Accounting theories

Going concern theory:(indefinite economic life)⭐⭐⭐
Biz is assumed to have indefinite economic life unless there is credible evidence that it may close down.

Monetary theory:(only in money)⭐⭐⭐
Only biz transactions that can be measured in monetary terms are recorded.

Objectivity Theory:(no opinions and bias)⭐⭐⭐
Accounting Information must be recorded with credible & verifiable evidence, so that financial statements will be free from opinions & biases.

Historical Cost Theory: (original cost)
Transactions should be recorded at their original cost

Accounting Entity theory: (owner separate from biz)⭐⭐⭐
The activities of a biz are separate from the actions of the owner. All transactions are recorded in the POV of the biz.

Accounting Period theory (FS period)
Biz measure performance by preparing FS at regular time interval to provide timely information for stakeholders to make decisions on the biz

Prudence theory (impairment loss TR/INV)⭐⭐⭐

(when ILOinventory) according to the prudence theory, inventory must be valued at lower of cost and net realisable value to ensure that inventory is not overstated

(when ILOTR) according to the prudence theory, AFIOTR must be shown as a deduction against book value of trade receivable, to ensure that trade receivables are not overstated and reflects net amt collectible.

Consistency theory (depreciation method no change)

Unless change of usage of NCA, same depreciation method should be used to depreciate after every Fy enabling meaningful comparison of NBV and NCA over time.

Matching theory (expenses match against income for SOFperf)

Expenses incurred must be matched against income for the same period to determine profit of the period.

Revenue Recognition theory (revenue earnt when provided)

Revenue is earned when goods have been delivered or services have been provided.

Accrual basis of accounting theory (biz activities occured -> recorded)

Business activities that have occurred, regardless of whether cash is paid or received, should be recorded in the relevant accounting period.

Materiality theory (significant info reported in FS, affect decision making)

Information significant to the decision making process,when compared to income, profit, assets or equity -> should be reported in FS.