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Some Basic Concepts of Accounting: A Critical Appraisal

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ABSTRACT
Financial statements of Enterprises are usually depended upon by a wide variety of users in making economic decisions about an enterprise. In order to ensure that these Statements are useful to the common needs of users, the accountancy profession has developed a framework of ideas generally accepted as the foundation on which accounting rests. Taking into consideration the fact that many of these ideas (often variously referred to as concepts, conventions, postulates etc) conflict with each other, one wonders whether accounting concepts or conventions lead to users getting what they need from a set of financial statements. This paper offers a critical appraisal of various accounting concepts and concluded that accounting concepts or conventions are likely to be of relatively different importance to different users of financial statements.

Introduction

The objective of an enterprise's financial statement is to provide information about the financial position, performance and changes in financial position that is useful to a wide variety of users in making economic decisions. Although users of accounting information (contained in the financial statements) require it for diverse reasons: they are generally interested in the profitability, stability and financial status of the enterprise. However, since external users such as lenders, customers, government, suppliers and other trade creditors etc. are not in a position to demand specific financial information from the organization, they must rely on the financial statement presented by the organization. To meet their general information needs, the Accountancy Profession developed a framework of ideas referred to as Generally Accepted Accounting Principles (GAAP) intended to ensure that financial statements are relevant and reliable. These ideas which are influenced by the beliefs of financial statement users as well as by business practices and customs are generally accepted as the underpinnings of the preparation and presentation of financial statements.

A wide range of terminologies have been used in accounting literature to describe these ideas. In addition to principles and concepts, the terms conventions, postulates, assumptions, doctrines, tenets and axioms are frequently used. Different meanings have been attached to these terms by different persons. While some scholars simply refer to all of them as principles, others see them as concepts without segregating them between concepts and conventions. In this paper, we would refer to all of them as concepts and conventions of accounting. This paper offers a critical appraisal of various concepts and conventions of accounting. We begin with a critical analysis of the concepts themselves and follow that later with a consideration of how the concepts conflict with each other. Finally, we shall examine how the accountancy bodies had described some of the ideas as being "fundamental" than others.

CONCEPTS AND CONVENTIONS OF ACCOUNTING

Historical Cost Concept

This concept simply states that resources acquired by the entity are recorded at their original purchase price, i.e., at cost. Cost in this context means cash or 'cash equivalent' given to acquire the property or service. Where a property is acquired other than by cash, the cost is referred to as the cash equivalent of the property given. Thus, the cash equivalent cost of an asset is used if it is acquired in exchange with another property other than cash. Therefore, for non-cash transactions conducted at arm's length, the concept assumes that the market value of the resources (i.e, the fair value prevailing at the time of the transaction) given up in a transaction provides reliable evidence for the valuation of the item acquired. According to the Statement of Accounting Standards (SAS) No.1, issued by the now defunct Nigerian Accounting Standards Board (NASB) (1984):

> the historical cost concept holds that cost is the appropriate basis for initial accounting recognition of all assets acquisitions, services rendered or received, expenses incurred, creditors' and owner's interest; and it also holds that subsequent to acquisition, cost values are retained throughout the accounting process.

Consequently, the concept holds the view that cost is the most reliable and verifiable value at which items should be entered in the books of account. An accountant might argue that the use of historic cost is consistent since it is based on a transaction which actually took place (rather than an estimate of value) and consistent since it does not overstate the value of the asset. Thus, fixed assets must be shown in the accounts at the price paid to acquire them less depreciation written off to date.

The above arguments in favour of the historical cost concept notwithstanding, there are certain drawbacks associated with the concept. In a period of fluctuating prices, adoption of this concept distorts the accounts. For example, depreciation based upon the historical costs of earlier years is set against revenues at current prices. This aside, accounting information users such as managers, investors, etc may require actual information relating to current values of assets. Clearly, values based upon historical costs may be irrelevant for their purposes. Also, relevant information, for example, the real value of capital employed in the business is not given under the historical cost concept.

Monetary Measurement Concept
This concept, also called unit-of-measure assumption holds that business transactions are expressed in terms of money. Since accountants are concerned with financial information, money is therefore the only practical unit of measurement that they can be used in expressing the diverse transactions and activities to be measured, reported and compared periodically. Accounts are prepared when all the records have been converted in money terms.

Although money is the only means by which items covered in accounting statements are stated, the use of money has two major setbacks on accounting for and reporting enterprises' activities: (i) instability in the value of money, and (ii) restriction in scope of accounting reports - i.e, facts and outcomes that cannot be expressed in terms of money are ignored.

