**English**

**Objectives:**

* Students will learn some accounting concepts as: historical cost, auditing, laws, rules and standards of accounting.

**Introduction:**

This text provides some basic accounting concepts and definitions that will help students to know the historical cost, auditing and their laws and standards.

**Title: Accounting concepts**

A. Historical cost

## The historical cost of an asset refers to its purchase price or its original monetary value.

## **Based on the historical cost principle, the transactions of a business tend to be recorded at their historical costs.**

## **The principle states that a company or business must account for and record all assets at the original cost or purchase price in their balance sheet, and it also applies to liabilities.**

**B.Auditing**

**Auditing** means examining a company’s systems of control and the **accuracy** or exactness of its records, looking for errors or possible fraud: where the company may have deliberately given false information.

* An **internal audit** is carried out by a company’s own **accountants** or **internal auditors**.
* An **external audit** is done by **independentauditors**: auditors who are not employees of the company.

The external audit examines the truth and fairness of financial statements. it tries to prevent what is called ‘creative accounting’, which means recording transactions and values in a way that produces a false result -usually an artificially high profit.

There is always more than one way of presenting accounts. The accounts of British companies have to give **true and fair view** of their financial situation. This means that the financial statements must give a correct and reasonable picture of the company’s current condition.

**C.Laws, rules and standards**

In most continental European countries, and in Japan, there are laws relating to accounting, established by the government. In the US, companies whose stocks are traded on public stock exchanges have to follow rules set by the Securities and Exchange Commission (ESC), a government agency. In Britain, the rules, which called **standards**, have been established by independent organizations such as the Accounting Standards Board (ASB), and by the accountancy profession itself. Companies are expected to apply or use these standards in their **annualaccounts**in order to give a true and fair review.

Companies in most English-speaking countries are largely funded by shareholders, both individual and financial institutions. In these countries, the financial statements are prepared for shareholders. However, in many continental European countries businesses are largely funded by banks, so accounting and financial statements are prepared for creditors and the tax authorities.

**Summary:**

## The historical cost of an asset refers to its purchase price or its original monetary value.

* Auditing is the examination and verification of financial statement.
* Accounting systems depend on laws, rules and standards established by the government and independent organizations.