UNIVERSITY OF THE WEST
MONA CAMPUS

Financial Accounting – ACCT 1005(MS15D)
Accounting Concepts & Conventions

Accountants, who represent various accounting bodies, have over the years developed a number of rules and practices governing the preparation of financial statements. Collectively, these rules and principles are referred to as Generally Accepted Accounting Principles (GAAP). These GAAP provide the basis for the preparation of the financial statements, hence an understanding and appreciation of them is critical for students of accounting. These accounting concepts underlie all the accounting statements, which we will be required to prepare and interpret. Accounting principles and concepts seek to ensure that accounting information is relevant, reliable and comparable.

Going Concern Concept

This concept states that the business will continue its operational existence for the foreseeable future, and there is no intention to put the business into liquidation or to drastically reduce the scale of operations. The main significance of the going concern concept is that the assets of the business should not be valued at their "break-up" value or realizable value, which is the amount that they would sell for on the open market in the event of a business closure.

Accruals Concept

Under the accruals or matching concept, business expenses should be recognized in the same period as the revenues that they helped to produce; in other words, expenses incurred in an accounting period are matched against revenues, which are produced in the same financial period to which these costs relate. Under the accruals basis, revenues are recognized when goods are sold or when services are rendered and expenses are recognized when incurred. Related expenses are therefore matched against revenues, regardless of whether the expenses have been paid. E.g. On December 1, 2003, a used car dealer buys 20 cars at a cost of $250,000 each. During December 14 of the cars were sold at a price of $450,000 each. Uncollected cash at December 31, 2003 was $1,100,000.

The dealer's income statement would be as follows:

Sales	(14 @ $450,000)		$6,300,000
Purchases	(20 @ $250,000)	$5,000,000	
Unsold Units	(6 @ $250,000)	$1,500,000	
Cost of 14 cars sold			$3,500,000
Gross Profit			$2,800,000