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Subject: Accounting principles

**I .Problem:**

Applying principles in practical accounting

**“Applying principles in practical accounting work” will help us answer Questions:**

1. In fact, why should we care about accounting principles?
2. What are accounting principles? Specific content and practicality of accounting principles
3. **In fact, why should we care about accounting principles?**

* The formation of accounting principles that are widely accepted around the world is based on a simple truth: It is the essential need of users of accounting information, first of all business owners, to have Information for their decision making must be: Easy to understand, complete, timely, relevant, honest, objective, comparable, etc.
* Accounting principles are also scientific bases. It is important for policymakers and accounting scientists to build a system of accounting standards, accounting systems and accounting methods that are synchronous and professional today.

For the above reasons, accountants need to pay attention to accounting principles - professional principles that must be followed in order to perform professional and effective accounting work.

**Requirements for the quality of accounting information:**

* **Easy to understand:**Accounting information must be easy to understand for users. Users here are understood as people with knowledge of business and economic activities, moderate accounting knowledge, willing to study the information provided with a moderate concentration of thought.
* **Relevance:**To be useful, accounting information must be suitable to meet the needs of users to make accounting decisions. Information of appropriate quality is information that influences users' accounting decisions by helping them evaluate past, present or future events or confirm, correct their past assessments.
* The confirmation and estimation roles of information are interrelated. For example, information about the current asset level and structure of assets is very valuable to users when they want to predict the future ability of the business
* **Reliability:**To be useful , accounting information must be reliable (must ensure

truthfulness and reasonableness).

* **Honesty:**In order to be reliable, accounting information must be presented honestly about the actual situation and transactions and events that have happened
* **Objectivity:**For high reliability, the information Financial statements must be objective

, not distorted or distorted intentionally.

* **Complete:**Transactions and events must be reflected and recorded in the accounting books and financial statements.
* **Comparable:**The information in the financial statements must be comparable between periods and between other enterprises
* **Timely:**Accounting information must be provided in a timely manner for management requirements and make decision.

**Balance between benefits and costs:**The benefits from the information must outweigh the costs to get the information.

**II. Contents:**

**2. What are accounting principles? Specific content and practicality of accounting principles**

**2.1. Definition and List of Accepted Accounting Principles:**

* **Definition:**Accounting principles are standards and guidelines for the preparation of financial statements that achieve their objectives of readability, reliability, and reliability. ), and comparability. The ground rules for financial statements are called the General accepted accounting principles.

These principles cover a number of concepts, principles, practices and requirements for the evaluation, recording and reporting of the financial activities, events and transactions. enterprise.

* **Portfolio accounting principles recognized:**

*The accounting principles are recognized:*

1.Nguyen cost convention fees (COGS) (Cost principle)

2.Nguyen matching rule (Matching principle)

3.Nguyen fundamentals accrual

4.Consistency principle

5.Conservatism/Prudence

6.Materiality principle.

7. Principle of continuous operation

**2.2. Content of accepted accounting principles:historical**

* **Principle ofcost (cost):**

The measurement and calculation of assets, liabilities, owners' equity and expenses must be based on cost at**time of formation.**

Accountants are more concerned with cost prices than market prices because: Market prices are difficult to estimate and are subjective. While the price is subjective.

The concept of “As a going concern” makes estimating market prices unnecessary.

Accounting does not reflect the true value of a business's assets.

The principle of cost pricing is the basis for building the method of calculating the cost of accounting objects. We see in practice: Purchased goods, materials and assets, whether purchased domestically or imported, are determined:

* **Actual value of purchased assets = Purchase price + Purchase cost.**

In which, purchase price: is the price stated on the invoice, non-refundable taxes and fees, minus discounts and subsidies (if any)

Purchase cost: is all expenses incurred in purchase process, including costs of transportation, loading and unloading, repeat placement, trial run, etc., until the goods and assets are put into a state of readiness for use.

