

APPLICABILITY OF ACCOUNTING CONCEPTS AND CONVENTIONS IN RECORDING OF BUSINESS TRANSACTIONS (A CONCEPTUAL OVERVIEW)

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ABSTRACT

The study presents a conceptual overview of the application of accounting concepts and conventions in recording of business transactions and the treatment of accounting bases. Literature in the field of accounting concept and conventions were sourced and reviewed accordingly. This enabled the researcher gather information about the concepts under review. Each of the accounting concepts and conventions was discussed alongside its applicability as it relates to Generally Accepted Accounting Practice. (GAAP). The study further made an attempt to define some key concepts in accounting especially as it relates to transaction recording, to keep academics abreast with accounting terminologies and trend. The study found that accounting concepts and conventions when adhered to in recording of business transactions would aid the preparation of financial statements that are clear, concise and easily understood thereby assisting users of accounting information to better understand and appreciate financial statement. This assists users of financial information to form, confirm, and review financial reports to ensure that accounts do indeed portray accurately the business operations and performance. The study therefore recommended that businesses should maintain a particular way which it chooses to treat items or transactions year by year. When it is necessary for change, explanations should be given and its effect shown in the note to the account, all cash transactions should be recorded in the cash book regardless of the amount involved, and finally prevent inadvertent omission of some adjustments.

Keywords: Accounting, Concepts, Conventions, Financial Statement.

1. INTRODUCTION

Accounting is a social science. It is commonly referred to as the “language of business” as it is effectively employed to communicate the financial performance of business to various interested parties or stakeholders. It is concerned with the measurement and communication of financial

data. Accounting function is vital for every entity of the society whether individuals, house wives, business entity's, non-profit making organization's like municipalities, clubs and societies, etc. it is imperative for them to maintain accounts. The nature of accounting information has been dictated from time immemorial by the needs of the users of the day.

According to Wikipedia, (2014) "Humans construct theories in order to explain, predict and master phenomena. Therefore, by developing accounting theory that should provide guidance for accountants on how to apply certain accounting practices in certain circumstances has led to the development of accounting theories (Etuk, 2010). Science is widely considered to have a solid knowledge based on facts. The scientific formulation of theory is derived through the process of inductive reasoning. This process is based on observation and generalizing upon a single observation to derive a law or theory. Once the law or theory is established, it can be used to explain and predict through the process of deductive reasoning.

Accounting theories or principles such as stock valuation and depreciation have been derived on the basis of inductive reasoning. The word "Principles" has been differently viewed by different schools of thought. The word "Principle" can be viewed as a general law of rule adopted or professed as a guide to action; a settled ground or basis of conduct of practice (Institute of Cost Accountants of India, n.d). Accounting principles refers to certain rules, procedures and conventions which represent a consensus view by those indulging in good accounting practices and procedures. Canadian Institute of Chartered Accountants defined accounting principle as "the body of doctrines commonly associated with the theory and procedure of accounting, serving as an explanation of current practices as a guide for the selection of conventions or procedures where alternatives exist. Rules governing the formulation of accounting axioms and the principles derived from them have arisen from common experiences, historical precedent, statements by individuals and professional bodies and regulations of Governmental agencies. To be more reliable, accounting statements are prepared in conformity with these principles. If not, chaotic conditions would result. But in reality as all the businesses are not alike, each one has its own method of accounting. However, to be more acceptable, the accounting principles must satisfy the following three basic qualities, viz, relevance, objectivity and feasibility. The accounting principle is considered to be relevant and useful to the extent that it increases the utility of the records to its readers. It is said to be objective to the extent that it is supported by the facts and free from personal bias. It is considered to be feasible to the extent that it is practicable with the least complication or cost. Though accounting principles are denoted by various terms such as concepts, conventions, doctrines, tenets, assumptions, axioms, postulates, etc., it can be classified into two groups: accounting concepts and accounting conventions.

1.1 Statement of The Problem

Traditionally, accounting has played a stewardship role. Matthews and Perera (1991) traces and uses the images of accounting as a historical record to demonstrate accounting as an extension of the owner's personal memory. However, society and business practices have changed. The growth of global business and the emergence of new techniques to business such as e-commerce, e-banking, etc. have led to complex transactions being undertaken. This in turn has unearthed problems of subjectivity and inconsistency in the application of traditional accounting techniques. For example, changes in the nature of business assets to include intellectual property or the use of leasing have led to the question of how to account for these types of transactions.

