## Accounting Principles

- **Generally Accepted Accounting Principles (GAAP)** allow investors and other users to compare one company to another.
- **Financial Accounting Standards Board (FASB)** has the primary responsibility for developing accounting principles and publishes Statements of Financial Accounting and Interpretations of these standards.
- The **Securities Exchange Commission (SEC)**, a US government agency, has authority over accounting and financial information for companies whose shares of stock are traded and sold to the public.
- **SEC follows the FASB guidelines but may issue Staff of Accounting Bulletins to address accounting matters FASB did not include.**
- **International Accounting Standards Board** issues International Financial Reporting Standards (IFRS) which is different from the FASB.

They're working together to develop a set of worldwide accounting principles to facilitate investment and business in a global economy.

## Accounting Concepts

### BUSINESS ENTITY CONCEPT
- Shows the economic data in an accounting system directly related to the business ONLY and does not include personal activities, properties and debts by the owner.
- **A business entity can take the form of a proprietorship, partnership, corporation or limited liability company (LLC).**

#### Proprietorship
- - owned by one individual
- - easy and cheap to organize
- - resources are limited to owner
- - used by small businesses

#### Partnership
- - owned by two or more individuals
- - combined skills and resources

#### Corporation
- - a separated legal entity
- - generates 90% of business revenues
- - ownership divided into shares (stock)
- - obtain resources by issuing stock
- - used by large businesses

#### Limited liability company (LLC)
- - combines partnership & corporation
- - used as alternative to partnership
- - tax and legal liability advantages

### COST CONCEPT
- Amounts are recorded in accounting records at their cost or purchase price.
- The cost concept includes the objectivity and unit of measure concepts.

#### Objectivity concept
- Requires the amount be based upon objective evidence where the final agreed upon amount has been established.

#### Unit of measure concept
- Requires the economic data be recorded in dollars.

## Business Transactions

- **Business transactions** are defined as an economic event or condition that DIRECTLY changes an entity's financial condition or even its operations.
- **Changes in business credit rating does not directly affect cash or any other asset, liability or owner's equity amount.**
- All business transactions can be stated in terms of changes in the elements of the accounting equation.

### Summary of Transactions
- - effect is either an increase (+) or decrease (-) in the equation elements
- - the two sides are always equal
- - stockholder's equity is increased (+) by amounts invested by stockholders
- - stockholder's equity is increased (+) by revenues and decreased (-) by expenses
- - stockholder's equity is decreased (-) by dividends paid to stockholders

#### Stockholder's Equity
- - Capital Stock
- - Retained Earnings

**Capital stock** is shares of ownership distributed to investors of corporations.

**Retained earnings** is the stockholder's equity created from business operations through revenue and expense transactions.

### Both transactions are reported separately from each other

Also see the Nature and Business of Accounting for use in conjunction with this sheet