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## Accounting: Conventions and Standards: Meaning and Convention of Consistency

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Find out how unsold goods are being valued in business units. You will find that they follow method of valuation of unsold goods. They value unsold goods at cost or market price, whichever is lower, even though market price is higher than cost price. It is the convention, tradition or practice or custom of the business, that business is following every year.

In accounting, there are many conventions or practices which are used while recording the transactions in books of accounts. Institute of Chartered Accountants of India (ICAI) , it is main regulatory body for standardization of accounting policies in country has issued a number of accounting standards to bring consistency in accounting practices.

### Meaning and Convention of Consistency

It refers to common practices which are universally followed in recording and presenting accounting information of business. They evolved through regular and consistent practice over years to facilitate uniform recording in accounts. The most important conventions which have been used for a long period are

- Convention of consistency
- Convention of full disclosure
- Convention of materiality
- Convention of conservatism

*Fig. 3.0 Important conventions and Meaning*

# Convention

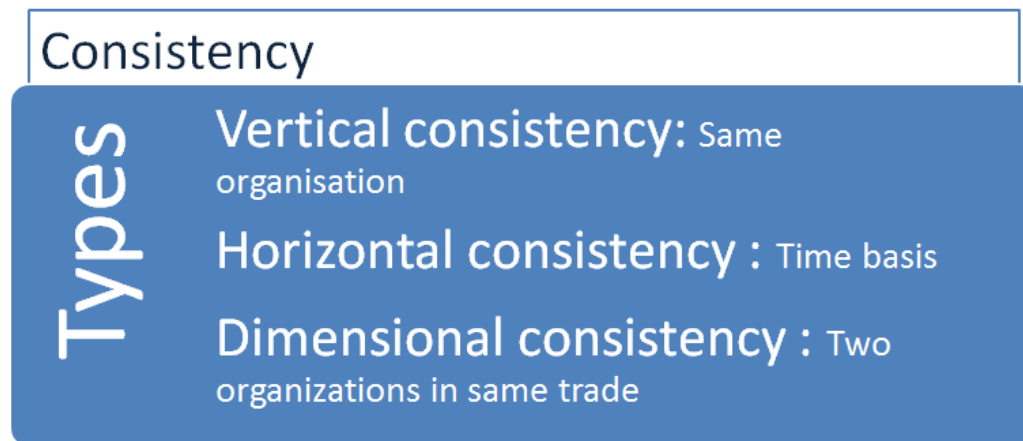
It refers to Common practices which are universally followed in Recording and Presenting Accounting information of Business

Most Important conventions			
Convention of Consistency	Convention of full Disclosure	Convention of Materiality	Convention of Conservatism

## Convention of Consistency

The convention of consistency means, same accounting principles should be used for preparing financial statements year after year. Meaningful conclusion can be drawn from financial statements of enterprise when there is comparison between them over a period of time. It is possible only when accounting policies and practices followed by enterprise are uniform and consistent.

Fig. 3.1 Types of consistency



### Significance

- It is to facilitate comparative analysis of financial statements.
- It ensures uniformity in charging depreciation on fixed assets and valuation of closing stock.

### Frequently Asked Questions (FAQs)

- **1. What are the actions taken by different regulatory bodies (SEC, FASB, AICPA) in setting accounting rules? 2. What are the necessity of predictive and feedback value?**

( - ra...@ on 17-Apr-2021)

#### 1 Answer

The Financial Accounting Standards Board (FASB) is responsible for setting accounting rules for public and private companies and nonprofits in the United States. The Securities and Exchange Commission (SEC) recognizes the FASB as the accounting standard setter for public companies. The Association of International Certified Professional Accountants (AICPA) sets ethical standards for the profession and U. S. auditing standards for audits of private companies, non-profit organizations, federal, state and local governments.

- ra...@ on 17-Apr-2021

- **Why people choose to record their asset in acquisition price?**

( - ra...@ on 17-Apr-2021)

#### 1 Answer

Recording asset in acquisition price is often used on property accounting reports to help faculty and staff identify specific assets. It also helps most faculty and staffs remember and identify a piece of equipment that was purchased five years ago versus identifying an asset with a current net book value.

- ra...@ on 17-Apr-2021

- **How many types of analysis does an accountant use for financial statement interpretation? Explain.**

( - ra...@ on 17-Apr-2021)

#### 1 Answer

The process of Financial Statement Analysis Consists of 3 major steps namely Reformulating Reported Financial Statements, Adjustments of Measurement Errors and Financial Ratio Analysis on the Basis of Reformulated and Adjusted Financial Statements.

- ra...@ on 17-Apr-2021

- **How do materiality and conservatism influence accounting decision?**

(- ra...@ on 17-Apr-2021)

*1 Answer*

According to the materiality principle, if the net impact of doing so has a small impact on the financial statements then an accounting standard can be ignored . According to conservatism principle the accountant should opt for the one that reports a lesser asset amount or a greater liability amount incase doubt between two alternatives exist.

- ra...@ on 17-Apr-2021

- **Accounting concepts**

(- ni...@ on 21-Apr-2023)

*1 Answer*

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- ni...@ on 21-Apr-2023