Accounting has evolved as a craft during a time when society was simplistic. Due to changes in social and economic activity, the profession has been exposed to criticism for failing to be more responsive and adaptable. As a result, Accounting has moved forward to restore accountancy position in society by taking a number of initiatives to implement theory. Value changes, environmental factors, cultural problems professional deficiencies among other things continue to make business environment extremely competitive and this poses series of challenges on accounting and other professional bodies. Despite the importance of the Accounting Concepts and Conventions, and its universal acceptance, the business environment especially in the developing countries still have a long way to go in order to achieve the right transaction recording in various business setting. Thus this paper is a collective attempt at investigating some of the challenges, and proffering pragmatic solution to them, by ensuring total and correct application accounting concept convention on recording transaction in a business setting.

1.2 Objective of The Study

The aim of this paper is to examine how well the accounting concept and conventions are applied on transaction recording, in big setting accordance with the General Acceptable Accounting Principle (GAAP).

2. REVIEW OF RELATED LITERATURE

2.1 Accounting Concepts:

Accounting concepts are the basic underlying assumptions that are adhered to in the preparation of financial statements (Atrill and McLaney, 2004). As earlier stated, Accounting is concerned with collecting, analyzing and communicating economic information. However, in order to develop a broader understanding of accounting and the central role it plays in society, we need to consider it from a social perspective. Individuals in society co-exist establishing relationship with each other. Another way of viewing society is by segmenting it into different groups or arenas, for example the social, economic, organizational and political arenas (Atlantic International University, n.d.) in order to function effectively, these different arenas need to

communicate among themselves and it is accounting which provides information to facilitate this communication. Accounting information serves many important purposes, for example, assisting users in making informed decisions, in relation to the effective allocation of scarce resources.

Therefore, accounting information can be seen to be a potent influence in society, which affects everyone. This is illustrated by the National Coal Board case (Neu, Cooper and Everett, 2001) where the measurement of accounting profit was used to justify the closure of coal pits, causing an impact on electricity prices, jobs and taxes. Accounting has a long history and as demonstrated by Matthews and Perera (1991), it is seen as being socially constructed i.e., it is practiced by people for people and thus it is more of an art rather than a science. Unlike other professions, which have a body of theoretical knowledge to depend on to make decisions, accounting has evolved as a craft with few rules and little to no theoretical knowledge underpinning its practice and function.

Accounting traditionally has played a stewardship role as depicted by Matthews and Perera (1991), when he uses the image of accounting as a historical record to demonstrate accounting as an extension of the owner's personal memory. However, society and business practices have changed. The growth of global business and emergence of new sectors such as ecommerce have led to complex transactions being undertaken. This in turn has unearthed problems of subjectivity and inconsistency in the application of traditional accounting techniques.

The nature of financial accounting information is not dictated by the needs of external users, it is rather determined to a considerable extent by the concepts which exist among accountants for identifying, evaluation and communication financial information. Accounting concepts are the assumptions on which the financial accounts of a business are prepared. Financial transactions are interpreted in the light of the concepts which govern accounting methods. In effect, the concepts of financial accounting largely determine the interpretation given in financial reports of the event and results which they portray.

2.2 Accounting Concepts, Its Significance and Application On Transactions.

The term 'concept' is used to denote accounting postulates, i.e., basic assumptions or conditions upon the edifice of which the accounting superstructure is based. The following are the common accounting concepts adopted by many business concerns.

1. Business Entity Concept
2. Money Measurement Concept
3. Going Concern Concept
4. Dual Aspect Concept
5. Periodicity Concept

6. Historical Cost Concept
7. Matching Concept
8. Realization Concept
9. Accrual Concept
10. Objective Evidence Concept

- (i) **Money Measurement Concept:** In accounting all events and transactions are recorded in terms of money. Money is considered as a common denominator, by means of which various facts, events and transactions about a business can be expressed in terms of numbers. In other words, facts, events and transaction which cannot be expressed in monetary terms are not recorded in accounting. Hence, the accounting does not give a complete picture of all the transactions of business unit. This concept does not also take care of the effects of inflation because it assumes a stable value for measuring.

Applicability: This concept could be said to be efficient because money enable various things of diverse nature to be added together and dealt with.

