

5.2 | Business entity concept

- **Business entity / Accounting entity concept**
- **Application of the concept in preparing financial statements**

Business entity concept

- The business and the owners are considered as independent entities and the business entity concept provides the basis for this purpose in accounting.
- A business is considered as an accounting entity because developing a meaningful methodology is difficult without such a basis.
- Since the business is an independent entity, its transactions can be identified separately from other transactions and therefore, an accounting system required for the business can be selected and implemented on that same basis.

Application of the concept in preparing financial statements

- Owner's capital is treated as a liability to the business
- Additional capital and net income increases owner's capital
- Drawings and net loss decreases owner's capital
- Personal transactions of the owner is not recorded in accounts
- Private property of the owner is not recorded in accounts



