dates.
- Example: Credit sale of ₹50,000 is recorded as sales today, even if cash is received later.