1ST SEM F.A

Unit- 1

1. a) What do you mean by accounting?

b) Mentions the objectives/functions of accounting.

c) What are the advantages/importance of accounting.

d) Mention the limitations of accounting.

e) What are the various functions of accounting.

f) What are the various qualitative characteristics of accounting.

a) Ans: Accounting is the recording, classifying analysis and summarizing the business transaction in terms of money. It is a man made activity which is evolved over a period of time. Infact, it is a systematic exercise carried on for the purpose of recording, summarizing and interpreting the results for the users of the accounting informations.

According to R.N. Anthony, "Accounting system is a means of collecting, summarizing, analysing and reporting in monetary terms the importance of the business".

b) Ans: Following are the main objectives of accounting:--

i) Identifying and recording: Identifying and recording of business transaction is an important objective of accounting.

ii) Classifying and summarizing the transaction: classifying and summarizing the transaction is also another objective of accounting. In accounting, business transaction are classified and summarised in a systematic manner for the interpretation of financial result of an organisation.

iii) Communicating result: The ultimate purpose of maintaining accounting practice is to interpret the result of a business concerned. Accounting practice communicate financial performance and position through income statement and balance sheet to its various users namely shareholders, creditors, customers etc.

iv) Ascertaining financial position: Another important objective of accounting is to ascertain financial position of a business at the end of a particulars period. Accounting helps in providing the relevant information about financial position through balance sheet.

v) Providing information to users: Objective of accounting is to provide all important information to the users. There are various types of users of accounting information such as internal and external and it is the accounting system through which both the users use to get all their relevant information.

vi) Accounting facilities decision making: Accounting is helpful to the internal user such as management, owner, employees and external users such as customers, government and suppliers etc. It helps in making the important decisions by the management as well as the customers with all the important informations kept through accounting informations.

c) Ans: Following are the advantages/importance of accounting:

i. Replacement of memory: In a large business it is very difficult for a business man to remember all the transaction. Accounting provides records which will furnish information as and when required and thus it replaces human memory.

ii. Knowledge of financial position: Accounting helps a business man to know the financial position of his business. It is the accounting system which facilities to know the financial position of a business concerned over a particular period.

iii. Assessment of performance of the business: Accounting keeps a proper record of all revenue and expenses as a result, trading and profit and loss account for a period can be prepared and gross profit or gross loss and net profit or net loss can be ascertained.

iv. Assessment of financial position: Accounting keeps a proper record of assets liabilities and capital accounts Hence, a balance sheet can be prepare at the end of a period and the financial position of the business can be assessed.

v. Documentary evident: Accounting records can be used as an evidence in the court of law. It is accepted in the court of law because the records are made on documentary proof of transaction.

vi. Detection and prevention of frauds: Accounting provides adequate checks against commission of frauds. Thus it prevents leakage of cash and goods. However it a fraud is committed the system of accounting can detect such occurance of frauds.

d) Ans: Following are the disadvantages/limitation of accounting:

i. Incomplete informations: In accounting only those transactions are recorded which can be expressed in terms of money and thus it provides incomplete information.

ii. Influence by personnel: In accounting some principles and concepts are followed but at the end of an accounting year to ascertain the net profit or loss some estimates are used. These estimates are effected by liking and unliking of the accountants. Thus, the results are also effected.

iii. Based on historical cost: In accounting, historical cost are basis for preparing financial statement. Thus, accounting does not show the real financial position of the organisation.

iv. Lack of uniformity: There is a lack of uniformity in use of accounting principle and procedure. Thus, there is subjective element in financial accounting.

e) Ans: Same as ans to B

f) Ans: The main objective to accounting of accounting is to provide information about the financial position, changes in financial position and performance of a business enterprise. Therefore, accounting statement should be prepare and presented in such a way that they able to show a clear and orderly view of the business enterprise. To make the accounting information more useful for the users they must process the following qualitative characteristics of accounting information:--

i. Reliability: The reliability implies that the information much be factual and verifiable. The accounting information is said to have verifiable if such information can be verified from source document such as memos, purchase invoice, sales invoice, agreement, property deed and other similar documents.

