Accounting concepts and conventions with examples pdf

Accounting is vital in delivering a firm’s information to its stakeholders on its performance, position, and profitability for decision making. Notably, accounting concepts and conventions are employed in developing financial statements based on accuracy and consistency.While accounting concepts and conventions have a significant role in processing reliable and realistic financial information, the two terms are different.Accounting Concept vs ConventionThe difference between Accounting Concept and Convention is that Accounting concepts are the rules and regulations of accounting, while accounting convention is the set of practices discussed by the accounting bodies before preparing final accounts.The accounting concept is a theoretical statement. Accounting convention is a procedure agreed by the accounting bodies for preparing final accounts.Comparison Table Between Accounting Concepts and Accounting ConventionParameter of ComparisonAccounting ConceptsAccounting ConventionsBasic AbstractionAccounting concepts are theoretical notions on the preparation of financial statements.Accounting conventions are procedures and methods followed during the preparation of financial statements.Formulation ProcessSet up by accounting bodies with the backing of the law and governance bodies.They are developed from standard accounting practices.PurposeConcerned with the maintenance of accounts and recording, classifying as well as interpretation of transactions.Accounting conventions are concerned with the preparation and presentation of financial statements.Legal RecognitionLegally recognized.They lack formal and legal recognition.BiasnessThere lacks any possible chance for personal judgment or bias.There is a high probability of personal judgment or bias.What are Accounting Concepts?Accounting concepts refer to the principles that are put in place to ensure that accounting information presented in financial statements of a business entity is given truly and fairly.Since professionals develop accounting concepts, they act as a foundation for recording business transactions as well as the preparation of final accounts.Some of the accounting concepts include cost concept, business entity concept, accrual concept, money measurement concept, and matching concept.What are Accounting Conventions?On the other hand, accounting conventions refer to the set of practices that are universally accepted and followed by accountants.Notably, the accounting conventions agreed upon by the accounting bodies are modifiable for the improvement of financial statements quality.The rise of new financial products, new accounting issues, and changes in the landscape of financial reporting lead to the development of new accounting conventions.Some of the popular accounting conventions include consistency, conservatism, disclosure, and materiality, among others.Main Differences Between Accounting Concepts and Accounting ConventionsAccounting concepts and accounting conventions have a shared goal, which is to improve the view of financial information from the financial statements.However, the two terms are different from each other. The following are the main differences between accounting concepts and accounting conventions.Basic AbstractionAn accounting concept is a theoretical opinion or notion that is applied during the process of formulating a financial statement of a business enterprise.On the other hand, an accounting convention refers to procedures and methods that are adopted during the preparation of financial statements for a fair and true view of the financial information provided.Notably, accounting concepts answer the question of what should be applied during the preparation of financial statements.On the other hand, accounting conventions answer the question of how financial statements should be developed in a manner that truth and fairness are upheld.Formulation ProcessAccounting concepts are set by accounting bodies with the backing of the law and governance bodies.Accounting conventions, on the other side, are formulated from common accounting processes of accounting, which are agreed upon without the backing of governance bodies.The formulation process of the accounting concepts and conventions is essential in the determination of legal recognition of either of the accounting terms.PurposeThe purpose of accounting concepts is the maintenance of accounts of a business enterprise.Additionally, accounting concepts are concerned with recording, classifying as well as interpretation of transactions of an enterprise.On the other hand, accounting conventions have the sole purpose of preparation and presentation of financial statements of a business entity at the end of a financial year.Legal RecognitionProfessional bodies develop accounting concepts backed by the law as well as other governance bodies.Additionally, the accounting concepts are recognized by accountants and make part of the guidelines to be followed in the preparation of financial statements.Through this, accounting concepts acquire both global as well as legal recognition in the accounting world.On the other hand, accounting conventions are practices that are developed over time without the backing of governance bodies. Unlike accounting concepts, accounting lacks globally formal recognition by accountants.Therefore, with no formal recognition by accountants globally and backing of governance bodies, the accounting conventions are characterized by the lack of legal recognition.BiasWhile using accounting concepts, there are no possibilities of making personal judgment or biases. This follows the fact that the accounting concepts are opinions argued out with the backing of the law, hence unchangeable.When managing accounts as well as recording, classifying, and interpretation of a business, the accounting concepts are followed to the letter yielding no chance of bias. On the other hand, there is a high probability of committing bias or personal judgment while using accounting conventions.Accounting conventions are changeable and modifiable over time. Therefore, this yields a probability of making personal judgment or bias while using accounting conventions inevitable.Frequently Asked Questions (FAQ) About Accounting Concept and ConventionWhat are the types of Accounting Conventions?Accounting conventions can be classified into 4 major types that are,• Full DisclosureThe convention of full disclosure relates to the concept that a business entity should submit true and complete accounting statements and should not withhold any facts that can affect the investors and creditors.• MaterialityAs per this convention, all the facts that are material to the company, investors, clients, and customers should be disclosed in the prescribed manner.• ConsistencyThis is an important convention that requires consistent application of accounting rules and procedures for all the accounting periods. This helps in proper statistical comparison of accounting reports.• ConservatismConservatism is an important approach in accounting that seeks the business entities to stick with conventional accounting and financial practices with a view to avoiding unwarranted financial risks.What are the types of Accounting Concepts?The major accounting concepts are classified as follows:• Business Entity ConceptThe business or company is considered as a separate entity and has an identity that is totally different from that of the owner/owners.• Going Concern ConceptThe accounting practices follow the concept that a business concern or company would continue to exist in the future.