Concepts in Accounting Cheat Sheet

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Accounting Concepts

There are a number of conceptual issues that underly how accounting works:

Accruals concept : revenues recognized when earned, expenses recognized when assets are consumed.

Auditors will only certify the financial statements of a business that have been prepared under the accruals concept.

Conservatism concept: revenues only recognized when there is a reasonable certainty that they will be realized, whereas expenses are recognized sooner, when there is a reasonable possibility that they will be incurred.

Consistency concept: once a business chooses to use a specific accounting method, it should continue using it on a go-forward basis. By doing so, the financial statements prepared in multiple periods can be reliably compared.

Economic entity concept: the transactions of a business are to be kept separate from those of its owners.

Going concern concept: financial statements are prepared on the assumption that the business will remain in operation in future periods. Under this assumption, revenue and expense recognition may be deferred to a future period, when the company is still operating. Otherwise, all expense recognition in particular would be accelerated into the current period.

Matching concept: the expenses related to revenue should be recognized in the same period in which the revenue was recognized.

Materiality concept: transactions should be recorded when not doing so might alter the decisions made by a reader of a company's financial statements. This tends to result in relatively small-size transactions being recorded, so that the financial statements comprehensively represent the financial results, financial position, and cash flows of a business.

How Business Works

Owners contribute CAPITAL (called EQUITY) funding. The Business leverages that funding by borrowing funds from lenders. That creates businesses' LIABILITIES. With these two sources of funding, the business acquires ASSETS, whose primary purpose is to generate INCOME. But to do that, the business must destroy value as EXPENSES in order to generate INCOME. The surplus value accrues to the owners as PROFIT.

Fundamental Principles: P I P C O

Professional behaviour
Integrity
Professional competernce & due care
Confidentiality
Objectivity

Threats to F P : A S S I F

Advocacy
Self-interest
Self-review
Intimidation
Familiarity

Accountants' personal and professional qualities

Personal	Professional
reliable	independence
responsible	scepticism
timeliness	accountability
courtesy	social responsibility
respect	

Conceptual Framawork

GOING CONCERN:fundamental underlying assumption of finacial statements.

FUNDAMENTAL Finacial Info. qualities:

» relevance

» materiality

» faithful representation

ENHANCING Finacial Info. qualities:

» comparability

» verifiability

» timeliness

» understandability

Professional Ethics

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Profession - occupation that requires extensive training.
Accountancy - high profile profession, acc's in position of trust and responsibility.
Code of conduct / Code of Ethics
rules based approach i.e. prescriptive approach to situations
framework, principle-based approach - values and qualities to which members should aspire to

Accounting bodies

IFAC	International Federation of Accountants
IESBA	International Ethics Standards Board