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CHHATTISGARH MUNICIPAL

**ACCOUNTS MANUAL**

( BASED IN DOUBLE-ENTRY  
ACCOUNTING SYSTEM )

**PART-I**

## PREFACE

1.0 Urban Local Bodies in India have been mandated to carry out their financial transactions based on Double Entry System of Accounts on Accrual Basis. In terms of XI<sup>th</sup> Finance Commission recommendations and the Guidelines issued, the Ministry of Finance, Government of India, requested the Comptroller and Auditor General of India (CAG) to formulate accounting and budget formats for ULBs. Accordingly, the Comptroller and Auditor General constituted a Task Force, which submitted its report to MoUD on the subject of Accounting and Budget formats for ULBs. In the report of Task Force, Budget and Accounting formats as well as MIS Report were included. The Task Force made the following recommendations:

- a. The ULBs should comply with the formats suggested for annual Financial Statements in a uniform manner.
- b. All the ULBs should adopt uniformly the Manual and budget formats.
- c. All the ULBs shall adopt suggested formats in respect of determination of cost of important facilities and services like Water Supply, Primary Schools, Health Services, etc and shall submit the same as supplementary information.
- d. Important accounting policies to be adopted by ULBs shall be shown separately forming the part of Schedules of Accounts.

Accordingly, the CAG Task Force emphasized for adoption of a uniform procedure in the submission of Financial Information for all the ULBs (at least in respect of all ULBs of a specific State).

The report of Task Force was accepted by Govt. of India and was endorsed to all State Governments for its implementation, taking into account the local needs.

Thereafter, Ministry of Urban Development, GoI started the process of preparation of National Municipal Accounts Manual on the basis of the report of Task Force. Comptroller and Auditor General of India provided necessary assistance and feedback for preparation of this Accounts Manual. Now, it is mandatory for the State Governments to prepare their own Municipal Accounts Manual specific to the State Government needs based on National Municipal Accounts Manual to upkeep the accounts of ULBs of the State on the basis of double entry system of accounting on accrual basis.

2.0 The Chhattisgarh Municipal Accounts Manual was prepared by All India Institute of Local Self Government (AIILSG). The copy of the said Manual was made available to the members of the Project Group on 05 April, 2008. The Project Group carried out detailed studies of both the parts of the Manual and suggested the need for certain amendments of the same.

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CHAPTER-I  
**DEFINITIONS, ACCOUNTING CONCEPTS & ACCOUNTING  
CONVENTIONS**

- 1.1 The various terms used in this Accounting Manual, the Accounting Concepts and Accounting Conventions under the Accrual System of Accounting are defined in this chapter. The objective of this chapter is to ensure a common understanding of the terms often used in the Manual as well as to promote consistency and uniformity in their usage. The meaning of other terms used in the Manual which are not defined in this chapter, unless not specified, will be the same as has been defined in respective Urban Local Body Acts.

**1.2 DEFINITIONS**

- 1.2.1 The definitions of the terms used in this manual are those which are commonly understood and used and specified by the experts of this field.

- 1.2.2 The definitions/meanings of the various terms used in this manual are as follows :

1. **Account** – A formal record of a particular type of transaction expressed in money or other unit of measurement and kept in a ledger.

Account is a statement of transactions relating to Assets or income/ expenditure of particular person. In other words all transactions of a particular person and commodity is recorded in accounts/ledger at one place.

2. **Accounting Principle** – The general principles and procedures under which the accounts of an individual organization are maintained; any one such principle or procedure. An accounting principle is an adaptation or special application of a principle necessary to meet the peculiarities of an organization or the needs of its management. Thus, principles are required for the computation of depreciation, the recognition of capital expenditures and the disposal of retirement cases.
3. **Account Receivable** – Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. It is also termed as debtor, sundry debtor.
4. **Account Payable** – Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as creditor or sundry creditor.

5. **Accounting Entry** – A record of financial transaction in the books of account like journal, ledger, cash book etc.
6. **Accounting Period** – The period of time for which accounts are customarily prepared.
7. **Accounting Policies** – Accounting policies are those specific principles, basic assumptions, traditions, rules and conventions which are adopted by ULBs for preparation and submission of financial statement.
8. **Accounting Year** – The “Accounting Year” means a year commencing from 1<sup>st</sup> April and ending on 31<sup>st</sup> March.
9. **Accrual** – Recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur.
10. **Accrual Basis of Accounting** – The method of accounting in which the receipts and payments are recorded in the specific month and year in which the income has been earned and expenses are incurred without considering the date of actual cash receipt or payment.
11. **Accrued & Due** – In respect to an asset (or a **liability**) it means a claim which has become enforceable. In respect to an **income** (or an **expense**) it means the amount earned (incurred) in an accounting period for which a claim has become enforceable, and it arises from the sale/rendering (purchase) of goods/services or otherwise and has become receivable (payable).
12. **Accrued and Not Due** – In respect to an **Asset** (or a **liability**) it means a claim which has not yet become enforceable, which accumulates with the passage of time or arises from the sale/rendering (purchase) of goods/services which on the date of period-end, have been partly performed and are not yet receivable (payable).