ii. Relevance: Accounting information much be helpful in decision making. It must help the users to evaluate the past, present and future events. Therefore to be relevant, the information must help the management, investors creditors and other users of the accounting informations in making good decisions.

iii. Understandability: An essential quality of accounting informations is that it must be easily understandable by their users. Accounting information should be presented in such a manner that they are understood easily by their users such as investors, creditors, employees etc.

iv. Comparatively: Accounting information are more useful when they are comparable with similar information for the same business firm in different periods. It is also useful when similar information across different business firm covering the same period can be compared. Therefore, comparability is another important qualitative characteristics of accounting informations.

2. a) "Accounting as an information system". Comments.

Or

Explain briefly accounting as an information system.

b. Mention the needs/importance/advantages of accounting information system.

c. Who are the users of accounting information system

Or

Mention the various users of accounting information.

d. Mention any four limitations of accounting informations.

e. Nature of A/s Book (page 1.6)

a) Ans: In the initial stages, accounting had been confirmed to the financial record keeping functions. But now a days, the main functions of accounting has been changed from record keeping to providing relevant information which helps in decision making. Accounting is now regarded as an information system.

Accounting as an information system is a process identifying, measuring, recording, summarizing and communicating the information about business to different interested users of such information.

Accounting as an information system provides informations to all the users wheather inside or outside the business enterprise. Accounting information are communicating through various financial statements such as profit and loss A/c, balance sheet, funds flow statement, cash flow statement etc.

However, in order to make accounting information more understandable and meaningful various items of financial statements are presented in the form of ratio, percentages, graphs, charts etc.

Accounting as an information system involves two stages:---

i. Generation of information: In the process of generating information, accounting involves the following steps:

a. Indentifying, measuring, recording financial transaction.

b. Classifying the recorded transactions.

c. Summarising recorded transactions.

ii. Communications of information: In this stage accounting provides various information to its users which are relevant adequate and reliable and serve the users in following aspects:

a. For making economic decisions.

b. For predicting and evaluating cash flow.

c. For analysing and interpreting information for decision making purpose.

d. For evaluating the effect of the activities of the business on society.

Thus, accounting as an information system establishes a link among sources of information, a channel of communication and a set of receiver.

b. Ans: The primary aim of accounting information system is to make accounting information available to the users to enable them to make their important decisions. Therefore, accounting informations system has its significance to its various users which can be analysed with the help of the points given below:-

i. It provides information for taking economic decisions.

ii. Accounting information serves the need of the users who depends on financial statement as their main sources of information for decision making.

iii. It provides useful information for predicting, comparing and evaluating earning power and financial position of a business firm.

iv. It provides accounting informations for measuring the managerial efficiency for the people involve in management and for the proper utilization of resources.

v. Accounting information is also useful for the management in taking all important decisions relating to the growth of a particular business.

vi. Accounting information is helpful to the government. The government is interested in the financial statement of a business on account of assessment of income tax, sales tax, excise duty etc.

c) Ans: Uses of Accounting informations are of two types:

i) Internal users ii) External users

Given below a brief explanation of above two mentioned users of accounting information:

i) Internal users: Internal users are the persons who are directly involved in managing and operating business enterprise. In other words, internal users are those who are directly involved with the operations of business.

Internal users are of the following types:--

a) Owners: Owners want to know about the profitability and financial soundness of the business. They also want to know whether the profit increasing or decreasing. It is only through a proper accounting information owners can ascertain the financial position of their business concern.

b) Management: Management of an organisation needs accounting information for planning and controlling. It is the efficiency of the management on which the success and failure of an organisation largely depends. Therefore, the efficiency of the management can be measured with the help of the informations provided by the accounting information system.

c) Operations: Operations are those persons who do not belong to management team and work at the lowest level of the organisation. Infact, the productivity of the organisation mainly depends on the efficiency of the employees. Employees can gather all necessary information from accounting information system in order to increase their productivity and efficiency.

ii) External users: External users are the person who are indirectly involved in managing and operating business activities of an organisation. External users are not directly connected with the conduct of the business but they are directly are indirectly influenced by the accounting informalities provided through accounting information system.

