

Chapter 7

Financial Accounting Principles and Conventions

Introduction

- Accounting principles and conventions (or 'concepts') are rules that we followed when recording **daily transactions** and preparing **financial statements**.
- This makes accounting information more **accurate** and **uniform**, and thus more useful to different users.

Business entity

The business entity concept states that a business is treated as an entity separate from its owner(s).

- Only transactions that affect the **business** should be recorded in the books of the business.
- No **personal** transactions and matters of the owner should be entered in a firm's accounting records.
- The personal resources of the owner will affect a firm's accounting records only when he brings **capital** into the firm or makes **drawings**.
- It ensures that the accounting information provided by a firm represents just the financial performance and position of the **business entity** itself.
- Without this concept, it would be easy for the owner to **manipulate** a firm's accounts.
- **Example:** The owner may attempt to boost the firm's earnings by treating his personal income as the firm's.

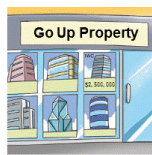
Historical cost

The assets of a firm are valued at their original cost of purchase or production.

- Any changes in assets' **market** value should be ignored.
- Historical cost is considered the most objective measure of the value of an asset, because it will not change over time and the value can be easily **verified**.
- The historical cost principle is important in ensuring that the valuation of assets is reliable and free from bias.
- Without the application of this principle, the assets of a firm might be valued at their current market value, which is not as **objective** as historical cost and **fluctuates** over time.
- **Example:** A commercial property was bought for \$2 million by a firm and is used as its office. Even if its market value has gone up or down after the purchase, the property should still be valued at its original cost of \$2 million.



The property was bought for \$2 million on 31 Dec 12.



One year later, the market value of a similar size in the same building went up to \$2.5 million.



The property was still valued at \$2 million in the firm's books on 31 Dec 13.

第 7 章

基本會計原則及慣例

引言

- 企業會按照一些規則來記錄**日常交易**和編製**財務報表**。這些規則稱為會計原則及慣例（或概念）。
- 這確保會計信息更準確、統一，並能發揮作用。

企業個體概念

企業應被視作一個獨立於其東主的個體。

- 只有那些影響**企業**的交易才會記入企業的帳簿。
- 我們不應把東主的**私人**交易和事情記錄在企業的帳目內。
- 除非東主注入**資本**或**提取**企業資產自用，否則他的私人資源不會影響企業的帳目。
- 正確地應用企業個體概念，可確保企業個體所提供的會計信息只會反映**企業**本身的財務表現和財務狀況。
- 假如會計人員在入帳時沒有遵從這個概念，東主便可輕易地**操縱**帳目。
- **例子:** 東主可以把個人收益當作企業的收益，藉此增加企業的盈利。

歷史成本原則

企業應按購買或生產成本計算資產價值。

- 不應理會日後資產市值的變化。
- 歷史成本被認為是一種最客觀量度資產價值的方法，因為它不會隨著時間而改變，價值可以容易地**驗證**。
- 可確保資產的計價是可靠的，不受任何偏見影響。
- 如果企業不運用這個原則，資產便可能按現行市值計價。這個量度標準不但不及歷史成本**客觀**，計算出來的資產值也會隨**時間**改變。
- **例子:** 企業斥資 200 萬元購入一個商用物業作為辦公室。該物業的市值日後無論上升還是下跌，企業仍須按原來的成本 200 萬元計價。



企業在2012年12月31日以200萬元購入物業。



一年後，同一幢大廈內面積相同的物業升值至250萬元。



2013年12月31日，該物業在企業帳目內的價值仍是200萬元。

Going concern

A business will continue in operation for the foreseeable future.

- There is no intention to **close** the business or significantly **reduce** its scale of operations. The assets should be valued at **the historical cost**.
- If the business is going to close down, the assets should then be valued at current **market** value.
- Hence, going concern concept is closely related to the **historical cost** principle.
- The going concern concept is important in ensuring that assets are consistently valued at historical cost.
- **Example 1:** A firm is going to close down in the future. How should its assets be valued?
 - The historical cost principle is no longer applicable. The assumption that the business will continue to operate is not valid. Therefore, its assets should be valued at current market value.
- **Example 2:** A firm is performing poorly but it is not certain whether it will close down in the near future. How should its assets be valued?
 - The going concern concept should be applied. The assumption that the firm will continue to operate for the foreseeable future still holds. Therefore, its assets should be valued at historical cost.

Consistency

A firm should keep using the same accounting policy or method for similar items.

- Various methods can be used to calculate **depreciation** on non-current assets, including the straight-line method and the reducing-balance method.
- Once a firm has adopted a depreciation method for a certain type of non-current asset, it should keep using the **same** method for that type of non-current asset year after year.
- However, a firm can change the method it uses, if such a change is necessary and can give a more **accurate** view of the business.
- When a change occurs in a certain year and significantly affects the financial results for that year, the effects of the change should be **disclosed** and **explained**.
- The consistency principle is important in facilitating the **comparison** of financial results between different periods and between different businesses.
- Without the application of this principle, it would be easy to **manipulate** a firm's financial results by switching to a more favourable accounting method.