* **Principle of matching:**

– The recognition of revenue and expenses must be consistent with each other. When a revenue is recognized, a corresponding expense related to the generation of that revenue must be recognized. Costs corresponding to revenue include costs of the period in which revenue is generated and costs of previous periods or expenses payable but related to the revenue of that period.  
- Costs corresponding to revenue include:  
+ Costs of the revenue generation period, which are the costs actually incurred in the period and related to the revenue generation of that period.  
+ Expenses of previous periods or expenses payable but related to the revenue of that period.  
Thus, the expenses recognized in a period are all expenses related to the generation of revenue and income of that period, regardless of which period such expenses are spent in  
. Appropriate accounting regulations between revenue and expenses in order to determine and properly evaluate the business results of each accounting period to help managers make the right and effective business decisions.  
– Example:  
1. The company exports tools and supplies for 2 periods (months), the value of tools and tools out of stock is 30,000,000. In this case, according to the matching principle, the value of tools and equipment recognized as an expense in one period is only 15,000,000 VND, the rest is only recognized in the next period, so this transaction is amortized. Accounts are as follows:  
– When taking out of the warehouse to put into use, the accountant records:  
Debit 242 – Short-term prepaid expenses: 30,000,000  
Credit to account 153 – Tools: 30,000,000  
– At the end of each month, accountants record the cost ofallocation in the period:  
CCDCDebit account 627/641/642 – By department using CCDC: 15,000,000  
Credit account 242 – Short-term prepaid expenses: 15,000,000

## **Principles accrual basis The accrual**

* basis requires the recognition and reporting of assets, sources of funds, revenues and expenses on the basis of economic transactions, not on receipts or disbursements. .
* In accordance with the requirements, it is necessary to determine the appropriate expenses with the revenue in the period in order to correctly determine the business results of the accounting period.

Real money example: Selling goods to buyer X has not yet collected money => need to recognize revenue, even though money has not been collected; at the same time recognize the cost of this shipment, even though in reality it is possible that the cost of purchasing this lot has not yet been paid to the seller.

* **Principle of Consistency/Continuity:**

The selected enterprise accounting policies and methods must be applied consistently for at least one annual accounting period. In case there is a change in the selected accounting policy and method, the reasons and effects of such change must be explained in the notes to the financial statements.  
- According to the principle of consistency, the accounting policies and methods selected by the enterprise must be applied consistently from one period to another. Accounting policies and methods should be changed only when there are special reasons and at least to the next accounting period. In case there is a change in the selected accounting policy and method, the reason must be explained (notified to the tax authority) and fully disclosed the effect of that change on the value in the financial statements. .  
– The principle of consistency ensures that information is stable and comparable between accounting periods and between plans, estimates and implementation. In case of change in accounting policy and method, it is usually due to the change in ownership or accounting by the enterprise.

For example: Change in inventory valuation method; Changes in the depreciation policy need to be made consistently over the accounting period and different accounting periods; In case the enterprise has a change, it is necessary to clearly state the reason and whether this change has a material effect on the financial statements of the enterprise. This change should be clearly explained in the notes to the financial statements of the enterprise.

* **Prudence principle:**

The prudential principle refers to the exercise of judgment, consideration, and judgment necessary to make accounting estimates under conditions of uncertainty. The principle of caution in the requirement that an increase in equity is made only when there is solid evidence, and a decrease in equity must be recognized since there is evidence of probability.

– Characteristics According to the principle of prudence, accountants need to:

+ Must make provisions according to the prescribed principles: making provisions does not reflect higher than the actual realizable asset value.

Due to the fact that losses have been incurred (or are likely to have been incurred), it is necessary to make a provision (deducted into expenses) to ensure the match between actual revenue and expenses. Ensure correct accounting of expenses. Making provisions also ensures that the enterprise does not have large fluctuations in business capital (with sources to compensate) when losses occur.

+ Do not overvalue the value of assets and income.

