

Cambridge IGCSE · Accounting 0452 · Notes

Accounting policies

Read online at pastopic.com/cambridge/accounting-0452/notes/accounting-policies

Last checked 1 October 2026

Read first: [Accounting principles](#), [Interested parties](#)

© 2026 Pastopic. Free for personal study. Please share the link, not the file.

What you need to know

By the end of this topic you should be able to:

1. **Recognise how international accounting standards influence accounts.** Say what these standards are, why businesses follow them, and what they do (and don't do) for the people who use financial statements.
2. **Explain the four objectives a business aims for when it chooses its accounting policies,** and recognise each one from a description or a situation:
 - **comparability;**
 - **relevance;**
 - **reliability;**
 - **understandability.**

The ten accounting principles themselves (prudence, consistency, matching and the rest) are in the topic before this one. This topic is about why a business picks the methods it does, and what makes the resulting information useful.

Understand it

Principles, policies and standards

Three words sound alike but mean different things:

- **Accounting principles** are the general rules every set of accounts follows, such as prudence and consistency.
- **Accounting policies** are the particular methods one business chooses to put those rules into practice: for example, depreciating vehicles by the reducing-balance method at 25% a year, or valuing inventory at the lower of cost and net realisable value. Two businesses can follow the same principles with different policies.

- **International accounting standards** (IASs, and the newer IFRSs) are detailed rules issued by an international body, the International Accounting Standards Board. They say how particular items should be treated and shown, and they limit which policies a business may choose.

So the standards narrow the choice, and within that choice the business picks the policies that make its information most useful.

Why international accounting standards matter

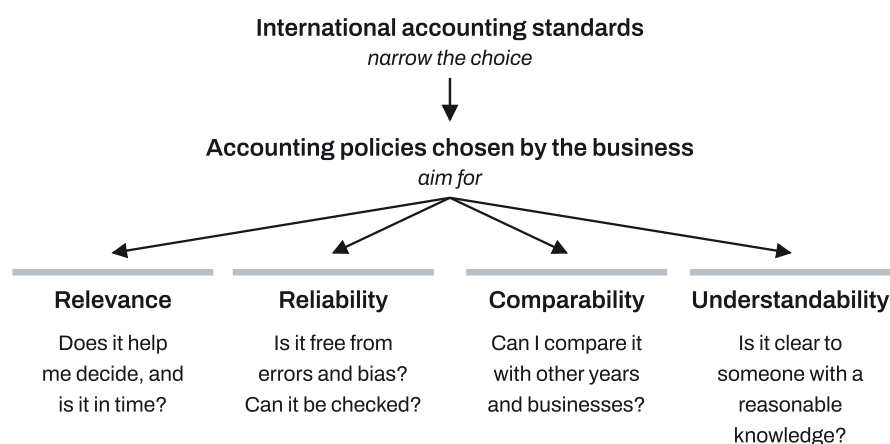
Without shared standards, two companies in different countries could treat the same transaction in different ways, and their profits could not be compared fairly. Following the standards:

- **narrows the differences** in how businesses in different countries prepare and present their accounts;
- makes it easier to **compare** one company with another, including companies abroad;
- makes the information more **reliable** and so more **trusted** by investors, lenders and other users;
- gives accountants and auditors a common set of rules to work to.

What the standards do **not** do is make accounts quicker or cheaper to prepare. Following detailed rules usually takes more work, not less.

The four objectives

Information in financial statements is only worth producing if people can use it to make decisions. When a business chooses its policies, it aims for information with four qualities. Each one answers a question a user might ask.



Relevance: does it help me decide?

Information is **relevant** if it can make a difference to a user's decision. It does this in two ways:

- it helps users **predict** what may happen in future (will the company keep making a profit?);
- it lets users **confirm or correct** what they expected before (did the profit turn out as I thought it would?).

Relevant information must also arrive **in time**. Figures that reach a shareholder or a bank months after the decision had to be made are no use, however accurate they are. So anything that **delays** the financial statements (a fire that destroys records, a slow year-end) harms their relevance.

Reliability: can I trust it?

Information is **reliable** if users can depend on it to show what really happened. Reliable information is:

- **free from significant errors** (material mistakes);
- **free from bias**: it is neutral, not slanted to make the business look better or worse;
- **capable of being checked**: an independent person, such as an auditor, could verify it from the records;
- a **faithful** picture of the transactions, complete and prudent.

Relevance and reliability can pull against each other. Rushing out the accounts makes them more timely but gives less time to check them; checking every figure makes them more reliable but later. A business has to balance the two.

Comparability: can I compare it?

Users want to compare a business's results **with its own earlier years** and **with other businesses**, and see the similarities and differences. That is only fair if the figures are worked out the same way. So comparability needs:

- the **same policies used from one year to the next** (this is where the consistency principle comes in);
- the business to **tell users which policies it uses**, in notes to the statements;
- **any change in a policy to be disclosed**, with its effect, so users know when this year's figures were worked out differently from last year's.

