

like to be satisfied that the bonus being paid to them is correct. They are much interested in knowing the profit earned or loss suffered by the firm. This knowledge helps them in asking for their revision of their wages which need improvement.

#### **(6) Researchers      الباحثين**

The financial statements, being a mirror of business conditions, these statements are, therefore, of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

#### **(7) Management (Administration)      الإدارة**

Management, collectively, is the people who have overall responsibility for operating a business and for meeting its profitability goals. Successfully management consistently make the right decisions based on timely and valid information.

#### **(8) Other Groups      مجموعات أخرى**

- Labor unions study the financial statements of corporations as part of preparing for contract negotiations.
- Financial analysts and advisers, brokers, underwriters, lawyers, economists and the financial press, also have an indirect interest in the financial performance and prospects of a business.
- Consumer groups, customers, and the general public have become more concerned about the financing and earnings of corporations as well as the effects that corporations have on inflation, the environment, social problems, and the quality of life.

## F-QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

الخصائص النوعية للمعلومات المحاسبية

### 1- Decision makers and their characteristics (Understandability)

متخذو القرار وخصائصهم (القابلية للفهم)

### 2- Constraints

المحددات الرئيسية

(1) Cost is less than Benefits,

التكلفة أقل من المنفعة

(2) Materiality

الأهمية النسبية

### 3- Primary qualities

الخصائص الرئيسية

(1) Relevance,

الملائمة

(2) Reliability

الموثوقية

### 4- Ingredients of primary qualities: مكونات الخصائص الرئيسية

(1) Relevance

الملائمة

a) Predictive value,

القيمة التنبؤية

b) Feedback value,

القيمة الاسترجاعية

c) Timeliness,

التوقيت المناسب

(2) Reliability

الموثوقية

a) Verifiability,

القدرة على التحقق

b) Representational faithfulness,

الصدق في العرض

c) Neutrality

الحيادية

### 5- Secondary qualities

الخصائص الثانوية

(1) Comparability,

القدرة على المقارنة

(2) Consistency

الثبات

## **G- ACCOUNTING ASSUMPTIONS, PRINCIPLES, AND CONSTRAINTS**      الفروض والمبادئ والمحددات المحاسبية

In the most modern classification of accounting concepts and principles in the world, accounting principles can be classified as follow:

<b>Assumptions (Concepts) الفروض (المفاهيم)</b>	<b>Principles المبادئ</b>	<b>Constraints (القيود)</b>
<b>-Accounting entity -Going – concern -Monetary Unit -Periodicity - Double Entry</b>	<b>-Historical cost -Matching -Revenue Recognition -Objectivity -Full disclosure</b>	<b>-Materiality -Conservatism -Consistency -Cost &amp; Benefit -Industry practices</b>

### **1- Accounting Concepts (Assumptions)**      الفروض المحاسبية

Accounting concepts refer to the nature of economic environment in which accounting operates. The most significant of these concepts (assumptions) are:

- (1) Accounting entity concept      مفهوم الوحدة المحاسبية
- (2) Going – concern concept      مفهوم الاستمرارية
- (3) Monetary unit concept      مفهوم وحدة القياس
- (4) Periodicity concept      مفهوم الدورية

(5) Double entry concept

مفهوم القيد المزدوج

Those concepts are essential to the understanding of accounting principles and distinguish between the assumptions and principles.

**(1) Accounting entity**

الوحدة المحاسبية

Accounting entities are separate economic units that control resources and obligations and that have separate and distinct records.

Also the economic entity can be defined as any legal or unit accounting that has control over resources, accepts responsibilities for making and carrying out commitments, and conducts economic activity, such a corporation or a consolidated group.

For accounting purposes, every business is conceived to be and treated as a separate entity, separate and distinct from its owner and from every other business.

**(2) Going Concern (continuity) concept**

مفهوم الاستمرارية

This concept assumes that a particular business will continue in existence for a long enough period of time to carry out its objectives and commitments (the life is indefinite).

**(3) Monetary Unit Concept**

مفهوم الوحدة النقدية

The monetary unit of a country means that the money is used to measure the asset (الأصول) , liabilities (الخصوم) , and owner's equity (حقوق الملكية) and to measure the changes that occur in them as a result of these changes, the net income of accounting entity is measured and determined for a specific period of time.

Stable monetary unit concept means that purchasing power (القوة الشرائية) of the unit of measure used in accounting does not change; this concept is not practically accepted since the accounting information provided is not represented the economic reality (الحقيقة الاقتصادية).

#### **(4) Periodicity concept** مفهوم الدورية

The periodicity concept assume that the business has an indefinite life .The measurement of the firm's financial condition and operations must be made a relatively short intervals such as quarterly or yearly.

The life of a firm is divided into periods equal length, such as a month, three months, or a year; annual accounting periods are the most common.

Under this assumption, the accounting periods with equal length allow for comparison of expenses, revenues and income earned by the firm in one period with the same in another period.

#### **(5) Double Entry concept** مفهوم القيد المزدوج

Double entry means that all transactions are recorded in two accounts, the first is debit and the second is credit.

## **2- Accounting principles المبادئ المحاسبية**

Accounting principles are broad rules (قواعد واضحة) adopted by the accounting profession as guides for use in recording and reporting the financial affairs and activities of a business to its owners, investors, creditors, and other outsiders.

