

Accounting principles chapter 1 solutions

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What Are the Accounting Principles?**

Accounting principles are a set of rules and guidelines that govern the preparation and presentation of financial statements. They ensure that financial information is consistent, reliable, and comparable across different companies and industries.

Accounting as per Kieso

According to Donald E. Kieso, "Accounting is the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information."

5 Basic Accounting Principles with Examples

1. **Objectivity:** Financial statements should be based on verifiable and objective evidence. (Example: Recording transactions based on invoices and receipts)
2. **Materiality:** Only information that is significant to financial statement users should be disclosed. (Example: Not reporting insignificant errors in accounting)
3. **Accrual Accounting:** Revenues and expenses should be recognized when they are earned or incurred, regardless of when cash is received or paid. (Example: Recording sales revenue when goods are shipped, even if payment is not received)
4. **Timeliness:** Financial information should be reported promptly to provide users with timely decision-making information. (Example: Issuing financial statements within a reasonable time frame after the end of an accounting period)
5. **Going Concern:** It is assumed that a business will continue to operate in the foreseeable future. (Example: Preparing financial statements based on the

assumption that the company will continue to exist)

Limitations of Accounting

- Accounting is based on estimates and assumptions, which can lead to inaccuracies.
- Financial statements do not always reflect the true economic value of a company.
- Accounting is complex and can be difficult to understand, especially for non-financial professionals.

13 Principles of Accounting

The American Accounting Association (AAA) defines 13 principles of accounting:

- Regularity
- Materiality
- Good Faith
- Conservatism
- Going Concern
- Non-Compensation
- Continuity
- Realization
- Uniformity
- Accounting Period
- Prudence
- Consistency
- Sincerity

Main Principle of Accounting

The main principle of accounting is stewardship, which means that the accountants are responsible for managing the financial resources of the company for the benefit of its owners.

AAA in Accounting

AAA stands for the American Accounting Association, a professional organization for accountants.

3 Meanings of Accounting

- The process of recording, classifying, and summarizing financial transactions.
- The system of reporting financial information to stakeholders.
- The profession of providing accounting services.

Golden Rules of Accounting

- Debit the receiver, credit the giver.
- Debit what comes in, credit what goes out.

Most Common Accounting Principle

The most commonly used accounting principle is the matching principle, which requires expenses to be matched against the revenues they generate.

5 Fundamental Accounting Principles

- Accrual Accounting
- Going Concern
- Materiality
- Regularity
- Timeliness

IFRS in Accounting

IFRS stands for International Financial Reporting Standards, a set of accounting standards used globally to ensure consistency in financial reporting.

Accounting Cycle

The accounting cycle refers to the steps involved in the accounting process, from recording transactions to preparing financial statements.

Two Objectives of Accounting

- To provide information about a company's financial performance and position.
- To help users make informed decisions.

4 Functions of Accounting

- Measurement
- Communication
- Monitoring
- Evaluation

Main Rules of Accounting

- Debits equal credits.
- $\text{Assets} = \text{Liabilities} + \text{Equity}$.
- $\text{Revenues} - \text{Expenses} = \text{Net Income}$.

Four Principles of IFRS

- Prudence
- Regularity
- Materiality
- Sincerity

7 Concepts of Accounting

- Entity
- Going Concern
- Matching
- Monetary Unit

- Periodicity
- Materiality
- Relevance

Accounting Assumptions

- Stable Monetary Unit
- Going Concern
- Time Period
- Matching

5 Accounting Policies

- Depreciation Policy
- Inventory Valuation Policy
- Bad Debt Expense Policy
- Revenue Recognition Policy
- Cash or Accrual Basis Accounting

5 Basic Accounts

- Assets
- Liabilities
- Owner's Equity
- Revenues
- Expenses

Accounting Principle that Requires Depreciation

The matching principle requires companies to depreciate long-term assets over their useful lives instead of expensing their total cost in the year of purchase.

Accounting Principles Dictionary

A dictionary that defines terms and concepts related to accounting principles.

Answer to Retail Sales Transaction

Using the accrual accounting principle, the retailer should record the sale of furniture on June 30, even though the furniture has not yet been delivered.

Business Entity Accounting Principle

This principle states that a business and its owner are to be treated as separate legal entities.

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