- (ii) **Going Concern Concept:** under this concept, the transactions are recorded assuming that the business will exist for a longer period of time, i.e., a business unit is considered to be a going concern and not a liquidated one. Keeping this in view, the suppliers and other companies enter into business transactions with the business unit. This assumption supports the concept of valuing the assets as historical cost or replacement cost. This concept also supports the treatment of prepaid expenses as assets, although they may be practically unsaleable.

Applicability: It supports the use of historical cost concept in measuring asset such as supply equipment etc. in operation of a business, without the going concern account will be drawn up on a winding up basis.

- (iii) **Dual Aspect Concept:** According to this basic concept of accounting, every transaction has a two-fold aspect, giving certain benefits and receiving certain benefits. The basic principle of double entry system is that every debit has a corresponding and equal amount of credit. This is the underlying assumption of this concept. The accounting equation viz., $Assets = Capital + Liabilities$ or $Capital = Assets - Liabilities$, will further clarify this concept, i.e., at any point of time the total assets of the business unit are equal to its total liabilities. Liabilities here relate both to the outsiders and the owners. Liabilities to the owners are considered as capital.

- (iv) **Periodicity Concept:** Under this concept, the life of the business is segmented into different periods and accordingly the result of each period is ascertained. Though the business is assumed to be continuing in future (as per going concern concept), the measurement of income and studying in the financial position of the business for a shorter and definite period will help in taking corrective steps at the appropriate time. Each segmented period is called “accounting period” and the same is normally a year. The business man has to analyze and evaluate the results ascertained periodically. At the end of an accounting period, an income Statement is prepared to ascertain the profit or loss made during that accounting period and Balance Sheet is prepared which depicts the financial position of the business as on the last day of that period. During the course of preparation of these statements capital revenue items are to be necessarily distinguished.
- (v) **Historical Cost Concept:** According to this concept, the transactions are recorded in the books of account with the respective amounts involved. For example, if an asset is purchased, it is entered in the accounting record at the price paid to acquire the same and that cost is considered to be the base for all future accounting. It means that the asset is recorded at cost at the time of purchase but it may be methodically reduced in its value by the way of charging depreciation. However, in the light of inflationary conditions, the application of this concept is considered highly irrelevant of judging the financial position of the business.

Applicability: It allows the record of all the transactions no matter how minute it may be before it might or might not be subjected to depreciation.

- (vi) **Matching Concept:** The essence of the matching concept lies in the view that all costs which are associated to a particular period should be compared with the revenues associated to the same period to obtain the net income of the business. Under this concept, the accounting period concept is relevant and it is this concept which necessitated the provisions of different adjustments for recording outstanding expenses, prepaid expenses, outstanding incomes, incomes received in advance, etc., during the course of preparing the financial statements at the end of the accounting period.

- (vii) **Realisation Concept:** This concept assumes or recognizes revenue when a sale is made. Sale is considered to be complete when the ownership and property are transferred from the seller to the buyer and the consideration is paid in full. However, there are two exceptions to this concept, viz:

- Hire purchase system where the ownership is transferred to the buyer when the last installment is paid and

- Contract accounts, in which the contractor is liable to pay only when the whole contract is completed, the profit is calculated on the basis of work certified each year.

Applicability: It encourages the recognition of transaction and profit arising from them at the point of sale or transfer of ownership.

- (viii) **Accrual Concept:** According to this concept the revenue is recognized on its realization and not on its actual receipt. Similarly, the costs are recognized when they are incurred and not when payment is made. This assumption makes it necessary to give certain adjustments in the preparation of income statement regarding revenues and costs. But under cash accounting system, the revenues and costs are recognized only when they are actually received or paid. Hence, the combination of both cash and accrual system is preferable to get rid of the limitations of each system.
- (ix) **Objective Evidence Concept:** This concept ensures that all accounting must be based on objective evidence i.e., every transaction recorded in the books of account must have a verifiable document in support of its, existence. Only then, the transactions can be verified by the auditors and declared as true or otherwise. The verifiable evidence for the transactions should be free from the personal bias, i.e., it should be objective in nature and not subjective. However, in reality the subjectivity cannot be avoided in the aspects like provision for depreciation, valuation of inventory, etc., and the accountants are required to disclose the regulations followed.

