Key terms

Accounting theory "A set of basic concepts and assumptions and related principles that explain and guide the accountant's actions in identifying, measuring, and communicating economic information".

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Business entity concept The specific unit for which accounting information is gathered. Business entities have a separate existence from owners, creditors, employees, customers, other interested parties, and other businesses.

Comparability A qualitative characteristic of accounting information; when information is comparable, it reveals differences and similarities that are real and are not the result of differing accounting treatments.

Conservatism Being cautious or prudent and making sure that net assets and net income are not overstated.

Consistency Requires a company to use the same accounting principles and reporting practices through time.

Cost-benefit consideration Determining whether benefits of including information in financial statements exceed costs.

Earning principle The requirement that revenue be substantially earned before it is recognized (recorded).

Exchange-price (or cost) principle Transfers of resources are recorded at prices agreed on by the parties at the time of the exchange.

Full disclosure principle Information important enough to influence the decisions of an informed user of the financial statements should be disclosed.

Gain and loss recognition principle Gains may be recorded only when realized, but losses should be recorded when they first become evident.

Going-concern (continuity) assumption The assumption that an entity will continue to operate indefinitely unless strong evidence exists that the entity will terminate.

Historical cost The amount paid, or the fair market value of a liability incurred or other resources surrendered, to acquire an asset and place it in a condition and position for its intended use.

Matching principle Expenses should be recognized as they are incurred to produce revenues.

Materiality A modifying convention that allows the accountant to deal with immaterial (unimportant) items in an expedient but theoretically incorrect manner; also a qualitative characteristic specifying that financial accounting report only information significant enough to influence decisions or evaluations.

Realization principle A principle that directs that revenue is recognized only after the seller acquires the right to receive payment from the buyer.

Relevance A qualitative characteristic requiring that information be pertinent to or affect a decision.

Reliability A qualitative characteristic requiring that information faithfully depict for users what it purports to represent.

Stable dollar assumption An assumption that the dollar is a reasonably stable unit of measurement.