The use of money as a means of measurement assumes a stability of the measurement unit. But we all know that the value of money is not always stable due to inflation. This instability creates difficulties when the cost of assets bought at different times are added together in the same statement. This difficulty arises since all items are to be recorded at their original purchase price (following the cost concept) meaning therefore that financial statements will not clearly indicate the true position and results of operations in those periods of fluctuating values of money. It follows that historical cost accounting implies wrongly that money, as a unit of measurement, has stable value. Some accountants are of the view that information in respect of the effects of inflation be presented in supplementary financial schedules in order to put the financial statements in proper perspective.

There are certain facts or factors that cannot be expressed in terms of money thereby resulting in a restriction in the scope of the accounting reports. Accounting can never give us the entire information we want about the business entity. For example, the greatest asset an effective and efficient business possesses is its workforce. But this asset-workforce- never appear on the balance sheet of a business. This asset is always difficult to place a monetary value on it. Also, accounting does not record that the poor morale prevalent among the staff is about to lead to a serious strike or that various managers will not cooperate with one another, nor would it, reveal that a rival product is about to take over a large part of the market occupied at present by the firm's own goods. Also, a "good management team" is difficult to measure monetarily. Thus, a mere look at a set of accounting figures does not tell you all that you would like to know about a business-the attention is on the financial aspects of the business even when other aspects may be of equal or even greater importance.

Going-Concern Concept
The going-concern concept, also called continuity assumption, is an important concept which states that a business enterprise, in the absence of evidence to the contrary, will continue operation into the indefinite future; i.e, the business is not expected to be liquidated in the foreseeable future. If a business entity is expected to be liquidated in the near future, then conventional accounting based on this assumption will not be appropriate. Instead, the use of liquidation accounting which values assets and liabilities at estimated net realization amounts (liquidation values) will be appropriate.

Experience, however, has shown that continuation of operations is highly probable for most enterprises although continuation cannot be known with certainty. Pizzey (2001) suggests some general rules on the criteria which could be used in determining whether a business is a going concern:

i) **The market:** There must be a steady demand for the company's product which has a reasonable chance of being sustained in the future.
ii) **Finance:** The enterprise must possess sufficient liquid resources (cash) to meet all known liabilities in the future.
iii) **Sound capital structure:** There must be sufficient long-term funds in the business to give enough strength to overcome inflation, high interest rates, credit squeeze, increase in taxation or any other hazard of the business world. The N25 billion minimum capital requirement for all commercial banks in Nigeria is a good case in point.
iv) **Company's competitive condition:** The enterprise should be able to compare its efficiency with those of its rivals within the industry. It must have ability to acquire sufficient raw materials and labour and replace worn-out plant and equipment.

Thus, as stated in SAS 1, a business will be regarded as a going concern if it is capable of earning a reasonable net income and there is no intention or heat from any source to curtail significantly its line of business in the foreseeable future. It should be noted that the going-concern concept does not say that the business is going to keep being profitable into the indefinite future. It merely assumes that the business will manage not to collapse altogether. A major setback to the use of this concept is that it may mislead. Experience has shown that some businesses collapse after publication of accounts drawn up on the going concern basis.

Periodicity Concept

This concept derives from the going-concern concept. As we have earlier seen, a business enterprise is assumed to continue operations for an indefinite future unless the contrary is known. But investors and other users of an entity's accounting information cannot afford to wait forever for the information which they require for their diverse needs. To meet their needs, the "life-span" of the entity is broken into arbitrary specified time periods that are shorter than the life of the enterprise. A 12-month period (one year) is the usual reporting period. Businesses also report summarized financial information on an interim basis: half-yearly, quarterly or even monthly. This is the concept called periodicity, time- period assumption or simply accounting period. The time period is usually identified in the financial statements.

Periodicity enables users of the reports to make comparisons of information between definite periods and amongst companies in the same industry (as a basis for decision-making). Such an advantage aside, periodicity concept has certain drawbacks. For example, the concept assumes that business transactions can be identified with particular periods even when we know that some transactions (e.g. buying a fixed asset), have consequences for many periods. Also, determination of income on a periodic basis, as implied by the concept, leads to comparisons of the results of successive periods. Such comparisons may be misleading as the pattern of business activity changes over time. Moreover, periodic accounts require arbitrary allocation and apportionment methods.

