General Accounting

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Basic Concepts of Accounting

Accounting practices are built on what are called "basic concepts of accounting". Accounting practices cannot be against these concepts. Regarding these concepts, the analogy of accounting is made.

In Accounting System Application General Communiqué published on December 26, 1992, 12 accounting basic concepts were counted.

Social Responsibility Concept

Social responsibility concept points out the responsibilities of accounting in fulfilling its function and shows the context, meaning, place and target of accounting. Social responsibility concept expresses the necessity of protecting the benefit of the whole society, not the individuals or groups, and therefore behave fairly, impartially and honestly in preparation and presentation of accounting and execution of the applications.

Entity Concept

Entity concept implies that a company has an entity other than its shareholders, directors, managers, personnel and other related parties and that the accounting procedures of the company should be executed in the name of this entity.

Because each business has a separate entity than the business owners and other interested parties; transactions they have made as a separate entity are accounted for and reports are prepared.

Going Concern Concept

Going concern concept implies that the company will be operating without any limits in term of corporate life. The operation period is not dependent on the life spans of the owners or shareholders. This concept is the main idea of the costing concept.

If this concept is not valid or abolished for the company, this fact should be explained in the footnotes to the financial statements.

Cut-off Concept

Cut-off concept implies the division of the endless life span of companies into specific periods and the determination of the results of each period independent from others. According to this concept, the results of activities are evaluated in their related periods.

This concept also requires that income and expenses are recorded on an accruals basis and turnover, income and profits are matched with the costs, expenses and losses of the same period.

Monetary Unit Concept

Monetary unit concept indicates the expression of economic activities by a common measure. Accounting entries are made by the use of the national monetary unit.

Costing Concept

Costing concept implies that items should be valued at their acquisition costs, except for cash, receivables and other items of which the acquisition costs cannot be determined.

Objectivity Concept

Objectivity concept implies that accounting records should be based on appropriately prepared objective documents reflecting reality, and that basic accounting principles to be applied should be chosen objectively without prejudice.

Consistency concept

The consistency concept states the fact that the accounting policies selected for accounting applications should be used consistently in consecutive periods. The aim of this concept is the comparability of companies’ financial position, results of activities and comments therein. The consistency concept implies the standardization of financial statements in valuation measures and recording systems in similar situations and firms.

Companies may change their accounting policies, if they have valid reasons. However, these changes and their monetary effects should be disclosed in footnotes to the financial statements.

Full Disclosure Concept

Full disclosure concept implies that financial statements are clearly and fairly presented to assist in the decision-making process of the readers. It also implies that possible events which are not shown in financial statements, but could affect the results are to be disclosed as well.

Prudence Concept

Prudence concept expresses the requirement of being prudent for accounting events and considering the risks that the company may face. Therefore, companies accrue for their probable expenses, losses and liabilities, but probable income or profits are not recorded. However, this concept does not justify over accruals or the creation of hidden reserves.

Materiality Concept

Materiality concept implies that the value of an item or financial activity at a certain level can affect evaluations or decisions made on financial statements. Material accounts, financial activities and other items should be included in financial statements.

Substance Over Form Concept

Substance over form concept implies that the substance should be taken as a basis rather than the legal form in the accounting and evaluation of transactions. In general, the form and substance of transactions are parallel to each other, but there might be differences in some cases. In such cases, priority should be given to the substance over form concept.

Explanations on Accounting Policies

- If the financial statements of a company are prepared by taking the going concern, consistency and the cut-off concepts into consideration, these concepts do not need to be disclosed. But if there is a deviation from these concepts then they should be disclosed in the footnotes together with the reasons.

Explanations on Accounting Policies

- The concepts of prudence, substance over form and materiality should lead the selection and application of accounting policies.

- All of the important accounting policies included in the financial statements should be explained clearly.

Explanations on Accounting Policies

- The explanations relating to the accounting policies applied constitute an integrity with the financial statements. Explanations concerning the accounting policies are fundamental principles for the completeness and accuracy of financial statements. Such explanations should be provided to the accounting department by the management of the company.

Explanations on Accounting Policies

- Erroneous and fictitious transactions in the balance sheet, income statement and other statements cannot be corrected through the disclosure of accounting policies or footnotes. Corrections can only be made in accordance with the accounting policies applied and they are reflected in the financial statements.

Explanations on Accounting Policies

- Financial statements should have comparative figures.

- If there has been a change in the financial policies which may have or already has a significant effect on either the current periods’ or the following periods’ statements then the effects along with their reasons should be disclosed in the financial statements.