Key Learning Points

Accounting main principles

The three main principles that guide the processes of financial accounting are:
1. Relevance
2. Objectivity
3. Feasibility

Concepts

Several concepts underpin the understanding of accounting information: <u>historic cost, duality concept</u>, realisation concept, matching concept, accruals concept and conservatism concept.

The Balance Sheet can also be referred to as Statement of Financial Position.
The Income Statement can also be referred to the Profit and Loss Account.

Business Structures

A business entity chooses a specific legal status such as <u>sole owner, partnership or limited company</u>. Each structure offers varying degrees of control and responsibility.

Financial Statement

Financial statements are prepared to provide information regarding the company performance and financial position during the <u>accounting period</u>.

Main Vocabulary

Accounting period: The accounting period is generally a quarter or a year and reflects all of the financial activity that occurred during that time.

Duality: One of several major concepts which underpin the financial statements of a company, requires that the sum of the total assets of a business must equal the sum of the total claims on the assets of the business. This is a basic identity of financial accounting, often referred to as the accounting equation, which means that a correctly prepared balance sheet must balance.

Feasibility: the information should be collected easily and economically.

Historic cost: an asset is recorded in the balance sheet based on its nominal or original cost when acquired by the company.

Limited company: the liability of owners is limited to what they have invested. The company is a separate legal entity from its shareholder.

Objectivity: the information should be impartial, unbiased and free from subjective valuation.

Partnership: two or more people join together to pool their assets and share profits and liabilities.

Relevance: the information generated by an accounting system should impact the decision-making of someone perusing the information.

Sole trader: an individual trades under his own name. The owner is 100% responsible for the business liabilities and its debts and also retains full control of business and profit.