2.3 Accounting Conventions, Its Significance and Application On Transactions.

The following conventions are to be followed to have a clear and meaningful information and data in accounting:

- i) **Consistency:** The convention of consistency refers to the state of accounting rules, concepts, principles, practices, and conventions being observed and applied constantly, i.e., from one year to another there should not be any change. If consistency is there, the results and performance of one period can be compared easily and meaningfully with the other. It also prevents personal bias as the persons involved have to follow the consistent rules, principles, concepts and conventions. This convention, however, does not completely ignore changes. It admits changes wherever indispensable and adds to the improved and modern techniques of accounting.

Applicability: Its applicability is in the area of comparability of information for its users, and encourages reliability and fair presentation.

- ii) **Disclosure:** The convention of disclosure stresses the importance of providing accurate, full and reliable information and data in the financial statements which is of material interest to the users and readers of such statements. This convention is given due legal emphasis by the Companies Act, by prescribing formats for the preparation of financial statements. However, the term disclosure does not mean all information that one desires to get should be included in accounting statements. It is enough if sufficient information, which is of material interest to the users, is included.

Applicability: It discloses sufficient information which is of material in trust to owners, and presents them to potential creditors and investors.

- iii) **Conservatism:** In the prevailing present day uncertainties, the convention of conservatism has its own importance. This convention follows the policy of caution or playing safe. It takes into account all possible losses but not the possible profits gains. A view opposed to this convention is that there is the possibility of creation of secret reserves when conservatism is excessively applied, which is directly opposed to the convention of full disclosure. Thus, the convention of conservatism should be applied very cautiously.

2.4 Bases of Accounting

There are three bases of accounting in common usage. Any one of the following bases may be used to finalize account.

1. Cash basis
2. Accrual or Mercantile basis
3. Mixed or Hybrid basis.

1. Accounting on Cash basis:

Under cash basis accounting, entries are recorded only when cash is received or paid. No entry is passed when a payment or receipt becomes due. Income under cash basis accounting, therefore, represents excess of receipts over payments during an accounting period. Government system of accounting is mostly on cash basis. Certain professional people record their income on cash basis, but while recording expenses they take into account the outstanding expenses also. In such case, the financial statements prepared by them for determination of their income are termed as Receipts and Expenditure Account.

2. Accrual Basis of Accounting or Mercantile System:

Under accrual basis of accounting, accounting entries are made on the basis of amounts having become due for payment or receipt. Incomes are credited to the period in which they are earned whether cash is received or not. Similarly, expenses and losses are detailed to the period in which, they are incurred, whether cash is paid or not. The profit or loss of any accounting period is the difference between incomes earned and expenses incurred, irrespective of cash payment or receipt. All outstanding expenses and prepaid expenses, accrued incomes and incomes received in advance are adjusted while finalizing the accounts. Under Act 1956, all companies are required to maintain the books of accounts according to accrual basis of accounting.

3. Mixed or Hybrid Basis of Accounting:

When certain items of revenue or expenditure are recorded in the books of account on cash basis and certain items on mercantile basis, the basis of accounting so employed is called 'hybrid basis of accounting'. For example, a company may follow mercantile system of accounting in respect of its export business. However, government subsidies and duty drawbacks on exports to be received from government are recorded only when they are actually received i.e., on cash basis. Such a method could be adopted because of uncertainty with respect of quantum, amount and time of receipt of such incentives and drawbacks. Such a method of accounting followed by the company is called the hybrid basis of accounting. In practice, the profit or loss shown under this basis will not be realistic. Conservative people who prefer recognizing income when received, but cautions to provide for all expenses, whether paid or not prefer this system. It is not widely practiced due to the inconsistency.

2.5 Accounting Terminologies

It is necessary to understand some basic accounting terms are daily in business world. These terms are called accounting terminology and aids in the recording of transactions.

Transaction:

"An event, the recognition of which gives rise to an entry, in accounting records". It is an event which results in change in the balance sheet equation. That is, this changes the value of assets and equity. In a simple statement, transaction means the exchange of money or money's worth from one account to another account Events like purchase and sale of goods, receipt and payment of cash for services or on personal accounts, loss or profit in dealings etc., are the transactions". Cash transaction is one where cash receipt or payment is 'cash' either received or paid, for something given or received respectively, but give rise to debtor and creditor relationship. Non-cash transaction is one where the question of receipt or payment of cash does not at all arise, e.g. Depreciation, return of goods etc.,

Debtor:

A person who owes money to the firm mostly on account of credit sales of goods is called a debtor. For example, when goods are sold to a person on credit that person pays the price in future, he is called debtor because he owes the amount to the firm.