Generally Accepted Accounting Principles (GAAP) المبادئ المحاسبية المقبولة قبولا عاما refers to conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Accounting principles are the following:

### **(1) Historical cost principle مبدأ التكلفة التاريخية**

The assets are recorded at their acquisition cost and are usually not adjusted for increases in value until a sale has occurred. The accounting rule requires assets and services plus any resulting liability to be taken into the accounting record at cost.

### **(2) Matching principle مبدأ المقابلة**

The expenses must be recorded against the revenues earned during the period. Thus, expenses of the period are matched against the revenues of the same period, and the result is net income or loss for the period.

The accounting rule shows that all expenses incurred in earning revenues are deducted from the revenues for determining the net income.

### **(3) Revenue recognition principle** مبدأ تحقق الإيراد

Revenue is recognized for accounting purposes when it is realized. For the vast majority of firms revenue is realized when the sale occurs.

The accounting rule defines revenue as an inflow of assets, not necessarily cash, in exchange of goods and services and requires the revenue to be recognized at the time, but not before, it is earned.

### **(4) Objectivity principle** مبدأ الموضوعية

The accounting rule requiring that wherever possible the amounts used in recording transactions based on objective evidence (for example: sales invoice) rather than subjective judgments.

### **(5) Full disclosure principle** مبدأ الإفصاح التام

All information that can be useful to informed decision makers must be disclosed. All material information should be disclosed in the financial statements to make these statements clear and understandable to the readers of these statements.

## **3- Accounting Constraints** المحددات (القيود) المحاسبية

### **(1) Materiality** الأهمية النسبية

The Material information must be given more attention than immaterial. Immaterial items should be combined with other items.

Materiality relates to an item's impact (يؤثر) on a firm's overall financial condition and operations. An item is material when it is likely to influence the decision of reasonably prudent investor or creditor.

### **(2) Conservatism (Prudence)** الحيطة والحذر أو التحفظ

The accountants should be conservative in their estimates (تقديرات) and opinions and in their selection procedures, choosing

those that neither understate nor overstate situation. For example, the accountant takes in compute the future expenses or losses, and another side he ignores the future revenues or profits.

Conservatism means when in doubt choose the solution that will be least likely to overstate assets and income.

التحفظ (الحيطة والحذر) يعني بأنه عند تولد أي شك فإنه يجب اختيار ذلك الحل الذي لا يغالي في تقدير الأصول والدخل.

### (3) Consistency الاتساق أو الثبات

The consistency means that once an accounting method used must not be changed from period to period. This convention (تقليد) is necessary used for doing proper comparisons.

### (4) Cost and Benefit التكلفة والمنفعة

All the accounting information must be established according to its cost and their future benefits.

Cost-Benefit Relationship means that the cost of providing the information must be weighed against the benefits that can be derived from using the information.

علاقة التكلفة والمنفعة تعني بأنه يجب موازنة تكلفة تزويد المعلومات بالمنفعة المترتبة على استخدامها.

### (5) Industry Practices الممارسات الصناعية

Industry practices means the particular nature of some industries and business concerns sometimes requires departure from basic theory.

محددات الصناعة تعني بان طبيعة بعض الصناعات والتجارة تجعلها تحيد عن النظرية العامة.



## Questions and Exercises

- 1- Define the Book- keeping?
- 2- What are the objects Book- keeping?
- 3- Mention the importance of Book- keeping.
- 4- Distinguish between book-keeping and accountancy.
- 5- Write the definitions of the accounting.
- 6- What is the usefulness of accounting?
- 7- What are the Qualitative characteristics of accounting information?
- 8- Define the following:-
  - a. Continuity (going-concern) concept.
  - b. Cost principle.
  - c. Monetary unit concept.
  - d. Conservatism constraint.
- 9- Name only the assumptions and principles accounting.
- 10- Name the accounting concepts and explain two from them.
- 11- Name the accounting principles and explain two from them.
- 12- Choose the correct answer of the following questions:
  - (1) State whether each of the following statements are true or false.
    - a. Accounting is a language of business.
    - b. Accounting principles are referred to as rules of action on conduct.
    - c. Assets are always valued at market price as per the basis of the going concern concept.
    - d. As per the convention of disclosure, some material information should be disclosed by the accountants.

- (2)** State whether each of the following statements are true or false.
- Book- keeping is an art of recording financial transactions in a set of books.
  - The main objectives of book- keeping are to keep permanent records of business transactions.
  - Preparing of account does not require specific skills and knowledge (مهارات ومعرفة).
  - The accounting keeps a control on expenses to maximize the same.
- (3)** The time period assumption states that:
- Revenues should be recognized in the accounting period in which it is earned.
  - Expenses should be matched with revenues.
  - The economic life of a business can be divided into artificial time periods.
  - The fiscal year should be corresponds with the calendar year.
- (4)** The principle that dictates that efforts (expenses) be matched with accomplishments (revenues) is the:
- Matching principle.
  - Cost principle.
  - Revenue recognition principle.
  - Full disclosure principle.
- (5)** Accounting includes:
- Measurement
  - Verification
  - Reporting
  - All of the above