Business Entity Concept

The business entity concept, also called separate entity concept, separate the individuals who own the business from the business itself. An economic unit, regardless of its legal form of existence-sole proprietorship, partnership or limited companies is treated in accounting as a separate and distinct "person" from the owner(s) of the entity. Thus, transactions are recorded as they affect the business not as they affect the owner. However, from a legal view point, while a limited liability company is regarded as a separate entity from its owners, the "sole trader" and his business are legally the same thing. The sole trader is personally liable for his business debts and may be required to use his personal belongings to satisfy the business creditors. The personal creditors of the owner can make a claim on the assets of the business.

To the accountant, the legal position, notwithstanding, the business (irrespective of its form of ownership) and the owner(s) are quite different person(s). Thus, the business can owe the owner money, borrowing money from the owner, owing profits to the owner, etcetera. In a limited liability company, shareholders do not own the business assets, they belong to the business. Shareholders only own the "shares" which represent that ownership. The company as a "person" can sue and be sued. The accounts are prepared in the name of the enterprise - not in the name of the owners.

In a small business run by either partners or a sole trader, this concept avoids confusion between business transactions and those of private life. Thus, when the business man withdraws N 150,000 from the bank account of the business to purchase a 505 peugeot car for his third wife, the amount is regarded as drawings, the car cannot be grouped under the assets of the business and will not appear in the balance sheet. Similarly, when an owner puts N50,000 more cash into the business as capital, the books will show that the business has N50,000 more cash and that capital has increased by N50,000. The books do not show that the owner has N50,000 less cash in his private resources.

The accounting equation, Assets = Equities, or Assets = Liabilities + Capital, is an expression of the business entity concept. Capital is the amount of wealth put into the business by the owner(s) or the amount of money borrowed by the business from the owner(s) or the amount the business owes the owner(s). These statements imply that the business is separate from and distinct from the owner(s) of the business.

Though the business entity concept may be justified on the grounds that it enables interested parties such as owners and lenders to learn about the profit earned and the capital employed in the business, the concept has a major set back of being "artificial"–the assets and liabilities are, in the eyes of the law, those of the owner not of some artificial entity - "the business". Also going by this concept the accounts do not clearly tell creditors the actual assets that are available to meet their claims or what other liabilities that must be met out of the assets. It may also be argued that assets and liabilities are arbitrarily included in the balance sheet on the basis of a subjective view that the assets are the property of the "business". In reality, we know that some assets e.g. motor vehicles are both business and private assets.

Realization Concept

This concept requires that revenue on any transaction be included in the accounts of a period only when it is realized. As specified in SAS No. 1:

> this concept established the rule for the periodic recognition of revenues as soon as: (a) It is capable of objective measurement, and (b) The value of asset received or receivable in exchange is reasonably certain. It is possible to recognize revenue at a variety of points e.g. when goods are produced, when goods are delivered, or when the transaction is completed. Choice, in most cases, is an industrial norm and depends on which of the points is the critical event. Only when this event is passed can revenue be legitimately recognized.

From above, periodic revenue recognition should take place at the 'point' when the sale is deemed to have been made and this 'point' may differ depending upon the particular transaction. For transactions involving sale of goods, for example, a sale would be regarded as having taken place the very moment the customer signs the sale invoice (thereby indicating his acceptance of liability to pay for the goods or services) whether or not delivery of the goods had been made and whether or not cash had been paid. The basic rule is that revenue is created at the moment a sale is made and not when the price is later paid in cash. Thus, the fact that profit is regarded as the difference between "revenues" and "expenses" rather than between cash receipts and expenditure is known as the accrual basis of accounting. Under the cash basis (cash receipts minus cash expenditure), a sale is not regarded as having been made until the goods are delivered to the customer and cash paid.

The revenue recognition principle i.e the point at which revenue will be regarded as being earned (or realized) is predicated on accrual basis accounting. In general, revenue recognition is not a function of cash receipt. At the end of the period, all revenue earned but not received are recorded in the books as 'accrued'. A problem with the concept is that distortions can occur when the trading cycle is long. For example, the profit on long term contracts accrues over the period of the contract and does not occur suddenly on the completion of the contract. Difficulties may be encountered in trying to apportion the profits to each of the periods concerned.

Matching Concept

The concept states that all expenses incurred in earning the revenue for a period should be recognized during the same period. If revenue is carried over (deferred) for recognition to a future period, the related expenses should also be carried over or deferred since they are incurred in earning that revenue. Thus, earned revenue of a period are 'matched' with the related expenses of the same period to arrive at the net profit or net loss of the period. The matching concept is predicated on accrual basis accounting. A drawback of this concept is that the use of different matching methods (e.g. depreciation methods) by different accountants leads to results of businesses not being comparable with one another.