Creditor:

A person to whom money is owed is called creditor. For example, Johnson is a creditor of the firm when goods are purchased on credit for him.

Capital:

It means the amount (in terms of money or assets having money value) which the proprietor has invested in the firm or can claim from the firm. It is also known as owner's equity or net worth. Owner's equity means owner's claim against the assets. It will always be equal to assets less liabilities, say: $Capital = Assets - Liabilities$.

Liability:

It means the amount which the firm owes to outsiders that is, accepting the proprietors. In words of Finny and Miller, "Liabilities are debts; they are amounts owed to creditors; thus the claims of those who are not owners are called liabilities". In simple terms, debts repayable to outsiders by the business are known as liabilities.

Asset:

Any physical thing or right owned that has a money value is an asset. In other words, an asset is that expenditure which results in acquiring of some property or benefits of a lasting nature.

Goods:

It is a general term used for the articles in which the business deals; that is, only those articles which are bought for resale are known as Goods.

Revenue:

It means the amount which, as a result of operations, is added to the capital. It is defined as the inflow of assets which result in an increase in the owner's equity. It includes all incomes like sales receipts, interest, commission, brokerage etc., however, receipts of capital nature like additional capital, sale of assets etc., are not part of revenue.

Expense:

The terms 'expense' refers to the amount incurred in the process of earning revenue. If the benefit of an expenditure is limited to one year, it is treated as an expense (also known as revenue expenditure) such as payment of salaries and rent.

Expenditure:

Expenditure takes place when an asset or service is acquired. The purchase of goods is expenditure, whereas cost of goods sold is an expense. Similarly, if an asset is acquired during the year, it is expenditure, if it is consumed during the same year, it is also an expense of the year.

Purchases:

Buying of goods by the trader for selling them to the customers is known as purchases. As the trade is buying and selling of commodities purchase is the main function of a trade. Here, the trader gets possession of the goods which are not for own use but for resale. Purchases can be of two types. Viz, cash purchases and credit purchases. If cash is paid immediately for the purchase, it is cash purchases, if payment is postponed, it is credit purchases.

Sales:

When the goods purchased are sold out, it is known as sales. Here, the possession and the ownership right over the goods are transferred to the buyer. It is known as. 'Business Turnover' or sales proceeds. It can be of two types, viz., cash sales and credit sales. If the sale is for immediate cash payment, it is cash sales. If payment for sales is postponed, it is credit sales.

Stock:

The goods purchased are for selling, if the goods are not sold out fully, a part of the total goods purchased is kept with the trader until it is sold out, it is said to be a stock. If there is stock at the end of the accounting year, it is said to be a closing stock. This closing stock at the year-end will be the opening for the subsequent year.

Drawings:

It is amount of money or the value of goods which the proprietor takes for his domestic or personal use. It is usually subtracted from capital.

Losses:

Loss really means something against which the firm receives no benefit. It represents money given up without any return. It may be noted that expense leads to revenue but losses do not. (e.g.) loss due to fire, theft and damages payable to others,

Account:

It is a statement of the various dealings which occur between a customer and the firm. It can also be expressed as a clear and concise record of the transaction relating to a person or a firm or a property (or assets) or a liability or an expense or an income.

Invoice:

While making a sale, the seller prepares a statement giving the particulars such as the quantity, price per unit, the total amount payable, any deductions made and shows the net amount payable by the buyer. Such a statement is called an invoice.

Voucher:

A voucher is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the voucher. Voucher is necessary to audit the accounts.

Proprietor:

The person who makes the investment and bears all the risks connected with the business is known as proprietor.

Discount:

When customers are allowed any type of deduction in the prices of goods by the businessman that is called discount. When some discount is allowed in prices of goods on the basis of sales of the items, that is termed as trade discount, but when debtors are allowed some discount in prices of the goods for quick payment, that is termed as cash discount.

Solvent:

A person who has assets with realizable values which exceeds his liabilities is solvent.

Insolvent:

A person whose liabilities are more than the realizable values of his assets is called an insolvent.

2.6 Problems Affecting Accounting Concepts and Conventions

Despite the significance of accounting conventions and concepts accountant or accounting practitioners still face with problems on transaction recording to comply with Generally Accepted Accounting Practice (GAAP). There are many problems arising from the application of these laid down principles.