In respect to an **income** (or an **expense**) it means the amount earned (incurred) in an accounting period, but for which no enforceable claim has become due in that period. It accumulates with the passage of time or arises from the sale/rendering (purchase) of goods/services which, at the date of accounting, have been partly performed and are not yet receivable (payable).

13. **Accumulated Depreciation** – The upto-date depreciation charges on depreciable assets.
14. **Advance** – Payment made on account of, but before completion of, a contract or before acquisition of goods or receipt of services.
15. **Amortisation** – The gradual and systematic writing off of an asset or an account over an appropriate period. The amount on which amortization is provided is referred to as amortizable amount. Depreciation accounting is a form of amortization applied to depreciable assets. Depletion accounting is another form of amortization applied to wasting assets.
16. **Annual Report** – Any report prepared at yearly intervals.
- A statement of the financial condition and operating results of an ULB prepared yearly for submission to interested parties; summarizing its operations for the preceding year and including a balance sheet, income & expenditure statement, receipts & payment statement, and the auditor's report together with comments by the Mayor/President or the Commissioner/Chief Municipal Officer of the ULB on the year's operations.
17. **Assets** – Assets are those resources which arise as a result of past events, controlled by ULB for future financial benefit and better delivery of services.
18. **Asset Replacement Fund** – A fund created for the purpose of replacement of an asset. The fund shall normally be equal to the amount of depreciation provided on the Fixed Assets and shall be utilized only for the purpose of replacement of those Fixed Assets or for any other purpose as resolved by the ULBs.
19. **Assigned Revenues** – Assigned revenues are revenues in the nature of a share in the revenues of the state government, to compensate for certain losses in revenue and arrangement of resources of the ULBs. The ratio of the share in revenues is determined on the basis of the revenues collected by ULBs and the recommendations of the State Finance Commission and devolution of funds to ULBs.
20. **Bad Debts** – Debts owed to the ULBs, which are considered to be irrecoverable, e.g., arrears of taxes, fees and other revenue left uncollected and considered to be irrecoverable.

21. **Balancing** – In order to balance an account, the two sides, namely Debit and Credit are totalled up separately and the difference is ascertained. This difference is put on the side that is lower to balance the two sides of an account.
22. **Balance Sheet** – A statement of the financial position of an ULB as at a given date, which exhibits its assets, liabilities, capital, reserve and other account balances at their respective book values.
23. **Bank Reconciliation Statement** – The statement which is prepared for reconciling difference between the balances shown in the Bank column of Cash Book with balances of Pass Book is called Bank Reconciliation Statement. Such statement may also reflect errors/omissions in the recording of transaction inter-se between the ULB and the Bank.
24. **Books of Original Entry** – A record book, recognized by law or custom, in which transactions are successively recorded, and which is the source of postings to ledgers. Books of original entry include general and special journals, such as cash books.
25. **Borrowing Cost** – The cost of borrowing is the expenses such as interest etc. incurred by a Local Body for borrowing of funds. The borrowing cost may include the following:-
- (a) Interest on bank overdraft and short term and long term borrowing.
  - (b) Amortisation of discount or premium in respect of borrowing.
  - (c) Amortisation of miscellaneous cost incurred for obtaining loan.
  - (d) Finance charges in respect of finance leases.
  - (e) Due to difference in exchange rate of foreign borrowing amount, the adjustment applicable in respect of interest cost.
26. **Budget** – It means quantitative plan of activities and programs expressed in terms of money in respect of assets, liabilities, revenues and expenses. The budget expresses the ULB goals in terms of specific financial and operating objectives.
27. **Capitalisation** – An expenditure for a fixed asset or addition thereto that has the effect of enlarging physical dimensions, increasing productivity, lengthening future life, or lowering future costs.
28. **Capital Expenditure** – An expenditure intended to benefit future period in contrast to a revenue expenditure, which benefits a current period. The term is generally restricted to expenditure that adds fixed asset or that has the effect of improving the capacity, efficiency, life span of an existing asset.

