

Chapter (1)

The Conceptual Framework of Accounting

- Concepts of Book-keeping
- Definition of Accounting.
- Kinds of accounting.
- Usefulness of Accounting.
- The main users of Accounting Information.
- Qualitative characteristics of accounting information
- Accounting Assumptions, Principles and Constraints.

◆ Questions and Exercises?

CHAPTER

(1)

THE CONCEPTUAL FRAMEWORK OF ACCOUNTING

الإطار المفاهيمي للمحاسبة

A conceptual framework is like constitution that leads the accounting system. The conceptual framework is made of three. The first Level is presented the objectives of financial reporting. The second Level is presented (A) Qualitative characteristics of accounting information and (B) Elements of financial statements. While the third Level is presented the recognition and measurement concepts: (Assumptions, Principles, and Constraints).

A- CONCEPTS OF BOOK-KEEPING مفاهيم مسك السجلات

The accounting is often confused (غالبا ما تتشوش) with book-keeping (مسك السجلات).

- Book-keeping: is a mechanical process that records the routine economic activities of business.
- Book-Keeping: is an art of recording business transaction in a set of books.

1- Definition Book - keeping تعريف مسك السجلات

Book - keeping is defined as the process of analyzing, Classifying and recording transactions in a systematic manner and of providing information about the financial affairs of the business concern. It is also defined as the art of recording in the books of accounts, the monetary aspect of commercial or

financial transactions. Maintaining books of accounts in a systematic order is also known as book-keeping.

2- The main features of book-keeping المعالم الرئيسية لمسك السجلات

Analysis of the above definitions brings out the following features of Book-keeping:

- (1) Book-keeping is an art of recording transactions scientifically.
- (2) There must be a documentary support for each and every transaction.
- (3) The system of recording should be universal.
- (4) The recording is made of monetary transactions only. It means the transaction must involve money. Non - monetary transactions cannot be recorded.

3- Objects of book-keeping أهداف مسك السجلات

The primary object of Book-keeping is to enable the business to know the following information accurately and with a minimum of time and efforts. We can summarize the objects of book-keeping in a simple table as follows:

Objects of Book-keeping

Primary objects أهداف رئيسية	Sub-objects أهداف فرعية	Other Objects أهداف أخرى
<ul style="list-style-type: none"> -To know Creditors -To Know Debtors -To Know capital invested -To Understand cash and stock. 	<ul style="list-style-type: none"> -To know Creditors -To Know Debtors -To Know capital invested -To Understand cash and stock. 	<ul style="list-style-type: none"> -To review the progress -To prevent errors and frauds -To keep a check on property -To provide valuable information for decision making.

4- Importance of Book-keeping أهمية مسك السجلات

Book-keeping is of great importance to business, book-keepers, accountants, and Government officers. Following points explain the importance of Book-keeping.

1) Facilitates Planning تبسيط التخطيط

Proprietors have to plan their business operations for years to come. Book-keeping generates valuable information about production, sales, expenses, and income which helps planning.

2) Decision - making صناعة القرار

Management has to take valuable decisions about business. Book-keeping provides necessary information for decision - making.

3) Controlling الرقابة

Management can control business operations with the help of various types of budgets and book-keeping. It is not necessary to remember the transactions.

4) Aid to Memory مساعدة الذاكرة

Human memory has certain limitations. A business cannot remember all the business transactions. Book-keeping helps the business man in this regard.

5) Comparative study دراسة مقارنة

Proper records help a management to compare the performance of its business. A comparative study enables a business to take proper corrective action.

6) Sale of business بيع المنشأة

In case the business is to be sold out, the purchase consideration can be decided on the basis of the accounts maintained.

7) Helpful in getting loans المساعدة في الحصول على القروض

A businessman may require loans from banks for financing his expansion scheme. Properly kept accounts can convince the banks about financial soundness of the business.

8) Protection against Theft and Dishonesty الحماية من السرقة وعدم الأمان

A Businessman can protect himself against theft and dishonesty of employees by keeping books of accounts in a systematic manner.

He can exercise greater control on his finance through systematic recording.

