

5.12 | Substance over form concept

- Substance over form concept
- Application of the concept in preparing financial statements

Substance over form concept

When accounting for a transaction, it must not be based on the legal nature of the transaction but on its essence and reality. This is what is meant by substance over form.

Application of the concept

- Assets obtained on finance leases must be recognized in the buyer's books as assets. According to the definition of an asset, even where there is no legal ownership of the asset, the ability to control it, receipt of economic benefits, and bearing of risks associated with it, are signs of it being an asset to the business.