29. **Capital Work in Progress** – Expenditure on capital assets which are in the process of construction or completion.
30. **Cash** – The cash includes cash and demand draft.
31. **Cash Book** – A book of original entry for cash receipts, disbursements, or both.
32. **Cash Equivalent** – Cash equivalents are those short term high liquid investment which can easily be converted into cash with negligible risk of decrease in value.
33. **Cash Flow Statement** – A financial statement prepared for an accounting period to depict the inflows and outflows of cash and cash equivalents of an enterprise. The cash flow statement reports cash flows classified by operating, investing and financing activities.
34. **Casting** – It means totalling of the amounts in the books of account.
35. **Chart of Accounts** – A systematically arranged list of accounts applicable to a specific concern, giving account names and numbers, if any.
36. **Code of Account** – A unique numeric or alphanumeric identification given to each Account to facilitate classification and ease of recording.
37. **Component of Financial Statement** – The following components make a full set of financial statements:
- (a) Statement of financial position
  - (b) Statement of financial performance
  - (c) Statement of changes in net assets/equity
  - (d) Cash flow statement and
  - (e) Accounting policies followed for preparation of financial statements and notes.
38. **Consistency of Presentation** – In financial statement consistency shall be maintained from one period to next period in respect of presentation of materials and classifications provided that the position shown ahead does not exist, any important change in the nature of work of ULB or review of presentation of financial statement shows that a change results in suitable presentation of transaction or events or (e) the change in presentation is needed by the prevalent accounting standard.

39. **Contingent Liability** – An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.
40. **Contra Entry** – An item on one side of an account which offsets fully or in part one or more items on the opposite side of the same account.
41. **Control Account** – Control account is an account in the general ledger that consists of related sub-accounts. The total of the related sub-accounts should total the balance in the related control account.
42. **Cost** – The amount of expenditure incurred on or attributable to a specified article, product or activity.
43. **Cost of Acquisition** – The cost of acquisition of a Fixed Asset comprises its purchase price and includes import duties and other non-refundable taxes or levies and cost of bringing the asset to its working condition. Any trade discounts and rebates are deducted in arriving at the purchase price.
44. **Cost of Investment** – The amount of expenditure incurred on the purchase/acquisition of an investment. The cost of an investment includes acquisition charges such as brokerage, fees and duties.
45. **Credit** – A book-keeping entry recording the reduction or elimination of an asset or an expense, or the creation of or addition to a liability or item of net worth or revenue; an entry on the right side of an account; to record such transactions.
46. **Current Assets** – Any asset should be classified as current assets (a) that are expected to be converted into cash or consumed in rendering of services in the normal course of operations of the ULB (b) mainly kept for trading purposes or for the short period with the possibility of its conversion in cash within the period of twelve months from reporting date or (c) is cash or cash equivalent. All other assets shall be classified as Non-current Assets.
47. **Current Liability** – All liabilities should be classified as current liability, if in the normal course of operation of the ULBs there is possibility of settlement or (a) it is due for settlement within a period of twelve months from the date of reporting. All other liabilities shall be classified as Non-current Liabilities.

48. **Debenture** – A formal document constituting acknowledgement of a debt by an ULB, usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.
49. **Debit** – The goods or benefit received from a transaction; a book-keeping entry recording the creation of or addition to an asset or an expense, or the reduction or elimination of a liability, or item of net worth or revenue; an entry on the left side of an account; the amount so recorded.
50. **Deferred Revenue Expenditure** – Expenditure for which payment has been made or a liability incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. This is also referred to as Deferred Expenditure.
51. **Deficit** – The excess of expenditure over income of the ULB for an Accounting Period under consideration.
52. **Depreciable Amount** – The cost, or other amount substituted for cost of a depreciable asset in the financial statements, less the estimated residual value.
53. **Depreciable Asset** – An asset which is expected to be used during more than one accounting year, has a limited useful life, and is held by the ULBs for use in the supply of services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of operations of the ULB.
54. **Depreciation** – A measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. It is allocated so as to charge a fair proportion in each accounting period during the useful life of the asset.
55. **Dividend Income** – An income received from investments by a ULB in shares/units.
56. **Earmarked Funds** – Funds representing Special Funds to be utilized for specific purposes.
57. **Expenses** – A cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period.