5- Utility of Book-keeping فائدة مسك السجلات

The utility of Book-keeping can be studied from various points of view. It is useful to many persons as described below:

- 1) The main beneficiary of book-keeping is the businessman or the owner of the business. It would be almost difficult for a businessman or the firm to carry on a business without Book-keeping. Financial transactions take place at every stage of the business operations. Book - keeping enables him to record all financial transactions. It furnishes him valuable information from the point of view of business. He can ascertain the profit or losses in the business. He knows the financial position at any time. Important business decisions can be taken more realistically by maintaining books of accounts.
- 2) The shareholders, proprietors or partners can get valuable information about the business from the books of accounts.
- 3) Labor unions can use accounting reports as a basis for supporting wage demand.
- 4) Book-keeping ensures proper calculation of tax liability.
- 5) A systematic record of business transaction can also be produced as evidence in a court of law in case any dispute arises
- 6) In the event of insolvency, a businessman can explain his financial position in a better way.
- 7) The investors can decide whether to invest or not in a particular firm by studying the books of accounts.

6- Distinguish between book-keeping and accountancy

BOOK-KEEPING مسك السجلات	ACCOUNTANCY علم المحاسبة
1. Book - keeping is an art of recording business transactions in a set of books.	1. Accounting is concerned with the design of the system of records, the preparation of the reports and the interpretation of the results, and finally communicating the results to persons who are interested in such results.
2. Book- keeping is concerned with recording and maintaining books of original entries.	2. Accounting is concerned with preparation of accounts to find out profit or loss and the financial position of the business.
3. Book - keeping is responsible for recording business transactions in a set of books.	3. 3-Accountants prepare from the given books, Trading and profit and loss account, and Balance sheet.
4. The work of a book-keeper is clerical in nature and can be accomplished through the use of mechanical and electronic equipment.	4. Accountants direct and review the work of book-keepers. They must have a higher level of knowledge and analytical skill .

B- DEFINITIONS OF ACCOUNTING تعاريف المحاسبة

There are more definitions of accounting

1- Accounting

The accounting is a services activity function of which is to provide quantities information about economic entities. The Information is primarily financial in nature and is intended to be useful in making rational economic decisions (قرارات اقتصادية).

2- Accounting

The accounting is the art of recording, classifying, reporting, and interpreting (تسجيل، تصنيف، تقرير، وتفسير) the financial data of an organization (منظمة).

3- Accounting

The accounting is the act of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.

4- Accounting

The accounting is a social science (علم اجتماع) has its concepts and principles that used in applying the accounting cycle (الدورة المحاسبية) to achieve accounting functions and objectives.

5- Accounting

The accounting is an information system (نظام معلومات) that processes business transactions (عمليات تجارية) to various interested parties for making business and economic decisions.

C- USEFULNESS OF ACCOUNTING

فوائد المحاسبة

The main usefulness of accounting can be given as follows:

- (1) The accounting keeps a systematic and permanent record (سجل دائم) of all financial transactions of a business.
- (2) The accounting keeps a record of revenues and expenses so that the net results of the business can be quickly known for any period.
- (3) The accounting keeps a record of assets and liabilities projecting the financial position (الوضع المالي) of the business at any moment of time (لحظة زمنية).
- (4) The accounting protects (تحمي) the property of the business by designing the required system of accounting.
- (5) The accounting keeps a control on expenses to minimize the same.
- (6) The accounting provides Information for meeting various legal requirements such as realization of the income tax purposes (أهداف ضريبة الدخل).

