Principles of Accounting

Accounting principles are the set of rules and guidelines adopted by organizations for preparing comparable financial statements. Through precise guidelines, the information presented is accurate and precise

Accounting principles refer to the rules and guidelines followed by companies while reporting their financial data. Through these rules, experts can examine the financial data by standardizing accounting methods. These principles ensure that the quality of the financial information reported by companies is improved. Let us discuss the concepts and principles of accounting in the next section.

List of Principles of Accounting

Following are the twelve widely adopted principles in accounting:

1. Accrual Principle

It is one of the important accounting concepts and principles that mandate the recording of transactions in the time period in which they occur. It is regardless of the time when actual cash flows for the transactions are received. Through accrual principle, one can gain an accurate insight into the financial status of a business.

2. Consistency principle

According to this principle, when an organisation adopts a specific accounting method of reporting or documentation, then it should stay consistent with the method. The aim of this basic accounting principle is to make financial statements comparable across industries and companies. This principle has two issues associated with it. First, the principle is not properly followed when many people are recording data and compiling reports. To combat this issue, organizations need to have a set method internally. The second issue is related to switching between the financial reporting methods. Some organizations do this in order to manipulate the data to their advantage.

3. Conservatism Principle

The Conservatism principle gives you a realistic perspective of unexpected situations. According to this principle, one should recognize expenses and liabilities at the early stages even if there is uncertainty about the outcome. As per this rule, one should record inventory at a lower end of its current market value or at its acquisition cost.

4. Cost Principle (historical Cost)

The Historical Cost principle is another name for the cost principle. Whenever a business acquires an asset, its initial value is recorded in its financial reports of the business. This value might not be improved in the market value of inflation. It is also not updated to reflect any depreciation or even appreciation. This value is known as the cost principle. As per the principle, companies keep a record of their tangible assets without reflecting the market value.

5. Economic Entity Principle

This principle is a basic of accounting that requires businesses to be treated as a separate financial and legal entity. This means that the recorded activities of the business entity must be kept separate from the recorded activities of the owner and other entities.

6. Matching Principle

The matching principle is a concept in accounting that states that companies must report their expenses and revenues simultaneously. The revenues and expenses are matched on income statement for a specific time period. It is a part of the accrual accounting method that provides an accurate representation of operations on the income statement

7. Reliability Principle

This principle ensures that every transaction, business activity, event, etc is reliable when presented in the financial statement. Information should be associated with objective evidence and it can be checked, reviewed, and verified. This makes the information more reliable.

Homework

8. Materiality Principle
9. Full Disclosure Principle
10. Going Concern Principle