+ Do not underestimate the value of liabilities and expenses.

+ Revenues and incomes are only recognized when there are solid evidences.

+ Expenses must be recognized when there is evidence of the possibility of incurring costs. Adhering to the principle of prudence will help businesses preserve capital, limit risks and continue operations.

Practical examples of prudential principles: Making provisions for inventories, bad debts, short-term and long-term financial investments according to the accounting regime.

* **Substantial (material):**

principleContent The materiality principle specifies that accountants must collect, process and provide fully material information, and non-material information. has little effect or has negligible influence on the user's decision can be ignored. Information is considered material in cases where the lack of information or inaccurate information could significantly distort the financial statements, affecting the economic decisions of the users of the information.

* Materiality of information is considered both quantitatively and qualitatively, it depends on the size and nature of the information or accounting errors assessed in the particular circumstances accounted
* This principle is for. applied in the presentation of the financial statements. Items with the same content, economic nature, regardless of size can be grouped into one item. However, there are also small-scale items that have separate economic content and nature, are material, and are presented separately in the financial statements.

**The going concern principle**

The financial statements should be prepared on the assumption that the enterprise is going concern and will continue in business for the foreseeable future, that is, it has no intention of such as not being forced to cease operations or significantly reduce the size of its operations. Where the reality is different from the going concern assumption, the financial statements must be prepared on a different basis and the basis used to prepare the financial statements must be explained.  
 – Characteristics Assumption that the business is going on business involves recording assets, income and expenses of the enterprise at historical cost, not reflecting market price. Although, the market price of the assets that the business buys can change over time. This assumption is made with the argument that the enterprise operates continuously, so the assets are used for production and business activities and cannot be sold, so the market price of the assets is inappropriate and unnecessary to reflect. . If assets are reflected at actual prices, the entity's financial statements only reflect the current financial position of the enterprise. This principle also serves as the basis for amortization methods to divide the value of fixed assets into the operating expenses of the business over the life of its operation. In case, when an enterprise is about to sell, merge, dissolve, etc., the going concern principle will not be applied to the preparation of financial statements. Here, the assets of the business will reflect at market prices.  
– For example: ABC Co., Ltd. is engaged in production: When importing an XYZ machine worth 110 million VND in which VAT is 10 million VND, the shipping cost is 11 million VND. trial running cost is 5.5 million VND. (That cost includes VAT). VAT is calculated by the deduction method. Machine XYZ is specified as fully depreciated in 5 consecutive years of operation. Where ABC Co., Ltd. is operating normally, according to the going concern principle, the financial statements are recognized at cost. Thus, we have: Original cost of machine XYZ = 110/1.1 + 11/1.1 + 5.5/1.1 = 115 (million VND) In ​​case after 2 years of using machine XYZ, ABC Co., Ltd. is at risk. the probability of bankruptcy, then the remainder after depreciation is : 115: 5) \* 3 = 69 (million VND) Then, in the financial statements, the price of machine XYZ will be recorded as: Original cost of machine XYZ = 69 million VND (Or at market price).

**3.Conclusion**

[**Accounting**](http://www.hocketoanthuchanh.vn/index.php/Khoa-hoc-pho-bien/Khoa-hoc-ke-toan-thuc-hanh-nang-cao-tap-trung.html)is an important subject for each activity of an entity or business  
- Accounting information is needed for many different objects, or an object may also need a lot of accounting information from different units. different.

As an accountant, the recognition (or acceptance of) accounting transactions must ensure that the accounting principles must be followed. In a certain transaction, before recording, sometimes accountants must comply with many or only one accounting principle. This can make it difficult for accountants in the recording process, but if you don't care about accounting principles when recording, then reflecting your business can greatly contradict the following knowledge and regulations. this when you become a professional accountant.

**The basic principles of accounting**are drawn from the practical experience of the organization of accounting management, as well as the activities of those who carry out the organization of accounting work and the combination of the research of the institution. authorities.