D- KINDS OF ACCOUNTING

In general, There are two kinds of accounting:-

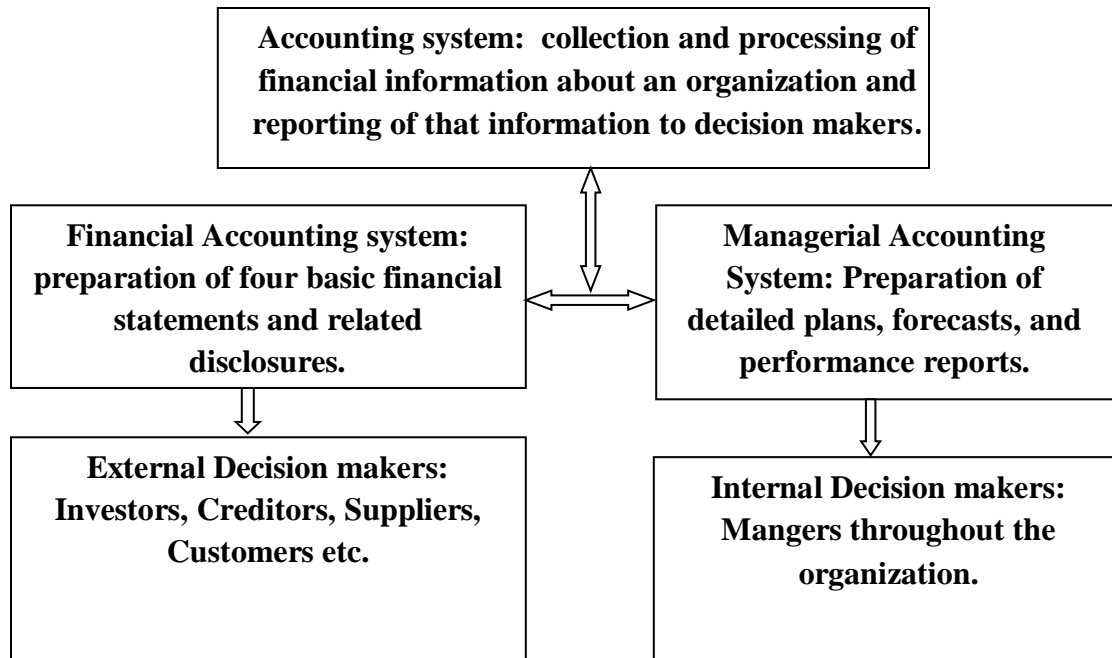
1- Financial Accounting المحاسبة المالية

It is the process of supplying (تجهيز) financial information to parties external to the reporting entity.

2- Managerial Accounting المحاسبة الإدارية

It is the process of supplying financial information for internal management use.

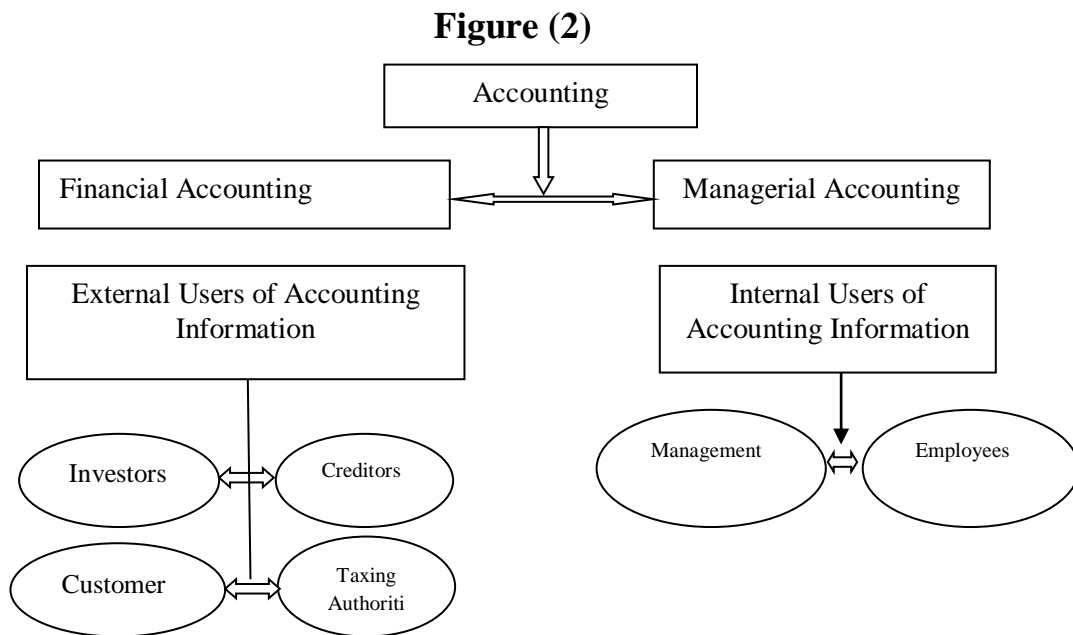
Figure (1)



The accounting can be also, classified into the following categories:

- (1) Financial Accounting المحاسبة المالية
- (2) Cost Accounting محاسبة التكاليف
- (3) Managerial Accounting المحاسبة الإدارية
- (4) Government Accounting المحاسبة الحكومية
- (5) Tax Accounting المحاسبة الضريبية

This classification can be distributed between two main categories of accounting according the following diagram:



E- THE MAIN USERS OF ACCOUNTING INFORMATIONS

المستخدمون الرئيسيون للبيانات المحاسبية

There are many potential users of accounting information, including shareholders, lenders, customers, suppliers, government departments, employees and their organizations, and society at large significant. Anyone with an interest in the performance and activities of a company is traditionally called a stakeholder (مالك حصة).