External users are of following types:

i) Creditors: creditors are those parties who supply goods and services on credit to the buyers. These parties are interested in knowing credit worthiness of the organisation before allowing credit sales.

ii) Customers: The customers need financial statements to safeguard their interests in regard to quality of product, price charged and to upload the customer’s movement.

iii) Government: The government is interested in the financial statement of a business on account of assessment of tax, service tax, income tax etc.

d) Ans: Given below the limitations/disadvantages of accounting information:-

i) Accounting information may be influenced by personnel judgments.

ii) It is based on quantitative information’s and ignore qualitative informations.

iii) Accounting information deals with historical cost which never represent current values.

iv) Accounting information may provide incomplete information become the actual profit or loss of the business can be determined only when the business is closed down.

3. a) What do you mean by basis of accounting?

b) What are the various basis of accounting?

c) Mention any three points of advantages and disadvantages of cash accrual basis of accounting.

d) Mention the points of distinguish between cash and accrual basis of accounting.

Or

Explain briefly some important branches of accounting.

a) Ans: Basis of accounting is related to the time of recognition of revenue and cost I.e., when can it be said that a transaction has occurred. Regarding this, it can be said a transaction is may be said to occur either when cash is paid or received or when event is occurred but the payment for which will be paid latter on.

Accordingly there are two basis of accounting:---

i) Cash basis ii) Accrual basis

b) Ans: There are two basis of accounting. These are:---

i) Cash basis of accounting

ii) Accrual basis of accounting

Given below a brief explanation of above two mentioned basis of accounting:

i) Cash basis of accounting: Under this basis income is calculated on the basis of cash transactions i.e., incomes are not recorded unless they are received in cash. Similarly, expenses are recorded only when they are paid in cash. In other words, credit transactions are not recorded at all and are ignored till cash is actually received or paid for them. Thus, income or profit is the excess of cash receipts of sale of goods, services and other incomes over actual cash payments in respect of purchase of goods, expenses on wages, salary, rent etc. Income or profit is calculated with the help of receipts and payments A/c.

ii) Accrual Basis of Accounting: Under this basis, incomes are recorded when they are earned or accrued irrespective of the fact whether cash is received or not. Similarly expenses are recorded when they are incurred or become due and not when the cash is paid for them. Hence, in accrual basis, profit or loss of a particular period is the result of matching of the revenues earned and expenses incurred during the period.

c) Ans: Following are the advantages of cash basis of accounting:

i) It is very simple to maintain and preparation adjustment entries are not required.

ii) This basis is simple to use and does not require technical knowledge of accountancy.

iii) This basis is suitable for business firms having most of the transaction in cash.

iv) This system discourages the use of estimates and personnel judgments.

v) This basis of accounting is free from human business.

vi) This process is more objectivity as very few estimates are required.

Disadvantages:---

i) It does not give a true and fair view of profit or loss and financial position of a particular business.

ii) It does not follow matching principles of accounting.

iii) This system does not distinguish between capital and revenue items.

iv) There is a great possibility of manipulation of profits in cash basis of accounting.

v) Since capital and revenue items are not distinguished in cash basis, there is no consistency in the profit of different years.

vi) Company's Act 2013 does not recognise it.

Advantages of accrual basis of Accounting:---

i) The basis of accounting discloses true profit or loss for a particular period.

ii) It follows the matching principles of accounting.

iii) There is consistency in the computation of profit of different years in accrual basis because it makes a distinction between capital and revenue expenditure.

iv) This basis of accounting is more scientific as compared to the cash of accounting.

v) This basis of accounting can be used in all types of business enterprises.

vi) It is recognises by company's Act 2013.

