

Chapter 1

 Free lectures available for Paper F7 - [click here](#)**FINANCIAL REPORTING – BASIC CONCEPTS****Underlying assumptions**

- accruals
- going concern
- consistency
- materiality
- off-setting

EXAMPLE 1

Laima has recently bought a shop called Sweet for \$1 million and included the full amount in her cost of sales account.

How does each of the five concepts affect the way Laima should treat the cost of \$1 million?



Advantages and disadvantages of standardisation of accounting practices

- provide a focal point for debate
- require disclosure of policies adopted
- encourage global discussion
- flexible
- enable meaningful comparison
- reduce penumbral areas of divergent possibilities
- pressure groups may succeed in asking for amendments
- allowed alternative treatments – standardisation?
- inappropriate treatment could result from following a standard
- rules take away use of skill and judgement

