

**5.9 | Historical cost concept**

- Historical cost concept
- Application of the concept in preparing financial statements
- Shortcomings in the concept
- Instances of deviation from the concept

**Historical cost concept**

- The assets that an organization possesses and the costs incurred, as well as the true cost of exchange on the date of acquisition, must be recorded in the books, as per the historical cost concept.
- When recording at cost, confirmation about the trustworthiness as well as convenience takes place. Similarly, accounting activities also become easier.

**Application of the concept in preparing financial statements**

- When PP&E is recorded for the first time at cost
- When subsequent costs incurred for PP&E is recorded at cost

**Shortcomings in the concept**

- The present value of the resources in the business is not reflected in the books
- The actual performance of the business is not presented
- Irrelevance of the information presented in financial statements

**Instances of deviation from the concept**

- When PP&E is recorded at revaluation values
- When stock is recorded at net realizable values

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