

Application of accounting concepts

Finance



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While preparing financial accounts all expenses and losses pertaining to the financial period must be listed out.

The accrual concept ensures that the profit or loss shown is on the basis of full facts relating to all expenses and income.

CONSISTENCY

The basic aim of the doctrine of consistency is to preserve the comparability and reliability of financial statements. According to this convention, the rules, practices, and concepts used in accounting should be continuously observed and applied year after year. Comparisons of results among different accounting periods can be significant and meaningful only when consistency practices were followed in ascertaining them. Consistency can be of three levels - vertical, horizontal, and dimensional.

Consistency serves the basis for eliminating personal bias, whims, and fancies of the accountants.

MATERIALITY CONCEPT

Materiality means 'relative importance'. All important items and facts should be disclosed in accounting statements. Unimportant and immaterial details need not be separately given. Otherwise, the accountant becomes overburdened with unnecessary details.

According to the American Accounting Association, " an item should be regarded as material if there is a reason to believe that knowledge of it would influence the decision of the informed investor."