58. **Fair Value** – The fair value is the value on which an asset can be exchanged or the liabilities can be settled between the interested party impartially and independently.
59. **Financial Asset** – Financial asset is (a) cash (b) contractual right to receive cash or any other financial assets from other ULB (c) contractual right in respect of exchange of financial/resource with other ULBs under the favourable terms and conditions (d) Equity of other ULBs.
60. **Financial Statement** – A balance sheet, income and expenditure statement, receipts & payment statement or any other supporting statement or other presentation of financial data derived from accounting records.
61. **Fixed Asset** – Asset held for the purpose of providing services and that is not held for resale in the normal course of operations of the ULB.
62. **Fixed Deposit** – Deposit for a specified period and at specified rate of interest.
63. **Folio reference** – A page number or voucher or other number in a book or document of original or final entry, which refers to the disposition or source of an entry or posting.
64. **Foreign Currency** – Currencies, other than Indian rupees, which is reporting currency of ULB, is called foreign currency.
65. **Fund** – The term fund refers to amount set aside for a general or specific purpose, whether represented by specifically earmarked assets or not.
66. **Grants** – Grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.
67. **Gross Block** – The total cost of acquisition/purchase of all the Fixed Assets of the ULB.
68. **Income** – Money or money equivalent earned or accrued during an accounting period, increasing the total of previously existing net assets. This also includes income receivable.

69. **Income and Expenditure Statement** – A financial statement, often prepared by non-profit making entities like clubs, associations, ULBs, etc., to present their revenues and expenses for an accounting period and to show the excess of revenues over expenses (or vice-versa) for that period. It is similar to profit and loss statement and is also called revenue and expense statement.

70. **Infrastructure Assets** – Infrastructure assets have some or all characteristics as shown below :-

- (a) They are part of a system of network
- (b) They are specialized in nature and do not have alternative uses
- (c) They are immovable, and
- (d) They are subject to constraints on disposal.

Although the ownership of infrastructure assets in public sector is not limited up to the ULB, important infrastructure assets are often owned by Public Sector. The meaning of infrastructure asset is property, machinery and equipments. The examples are :- Road network, sewerage system, water and electricity supply system and communication network.

71. **Interest** – The service charge for the use of money or capital, paid at agreed intervals by the user, and commonly expressed as an annual percentage of outstanding principal.

72. **Investment** – Assets held not for operational purpose or for rendering services, i.e., assets other than fixed assets or current assets (e.g. securities, shares, debentures, immovable properties).

73. **Journal Book** – Journal is a primary book for entry of transactions. The transactions are recorded in it date wise and serially along with narration. A book of original entry where such transactions are recorded which are not related to Cash.

74. **Lapsed Deposits** – Deposits unclaimed for more than such period or periods as defined in the act or provisions governing the ULBs. Such deposits are classified as Lapsed Deposits.

75. **Lease** – A lease is an agreement whereby the lessor conveys to the lessee in return for a payment the right to use an asset for an agreed period. A lease agreement also includes a Hire Purchase agreement. A lease is classified as a finance lease if it transfers substantially the entire risks and rewards incident to ownership. All other leases are classified as operating leases.

76. **Ledger** – The ledger is the book in which separate account is maintained for each individual, goods, income and expenditure and all transactions are segregated and recorded properly in respective accounts date wise.
77. **Liability** – Such present liabilities are called payable, which arise due to past events of the ULB. The settlement of liability results in outflow of the resources of ULB pertaining to service capacity or financial benefit.
78. **Long term investments** – Any investment falling outside the ambit of current investments are treated as long-term investments.
79. **Mortgage** – A lien on land, buildings, machinery, equipment, and other property, fixed or movable, given by a borrower to the lender as security for his loan.
80. **Materiality** – The information is material, if its omission or wrong narration affects the decision or assessment drawn on the basis of financial statement by the user. The materiality depends on the nature of information or size or omission or wrong narration drawn in specific circumstances.
81. **Municipal Fund** – The municipal or general fund is the general operating fund of an ULB. It is used to account for all financial resources except those related to any special or trust funds.
82. **Narration** – A brief description written below an Accounting Entry. It explains as to why the entry has been recorded and other related aspects of the entry.
83. **Net Assets** – The excess of the book value of the assets of an accounting unit over its liabilities to outsiders.
84. **Net Block** – Gross Block less Accumulated Depreciation of all the Fixed Assets of the ULB.
85. **Net Surplus/Deficit** – Net surplus/deficit includes the following components : (a) surplus or deficit from general activities and (b) Extraordinary items.
86. **Period End** – The last day of any Accounting Period, e.g., quarter, half-year, year-end.