繼續經營概念

企業在可見的未來會繼續經營

- 企業東主沒有計劃**結業**或大幅**縮減**經營規模。企業的資產應**歷史成本**來計價。
- 當企業即將結業時，企業的資產應按現行**市值**來計價。
- 由此可見，繼續經營概念與**歷史成本**原則是息息相關的。
- 繼續經營概念可確保企業的資產會持續按歷史成本計價。
- **例子 1:** 當企業即將結業時，應如何為資產計價？
 - 歷史成本原則不適用，而企業繼續經營的這個假設亦不適用，所以企業的資產應按現行市值計價。
- **例子 2:** 即使企業的業績很差，但如不能確定它會在短期內結業，應如何為資產計價？
 - 繼續經營概念仍然有效，而企業在可見的未來會繼續經營的這個假設亦適用，所以企業的資產應按歷史成本計價。

一貫原則

企業處理類似的項目時，應採用同一個會計政策或方法。

- 會計有多種方法計算非流動資產的**折舊**，包括直線法或餘額遞減法。
- 企業就某類非流動資產選用了一種計算折舊的方法後，便應每年沿用**同一個**方法為該類非流動資產計算折舊。
- 如果有需要，而新方法又能更**準確地**反映企業的實際情況，企業便可改用另一個會計方法。
- 假如改用另一會計方法對該年的利潤有重大的影響，企業必須在該年度的財務報表**披露**和**解釋**有關改變所造成的影響。
- 企業在編製財務報表時採用一貫原則，可讓我們能夠**比較**同一家企業在不同年度的財務業績，或不同企業的財務報表。
- 如果沒有一貫原則，企業便可透過改用較有利的會計方法，輕易地**操縱**財務業績。

Accrual

Revenues and expenses are recognized when they are earned or incurred, rather than when money is received or paid and are included in the financial statements of that year

- The revenues and expenses of a firm are measured on an accrual basis and not on a cash basis.
- **Cash Basis:** Revenues are recognised when money is received while expenses are recognised when money is paid.
- The accrual basis of accounting measures the flows of a firm's **economic resources**, while the cash basis measures **cash** flows only
- Hence, the accrual basis is considered fairer than the cash basis in measuring the **overall** performance of a firm during a period.
- It ensures that the accounting information reflects the **actual operations** of a business without it being affected by the timing of payments.
- **Example 1:** Goods were delivered to customers in December 2013, but payment was not received by the year-end. Should it be recorded in the firm's accounting books for the year ended 31 December 2013?
 - The credit sale should be included in the firm's revenues for the year ended 31 December 2013, even though payment had not been received by the year end.
- **Example 2:** Electricity charges for December 2013 were \$3,000, but the bill was not paid by the year-end. Should it be recorded in the firm's accounting books for the year ended 31 December 2013?
 - The bill should be included in the firm's expenses for the year ended 31 December 2013, even though payment had not been made by the year end.

Importance of accounting principles and conventions

- It is very important for users of financial statements to have an understanding of these principles and conventions. Otherwise, users may **misinterpret** the reported results of a business and make the wrong decisions.
 - For instance, if people do not realise that financial statements are prepared on an **accrual** basis, they may not understand why a firm with high sales revenue can be short of cash.
 - A cash shortage can occur if most of the sales are made on a **credit** basis and debtors have been slow to make payments.

應計概念

收益及費用在賺取及產生時確認，而不應在收款或付款時確認，並計入該年度財務報表內

- 企業應根據應計基礎來量度收益和費用，不應使用現金基礎。
- **現金基礎:** 企業在收取款項時確認收益，以及在支付款項時確認費用。
- 使用應計基礎可量度企業所有**資源**（不單是現金）的流量，而現金基礎只量度**現金**的流量。
- 採用應計基礎較能合理地反映企業在某段時期內的**整體**業績。
- 企業採用應計概念，可確保所匯報的會計信息能反映企業的**真實業績**，而不受收款和付款時間的影響。
- **例子 1:** 企業在 2013 年 12 月把貨品運送給客戶，但尚未收取貨款。企業應否將款項記入截至 2013 年 12 月 31 日止年度的帳目內？
 - 即使企業在年終時尚未收到貨款，仍應把該賒銷額計入截至 2013 年 12 月 31 日止年度的收益內。
- **例子 2:** 2013 年 12 月，企業的电費為\$3,000，但企業尚未繳付款項。企業應否將費用記入截至 2013 年 12 月 31 日止年度的帳目內？
 - 即使企業在 2013 年的年終時尚未繳付帳單，也應把這筆費用計入截至 2013 年 12 月 31 日止年度的費用內。

會計原則及慣例的重要性

- 財務報表使用者必須了解這些原則及慣例，否則便可能**誤解**報表的內容，因而作出錯誤的決策。
 - 例如，如果使用者不知道企業的財務報表是按**應計**基礎編製的話，便不會明白為甚麼企業一方面錄得不錯的銷貨額，另一方面卻出現現金短缺的情況。
 - 企業出現現金短缺可能是因為其銷貨交易大部分以**賒帳**進行，而銷貨債務人又拖欠貨款。