For example, if a company changes from the straight-line to the reducing-balance method of depreciation, it may do so for a good reason (the new method gives a fairer picture), but it must say so. Then a user comparing two years is **made aware of the change** and is not misled into thinking profit fell because trading got worse.

Following international accounting standards also helps comparability between businesses, because they all treat the same items in the same way.

Understandability: can I follow it?

Information is **understandable** if users can see what it means. It should be **clearly presented** and sensibly grouped, with plain headings.

Understandability does **not** mean writing accounts so that anyone at all could follow them. It **assumes** users have a **reasonable knowledge** of business and accounting and are willing to study the statements with care. Difficult but important information should not be left out just because some users might find it hard.

Key facts and formulas

There is no formula list in the IGCSE Accounting exam: learn every definition.

Formula	Status
Accounting policies: the methods a business chooses to apply accounting principles (such as its depreciation method and inventory valuation)	Learn it
International accounting standards: narrow the differences between countries, help comparisons between businesses, make information more reliable; they do not make accounts quicker to prepare	Learn it
Relevance: helps users make decisions (predict the future, confirm or correct past expectations) and is available in time	Learn it
Reliability: free from significant errors and bias, and can be independently checked	Learn it
Comparability: users can see similarities and differences with other years and other businesses; policies and any changes to them are disclosed	Learn it
Understandability: clearly presented; assumes users have a reasonable knowledge of accounting	Learn it

Key words to link to each objective:

Key word in the question	Objective
in time, timely, delay, decision-making, predict, confirm expectations	Relevance
free from errors, free from bias, verified, checked, neutral, faithful	Reliability
similarities and differences, other years, other businesses, changes in policies disclosed	Comparability
clearly presented, reasonable knowledge of accounting	Understandability

How to do it

We have 22 tagged questions for this topic from 2021 to 2025 (13 different, as most appear on more than one paper variant). All are one-mark multiple-choice questions from Paper 1, and each question is one type, so the counts add up to 22.

Question type	Questions
Name the objective from its description	11
What an objective assumes or gives users	6
Why international accounting standards are used	3
Which objective a situation meets or affects	2

1. Name the objective from its description (11 questions)

A sentence describes a quality ("free from significant errors and bias", "provided in time for a decision", "capable of being independently verified", "clearly presented") and you choose which objective it is.

1. **Find the key words** in the description.
2. **Match them** using the key-word table above.
3. **Reject the distractors.** "Consistency" often appears as an option: it is an accounting principle, not one of the four objectives, and a description of errors or bias is never consistency.

Variations you will meet:

- **Two statements, one answer for each.** Match each statement separately, then find the option with both in the right order. "Free from material error and bias" is reliability; "identify differences and similarities between statements" is comparability.
- **The question calls them "accounting policies", "objectives", "qualitative factors" or "characteristics":** these all mean the same four qualities. Don't let the wording put you off.

2. What an objective assumes or gives users (6 questions)

The question names an objective and asks what it assumes about users, or what it means for them.

1. **Recall what the objective is for**, from "Understand it".
2. **Pick the option that follows from it:**
 - understandability assumes users have a **reasonable** knowledge of accounting: not full knowledge, not none, and not "book-keeping but not accounting";
 - comparability with earlier years means users are **made aware of any changes in accounting policies**; it doesn't promise the figures are up to date (relevance), easy to read (understandability) or free from errors (reliability).
3. **Check each wrong option belongs to a different objective.** The four options often describe the four objectives, one each.

3. Why international accounting standards are used (3 questions)

Usually "which statement is **not** a reason for using international accounting standards?"

1. **List the real reasons:** comparisons between companies, more reliable information, fewer differences in financial reporting between countries.
2. **Pick the one that isn't a reason.** Making accounts quicker, cheaper or easier to prepare is **not** one: standards add rules to follow.

4. Which objective a situation meets or affects (2 questions)

A short story about a business or a user, then the four objectives (or four reasons) to choose from.

1. **Ask what the situation changes:** the timing, the accuracy, the ability to compare, or the clarity.
2. **Match it:**
 - financial statements **delayed**, even for a good reason: **relevance** is harmed (late information can't help a decision), even if the figures are still accurate;
 - a user finds the statements **relevant** because they **confirmed his expectations** about the future of the company; being free from errors is reliability, being clearly presented is understandability, and using the same methods as before is comparability.
3. **Watch the trap:** a story about comparing with competitors may still be testing relevance if the problem it describes is a delay.

Worked examples

Example 1

The directors of a company meet in March to decide whether to open a new branch. They want to base the decision on last year's financial statements, but the accountant says these will not be finished until October.