For a business or organization to communicate its results and position to stakeholders, it needs a language that is understood by all in common. Hence, accounting has come to be known as the "**language of business**".

The different users of accounting information can be classified as follow:-

- Shareholders المساهمين
- Investors المستثمرين
- Creditors الدائنين
- Government الحكومة
- Labors العاملين
- Researchers الباحثين
- Management (Administration) الإدارة
- Other Groups مجموعات أخرى

The Users of Accounting Information can be explained as follow:

(1) **Shareholders** المساهمين

The shareholders, in the company, are interested to know the results of operations of the company through the annual financial position statements showing the profit earned or loss suffered and the assets and liabilities.

(2) Investors المستثمرين

Those who are interested in buying the shares in a company, and advancing money to the company are also naturally interested in the financial statements to know how safe the investment already made is, and how safe the proposed investment will be.

(3) Creditors الدائنين

A number of suppliers make supplies on credit; they would like to be satisfied that they will be paid in time. The financial statements greatly help them in properly assessing property and the capability of the firm or payment.

(4) Government الحكومة

All the Governments in the worlds are using financial statements for compiling statistics concerning business. The statements are of great importance for ascertaining the income tax payment.

(5) Labor العاملين

Workers are entitled for payment of bonus (المكافأة، الإضافي), which depends on the size of profit earned. Therefore, they would like to be satisfied that the bonus being paid to them is correct. They are much interested in knowing the profit earned or loss suffered by the firm. This knowledge helps them in asking for their revision of their wages which need improvement.

(6) Researchers الباحثين

The financial statements, being a mirror of business conditions, these statements are, therefore, of great interest to scholars undertaking research in accounting theory as well as business affairs and practices.

(7) Management (Administration) الإدارة

Management, collectively, is the people who have overall responsibility for operating a business and for meeting its profitability goals. Successfully management consistently make the right decisions based on timely and valid information.

(8) Other Groups مجموعات أخرى

- Labor unions study the financial statements of corporations as part of preparing for contract negotiations.
- Financial analysts and advisers, brokers, underwriters, lawyers, economists and the financial press, also have an indirect interest in the financial performance and prospects of a business.
- Consumer groups, customers, and the general public have become more concerned about the financing and earnings of corporations as well as the effects that corporations have on inflation, the environment, social problems, and the quality of life.

F-QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

الخصائص النوعية للمعلومات المحاسبية

1- Decision makers and their characteristics (Understandability)

متخذو القرار وخصائصهم (القابلية للفهم)

2- Constraints المحددات الرئيسية

(1) Cost is less than Benefits, التكلفة اقل من المنفعة

(2) Materiality الأهمية النسبية

3- Primary qualities الخصائص الرئيسية

(1) Relevance, الملائمة

(2) Reliability الموثوقية

4- Ingredients of primary qualities: مكونات الخصائص الرئيسية:

(1) Relevance الملائمة

a) Predictive value, القيمة التنبؤية

b) Feedback value, القيمة الاسترجاعية

c) Timeliness, التوقيت المناسب

(2) Reliability الموثوقية

a) Verifiability, القدرة على التحقق

b) Representational faithfulness, الصدق في العرض

c) Neutrality الحيادية

5- Secondary qualities الخصائص الثانوية

(1) Comparability, القدرة على المقارنة

(2) Consistency الثبات

G- ACCOUNTING ASSUMPTIONS, PRINCIPLES, AND CONSTRAINTS

الفروض والمبادئ والمحددات المحاسبية

In the most modern classification of accounting concepts and principles in the world, accounting principles can be classified as follow:

Assumptions (Concepts) الفروض (المفاهيم)	Principles المبادئ	Constraints المحددات (القيود)
-Accounting entity	-Historical cost	-Materiality
-Going – concern	-Matching	-Conservatism
-Monetary Unit	-Revenue Recognition	-Consistency
-Periodicity (continuity)	-Full disclosure	-Cost & Benefit
- Double Entry	-Objectivity	-Industry practices

1- Accounting Concepts (Assumptions) الفروض المحاسبية

Accounting concepts refer to the nature of economic environment in which accounting operates. The most significant of these concepts (assumptions) are:

- (1) Accounting entity concept مفهوم الوحدة المحاسبية
- (2) Going – concern concept مفهوم الاستمرارية
- (3) Monetary unit concept مفهوم وحدة القياس
- (4) Periodicity concept مفهوم الدورية
- (5) Double entry concept مفهوم القيد المزدوج

Those concepts are essential to the understanding of accounting principles and distinguish between the assumptions and principles.

