The Ten Accounting Principles

Checklist

This checklist outlines the ten basic accounting principles and guidelines on which modern accounting standards are based.

Definition

The field of accounting is governed by certain general concepts. These general concepts, referred to as basic accounting principles and guidelines, are the basis for a detailed and comprehensive set of accounting rules and standards.

We can better recognize the value of Generally Accepted Accounting Principles (GAAP) if we understand the ten principles and guidelines on which they are based:

1. **Economic Entity Assumption**: For accounting purposes, a sole proprietorship and its owner are considered to be two separate entities.
2. **Monetary Unit Assumption**: For accounting purposes, economic activity is measured in US dollars.
3. **Time Period Assumption**: There is an assumption that it is possible to report the activities of a business in distinct time intervals.
4. **Cost Principle**: Cost refers to the price of a purchase when it was originally bought and, therefore, amounts on financial statements refer to historical cost.
5. **Full Disclosure Principle**: If information is vital to a lender or investor, that information should be disclosed within the financial statement or its notes.
6. **Going Concern Principle**: It is assumed that a company will continue to exist long enough to meet its objectives and obligations and that it will not shut down in the foreseeable future.
7. **Matching Principle**: This obliges companies to use the accrual basis of accounting, which requires that expenses be matched with revenues.
8. **Revenue Recognition Principle**: Under the accrual basis of accounting, revenues are recognized when a product has been sold or a service performed, regardless of when the money is actually received.
9. **Materiality**: This basic accounting principle or guideline permits an accountant to violate another accounting principle if an amount is insignificant or immaterial.
10. **Conservatism**: Where there are two acceptable alternatives for reporting an item, conservatism directs the accountant to choose the alternative that will result in less net income and/or a lower asset amount.

Advantages

- These general concepts direct the field of accounting and form the foundation on which more detailed, complicated and legalistic accounting rules are based.
- The Financial Accounting Standards Board (FASB) uses the basic accounting principles and guidelines as the starting place for its own set of accounting rules and standards, which are more detailed and comprehensive.
- If we understand the ten principles and guidelines, it is easier to comprehend GAAP.

Disadvantages

- Although the basic accounting principles and guidelines form the basis for GAAP, the latter have become more complex over the years because financial transactions have become more complex and variations in reporting exist from industry to industry and from country to country.
Action Checklist

- Use the ten principles and guidelines as a way to help understand the more complex GAAPs that are used in the specific enterprise, business area or country in which you are interested.

More Info

Websites:

- Financial Accounting Standards Board: www.fasb.org
- General Accounting Office: www.gao.gov

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