Lesson - Accounting Concepts, Principles & Assumptions (CPA's)

Accounting Period Cycle - Changes in financial information are reported for a specific period of time (i.e., one month, three months, one year) in the form of financial statements.

Adequate Disclosure - Financial statements contain all information necessary to understand a business' financial condition. (Separate liabilities into current and long-term; separate sales returns or discounts from sales.)

Business Entity - Financial information is recorded and reported separately from the owner's personal financial information. (keeping personal and business expenses separate for financial records and tax purposes)

Consistent Reporting (Comparability) - The same accounting procedures are followed in the same way in each accounting period, so that financial statements are comparable from one fiscal period to the next. (e.g., reporting the same expenses from one year to the next.)

Going Concern - Financial statements are prepared with the expectation that a business will remain in operation indefinitely.

Historical Cost - The actual amount paid for merchandise or other items bought is recorded (less any discounts or rebates from purchase price), not the market value.

Matching (Expenses with Revenue) Principle - Revenue from business activities and expenses associated with earning that revenue are recorded in the same accounting period. (e.g. adjustments are made to bring expenses up to date; petty cash is replenished at the end of the period to get the expenses recorded in the current fiscal period)

Materiality - Business activities creating dollar amounts large enough to affect business decisions should be recorded and reported as separate items in accounting records and financial statements. (e.g. bank card fee expense is large, so record in separate account; service charge is small, so record with miscellaneous expense)

Objective Evidence - A source document is prepared for each transaction, such as receipt, invoice, sales slip, check, or memo.

Realization of Revenue - Revenue is recorded at the time goods or services or sold. (i.e., when A/R is debited, not when the money is received)

Unit of Measurement - Business transactions are stated in numbers that have common values or units of measurement; in U.S., the dollar is the common measurement.

Relevance - Information is reported that "makes a difference" to a user and helps them to reach a business decision.

Reliability - Relates to the confidence users have in financial information. Financial statements must be free from mistakes or omissions of data or accounts.

Conservatism - Using the alternative that is the "safest" way and least likely to result in an overstatement of income. (e.g., using lower of market value or cost to value assets)