Disadvantages:--

i) it is not as simple as cash basis of accounting.

ii) It requires the use of estimates and personnel judgments.

iii) This accounting system is too lengthy and elaborate.

iv) It is a time taking process as it is not possible without taking into considerations the judgments.

v) It requires special knowledge of accounting to prepare books of accounts under this system.

vi) It is more expensive as compare to cash basis of accounting.

d) Ans: Given below the points of distinction between cash and accrual basis of accounting:---

Points of distinction	Cash basis	Accrual Basis
i) Cash Vs. Credit transaction	There is no recording of credit transaction only cash transaction are recorded.	It includes both cash and credit transactions.
ii) Legal position	It is not recognised under the company's Act.	It is recognised under the company's Act.
iii) Acceptability	Its acceptability is limited as it is not accepted by all.	Its acceptability is quite wide as it is accepted by most.
iv) Accuracy	Profit or less may not be tree.	Profit or loss may be true.
v) Reliability	It is less reliable as it includes only cash transactions.	It is more reliable as it includes all types of transactions.
vi) Suitability	Cash basis of accounting is suitable only for professional people like doctors, CA etc.	Accrual basis of accounting is appropriate for enterprise.

vii) Preferences	Under cash enterprises with mostly cash transactions preferences these basis of accounting.	Enterprises with cash and credit transaction adopt Accrual basis of accounting.
viii) Recording of incomes and expenses	Only those incomes and expenses are recorded which have been received and paid in cash.	All incomes and expenses are recorded whether receipt or not paid.

e) Ans: In practice, Accounting may be of various branches. Following are the main braches of accounting:

i) Financial Accounting: Financial Accounting is that branch of accounting which deals with financial aspect of business concern. In other words, financial accounting deals with the classification, identification and recording transactions of financial nature. The main purpose of this branch of accounting is ascertain profit or loss during a particular period.

ii) Cost Accounting: Cost accounting is that part of accounting which identifies, reports and analyses the various elements of direct and indirect cost associated with manufacturing and providing goods and services. It provides the management with accurate and timely information for product cost, planning, controlling and decision making.

iii) Management Accounting: Management Accounting is comprised two words 'management' and 'Accounting'. It is the study of managerial aspect of Accounting. It is that system of accounting which helps management in carrying out its functions more efficiently and effectively.

iv) Social Accounting: This branch of accounting is also known as social reporting or social responsibility accounting. It discloses the social benefits created and the cost incurred by the enterprise.

v) Human resource accounting: It is concerned with the human resources of an enterprise. It is an accounting procedure for the people of the organisation.

vi) Tax Accounting: This branch of accounting has grown in response to two various tax laws such as income tax and GST etc. An accountant to be fully aware of various tax regulations.

4. a) What do you mean by accounting standard?

b) Mention the nature of accounting standard in India.

c) Mention the objectives/purpose of accounting standards.

d) Discuss the benefits/advantages of accounting standards.

e) Discuss the reduce of issuing accounting standards in India.

f) Mention the points of distinction between generally accepted accounting principles and accounting standards.

a) Ans: Accounting standards may be defined as written statements, issued from time to time by institutions of accounting professionals, specifying uniform rules or practices for drawings the financial statements.

Kohler defines Accounting standard as, "A code of conduct imposed on Accountants by customs law or professionals body.

b) Ans: Following are the some of the important nature of accounting standard:--

i) Accounting standard lay down the norms of accounting policies and practices by way of codes to direct as how the transactions and event should be dealt with accounts and disclosed in the financial statements.

ii) Accounting standard remove the effect of diverse accounting practices and policies so that financial statements of different business unit become comparable.

iii) They prescribe a preferred accounting treatment from the available set of methods for solving one or more accounting problems.

iv) They provide informations to the users of financial statement as to the basis of which such statements have been prepared.

v) They limit the area within which accountant has to function and in this respect they are just like laws.

c) Ans: Accounting standards serves the following objectives:-

i) To provide the norms on the basis of which financial statements should be prepared.

ii) To make financial statements more meaningful and comparable.

iii) To harmonise the device accounting policies and practices to ensure uniformity in the preparation and presentation of financial statements.

iv) To provide information to the users of financial statements as to the basis of which financial statements have been prepared.

v) To facilitate the analyse of financial statements by bringing uniformity.

vi) To help the users of financial statements in taking or making decisions.

