CHAPTER 5: ACCOUNTING PRINCIPLES

Accrual concept:

Transactions are recorded on their occurrence instead of cash flow in related period.

Going concern concept:

Enterprise viewed as going concern i.e. it will continue for foreseeable future (12 months normally) and no intention to wind up the business.

Historic cost concept:

Assets are recorded at amount of cash and cash equivalent paid for fair value of consideration at time of acquisition.

Matching concept:

Expenses are recorded in profit and loss account on the basis of their direct relation with incomes. i.e. expanses are charged against relevant incomes in Income Statement.

Materiality concept:

Information are material if their non-disclosure could effect the economic decision of users of final accounts.

Prudence:

Anticipated expenses should be recorded but not incomes. Incomes are only recorded when they are received or confirmed. Expenses are overstated and incomes are understated.

Separate determination concept:

Items and different transactions should be recorded separately.

Substance over form:

Transactions and other events should be accounted for and presented according substance and economic reality and not merely their legal form.

Separate entity concept:

Owner and business are two different entities. Their transactions should be recorded separately.

Duality:

Every transaction has two effects debit and credit.

Consistency concept:

The presentation and classification of items in the financial statements should be retained one period to next period.

Money measurement concept:

Only those items which have monetary values are recorded in financial statements.