SHS LEARNING ACTIVITY

Name: _____ **Score/Mark:** _____
Grade and Section: _____ **Date:** _____
Strand: ☐ STEM ☐ ABM ☐ HUMSS ☐ ICT (*TVL Track*)
Subject: *Fundamentals of ABM 1*
Type of Activity ☐ Concept Notes ☐ Skills: Exercise / Drill ☐ Illustration ☐ Laboratory Report ☐ Essay/Task Report ☐ Others: _____

Activity Title: LA-09. Basic Accounting Concepts and Principles 3

Learning Target:
1) To explain basic accounting concepts and principles
2) To solve exercises on accounting principles as applied in various cases

References: *(Author, Title, Pages)*
1) Hinayon, et al., Fundamentals of Accounting Vol. 1, pp. 23-28
2) (Web) Bragg, S., Basic accounting principles (15 May 2017), *accountingtools.com*, Retrieved on 20 July 2019
3) Q. J. Abcede, CVIF Learning Activities

In the field of accounting, there are four main conventions in practice:

1. **Conservatism**. When a transaction presents two values, the *lower-value* transaction is recorded (or choosing an alternative which results in higher expense or lower income). Under uncertain situations, accountants should make careful estimations such that "assets or income are not overstated," and "liabilities or expenses are not understated."

2. **Consistency**. The *same* accounting principles, process and methods should be used by an enterprise across accounting periods. This helps generate more reliable comparison charts between two periods since, for example, the same standards are applied to calculate the net income.

3. **Materiality**. All facts which are *material* to the enterprise should be recorded in the accounting books. "If this item is misstated or not included in the financial statements, would it affect the economic decisions of users?" If the answer is YES, then the item is considered material.

4. **Full disclosure**. Accountants should include in the financial statements *all information* (both favorable and not favorable to an enterprise) that may affect how a user understands them.

Exercise: Two million pesos is given as a charitable contribution to an orphanage.

a. If the donor is a medium-sized general merchandising store, is the amount **material**? Why?
b. If the donor is a multinational company which earns billions of pesos every year, is the amount **material**? Why?