d) Ans: The advantages/significance/importance/benefits of accounting standard are given below:--

i) Basis of accounting: Accounting standard provide the basis on which accounts should be prepared.

ii) Disclosure: Accounting standards promote better understanding of accounting statements, the disclosure of significant accounting policies and the manner in which accounting policies are disclosed in the statements.

iii) Reduction of effect of diverse accounting policies and practices: Accounting standards eliminates or reduce the effect of diverse accounting policies and practices and make the financial statements more meaningful and comparable.

iv) Enhancement of creditability and reliability of financial statement: Accounting standard provides uniform guidelines for recognition, measurement, treatment, preparation and presentation of financial statement. They enhance the creditability and reliability of financial statements and also help in enhancing transparency.

v) Reduction of manipulations and frauds: Adoption of accounting standards in the preparation of financial statements has reduced the chances of manipulations, frauds, insufficient disclosures or the use of inappropriate accounting policies.

vi) Helpful to auditors: It is the duty of the auditors to ensure that the accounting standards have been followed in the preparation of financial statements. As a result, the auditor will be free from court cases and various penal provisions under the company's law.

e) Ans: Broadly the following procedure will be adopted for issuing accounting standards in India:-

i) Accounting standard Board (ASB): Shall determine the broad are areas in which accounting standards need to be formulated and priority in regard to the selection thereof.

ii) In the preparation of accounting standards, accounting standard board will be assisted by a study group and provisions will be made for wide participation by the members of the institute (ICAI) and others.

iii) ASB will also hold a dialogue with the representatives of the government, public sector under takings, industry and other organisation for ascertaining their views.

iv) On the basis of the work of the study groups and dialogue with the mentioned organisations, an exposure draft of the proposed standard will be prepared and issued for comments by members of the institute and the public at large.

v) The draft of the accounting standard will include the following basic points:-

1) A standard of concepts and fundamental accounting principles related to the accounting standard.

2) Defines of the terms used in the accounting standards.

3) The manner in which the accounting principles have been applied for formulating the accounting standard.

4) The presentation and disclosure requires in complying with the accounting standards.

5) Class of enterprises to which the accounting standard will apply.

6) Date from which the accounting standard.

vi) After taking into consideration the comments received the draft of the proposed standard will be finalised by ASB and submitted to the council of the institute.

vii) The council of the institute will consider the final draft of the proposed standard, and if found necessary, modify the same in consultation with ASB. The Accounting standard on the relevant subject will then be issued under the authority of the council.

f) Ans: Following are the points of distinction between GAAP and accounting standards:--

GAAP	Accounting Standard
i) Different enterprises adopt different accounting policies. There is no single list of GAAP which are applicable to all enterprises and in all circumstances.	i) There is a specific list of accounting standard applicable to all enterprise and in all circumstances.

ii) The GAAP are established by custom, general agreement etc.	ii) Accounting standards are established by law.
iii) GAAP provide a number of alternative treatments of the same item such as inventory valuation, depreciation charge etc.	iii) Accounting standards provide solution to specific problems.
iv) Personnel judgment or individual bias play an important role in the adoption of GAAP.	iv) Personnel judgment or individual bias has no role in the adoption of accounting standard.
v) GAAP do not ensure uniformity in the preparation and presentation of financial statements.	v) Accounting standards ensures uniformity in the preparation of financial statements by removing the effect of diverse accounting policies.

5. a) What do you mean by Accounting principles?

b) Mention the nature/characteristics of accounting principles.

c) Mention the need/ importance of accounting principles.

d) Write and notes on the following:--

i) Business entity **ii) Money Measurement**

iii) Going concern **iv) Cost concept**

v) Realisation **vi) Accruals**

vii) Periodicity **viii) Prudence (conservatism)**

ix) Materiality **x) Full disclosures.**

a) Ans: Generally Accepted Accounting principles are a set of rules and practices adopted for recording and reporting business transactions. They are aimed at to bring out uniformity and consistency in the preparation and presentation of financial transactions.