Duality or Dual Aspect Concept

This is the basis of double-entry bookkeeping and originates from the fact that every transaction has a double effect on the position of a business as recorded in the account. For every debit/credit entry there must be a corresponding credit/debit entry. In other words, there are two aspects to every transaction: one represented by the assets of the business and the other by the claims against them. These two aspects are always equal to each other irrespective of the numbers of transactions entered into in a given accounting period. Thus, Assets =

Liabilities + Capital or; Assets – Liabilities = Capital. An application of this concept ensures agreement of the balance sheet balances. It does not, however, ensure that the 'balance' is correct in any other way.

Consistency Concept

Usually there is more than one way in which an item may be treated in the accounts without violating accounting principles. This concept states that once the reporting entity has selected a method, it should be applied year by year for all similar items. For example, where a company has chosen the straight line method of depreciation in the depreciation of motor vehicles, it should be used for all vehicles consistently in order to afford comparability. The application of this concept helps to: (i) avoid short-term manipulation of reported results; (ii) facilitate comparisons within the firm over different accounting periods (intra firm comparisons); and (iii) facilitate comparison between different entities (inter firm comparisons) (Dyckman et al, 1998).

The consistency concept does not completely prohibit a change in method. For example, a change in the basis of stock valuation, or a change from an accepted method to an industry-wide method or procedure or it could also be a change in the method of calculating depreciation, for instance, a change from straight-line method to reducing balance method. When such a change occurs, it is usually disclosed (by way of notes) since the change affects or have a potential effect on the net profit or shareholders' equity and may also affect working capital or other items.

CONFLICT BETWEEN CONCEPTS AND "PRACTICAL PRINCIPLES"

Paragraph 5 of SAS No.1 identifies seven concepts - Entity, Going concern, Periodicity, Realization, Matching, Consistency and Historical cost - as the fundamental accounting concepts. In paragraph 12 the standard recognizes that some fundamental concepts may contradict one another. To illustrate:

i) Going Concern and Historical Cost

The going concern concept and historical cost concept contradict each other. The historical cost concept argues that items should be carried at their "original price" in the accounts so long as it is a continuing business. In practice, however, it is common to value stock at market value (not at cost) following the "lower of cost and market value". Obviously, these two concepts conflict.

ii) Realization and Historical Cost.

The revenue recognition principle (realization) implies that revenue is recognized when collectibility is reasonably certain. In practice, collectibility may not be the full value as provisions are normally made for bad and doubtful debts. Since such provisions are obviously not historical, by definition, there is a conflict between these two concepts.

It is in the light of contradictions such as those illustrated above that SAS 1 recommended five "practical principles" to be applied in the choice and application of accounting policies in particular circumstances. These principles are:

Substance Over Form

This is the idea that a transaction should be treated for accounting purposes in accordance with its underlying commercial substance (or economic reality), even if this means ignoring or going against its technical legal form. Thus, accountants emphasize the substance of events rather than their form so that the information provided properly reflects the economic activities represented. SAS No. 1 explains this principle in the following terms:

> Although business transactions are usually governed by legal principles, they are nevertheless accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

And the UK Accounting Standards Board, (ASB, 1994) in its financial Reporting Standard (FRS) No. 5 explains the term "substance" as follows:

> in accounting terms, the substance of a transaction is portrayed through the assets and liabilities including contingent assets and liabilities resulting from or altered by the transaction. A key step in reporting the substance of any transaction is therefore to identify its effect on the assets and liabilities of the entity.

The whole idea behind this concept is to avoid situations where the accountant may dogmatically follow the legal description of a transaction (thereby distorting results) instead of showing the effect of the transaction on the enterprise's assets and liabilities. Usually the economic substance of events to be accounted for agrees with the legal form. Sometimes, however, substance and form differ. In such cases, for purpose of accounting, the substance is preferred to the form. The following examples illustrate this principle:

i) Hire Purchase Transaction
In a hire purchase transaction, the legal form of the transaction is that the “buyer” of the asset “hires” the asset until the final payment when the ownership is transferred to him. It is only on completion of payment of the agreed amount under the contract that the ownership title can be transferred to the “buyer”. The substance of the transaction is that the asset is acquired by the “buyer” and that he has a loan to assist him in the purchase which he repays over a period of time together with interest.

ii) Sale of Goods with Reservation of Title
The legal form of transactions of this kind is that goods are sold with the agreement that ownership of the goods does not pass from the seller to the buyer until payment is made. The substance of these transactions is that they are normal credit sales with the reservation of title clause in the contract for sale being of importance only if the buyer becomes insolvent.
In the two examples above, the “substance’ is that the enterprise carrying the benefits and risks should recognize an asset in the balance sheet.