They include:

- i. **The Problem of Objectivity:** There are many aspects of accounting that ensures that objectivity cannot be universally applicable in the preparation of accounts. E.g. the different value of the charge rate of depreciation by accountants.
- ii. **The Problem of Consistency:** Most times because of the method employed in treating certain items may vary (i.e. the items) from time to time making the concept of consistency to be applied more and more rigid. This problem can also be seen in short term manipulation of reported result.
- iii. **Problem of Materiality:** In materiality deciding what is and what is not material is a problem and this concept does not apply while recording cash transaction thereby leading to small amounts being omitted from the cash book on the ground that they are not material.
- iv. **Problems of Prudence:** conservatism to an excess degree will result in the creation of secret reserves.
- v. **Problems of Realization:** This problem arises in the case of revenue recognition and the valuation of closing stock whereby the general principle for valuation of inventory is to take the lower of cost and realizable value. It also asks the question at what stage can profit be deemed to have been realized?
- vi. A problem also arises where accounting concept and convention conflict with each other and one may at time override the application of the other. E.g. conflict of Money Measurement and Materiality.

This arises where only items quantifiable in monetary terms are recorded but some smallish items can also be measured thereby contradicting materiality etc.

- vii. **Problems of Going Concern Concepts:** This arises whereby sales are made but the customers with the notion perpetual existence of the firm in mind might delay the payment of the item acquired thereby leaving the firm with no cash and this gradually leads to the dwindling of the business.

- viii. **Problem of Money Measurement:** Transactions which can't be expressed in money terms do not find a place in the books of account though they might be useful in business.

2.7 The Need for Accounting Concepts and Adjustment

First let us specify the meaning of Adjustment.

Adjustments can be said to mean transactions which have not yet been journalized by the end of an accounting period and appended to the trial balance. They are called adjustment because the transactions are incorporated by mathematical adjustments to the figures of ledger account balances. It also involves two kinds:

- **Accrual Adjustment:** (This is adjustment for revenue and expenses that are matched to dates before the transaction has been record)
- **Deferrals Adjustment:** (This is adjustment for revenue and expenses that are matched to date after the transactions have been recorded)

2.8 The Need and Relationship

Adjustment is vital in accounting in order to adjust expenses and revenue to the accounting period where they actually occurred. It is also needed so that omissions can be accounted for and errors corrected. These entries are made so that revenue and expenses are reported in appropriate accounts with the correct amount. Adjustments are also needed to reflect the actual value of a service/product at the end of the period. Giving the fact that the adjustments are based on reality and not on source documents, this strengthens and view its relationship with the concept of realization, accrual etc. adjustments entries also agrees with the objectivity convention (which states that financial statements should be made on verifiable evidence) which can be seen as a result of the depreciation of items goes on some assets will require to be adjusted, verified and accounted for and this is done using mathematic calculation as evidence. Adjustments also encourage accountants to be consistent in their method of recording and updating the general ledger accounts. It is also needed to bring items as inventory in line with physical stock counts typically held at the end of the year.

3. CONCLUSION

Accounting concept and convention implies that those who prepare accounts should prepare it with the intention of clarity such that it will be understandable to its users. Its usage also makes it easy for users to compare the performance of similar companies in the same industry. As up to date means bringing the income statement and balance sheet in line with the accrual basis of

accounting. Adjustment entries could be said to be very crucial in recording transaction and bringing it up to date. Accounting concept, convention and adjustments in accounting also assist users to form, confirm or review a report to ensure that accounts do indeed portray accurately the business activities.

4. RECOMMENDATION

It is recommended that when a firm chooses to treat items such as depreciation in a particular way, it should go on using that method year after year but when it is necessary to change the used method, then an explanation of the change and its effects on result must be shown as a note to the accounts being presented. It is also advisable to record every cash transaction in the cashbook regardless of the amount.

In adjustment it is recommended to prevent inadvertent omission of some adjustment entries, it is helpful to review the ones from previous accounting period. Accountants can also avoid error in adjustment which can be as a result of not knowing all the deduction he/she has. It is also recommended that conservation should not be over stretched to the point where it might eventually result in distorting the financial result. When an accountant has a choice between two alternatives treatment he/she should select the one that shows a less encouraging position of the financial statements. Every accountant is also expected to apply judgment in the best interest of the general public.

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