Accounting principles can be classified mainly into two categories:--

i) Accounting concepts or assumptions.

ii) Accounting conventions.

b) Ans: Given below some of the important nature/characteristics of accounting principles:--

i) Accounting principles have been developed to ensure uniformity and easy understanding of the accounting information.

ii) Accounting principles are formulated by Accountants on the basis of their experience and therefore they are manmade.

iii) These principles are constantly changing in response to changes in society and business world.

iv) They are aimed at to bring out uniformity in preparing and presenting financial statements.

v) Accounting principles are not static and bound to change with the passage of time in response to the changes in business practices, Govt. policies and needs of the users of accounting information.

vi) The general acceptance of accounting principles depends upon how well these principles satisfy there conditions namely: Relevance, objectivity and feasibility.

c) Ans: The importance/need of accounting principles can be analysed through the following points:--

i) Accounting information will be more useful to the users if all the industries follow uniform accounting principles in recoding transactions and in preparing and presenting financial statements.

ii) Accounting principles ensures uniformity in accounting practices.

iii) Accounting principles facilitates comparability of accounting informations year after year.

iv) Accounting principles provides guidelines to Accountants in recording and reporting financial statements.

v) Accounting principles facilitates unbiased reporting of accounting informations.

vi) Accounting principles ensure reliability of accounting informations.

d) Ans: (i) Business entity: According to this concept business is treated as a limit separate and distinct from its owners, creditors, managers and others. In others words, creditors, managers and others. In other words, the owner of a business is always considered as distinct and separate from the business he owns. Business unit should have a completely separate set of books and we have to record business transactions from business point of view and not from the point of view of the proprietor.

Some features are:--

1) Every business is treated as separate entity for accounting purpose.

2) Transactions must be recorded from the point of the view of the business.

3) This concept drawns boundaries for recording and presenting the types of transactions which must relate to the business.

Some importance/advantages are:-

1) It keeps the business transactions free from being mixed up with private transactions.

2) This concept provides guidelines to the accountant regarding the types of transactions to be recorded in the books of the business.

3) It facilitates recording of transactions between the business and the proprietor separately in the business books.

(ii) Money Measurement: Money measurement concept means that only those transactions can be measured and expressed in monetary units are to be recorded in the books of account and transaction which cannot be measured and expressed in monetary units should be excluded from the books of account.

Some features are:-

i) Transactions which are measured and expressed in monetary unit are only recorded.

ii) The events which cannot be measured and expressed in monetary unit are to be included.

iii) Monetary units are chosen as medium of communication of accounting information.

Importance

i) It makes accounting information objective and verifiable.

ii) This concepts provide monetary units as medium of communication of accounting information.

iii) It facilities the valuation of assets and liabilities and incomes and expenses.

(iii) Going Concern: Under this concept, it is assumed that a business entity will continue to exist for a indefinite period in the future. It means that the business unit will continue to carry out its operations for a long period of time. The transactions are recorded in the books of the business on the assumption that it is a continuing a enterprise.

Some of the features are:--

i) It is assumed that a business unit will exist for an indefinite period.

ii) The business entity will use it resources for long term objectives.

iii) It facilitates the division of expenditure between capital and revenue on the basis of period of benefit.

Importance:--

1) It provides a basis for valuation of different types of assets.

2) It provides a basis for preparing the profit and loss account and balance sheet.

3) It provides a basis for valuation of depreciation.

iv) Cost Concept: The term cost means monetary price paid or to be paid for acquiring an assets or service. The cost of an asset is ordinally recorded in the books of accounts at the price at which it was acquired. The cost becomes the basis of all subsequent accounting for the asset. Since the acquisition cost relates to the past it is referred to as historical cost. This cost is the basis of valuation of the assets in the financial statements.

Features:-

1) The cost price for the acquisition for an asset is the basis for recording service or and assets.

2) Recording of transaction at cost price makes the value of the transaction objective, verifiable and consistent.

3) It is the basis for all subsequent accounting or valuation of the assets.

Importance:

1) It makes the information contained in the financial statements objective, reliable and under stable.

2) All Assets, liabilities, incomes and expenses are recorded at cost price.

