20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **The convention of conservatism is also known as the doctrine of prudence.**
   Both terms describe the same accounting principle of exercising caution in financial reporting.

2. **The golden rule of conservatism is: anticipate no profit, but provide for all possible losses.**
   This one line summarises how a prudent accountant treats uncertain gains and losses.

3. **Conservatism is recognised as a core accounting convention under GAAP.**
   GAAP (Generally Accepted Accounting Principles) lists conservatism among its foundational conventions.

4. **Closing stock is valued at cost price or market price, whichever is lower.**
   This classic application of conservatism prevents a business from booking an unrealised gain on unsold inventory.

5. **A provision for doubtful debts records an expected credit loss before it actually occurs.**
   Creating the provision early reflects the prudent recognition of a probable future loss.

6 **Under conservatism, unrealised gains on assets that have risen in value are not recorded.**
Only gains that are actually realised through a sale are entered into the books.

7 **Conservatism records assets and revenues at the lowest reasonable value.**
This keeps reported income and asset figures from being inflated by optimistic assumptions.

8 **Conservatism records liabilities and expenses at the highest reasonable value.**
Recognising the highest likely cost ensures the business does not understate what it may owe.

9 **Conservatism does not mean deliberately understating profits or assets.**
The article stresses that both overstatement and understatement are considered poor accounting.

10 **Both overstatement and understatement of earnings are regarded as bad accounting practice.**
Conservatism demands realistic caution, not artificially depressed results.

11 **Understating closing stock in one year inflates the reported profit of the following year.**
A lower opening stock next year reduces the debit to the trading account, raising that year's profit.

12 **The consistency convention requires a business to use the same accounting method period after period.**
Consistency, such as sticking with one depreciation method, differs from the caution-based conservatism rule.

13 **The full disclosure convention requires revealing all material financial information to users.**
This includes notes to accounts and contingent liabilities, distinct from conservatism's valuation focus.

14 **The materiality convention directs attention to items significant enough to affect decisions.**
Materiality is about relevance and size of an item, not about caution in valuation.

15 **The going concern concept assumes a business will not be liquidated in the near future.**
It is a separate accounting idea from conservatism, though students often confuse the two.

16 **The convention of conservatism is examined under Paper 3, AFM, of the JAIIB syllabus.**
AFM stands for Accounting & Financial Management for Bankers, one of the JAIIB papers.

17 **Banks rely on financial statements when assessing a borrower's creditworthiness.**
Overstated statements can mislead a bank into misjudging credit risk and sanctioning a bad loan.

18 **Conservatism helps prevent banks from lending against overstated financial statements.**
By discouraging inflated profits and assets, the convention supports more realistic credit assessment.

19 **Excessive application of conservatism can understate a company's true future value.**
Over-caution is listed as a disadvantage since it may make performance appear weaker than reality.

20 **Conservatism can lead to revenue shifting by deferring transactions into a later period.**
This is cited as one drawback, since it can distort the timing of reported income.