• Accrual ConceptRevenues are recorded or entered when they are earned or accrued and expenses are recorded when they are incurred. The actual time of receiving or paying the cash is not recorded.• Money Measurement ConceptOnly transactions that can be measured in terms of money are entered in the accounting books.• Dual Aspect ConceptThe concept is the foundation of the double-entry system in accounting as per which every transaction has 2 aspects and is entered into 2 different accounts.• Matching ConceptFor every revenue or income entered during an accounting period, the related expenses are also entered for the same period.• Realization ConceptAs per the concept, revenues or incomes can be recorded only when the business concern has delivered the products or services to the clients or customers.• Accounting Period ConceptAn accounting period is the time frame for which an accounting statement is prepared. This could be prepared either monthly, quarterly, half-yearly, or annually and helps the business owners and investors in comparing the financial status of the firm.ConclusionAccounting concepts and conventions have a common purpose of improving the presentation of the financial statements of business firms.However, the differences in the two accounting terms are viewed in their basic abstraction, purpose, recognition, formulation process, and level of bias.Notably, the accounting conventions are developed in light of accounting concepts.ReferencesENEN PT ES RU ID DA DE FR IT NL PL SV TR ZH JA Accounting is a business language, which is used to communicate financial information to the company’s stakeholders, regarding the performance, profitability and position of the enterprise and help them in rational decision making. The financial statement is based on various concepts and conventions. Accounting concepts are the fundamental accounting assumptions that act as a foundation for recording business transactions and preparation of final accounts. On the other extreme, accounting conventions are the methods and procedures which have universal acceptance. These are followed by the firm while recording transactions and preparation of financial statement. Let’s take a look at the article to understand the difference between accounting concept and conventions. Content: Accounting Concept Vs Accounting Conventions Comparison Chart Definition Key Differences Conclusion Comparison Chart Basis for ComparisonAccounting ConceptAccounting Convention MeaningAccounting concepts refers to the rules of accounting which are to be followed, while recording business transactions and preparing final accounts.Accounting conventions implies the customs or practices that are widely accepted by the accounting bodies and are adopted by the firm to work as a guide in the preparation of final accounts. What is it? A theoretical notionA method or procedure Set byAccounting bodiesCommon accounting practices Concerned withMaintenance of accountsPreparation of financial statement BiasnessNot possiblePossible Definition of Accounting Concept Accounting Concepts can be understood as the basic accounting assumption, which acts as a foundation for the preparation of financial statement of an enterprise. Indeed, these form a basis for formulating the accounting principles, methods and procedures, to record and present the financial transactions of business. These concepts provide an integrated structure and rational approach to the accounting process. Every financial transaction that occurs is interpreted taking into consideration the accounting concepts, which guides the accounting methods. Business Entity Concept: The concept assumes that the business enterprise is independent of its owners. Money Measurement Concept: As per this concept, only those transaction which can be expressed in monetary terms are recorded in the books of accounts. Cost concept: This concept holds that all the assets of the enterprise are recorded in the accounts at their purchase price Going Concern Concept: The concept assumes that the business will have a perpetual succession, i.e. it will continue its operations for an indefinite period. Dual Aspect Concept: It is the primary rule of accounting, which states that every transaction effects two accounts. Realisation Concept: As per this concept, revenue should be recorded by the firm only when it is realized. Accrual Concept: The concept states that revenue is to be recognized when they become receivable, while expenses should be recognized when they become due for payment. Periodicity Concept: The concept says that financial statement should be prepared for every period, i.e. at the end of the financial year. Matching Concept: The concept holds that, the revenue for the period, should match the expenses. Definition of Accounting Convention Accounting Conventions, as the name suggest are the practice adopted by an enterprise over a period of time, that rely on the general agreement between the accounting bodies and helps in assisting the accountant at the time of preparation of financial statement of the company. For the purpose of improving quality of financial information, the accountancy bodies of the world may modify or change any accounting convention. Given below are the basic accounting conventions: Consistency: Financial statements can be compared only when the accounting policies are followed consistently by the firm over the period. However, changes can be made only in special circumstances. Disclosure: This principle state that the financial statement should be prepared in such a way that it fairly discloses all the material information to the users, so as to help them in taking a rational decision. Conservatism: This convention states that the firm should not anticipate incomes and gains, but provide for all expenses and losses. Materiality: This concept is an exception to the full disclosure convention which states that only those items to be disclosed in the financial statement which has a significant economic effect. The difference between accounting concept and convention are presented in the points given below: Accounting concept is defined as the accounting assumptions which the accountant of a firm follows while recording business transactions and preparing final accounts. Conversely, accounting conventions imply procedures and principles that are generally accepted by the accounting bodies and adopted by the firm to guide at the time of preparing the financial statement. Accounting concept is nothing but a theoretical notion that is applied while preparing financial statements. On the contrary, accounting conventions are the methods and procedure which are followed to give a true and fair view of the financial statement. While accounting concept is set by the accounting bodies, accounting conventions emerge out of common accounting practices, which are accepted by general agreement. The accounting concept is basically related to the recording of transactions and maintenance of accounts. As against, the accounting conventions focus on the preparation and presentation of financial statements. There is no possibility of biases or personal judgement in the adoption of accounting concept, whereas the possibility of biases is high in case of accounting conventions. Conclusion To sum up, the accounting concept and conventions outline those points on which the financial accounting is based. Accounting concept does not rely on accounting convention, however, accounting conventions are prepared in the light of accounting concept.

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