# ACCOUNTING PRINCIPLES & STANDARDS: AVOID THEM AT YOUR PERIL

Accounting principles are the basic assumptions, rules of operation, and essential characteristics that make up the framework for the construction of accounting financial statements.

Long ago, I was perplexed to discover that there was no “set” of accounting principles that was presented in one form such as you might find in the Bill of Rights. This is not to say that the principles are incomplete or vague, it only means that the definitions of accounting principles can be presented in various formats, which may lead to confusion for some people, especially beginners.

Be that as it may, accounting principles are absolutely necessary when preparing financial statements, just as the rules of a particular card game make the card game possible in the first place. Accounting principles are like the glue that holds the accounting process together. For example, financial statements have an overall objective, which is to provide the user of the statements a useful tool for making business decisions.

In order to be useful, the accounting information must have certain characteristics, such as being dependable and practical. To be dependable, the accounting information must be unbiased, accurate, and verifiable. To be practical, accounting information must be predictable, prepared in a timely fashion, and be able to provide meaningful feedback. Additional characteristics are that the accounting information must be consistent, comparable, serve a utilitarian need (such as cost/benefit), and make a material difference.

Besides characteristics, certain operational rules are established as to when revenue and expenses are reported; how expenses are matched to revenue; what to do when a choice can be made that might overstate or understate figures; and, what information should be disclosed so that the reader will fully understand the circumstances under which the information is being presented.

There are also basic assumptions that the reader can count on, such as: the information is related to the business entity only and doesn’t have any unrelated information mixed in; the business is a going concern and won’t cease operations soon; the financial information presented is measured in specific time intervals such as a month, quarter or year; the financial information is using a certain unit of measure such as dollars, not board feet, etc.; the information is presented at historical cost, i.e., when received, paid, or incurred; and, the method of accounting being used is double-entry and not some other method.

These are accounting principles as opposed to accounting standards. An accounting standard is an agreement as to how an accounting issue will be treated. For instance, a standard might state what type of inventory system is appropriate to use for a certain type of business; how capital leases should be recorded; how many years intangible assets should be amortized; what methods of depreciation should be used, and so on. There are literally thousands of accounting standards that have been issued over the years. These standards are constantly being revised or discarded as they become outdated.

If you want to play the accounting “game of cards”, you must become familiar with the “rules of the game”, which are accounting principles and standards. If you choose to not play by the rules, you do so at your own peril, as we have seen recently in the U.S. corporate accounting scandals.