

# Generally Accepted Accounting Principles (GAAP)



Generally Accepted Accounting Principles (GAAP) are a set of standardized accounting principles, standards, and procedures that companies use to compile their financial statements. GAAP provides a common language for financial reporting, ensuring consistency and transparency in financial statements. These principles are essential for investors, creditors, regulators, and other stakeholders to understand and compare the financial performance of different companies.

## Key principles and concepts within GAAP include:

- **Entity Concept:**  
This principle states that a business is treated as a separate entity from its owners or other businesses.
- **Going Concern Concept:**  
Assumes that a business will continue to operate indefinitely unless there is evidence to the contrary.
- **Monetary Unit Assumption:**  
Financial transactions should be recorded in a stable currency, typically the one in which the business operates.
- **Time Period Assumption:**  
Businesses should divide their operations into distinct time periods, such as monthly, quarterly, or annually, to analyze and report financial information.
- **Cost Principle:**  
Assets should be recorded at their original cost, and this cost is used for financial reporting until there is evidence of impairment.
- **Matching Principle:**  
Expenses should be recognized in the same period as the revenues they help to generate.
- **Revenue Recognition Principle:**  
Recognizes revenue when it is earned and realizable, regardless of when the cash is received.
- **Conservatism Principle:**  
When faced with uncertainty, accountants should choose the option that is less likely to overstate assets and income.
- **Consistency Principle:**  
Once an accounting method or principle is chosen, it should be consistently applied over time to allow for meaningful comparisons.
- **Materiality Principle:**  
Only information that could influence the decisions of financial statement users should be disclosed.

- **Full Disclosure Principle:**  
All material information relevant to understanding a company's financial condition and operations should be disclosed in the financial statements.
- **Consolidation Principle:**  
For companies with subsidiaries, financial statements should present the consolidated financial position and results of operations of the parent and its subsidiaries.

These principles are established by various standard-setting bodies, including the Financial Accounting Standards Board (FASB) in the United States and the International Financial Reporting Standards (IFRS) Foundation globally. While there are similarities between GAAP and IFRS, there are also some differences in the accounting rules and guidelines adopted by different countries and regions.

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**References:**

<https://www.forbes.com/advisor/business/generally-accepted-accounting-principles-gaap-guide/#:~:text=GAAP%20is%20a%20set%20of,companies%20in%20the%20same%20industry.>

<https://www.accounting.com/resources/gaap/>

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