CURRICULUM CONTENT SECTION 2 – ACCOUNTING PRINCIPLES AND POLICIES

This section of the curriculum content has been modified to take account of the Financial Reporting Standard 18 (FRS 18) which supersedes SSAP 2.

FRS18 sets out the principles to be followed in selecting accounting policies and the disclosures needed to help users to understand the accounting policies adopted and how they have been applied.

CORE CURRICULUM

Candidates are required to understand the main principles underlying the preparation of accounting statements. This involves candidates knowing the basic accounting principles of –

- Business entity
- Duality
- Money measurement
- Realisation
- Consistency
- Matching
- Prudence
- Going concern

All these principles, except the going concern principle were listed under the core curriculum of the previous syllabus. The going concern principle was previously listed under the extended curriculum.

EXTENDED CURRICULUM

In addition to what is required for the core curriculum, students following the extended curriculum are required to understand the objectives in selecting accounting policies. These objectives are outlined in FRS 18.

Candidates must be aware that the usefulness of financial statements is determined by the quality of information provided in those financial statements. This quality of this information can be measured in terms of –

- Relevance
- Reliability
- Comparability
- Understandability

The basic principles of these objectives are outlined below.

Relevance

The objective of financial statements is to attempt to provide information about a business’s financial performance and financial position.
The information provided by financial statements can be used as a means of assessing the stewardship of management. Such information is relevant to users if it can be used to –

- Confirm or correct prior expectations about past events
- Assist in forming, revising or confirming expectations about the future

The information provided by financial statements can also be used as the basis for financial decisions. However, such information must be provided in time to influence those decisions. If the information is not available when required, it is of little use.

**Reliability**

The information provided in financial statements must be reliable – otherwise it is of no use. To be reliable, the information must be –

1. capable of being depended upon by users as being a faithful representation of the underlying transactions and events which it is representing
2. capable of being independently verified
3. free from bias and free from significant errors
4. prepared with suitable caution being applied to any judgements and estimates which are necessary

**Comparability**

Information in the financial statements of a business can be more useful if it can be compared with similar information about the same business for some other period of time, or at another point in time, or with similar information about other businesses.

Users of financial statements need to be able to identify similarities and differences between the information in the financial statement and information relating to other periods or other businesses.

In order to be able to make comparisons, the users of financial statements need to be aware of the policies used in the preparation of these statements, any changes in these policies, and the effects of such changes.

**Understandability**

Financial statements must be capable of being understood by the users of those statements.

The ability to understand the financial information must depend partly on the users’ capabilities and partly on the way in which that information is presented. Users of financial statements are normally assumed to have a reasonable knowledge of business and economic activities and accounting. It is also normally assumed that users will be willing to exercise reasonable diligence when studying the statements.

Information should not be omitted from the financial statements because it is believed that it is too complex for users to understand.