(1) Accounting entity الوحدة المحاسبية

Accounting entities are separate economic units that control resources and obligations and that have separate and distinct records.

Also the economic entity can be defined as any legal or unit accounting that has control over resources, accepts responsibilities for making and carrying out commitments, and conducts economic activity, such a corporation or a consolidated group.

For accounting purposes, every business is conceived to be and treated as a separate entity, separate and distinct from its owner and from every other business.

(2) Going Concern (continuity) concept مفهوم الاستمرارية

This concept assumes that a particular business will continue in existence for a long enough period of time to carry out its objectives and commitments (the life is indefinite).

(3) Monetary Unit Concept مفهوم الوحدة النقدية

The monetary unit of a country means that the money is used to measure the asset (الموجودات) , liabilities (المطلوبات) , and owner's equity (حقوق الملكية) and to measure the changes that occur in them as a result of these changes, the net income of accounting entity is measured and determined for a specific period of time.

Stable monetary unit concept means that purchasing power (القوة) (الشرائية) of the unit of measure used in accounting does not change; this concept is not practically accepted since the accounting information provided is not represented the economic reality (الحقيقة الاقتصادية).

(4) Periodicity concept مفهوم الدورية

The Periodicity concept assume that the business has an indefinite life .The measurement of the firm's financial condition and operations must be made a relatively short intervals such as quarterly or yearly.

The life of a firm is divided into period's equal length, such as a month, three months, or a year; annual accounting periods are the most common.

Under this assumption, the accounting periods with equal length allow for comparison of expenses, revenues and income earned by the firm in one period with the same in another period.

(5) Double Entry concept مفهوم القيد المزدوج

Double entry means that all transactions are recorded in two accounts, the first is debit and the second is credit.

2- Accounting principles المبادئ المحاسبية

Accounting principles are broad rules (قواعد واضحة) adopted by the accounting profession as guides for use in recording and reporting the financial affairs and activities of a business to its owners, investors, creditors, and other outsiders.

Generally Accepted Accounting Principles (GAAP) المبادئ المحاسبية المقبولة قيوماً عاماً refers to conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Accounting principles are the following:

(1) Historical cost principle مبدأ التكلفة التاريخية

The assets are recorded at their acquisition cost and are usually not adjusted for increases in value until a sale has occurred. The accounting rule requires assets and services plus any resulting liability to be taken into the accounting record at cost.

(2) Matching principle مبدأ المقابلة

The expenses must be recorded against the revenues earned during the period. Thus, expenses of the period are matched against the revenues of the same period, and the result is net income or loss for the period.

The accounting rule shows that all expenses incurred in earning revenues are deducted from the revenues for determining the net income.

(3) Revenue recognition principle مبدأ تحقق الإيراد

Revenue is recognized for accounting purposes when it is realized. For the vast majority of firms revenue is realized when the sale occurs.

The accounting rule defines revenue as an inflow of assets, not necessarily cash, in exchange of goods and services and requires the revenue to be recognized at the time, but not before, it is earned.

(4) Full disclosure principle مبدأ الإفصاح التام

All information that can be useful to informed decision makers must be disclosed. All material information should be disclosed in the financial statements to make these statements clear and understandable to the readers of these statements.

(5) Objectivity principle مبدأ الموضوعية

The accounting rule requiring that wherever possible the amounts used in recording transactions based on objective evidence (for example: sales invoice) rather than subjective judgments.

3- Accounting Constraints المحددات (القيود) المحاسبية

(1) Materiality الأهمية النسبية

The Material information must be given more attention than immaterial. Immaterial items should be combined with other items.

Materiality relates to an item's impact (يؤثر) on a firm's overall financial condition and operations. An item is material when it is likely to influence the decision of reasonably prudent investor or creditor.

