



**Pakistan School**  
**Kingdom of Bahrain**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

# TOPIC

## Important Accounting Terms

**Subject: Introduction of Accounting**

Jun 23, 2020  
Grade 11

# Lesson Objectives:

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

Book pager # 12 to 16

# 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. Convention of Conservatism.
2. Convention of Consistency.

# Convention of Conservatism

In accounting, the **convention of conservatism**, also known as the doctrine of prudence, is a policy of anticipating possible future losses but not future gains. This policy tends to understate rather than overstate net assets and net income, and therefore lead companies to "play safe"

## 2. Convention of Conservatism

### (Prudence)

- Policy of 'caution' & 'playing safe'
- Policy of safeguarding against possible losses in world of uncertainty
- **Assets or income are not overstated and liabilities or expenses are not understated.**
- Anticipated losses are shown in the form of provisions.

# Convention of Consistency

In accounting, the **convention** in **consistency** is a principle that the same management accounting principles should be used for preparing financial statements over a number of time periods. This enables the management to draw important conclusions regarding the working of the concern over a longer period.

## 2) CONVENTION OF CONSISTENCY

- Accounting method should remain consistent year by year.
- This facilitates comparison in both directions i.e. intra firm & inter firm.
- This does not mean that a firm cannot change the accounting methods according to the changed circumstances of the business.



**Thanks for your  
attention!**

Summary Discussion and Questioning Answering