87. **Pooling of interest method** – Pooling of interests is a method of accounting for amalgamations the object of which is to account for the amalgamation as if the separate operations of the amalgamating entities will be continued. Accordingly, only minimal changes are made in aggregating the individual financial statements.
88. **Posting** – An act of entering separately the debit and credit aspect of transactions from the books of original entry in respective accounts maintained in the ledger.
89. **Prepaid Expense** – Payment for expense in an accounting period, which relates to subsequent accounting period(s).
90. **Provision for Expense** – An amount written off or retained by way of providing for depreciation or diminution in value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.
91. **Provision for Outstanding Demand** – A provision made for revenue considered doubtful of recovery.
92. **Qualifying Fixed Asset** – A Qualifying Fixed Asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
93. **Receipt** – A written acknowledgement of something acquired; hence, an accounting document recording the physical receipt of cash/cheques.
94. **Receipts & Payments Statement** – A financial statement prepared for an accounting period to depict the changes in the financial position. This shows cash inflow and cash outflow for performing operating and non-operating activities. This indicates those resources from where ULB received funds and where it has been used. All non-cash related transactions are ignored while preparing this Statement.
95. **Reconciliation** – It means adjusting the difference between two items (i.e. amounts, balances, accounts or statements) so that the figures agree.
96. **Reporting Date** – The meaning of the reporting date is the last date of reporting period to which financial statement relates.

97. **Reporting Period** : Financial statements should be submitted at least on yearly basis. When, in extraordinary circumstances, the reporting date of the ULB is changed and the yearly financial statements are submitted for more or less period of one year, the ULB should disclose it in addition to the period covered by the financial statements (a) the reason of change in the period other than one year and (b) the fact, that for some details, such as, detail of financial performance, net asset/ change in equity and related notes are not comparable.
98. **Revenue Expenditure** – It means outlay benefiting only the current year. It is treated as an expense to be matched against revenue.
99. **Short Term Investment** – Those investments which are readily realizable, and are intended to be held for not more than twelve months from the date of investment.
100. **Sinking Fund** – A fund created for the repayment of a liability or for the replacement of an asset.
101. **Special Fund** – An amount set aside for a specific purpose.
102. **Straight Line Method** – The method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.
103. **Sub-Account** – One or more accounts that make up the Control Account. These sub-accounts are related to the control account and provide more detail of the Control Account. The total of the related sub-accounts will equal the related Control Account.
104. **Surplus** – The excess of income over expenditure of the ULB for an Accounting Period under consideration.
105. **Trial Balance** – A list or abstract of the balances or of total debits and total credits of the accounts in a ledger, the purpose being to determine the equality of posted debits and credits and to establish a basic summary for financial statements.
106. **Useful Life of Asset** : From the beginning of lease period without the limit of lease period, the expected remaining period is called useful life, in which the possibility of financial benefit or the service capacity of asset can be used by ULB.

**107. Voucher** : A document which serves as an authorization for purchase/sale or other trading transactions is called Voucher. The voucher on the basis of which the transactions are entered in the debit side of the account books are called debit voucher and the vouchers related to the transactions to be recorded in credit side are called credit voucher.

**108. Written Down Value** – In respect of a fixed asset means its cost of acquisition or substituted value less accumulated depreciation.

**109. Written Down Value Method** – A method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as “Diminishing Balance Method”.

### **13. ACCOUNTING CONCEPTS & ACCOUNTING CONVENTION**

**14.** The Accounting Concepts and Accounting Conventions have been developed over the years from experience, reason, usage and necessity and are generally accepted for accounting of transactions and preparation of Financial Statements.

**15.** Accounting Concepts are the necessary assumptions, conditions or postulates upon which the accounting is based. They are developed to facilitate communication of the accounting and financial information to all the readers of the Financial Statements, so that all readers interpret the statements in the same meaning and context.

**16.** The Accounting Concepts are as follows:

- Entity Concept;
- Dual Aspect or Accounting Equivalence Concept;
- Going Concern Concept;
- Money Measurement Concept;
- Cost Concept;
- Accounting Period Concept;
- Accrual Concept;
- Periodic Matching of Cost and Revenue Concept; and
- Realisation Concept.

**17.** Accounting conventions are the customs or traditions guiding the preparation of accounts. They are adopted to make financial statements clear and meaningful. The Accounting Conventions are as follows:

- Convention of Disclosure;
- Convention of Materiality;
- Convention of Consistency; and
- Convention of Conservatism.