(2) Conservatism (Prudence) الحيطة والحذر أو التحفظ

The accountants should be conservative in their estimates (تقديرات) and opinions and in their selection procedures, choosing those that neither understate nor overstate situation. For example, the accountant takes in compute the future expenses or losses, and another side he ignores the future revenues or profits.

Conservatism means when in doubt choose the solution that will be least likely to overstate assets and income.

التحفظ (الحيطة والحذر) يعني بأنه عند تولد أي شك فانه يجب اختيار ذلك الحل الذي لا يغالي في تقدير الأصول والدخل.

(3) Consistency الاتساق أو الثبات

The consistency means that once an accounting method used must not be changed from period to period. This convention (تقليد) is necessary used for doing proper comparisons.

(4) Cost and Benefit التكلفة والمنفعة

All the accounting information must be established according to its cost and their future benefits.

Cost-Benefit Relationship means that the cost of providing the information must be weighed against the benefits that can be derived from using the information.

علاقة التكلفة والمنفعة تعني بأنه يجب موازنة تكلفة تزويد المعلومات بالمنفعة المترتبة على استخدامها.

(5) Industry Practices الممارسات الصناعية

Industry Practices means the peculiar nature of some industries and business concerns sometimes requires departure from basic theory.

محددات الصناعة تعني بان طبيعة بعض الصناعات والتجارة تجعلها تحيد عن النظرية العامة.

Questions and Exercises

- 1- What is Book- keeping?
- 2- What are the objects Book- keeping?
- 3- Mention the importance of Book- keeping
- 4- Distinguish between book-keeping and accountancy
- 5- Write the definitions of the accounting.
- 6- What is the usefulness of accounting?
- 7- What are the Qualitative characteristics of accounting information?
- 8- Define the following:-
 - a. Continuity (going-concern) concept.
 - b. Cost principle.
 - c. Monetary unit concept.
 - d. Conservatism constraint.
- 9- Name only the assumptions and principles accounting.
- 10- Name the accounting concepts and explain two from them.
- 11- Name the accounting principles and explain two from them.
- 12- Choose the correct answer of the following questions:
 - (1) State whether each of the following statements are true or false.
 - a. Accounting is a language of business.
 - b. Accounting principles are referred to as rules of action on conduct.
 - c. Assets are always valued at market price as per the basis of the going concern concept.
 - d. As per the convention of disclosure, some material information should be disclosed by the accountants.
 - (2) State whether each of the following statements are true or false.
 - a. Book- keeping is an art of recording financial transactions in a set of books.
 - b. The main objectives of book- keeping are to keep permanent records of business transactions.

- c. Preparing of account does not require specific skills and knowledge (مهارات ومعرفة).
 - d. The accounting keeps a control on expenses to maximize the same.
- (3) The time period assumption states that:
- a. Revenues should be recognized in the accounting period in which it is earned.
 - b. Expenses should be matched with revenues.
 - c. The economic life of a business can be divided into artificial time periods.
 - d. The fiscal year should be corresponds with the calendar year.
- (4) The principle that dictates that efforts (expenses) be matched with accomplishments (revenues) is the:
- a. Matching principle.
 - b. Cost principle.
 - c. Revenue recognition principle.
 - d. Full disclosure principle.
- (5) Accounting includes:
- a. Measurement
 - b. Verification
 - c. Reporting
 - d. All of the above
- (6) The Company opens drawings and capital account as an application entity assumption (concept).
- a. Continuity
 - b. Periodicity
 - c. The entity
 - d. The monetary unit
- (7) All costs paid to buy a car to make ready for intended use, is an application of:
- a. Revenue recognition principle.

- b. Continuity Concept.
- c. Full-disclosure principle.
- d. Cost principle.

(8) Using the accounting procedures from year to year means:

- a. Conservatism
- b. Matching
- c. Consistency
- d. Materiality

(9) All material information should be disclosed in the financial statements to make these statements clear and understandable for the reader is:

- a. Materiality
- b. Consistency
- c. Matching
- d. Full disclosure

(10) All of the following represents outside party that interest in accounting reporting except:

- a. Management.
- b. Debtors
- c. Creditors.
- d. Taxation authorities.

☞ **Answers question (12):**

Question No.	a	b	c	d
(1)	true	true	false	false
(2)	true	false	false	false
(3)			x	
(4)	x			
(5)				x
(6)			x	
(7)				x
(8)			x	
(9)				x
(10)	x			

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