Simplified explanation for accounting concepts and principles

Objectivity:
the objectivity concept means that an accountant has to prepare any accounts only on the basis of objective and factual information. Thus, this concept attempts to ensure that if, for example, 100 accountants were to draw up a set of accounts for one business, there would be 100 *identical* accounting statements prepared.

Duality/Dual Aspects
is the very foundation of double entry book keeping system and it comes from the fact that every transaction has a double (or dual) effect on the position of a business as recorded in the accounts. For example, when an asset is bought, another asset cash (or bank) is also and simultaneously decreased OR a liability such as creditors is also and simultaneously increased.

Entity:
otherwise known as the 'accounting entity' concept. The idea here is that the financial transactions of one individual or a group of individuals must be kept separate from any unrelated financial transactions of those same individuals or group. The best example here concerns that of the sole trader or one man business: in this situation you may have the sole trader taking money by way of 'drawings' - money for his own personal use. Despite it being his business and apparently his money, there are still two aspects to the transaction - the business is 'giving' money and the individual is 'receiving' money.

Cost:
this concept is based on the notion that only the costs paid to acquire an asset are relevant and thus should be the only costs to be shown in the accounts.

Monetary Measurement:
one of the simpler concepts. It simply and clearly states that only those transactions which may be expressed in money values (whatever the currency) are of interest to the accountant.

Materiality:
accountants should concern themselves only with matters which are significant because of their size and should not consider trivial matters.

Realisation:
Realisation occurs when a sale is made to a customer. The basic rule is that revenue is created at the moment a sale is made, and not when the price is later paid in cash.

Accruals:
The purpose of this concept is to make sure that all revenues and costs are recorded in the appropriate statement at the appropriate time. So, when a profit statement is compiled, the cost of goods sold relevant to those sales should be recorded accurately and in full in that statement. Costs concerning a future period must be carried forward as a prepayment for that period and not charged in the current profit statement.

Going concern:
this concept is the underlying assumption which any accountant makes when he prepares a set of accounts. That the business under consideration will remain in existence for the foreseeable future.

Consistency:
because the methods employed in treating certain items within the accounting records may be varied from time to time, the concept of consistency has come to be applied more and more rigidly.

Prudence/Conservatism:
The concept says that whenever there are alternative procedures or values, the accountant will choose the one that results in a lower profit, a lower asset value and a higher liability value.

Stable money/Stability of currency.
normal or historic cost accounting assumes that transactions occurring over a period of time can be measured in terms of a single, stable measuring unit eg Pounds, Dollars ... This means that, in the UK, all accounts are drawn up in Pounds; and this year's balance sheet can be compared with last year's balance sheet. All of this gives rise to consistency but there is a problem with reality - inflation means that very few currencies are truly stable.