

Principles of Accounting

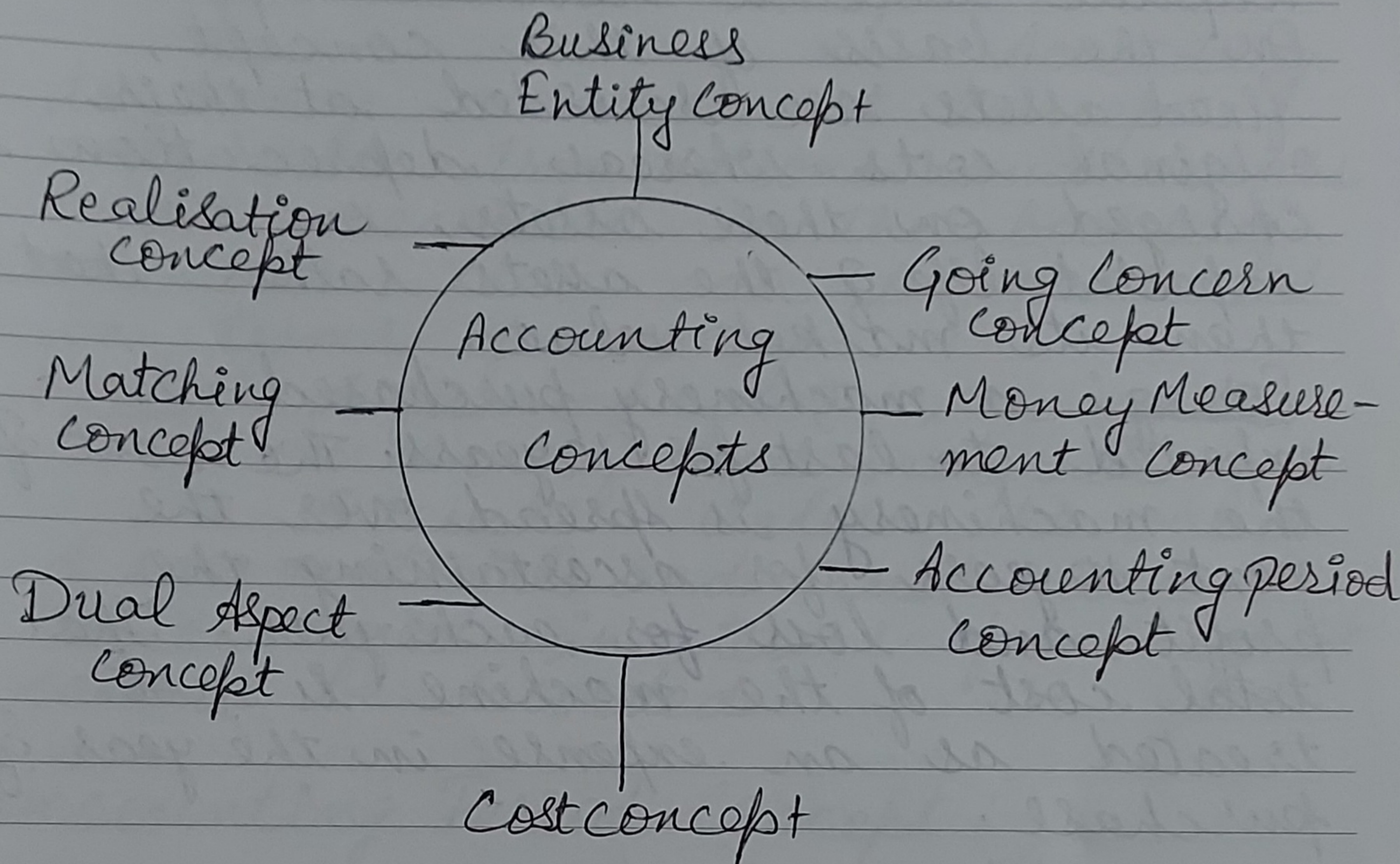
Accounting is a world-wide practise followed by every accountant, in every enterprise. The objective of an accountant is to make the accounting informations useful to its users, both, internal and external. Such informations should be reliable and comparable. The performance of one firm is compared with another and even the current year performance may be compared with the previous year of the same firm. Such inter-firm and intra-firm comparisons can be reliable and authentic only if these accounting informations provided by the financial statements is based on some set rules. For this reason, GAAP (Generally Accepted Accounting Principles) has been formulated. These principles have been generally accepted by accountants all over the world as general guidelines for preparing the accounting statements.

These principles are classified into two categories:

Accounting concepts and
Accounting conventions

Accounting Concepts:

Accounting concepts refer to the rules and regulations of accounting. It is important to follow these rules while preparing the financial statements.



Accounting Conventions:

It refers to the set of practices that are universally accepted and followed by accountants while preparing final accounts. These conventions are:

- Convention of Conservatism
- Convention of Consistency
- Convention of Full-Disclosure and
- Convention of Materiality