



## ■ ACCOUNTING CONCEPTS & CONVENTIONS –

### SUMMARY NOTES (CMA FOUNDATION P-02)

By FCMA Abhishek Jain sir

[ Author]

#### ■ A. ACCOUNTING CONCEPTS (Fundamental Assumptions)

##### 1 Business Entity Concept

Business ≠ Owner.

Business is treated as a *separate entity* from the owner.

Example:

Owner invests ₹1,00,000 → Recorded as *Capital*, not as income.

##### 2 Going Concern Concept

Business will continue for the foreseeable future (not shutting down soon).

Example:

A machine costing ₹5,00,000 is depreciated over 10 years because business is *expected to continue*.

##### 3 Money Measurement Concept

Only transactions measurable in money are recorded.

Example:

Employee skill, brand reputation → Not recorded

Salary paid, cash received → Recorded

##### 4 Cost Concept

Assets are recorded at purchase price (historical cost), not market value.



**Example:**

**Machine purchased @ ₹2,00,000**

**Market value rises to ₹3,00,000 → Books still show ₹2,00,000.**

#### **5 Dual Aspect Concept**

**Every transaction has two sides: Debit & Credit.**

**Example:**

**Purchased goods for ₹50,000 on credit →**

- **Goods ↑ (Debit)**
- **Creditors ↑ (Credit)**

#### **6 Accounting Period Concept**

**Business life is divided into periods (usually 12 months) to ascertain profit.**

**Example:**

**Financial year: 1 April – 31 March.**

#### **7 Accrual Concept**

**Record expenses & incomes when they are incurred/earned, not when cash is paid/received.**

**Example:**

**Electricity bill ₹8,000 unpaid → Still shown as expense.**

#### **8 Revenue Recognition (Realization) Concept**

**Revenue is recognized when goods/services are delivered, NOT when cash is received.**

**Example:**

**Goods sold on credit ₹30,000 → Sales booked immediately.**

#### **9 Matching Concept**

**Expenses of a period must be matched with revenues of the same period.**

**Example:**

**Depreciation of machinery is charged every year to match yearly revenue.**



## **B. ACCOUNTING CONVENTIONS (Practices Followed)**

### **1 Convention of Conservatism (Prudence)**

"Record all expected losses, but no anticipated gains."

Example:

- Stock written at cost or NRV whichever is lower.
- Create provision for bad debts.

### **2 Convention of Consistency**

Same accounting methods must be followed every year.

Example:

If Straight-Line Method is used for depreciation → continue every year unless justified.

### **3 Convention of Materiality**

Important (material) items must be disclosed; trivial items can be clubbed.

Example:

Purchase of calculator ₹700 → Charged as expense, not capitalized.

### **4 Convention of Full Disclosure**

All significant information must be disclosed in Financial Statements.

Example:

Contingent liabilities must be shown in notes.

## **C. QUICK COMPARISON TABLE**

Concept / Convention	Focus	Example
Business Entity	Separate business identity	Owner's investment = Capital
Going Concern	Business continues	Depreciation charged
Cost Concept	Historical cost	Asset recorded at purchase price
Accrual	Record without cash basis	Outstanding salary



Revenue Recognition	When sale occurs	Credit sales recorded immediately
Conservatism	Anticipate losses only	Stock at cost or NRV lower
Consistency	Same methods yearly	Same depreciation method
Materiality	Only important items detailed	Small expenses clubbed
Full Disclosure	Transparency	Notes to accounts

### **D. EXAM-FOCUSED MCQs (WITH Answers)**

1. Which concept treats business and owner as separate?

- A. Cost
- B. Business Entity
- C. Accrual
- D. Consistency

Answer: B

2. Stock is valued at cost or NRV whichever is lower due to—

- A. Consistency
- B. Accrual Concept
- C. Conservatism
- D. Materiality

Answer: C

3. Expenses are matched with revenues of the same period under—

- A. Matching Concept
- B. Revenue Recognition
- C. Going Concern
- D. Cost Concept

Answer: A

4. Credit sales are recorded as revenue due to—



**A. Dual Aspect**

**B. Revenue Recognition**

**C. Materiality**

**D. Entity Concept**

**Answer: B**

**5. Using the same method of depreciation every year represents—**

**A. Materiality**

**B. Conservatism**

**C. Consistency**

**D. Accrual**

**Answer: C**

**6. Outstanding Expenses are recorded due to—**

**A. Accrual Concept**

**B. Going Concern**

**C. Entity Concept**

**D. Full Disclosure**

**Answer: A**

**7. Only monetary transactions are recorded as per—**

**A. Cost Concept**

**B. Money Measurement Concept**

**C. Materiality**

**D. Revenue Recognition**

**Answer: B**

**8. Showing contingent liabilities in Notes to Accounts follows—**

**A. Matching**

**B. Full Disclosure**

**C. Conservatism**

**D. Cost Concept**

**Answer: B**



**9. A machine purchased at ₹1,00,000 is recorded at the same value even if market value increases. Which concept?**

- A. Accrual**
- B. Cost Concept**
- C. Revenue Recognition**
- D. Materiality**

**Answer: B**

**10. Bad debts provision is created because of—**

- A. Accrual**
- B. Conservatism**
- C. Entity Concept**
- D. Matching**

**Answer: B**



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