5.1 | Accounting concepts
• **Accounting concepts in use**
• **Adherence to concepts in financial accounting**
• **Relationship between accounting concepts**

Accounting concepts
• The assumptions that are made in the preparation and presentation of financial statements are known as Accounting Concepts.
• Accounting concepts are adhered to ensure that the accounting information prepared by businesses have a uniform nature (to ensure consistency and comparability).
• There are a large number of accounting concepts observed in financial accounting and the accounting information of different business entities become comparable when accounts are prepared using these concepts.

List of accounting concepts	
• Business entity concept • Going concern concept • Periodicity concept • Money measurement concept • Accrual concept • Consistency concept • Substance over form concept	• Realization concept • Matching concept • Prudence concept • Materiality concept • Historical cost concept • Disclosure concept

Adherence to financial accounting concepts	
There is a relationship between the accounting concepts used in the recording of transactions and presentation of financial statements. The recording of one transaction incorporates several of the above accounting concepts.	
Recording of depreciation	• Matching concept • Prudence concept • Going concern concept • Periodicity concept • Money measurement concept
Recording of stocks	• Prudence concept • Matching concept • Money measurement concept
Recording of expenses	• Matching concept • Periodicity concept • Accrual concept • Money measurement concept

Recording of income	• Realization concept • Accrual concept • Matching concept • Periodicity concept • Money measurement concept
Recording PP&E	• Historical cost concept • Going concern concept • Disclosure concept • Money measurement concept

Related concepts in the accounting of stocks	
Going concern	Stocks are included under current assets, since they are expected to be sold in the forthcoming year.
Accrual concept	Only the cost of good sold is included in the income statement.
Matching concept	Cost of sales is a revenue expense that directly contributes to the generation of sales. Accordingly, sales revenue needs to be reconciled against cost of sales.
Prudence concept	Stocks should be valued at lower price between cost and net realizable value.
Consistency concept	Policies followed in previus years for inventory valuation should be continued in the present and future.