

Incomplete Records Theory

What Information Would Be Available In The Accounts If They Were Prepared Using The 'Double Entry' System?

If the accounts had been prepared correctly we would have known:

- The total sales figure
- The total purchases figure
- The bank balance
- Capital
- Goodwill

What Advice Would You Give The Firm In Keeping Their Accounts?

They should keep a detailed cashbook, supported by an appropriate double-entry system. This would enable them to prepare an accurate trading and profit and loss account and balance sheet. If finances are available it might also be wise to enlist the services of an accountant.

What are Accounting Concepts?

Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

Going Concern Concept: When preparing accounts, the accountant should always assume that the firm will continue to exist indefinitely.

Accruals Concept: Revenue and expenses should be included in accounts as soon as they are earned or incurred, regardless of whether the money has been actually received or paid yet.

Why should this concept be applied to the final accounts?

Financial Statements are prepared on an accruals rather than on a cash basis. If Financial Statements are not prepared on an accruals basis profits and assets will be overstated or understated for the period covered by the statements because expenses and income included or excluded may refer to a past or future period.

Consistency Concept: The method a firm uses to deal with particular accounting issues should be the same every time.

Prudence Concept: When preparing accounts revenue should not be overestimated and expenses should not be underestimated. The accountant is expected to record information somewhat 'pessimistically'. (e.g. Stock is valued at the lower of cost and selling price).