3) All Assets are shown in the balance sheet at cost price which is the realistic of valuation of assets.

v) Realisation Concept (Revenue Recognisation):- The concept of revenue recognisation requires that the revenue from a business transaction should be recorded in the books of accounts when it is realise. The term 'recognisation' refers to that point of time a rvenue is assumed to be realised. Revenue is assumed to be realised when a legal right to receive it arises and such legal right arise when goods have been legally transferred or services have been legally rendered to customers. A revenue may be immediately in cash or it may give birth a right received from the customers in future.

Features:

1) Revenue arises from sale of goods and services.
2) Revenue is to be recognised when it is earned.
3) Revenue is to be recognised at the point of time when sale is completed.

Importance:

1) It determines the time when the revenue is earned and is to be recognised.
2) It determines the amount of revenue which is earned.
3) It facilitates the preparation of income statement and ascertainment of profit or loss.

vi) Accruals: same as given accrual basis.

vii) Periodicity Concept: It is assumed that as per going concern the business entity will exist for a long period. So the business activity is a continuous law. Therefore, the ultimate results of the operation of the business can be known at the end of the life of the business. Thus financial statement i.e., profit and loss account and balance sheet should be prepared only ones when the business would be wound up. But the users of financial statements need periodical report on the affairs of the business. To facilitate this, the entire life of the business is divided into small periods which are called accounting periods. An Accounting period is usually of one year.

Features:--

i) Accounting period speaks about a particular period for preparation of financial statements.
ii) It facilitates the maintenance of periodical statements.
iii) An Accounting period is usually of one year according to this concept.

Importance:--

i) It facilitates the preparation of final accounts, and ascertainment of profit or loss for a particular period and financial position on that date.
ii) It facilitates the preparation of various reports for the needs of management.
iii) It enables the businessman to pay off his tax liabilities and to distribute dividend to shareholders.

viii) Prudence (conservatism): The concept of conservatism provides guidance for recording transaction and this guidance is based on the 'Policy of playing safe in the business would of uncertainties'.

The concept states that a conscious approach should be adopted in ascertaining incomes so that profit of an enterprise is not over stated. The concept conservatism requires that an income should not be recorded unless it is actual realised but all loses including those which may have a remote possibility to happen are to be provided for in the books at the earliest.

Features:-

i) Future loss arising from present action should be considered now. But future profit should be ignored.

ii) If assets can be valued in alternative methods than the method which gives the lowest valuation should be adopted.

iii) All probable liabilities should be considered and provision should be made for them.

Importance:--

i) Understatement of Assets and overstatement of liabilities make the financial statements prudent.

ii) When the users of financial statements use his financial statements such decision are likely to be sound.

iii) Provision for all liabilities including features liabilities make the financial position stronger.

ix) Materiality: The concept of materiality requires that accounting should focus on material facts and the facts which not be presented in financial statements. It is because this principle economises and makes financial statements meaningful land useful to the users.

The materiality of a fact depends on:-

a) The nature of the fact.

b) The amount involved in the fact.

Features:-

i) Financial statements should contain material information only.

ii) An information is said to be material if its knowledge can influences the decision of users.

iii) It depends on the nature of the fact and the amount involved in it.

Importance:--

i) Inclusion of material information only in the financial statement makes them precise, understandable and useful to users.

ii) Financial statements containing material facts them precise and economical.

iii) The users of financial statement attract focus attention on material facts.

x) Full Disclosures: This convention requires that all significant information relating to economic affairs of the enterprise should be a sufficient disclosure of information which is of material interest to the users of the financial statements such as proprietor, present and potential creditors, investors and other.

Features:

i) This convention states that there should be a necessary informations of a business concern.

ii) The principle is so important that the company’s act makes ampel provisions for the disclosure of all essential information.

iii) According to this convention, financial statement should be honesty prepared.

Importance:-

i) Financial statements should contain full informations about the enterprise under proper heads.

ii) It eliminates the personnel choice of the accountant in presenting facts in financial statements.

iii) It makes financial statements more understandable and meaningful.