

Problems and measures of prudence principle in Enterprise Accounting

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Abstract:In the market economy environment, the production and operation activities of enterprises are faced with many risks and uncertainties. Therefore, the financial personnel should always keep a cool head and fully consider the uncertain factors, so as to minimize the risks of the company and maximize the benefits. Therefore, starting from the connotation analysis of the principle of accounting prudence, this paper analyzes the conflict of the principle of prudence in enterprise accounting, and obtains the corresponding improvement measures, so that the principle of prudence can be reasonably applied in accounting practice.

Key words: prudence, accounting, problems, measures

1.Connotation analysis of prudence principle and its application in Enterprise Accounting

The principle of prudence, also known as the conservatism principle, refers to the principle that an enterprise should be cautious in the process of accounting recognition and measurement report on some transactions or matters, and not overestimate the income and assets, and also not make low estimation of expenses and liabilities. Caution requires that enterprises should be cautious when they are faced with uncertain factors to make professional judgments, and fully estimate various risks and losses, neither overestimate assets or income, nor underestimate liabilities or expenses. For example, the adoption of accelerated depreciation method and capitalization of borrowing costs for fixed assets reflect the prudential requirements of accounting information quality.

2.The problems of prudence principle in the accounting of enterprises

With the accelerating process of economic globalization in the world, the uncertainty of the environment and risk of enterprises is also deteriorating. The principle of prudence is widely used, but in enjoying the benefits it brings, we should also see the limitations of the principle of prudence itself, and there are shortcomings in the enterprise accounting.

2.1The relationship between the principle of prudence and relevant standards

There is a conflict between the principle of prudence and the principle of reliability. Reliability requires enterprises to confirm, measure and report on the basis of actual transactions or events, and truthfully reflect the accounting elements and other relevant information that meet the requirements of confirmation and measurement, so as to ensure the authenticity, reliability and integrity of the information. The principle of prudence emphasizes that the possible expenses and losses can be expected in accounting, such as requiring enterprises to make provision for the possible impairment of assets, confirming the estimated liabilities for the possible warranty obligations of sold goods, etc., which is obviously contradictory to reliability.

2.2The relationship between the principle of prudence and the professional judgment ability of Accountants

The accounting of enterprises needs accountants who have the ability to prepare professional judgment. However,

due to the lack of professional background knowledge, lack of practical experience and the difference of education level, the professional judgment ability is uneven, which precisely affects the application of the principle of prudence in accounting, and the resulting accounting has certain subjective assumptions. For example, the fixed assets with inventory gain should be recognized as the entry value according to the replacement cost. In the process of determining replacement cost, there are some subjective factors inevitably. On the date of measuring replacement cost, due to the technical progress and other reasons, it is difficult for some assets in the market to find the same or similar assets. For these assets, the replacement cost can only rely on the professional judgment ability of accounting personnel, so the determination of replacement cost has subjective components.

2.3The problem of "degree" in the application of prudence principle in accounting

Due to the differences in professional judgment ability of different accountants, everyone's understanding of prudence is not the same, resulting in a lot of "word risk". For the word "cautious", it may fall into the misunderstanding of "more losses than profits". Then, in the process of production and operation, the enterprise will deliberately expand the investment in product costs, which will bring countless economic losses to the enterprise. The application of prudence principle does not allow enterprises to set secret preparation. If an enterprise does not grasp the problem of "degree", intentionally underestimate the assets or income, or deliberately overestimate the liabilities or liabilities, it will not conform to the reliability of accounting information, damage the quality of accounting information, distort the actual financial situation and operating results of the enterprise, and thus mislead the decision-making of users.

3.The application of prudence principle in Enterprise Accounting

The principle of prudence has become the top priority of accounting work and plays a vital role in enterprise accounting practice. In view of the above problems, scientific, reasonable and effective measures should be taken to require enterprises to accurately estimate the assets or income, liabilities or expenses, objectively reflect the financial situation and operating results of enterprises, and provide guarantee for the sustainable development of enterprises.

3.1Deal with the relationship between the principle of prudence and relevant standards

Try to avoid the conflict between the principle of prudence and other relevant standards. For accountants, when the principle of prudence conflicts with other standards, efforts should be made to alleviate the contradiction between them. For some accounting matters handled by the principle of prudence, it is necessary to further clarify in the accounting report, not only the amount affected, but also the actual situation and treatment methods of accounting matters, so as to make the accounting information more authentic. For government personnel, in formulating relevant laws and regulations, relevant accounting standards should be improved, and relevant requirements can be further refined, and specific, operational, comprehensive and can be used by enterprises to deal with specific business as much as possible, so as to enhance the clarity and operability of the principle of prudence.

3.2Improve the professional ethics and professional judgment of financial personnel

With the rapid change and development of society, along with the reform of economic system, the accounting standards of our country have changed from system to standard. With the diversification of enterprise production and operation activities and the complexity of economic environment, improving the professional judgment ability has become the necessary quality of Accountants in the new era. The author thinks that the professional judgment ability of financial personnel can be improved from the perspective of professional knowledge and professional competence. Accounting knowledge is the basis of solving various economic business, and the understanding of knowledge has a certain depth and breadth. A qualified accountant needs to build his own knowledge framework system. On the basis of theoretical knowledge, he also needs to obtain experience through continuous practice, which is the accumulation of professional competence. For example, he can observe others to deal with business or obtain experience through teaching case study practical ability.

3.3Grasp the problem of "degree" in the principle of prudence

Grasping the "degree" is the most critical issue of the principle of prudence in enterprises. Excessive use of the principle of prudence and reducing the use of the principle of prudence will reduce the advantages of the principle of prudence, so that the financial situation of enterprises can not be fully reflected, and mislead the personnel using accounting information to make wrong judgments in decision-making, which also affects the ability of professional judgment. Therefore, the proper use of the principle of prudence is the key to accounting. By finding a balance point to use the principle of prudence, we can give full play to the greatest advantage of the principle of prudence and restrict our own defects within a reasonable range.

4. Epilogue

The application of caution principle in accounting plays a double-edged role. It is necessary to keep due care, fully estimate various risks and losses, not overestimate assets or income, nor underestimate liabilities or expenses, but also grasp "degree" reasonably, avoid too much, and affect the business results and financial situation of the enterprise. With the development of technology, the principle of prudence is widely used, which provides guarantee for the quality of accounting information, reduces the business risk of enterprises, and is also the key to the accountants to be able to accurately engage in accounting. Although the principle of prudence can not bring significant economic profit to the enterprise, it has a subtle influence on the formulation of business policies and policies, which makes the enterprise in an invincible position in the market competition.

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