

## **Limitations of Accounting**

- i) Accounting is historical in nature: It does not reflect the current financial position or worth of a business.
- ii) Transactions of non-monetary nature do not find place in accounting. Accounting is limited to monetary transactions only. It excludes qualitative elements like management, reputation, employee morale, labour strike etc.
- iii) Facts recorded in financial statements are greatly influenced by accounting conventions and personal judgements of the Accountant or Management. Valuation of inventory, provision for doubtful debts and assumption about useful life of an asset may, therefore, differ from one business house to another.
- iv) Accounting principles are not static or unchanging-alternative accounting procedures are often equally acceptable. Therefore, accounting statements do not always present comparable data
- v) Cost concept is found in accounting. Price changes are not considered. Money value is bound to change often from time to time. This is a strong limitation of accounting.
- vi) Accounting statements do not show the impact of inflation.
- vii) The accounting statements do not reflect those increase in net asset values that are not considered realized.