Accounting Principles

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Accounting principles are the common guidelines and rules related to accounting transactions that are followed to prepare financial statements successfully. These accounting principles are also known as Generally Accepted Accounting Principles or GAAP.These rules helps an accountant to develop error-free and consistent accounting data. It also helps organisational stakeholders to compare the financial data of different companies over the years. an accountant to develop error-free and consistent accounting data. It also helps organisational stakeholders to compare the financial data of different companies over the years.

Types of Accounting Principles

1)Accrual Principle:

According to these concept, entries are made not only for actual receipt or payment of cash but also for amount having become due for payment or receipt. In the other words, both cash and credit transaction are recorded in the book of account. Accounting's accrual principle recognises income and costs when they are generated or spent, regardless of when cash is exchanged.

2)Conservatism Principle:

Future is uncertain. Every sincere Businessman makes and estimate of future losses and then some provision for it is made. Businessman mostly ignore the item of future profit. These tendency is termed as conservatism. Saving of money by people and depositing it for using it to meet future contingency is conservatism. The valuation of stock or inventory at a lower cost or net realisable value, making provisions for doubtful debt are the application of this principle.

3) Cost Principle:

This principle is also known as historical cost principle, this requires that assets, liabilities, and equity investments be recorded at their original purchase cost. In the balancesheet, however, these assets do not appear always at cost price every year, but systematically it is reduced by the amount of annual depreciation and thus they appear at the amount which is cost less depreciation. This concept is mainly for fixed assets, current assets are not affected by it. Due to the principal, market price is ignored and balance sheet indicates financial position on cost and expired cost basis.

4)Economic Entity Principle:

This principle states that a business is a separate legal and financial entity from its owners and other businesses. On the basis of this principle, the proprietor is treated as a creditor for the business. When he contributes capital, he is treated as a who has invested his amount in the business and therefore, capital appear in the liability side of balance sheet of the proprietor's business. This principle of separate entity is applicable to all form of business organisation that is sole proprietorship, partnership or a company.

4)Monetary unit principle:

According to this principle, only those business transaction are recorded in the book of accounts which can be measured in terms of money. It is clear from this principle that qualitative and emotional facts of business are not recorded e.g. efficiency of manager, quality of product,government policies etc. This assumes the purchasing power of the currency is stable over time and that non-monetary information is not included in the financial statements.

5)Going concern principle:

These concept relates with the indefinite long economical life of the business. The assumption is that business will continue to exist for unlimited period unless of course it is dissolved due to some reason or the other. This is why,when balancesheet is prepared, record is made for outstanding expenses and prepaid expenses because of the assumption that business will continue. It is because of this concept that the Asset are classified as current asset and fixed Assets and the liabilities are classified as short term and long term liabilities.