Objectivity
This concept states that accounting records and data for financial statements should not be influenced by personal bias of the preparer. That means accounting data and records should be completely objective and subject to verification. This concept supplies the reason why transactions are recorded at cost. Thus, objective evidence such as invoices and vouchers for purchases, bank statements for amounts held in the bank and physical stock counts on hand provides objective accounting information. Although objectivity does not mean that estimates cannot be made in accounting, what is important is that they must be verifiable in the sense that independent knowledgeable persons would find such estimates reasonable. That means accounting measurements and information should permit qualified individuals working independently to develop similar measures or conclusions from the same evidence. To be fully useful, accounting information must be based on objective data and as a rule costs are objective since they normally are established by a buyer and a seller each striking the best possible bargain for himself.

Fairness
Fairness or unbiasedness is an aspect (a characteristic) of objectivity. SAS No. 1 explains this principle as follows:

> this is an extension of the objectivity principle. In view of the fact that there are many users of accounting information all having differing needs, the fairness principle requires that accounting reports should be prepared not to favour any group or segment of society.

Fairness, thus implies that financial statements should be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and that the same set of statements should be made available to all category of users.

Materiality
This principle holds that only items of significant value should be accorded their strict accounting treatment, i.e. insignificant items should not be given the same emphasis as significant items. The insignificant items are by definition unlikely to influence decisions or provide useful information to decision makers. Thus an item may be considered material if its omission or misstatement could distort the financial statement such that it influences the economic decision taken by a knowledgeable user of the financial statement. Determining what is material and what is insignificant is subjective; precise criteria cannot be applied. Moreover, what is material in one business may not be material in another. Similarly, what is material in one year may not be material in the subsequent year. It should also be pointed out that materiality does not mean that small items and amounts do not have to be accounted for or reported. For example, fraud is an important event regardless of the size of the amount. Also, a low-cost item such as a pencil sharpener when purchased is recorded as an expense in full rather than as an asset subject to depreciation. The amount involved is too small for users of the financial statement to worry about. The pencil sharpener is treated as an expense even though it lasts several years. This decision to expense the purchase of a pencil sharpener is an example of the application of materiality.

Conservatism or Prudence
This concept assumes that when uncertainty exists, the users of financial statements are better off with understatement than by overstatement of net income and assets. Thus in selecting among alternatives, the

accountant tend to favour the method or procedure that would eventually produce the lesser amount of net income or asset value. A typical example include valuing stock at the lower of cost or net realizable value (current market value). The concept requires that revenues and profits are not anticipated but are recognized by including them in the profit and 1oss account only when realized in the form of cash or other asset (e.g. a debt); the ultimate cash realization of which can be assessed with reasonable certainty. The concept is usually summarized by the phrase "anticipate no profit and provide for all possible losses" and "If in doubt write off'.

The justification for this rather pessimistic attitude of the accountant has been due, in part, to the need to counter the natural optimism of businessmen. Where doubt exist it is best to be prudent and understate profit which is a better option than overstating profit and causing dividends to be distributed from capital. A major drawback of this concept therefore, is that it could be misused by accountants for it is biased to deliberately undervalue assets and understate earnings. Also, understatement of asset values has the tendency to lower the appropriate prices for shares on the Stock Exchange. These problems aside, conservatism implies that profits are not anticipated and also that potential losses are fully reflected in the accounts.

FURTHER CONFLICTS AMONG CONCEPTS?

Some Observations

A closer look at the "practical principles" reveals some conf1ict between pairs of practical principles and even between the practical principles and some fundamental accounting concepts. The following are our observations in these respects:

Prudence and Objectivity

These two concepts which are among those that SAS No. I referred to as 'practical principles' to be applied when the fundamental concepts contradict are themselves in opposition to each other. They contradict. Objectivity implies freedom from personal opinion; i.e. freedom from bias. It implies that data and records should be precise and verifiable. Prudence, quite clearly implies that accountants should bias the information to be reported in a certain direction. They are always willing to record a subjectivity value. In short, almost all assets are valued at less than their cost because they have been subjected to amortization, allowances, lowering of cost and market value, or some other procedure which results in lowering the value. The ultimate is that the assets are valued at something other than their "objective" value - they are almost all valued subjectively. It could be argued then that if accounting information could be genuinely objective, then prudence would be irrelevant by definition, since any bias would be impossible. In practical terms, therefore, since accounting do make assumptions about future event, objectivity may never be completely achieved. Accounting theory, however, insists that conservatism should prevail when a conflict exists between it and other concepts.

