MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Generally Accepted Accounting Principles (GAAP)**	Generally Accepted Accounting Principles are basic or fundamental propositions accepted by the accountants based on which transactions are recorded in the books of account and financial statements are prepared.
2. **Fundamental Accounting Assumptions**	
i. **Going Concern Assumption**	Under the assumption, it is presumed that the business will continue for a foreseeable future and there is no intention to close down the business or scale down its operations significantly.
ii. **Accrual Assumption**	Under the assumption, a transaction is accounted at the time when it is entered into and not when settlement takes place.
iii. **Consistency Assumption**	Under the assumption, accounting practices once adopted should be applied consistently year after year. They may be changed under following three conditions: (*a*) Law requires the change, (*b*) Accounting standard requires the change, or (*c*) It will result in more fair presentation of financial affairs of the business.
3. **Accounting Standards**	Accounting Standards are the written policy documents covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statements.
4. **International Financial Reporting Standards (IFRS)**	International Financial Reporting Standards (IFRS) are a set of accounting standards issued by IASB based on sound and clearly stated principles.

CHAPTER SUMMARY

- **Accounting Principles:** Accounting is the language of business. To understand the accounting information and for maintaining uniformity and consistency, accounting principles are necessary in accounting.

  Accounting Principles are the norms or rules which are to be followed in treating various items of assets, liabilities, expenses, incomes, etc.

  Generally Accepted Accounting Principles (GAAPs) means the rules or guidelines for recording and reporting business transactions, in order to bring uniformity and consistency in the preparation and presentation of financial statements.

- **Features of Accounting Principles**

  1. Accounting Principles are man-made.
  2. Accounting Principles are flexible.
  3. Accounting Principles are generally accepted. The general acceptance of an Accounting Principle usually depends on how well it meets the three *criteria*: *relevance, objectivity* and *feasibility*.

- **Accounting Principles can be classified** *into two categories:*
  1. Accounting Concepts, and 2. Accounting Conventions.

- **Fundamental Accounting Assumptions or Concepts**
  1. **Going Concern Assumption:** The business will continue for an indefinite period and there is no intention to close the business or downsize its operations significantly.
  2. **Consistency Assumption:** Accounting practices once selected and adopted should be applied consistently year after year.
  3. **Accrual Assumption:** Transactions are recorded when they have been entered into and not when the settlement takes place.

- **Accounting Principles**
  1. **Accounting Entity or Business Entity Principle:** Business is treated as a separate entity distinct from its owners.
  2. **Money Measurement Principle:** Transactions and events that can be expressed in money or in money terms are recorded in the books of account.
  3. **Accounting Period Principle:** Life of an enterprise is divided into time intervals which are known as accounting periods, at the end of which an income statement and position statement are prepared to show the performance and financial position.
  4. **Full Disclosure Principle:** According to this convention, financial statements should be prepared and to that end, full disclosure of all significant information should be made.
  5. **Materiality Principle:** Items or events having a significant effect should be disclosed.
  6. **Prudence or Conservatism Principle:** Do not anticipate profits but provide for all possible losses.
  7. **Cost Concept or Historical Cost Principle:** The underlying principle of cost concept is that the asset be recorded at its cost price, which is the cost of acquisition *less* depreciation.
  8. **Matching Concept or Matching Principle:** Cost incurred during a particular period should be set out against the revenue of that period to ascertain profits.
  9. **Dual Aspect Concept or Duality Principle:** Every transaction has two aspects: one aspect of a transaction is debited while the other is credited.
  10. **Revenue Recognition Concept:** Revenue is recognised in the period in which it is earned irrespective of the fact whether it is received or not during that period.
  11. **Verifiable Objective Concept:** There must be objective evidence of transactions which are capable of verification.

- **Accounting Standards** are a set of guidelines, *i.e.*, Generally Accepted Accounting Principles, issued by the accounting body of the country, *i.e.*, The Institute of Chartered Accountants of India (ICAI), that are followed for preparation and presentation of financial statements.
- The objective of setting Accounting Standards is to bring uniformity in accounting practices and to ensure transparency, consistency and comparability.
- **International Financial Reporting Standards (IFRS)** are a set of accounting standards issued by IASB, which came into existence in the year 2001.
- IASB adopted existing International Accounting Standards (IAS) and SIC as their standards. Out of 41 IAS, 12 IAS stand withdrawn and in effect 29 IAS are still applicable.

- IASB issued 9 IFRS and a standard for Small and Medium Enterprises.
- IFRS compliant financial statements are:
    1. Statement of Financial Position,
    2. Comprehensive Income Statement,
    3. Statement of Changes in Equity,
    4. Statement of Cash Flow, and
    5. Notes and Summary of Accounting Policies.
- **Objectives of IASB are**:
    1. To develop, in the public interest, a single set of high-quality, understandable, and enforceable global accounting standards that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions;
    2. To promote the use and rigorous application of those standards;
    3. In fulfilling the objectives associated with (1) and (2), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
    4. To bring about convergence of national accounting standards and International Financial Reporting Standards to high-quality solutions.
- **Difference between IFRS and Indian Accounting Standards (Ind-As)**. The principal difference between the two is that while IFRS are based on principle and fair value, Indian Accounting Standards are based on rules and historical value.
- India decided to converge Indian Accounting Standards with IFRS and has issued converged International Accounting Standards titled '*Ind-AS*'.

India has issued Indian Accounting Standards (Ind-AS) that converge into IFRS. They are the Indian Equivalent of IFRS applicable to select types of companies, *i.e.*,

(*i*) Companies listed on the Stock Exchange in India;

(*ii*) Companies having net worth of ₹ 250 crores or more;

(*iii*) Their Holding, Subsidiary, Associate and Joint Venture Companies.

Ind-AS are notified Indian Accounting Standards under the Companies Act, 2013 and are mandatory for companies to which they apply. Other companies are encouraged to adopt them. So far 40 Ind-AS have been issued.