Pakistan School
Kingdom of Bahrain

TOPIC

Important Accounting Terms

Subject: Introduction of Accounting

Jun 21, 2020
Grade 11

Lesson Objectives:

Students should understand, analyze and communicate the following basic accounting principles and conventions given in book chapter 1:

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Accounting Principles

The following is a list of the ten main accounting principles and Conventions guidelines together with a highly condensed explanation of each.

1. Matching Principle.
2. Revenue Recognition Principle.

Matching Principle

The **matching concept** is an accounting practice whereby firms recognize revenues and their related expenses in the same accounting period. Firms report "revenues," that is, along with the "expenses" that brought them. The purpose of the **matching concept** is to avoid misstating earnings for a period.

MATCHING PRINCIPLE

- Under the Matching Principle concept, a company should report an expense in the income statement in the same period when it earns the revenue.
- Use of such a principle helps a company present an accurate picture of the operations.
- This principle is a part of the Generally Accepted Accounting Principles (GAAP).

ELEMENTS

Period Costs : These are shown on the financial statement as and when the company incurs them.

Product Costs : Product costs include expenses such as direct material labor and factory overhead.

REASON / IMPORTANCE

Before adoption of the matching principle, expenses were recorded irrespective of accounting period to which they relate which led to over recognition or under recognition of expenses.

Use of depreciation is a major byproduct of the matching principle.

Revenue Recognition Principle

Revenue recognition principle definition. The **accounting** guideline requiring that **revenues** be shown on the income statement in the period in which they are earned, not in the period when the cash is collected. This is part of the accrual basis of **accounting** (as opposed to the cash basis of **accounting**).

REVENUE RECOGNITION

This principle states that a firm should record revenue in its books of accounts when it is earned and is realized or realizable, and not when the cash is collected.

CONDITIONS FOR RECOG.

1. Transfer of risk and rewards.
2. Seller do not have control over transferred goods
3. Reasonable assurance for cash collection
4. Revenue amount can be measured

ADVANCE PAYMENTS

Advance payment should be recognized as a liability and not as revenue.

This is known as differed revenue or differed income.

Cash accounting states that revenue should be recognized only when the cash is collected and not when the goods are sold.

Summary Discussion and Questioning Answering