It is also observed that some 'practical principles' are in conflict with some fundamental accounting concepts. For example:

Prudence (Conservatism) and Historical Cost

The cost concept although often regarded as being supported by conservatism (in some respects) are in conflict. Conservatism, for example, implies that in making a valid choice among alternative valuation models, the lower amount (following lower of cost and market value) should be the choice. The tendency to accept valuation at market value represents a departure from the cost concept and thus violate accounting conservatism.

Prudence (Conservatism) and the Matching Concept

If the enterprise is assumed to continue in operations for an indefinite period, this also allows us to carry forward assets into future periods on the assumption that they will be used profitably later. This is the matching concept which obviously, builds on the going-concern assumption. The matching concept thus implies making assumptions about the future that may not be at all prudent. These two concepts, obviously, contradict each other.

Prudence (Conservatism) and Going Concern

The going-concern concept assumes that the enterprise will not be forced out of business by competitors or bankruptcy. This assumption, though might be a likely and rational one is, however, not necessarily prudent. Making assumptions about the future (that is in doubt) is not being prudent.

FUNDAMENTAL ACCOUNTING CONCEPTS

The accountancy bodies had described some of the accounting concepts discussed above as being more fundamental than the others. Nigeria's SAS No.1 specifically suggests and defines what it referred to as fundamental accounting concepts to include: Entity, going concern, periodicity, realization, matching, consistency and historical cost.

As stated in the Statement, "these fundamental concepts are generally accepted as the underpinnings of the preparation and presentation of financial statements". It is necessary to point out here that the Nigerian Accounting Standards Board's SAS No.1 appears to be at variance with the UK's Statement of Standard Accounting Practice (SSAP) 2 on the same subject matter. SSAP 2 which defines fundamental accounting concepts as "The broad basic assumptions which underlies the periodic financial accounts of business enterprises" suggests and defines four concepts (instead of seven in SAS No. 1). They include: going-concern concept; accrual concept; consistency concept and prudence concept.

As in SAS No.1, SSAP 2 states that these concepts are so fundamental that their use can be assumed in financial statements preparation and presentation when it states: "they have such general acceptance that they call for no explanation in published accounts and their observance is presumed unless stated otherwise".

However, these concepts, as argued earlier, are not consistent with each other. The statement recognizes this fact when it accepts that the relative importance of the fundamental concepts will vary according to the circumstances of the particular case and that "where the accruals concept is inconsistent with the prudence concept, the latter (i.e, prudence) prevails". So, going by SSAP 2, the formal disclosure requirement for accounting concepts is that:

> if accounts are prepared on the basis of assumption which differ in material respects from any of the generally accepted fundamental concepts…, the facts should be explained. In the absence of a clear statement to the contrary there is a presumption that the four fundamental concepts have been observed.

Thus, silence connotes valid observance of fundamental concepts. SAS No.1 provides for similar disclosure requirement when it argues that since there exist a substantial number of acceptable alternative postulates, assumptions, principles and methods that those who prepare financial statements should disclose the main assumptions on which they are based.

Concluding Comments

We have, in this paper, taken a critical examination separately of various accounting concepts and conventions used by accountants in the preparation and presentation of financial statements. We equally considered how these conventions relate together and observed that although the conventions are generally accepted they are not consistent within themselves-there are problems inherent in these concepts as some of them conflict with each other. Of particular mention is the prudence or conservation convention that appears to be most problematic when considered together with several of the other conventions. So the question then is: do accounting conventions lead to users of accounting information getting what they need from financial statements? In otherwords, are those conventions useful to users of financial statements considering that the accountancy profession developed these ideas to ensure that financial statements are relevant and reliable to meet the information needs of users?

To assist understanding and interpretation of financial accounts, a user must be told what assumptions or approach that was followed since he cannot assume that any particular assumption had been used. We submit that accounting concepts and conventions are likely to be of relatively different importance to different users of accounting reports. Thus, while the cost convention, perhaps, may not be of relevance to a short term creditor, the net realizable value of the assets will definitely be more useful to him.

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