Which quality of financial information is missing? **[1]**

A comparability B relevance C reliability D understandability

The figures may well be accurate when they arrive, but they will come too late to help with the March decision. Information must be available in time to be relevant. **B (1)**

Example 2

A company's annual financial statements were audited, and the auditor found that every figure could be traced to invoices and bank statements and that no figures had been adjusted to make the profit look larger.

Which objective does this show has been met? **[1]**

A comparability B consistency C reliability D understandability

Being checkable and free from bias is reliability. Consistency is a principle, not one of the four objectives. **C (1)**

Example 3

Tomas is choosing between investing in a company in his own country and one abroad. Both follow international accounting standards. He makes two statements.

1 "Because both follow the standards, I can compare their financial statements more fairly." 2 "Because both follow the standards, their accountants will have spent less time preparing them."

Which statements are correct? **[1]**

A 1 and 2 B 1 only C 2 only D neither

Statement 1 is correct: shared standards reduce the differences between countries, so comparison is fairer.

Statement 2 is wrong: following detailed standards adds work rather than saving time. **B (1)**

Example 4

Rana owns shares in a company. Last year the company valued its inventory using one method; this year it changed to another method, and its notes to the accounts explain the change and show that it increased profit by \$6 000. Profit was \$48 000 last year and \$51 000 this year.

(a) Which objective is the company meeting by explaining the change? **[1]**

(b) Calculate what this year's profit would have been under the old method, and state what this tells Rana. **[2]**

(a) Comparability: users are made aware of changes in accounting policies, so they can compare this year with last year fairly. **(1)**

(b) $51\,000 - 6\,000 = 45\,000$. Profit on the old method would have been \$45 000 **(1)**. On the same basis as last year, profit actually **fell** by $48\,000 - 45\,000 = 3\,000$; the rise from \$48 000 to \$51 000 came only from the change of method **(1)**.

Common mistakes

- **Thinking relevance is about accuracy.** Relevant information must arrive in good time to be used in a decision. Examiners found many candidates didn't know this when a delay in preparing the statements was the issue; the correct answer was relevance, not reliability.
- **Choosing "consistency" for errors and bias.** Consistency is a principle about using the same methods each year. Information free from significant errors and bias is **reliable**.
- **Setting understandability too low or too high.** It assumes a **reasonable** knowledge of accounting. Accounts are not written for people with no knowledge, and users are not expected to know everything.
- **Mixing up comparability and consistency.** Consistency (same methods each year) is how a business achieves comparability, but comparability also covers comparing with **other businesses**, and it requires any **change** of policy to be disclosed.
- **Believing standards make accounting quicker.** International accounting standards improve comparability and reliability; they don't save time.
- **Reading only the first half of a paired option.** In "statement 1, statement 2" questions, check both parts are right and in the right order.

How to get the marks

- **Multiple choice is one mark each**, so accuracy on the key words matters: underline the key phrase in the question, match it to one objective, then check the other three options belong to different objectives.

- **"Not" questions** ("which is not a reason ..."): three options are true. Tick each true one off and choose the one left.
- **If a written question asks you to explain an objective**, give what it means (the key phrase) and then apply it to the business in the question, for example "the statements were delayed, so they could not be used when the shareholders had to decide".
- **Use the exact terms**: relevance, reliability, comparability, understandability. "Accuracy" or "being clear" on their own are not the names.

Quick check

1. A bank manager is deciding whether to lend to a business. The business's financial statements for last year will not be ready for another eight months. Which objective is harmed?
2. Which objective requires that the information in financial statements is neutral and could be checked by an independent person?
3. A company changes its depreciation method from straight-line to reducing balance. What must it do so that its financial statements remain comparable with earlier years?
4. Give two reasons why companies follow international accounting standards, and one thing they do **not** achieve.
5. Last year a trader's profit was \$20 000. This year it is \$23 500, but the notes show that a change in depreciation policy increased profit by \$4 000. What would this year's profit have been on last year's policy, and did profit rise or fall?

Answers

1. Relevance: the information will not be available in time to help the bank manager decide.
2. Reliability: it is free from bias and can be independently verified.
3. Disclose the change (and its effect) in the notes to the financial statements, so users know the two years were worked out differently.
4. Any two of: easier comparisons between companies (including in other countries); more reliable, trusted information; fewer differences in financial reporting. They do not make the accounts quicker or easier to prepare.
5. $23\,500 - 4\,000 = 19\,500$. On last year's policy profit would have been \$19 500, a **fall** of 20 000 — $19\,500 = 500$.

Past questions to try

- 0452/13/M/J/21 Q35: matching two statements to their objectives.
- 0452/13/O/N/22 Q35: the statement that is not a reason for using international accounting standards.
- 0452/12/O/N/23 Q35: why a shareholder found the financial statements relevant.
- 0452/13/M/J/22 Q35: information that can be independently verified.