ACCOUNTING THEORIES

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The Accounting Principle Board was created by the American Institute of Certified Public Accountants (AICPA) in 1959 as an authoritative body for the purpose of issuing guidelines and rules on accounting principles. The Accounting Principle Board was replaced by the Financial Accounting Standards Board (FASB) in 1973.

What is Financial Accounting?

The definition of accounting through the AICPA is the art of recording classifying and summarizing in a specific manner in terms of money transactions and events, which are in part at least of financial character, and interpretation or interpreting the result thereof. In other words, An account is a summarised record of transactions affecting a person, one kind of property or one kind of expense or loss.

How Does Financial Accounting Work?

The more basic definition, is an information in measurement systems that really does three things they identify, they record, and they communicate information about an organization's business activity. So in those three things the identify, the records, and communicates those are very important because identifying is really identifying whether you should record it then if you do need to record it then obviously you record it, and then the last piece is being able to communicate it to the end user.

Who are Users of Accounting Information?

Users of accounting information generally include:

* Investors (Shareholders)
* Creditors (Lenders)
* Government
* Consumer Groups
* External Auditors
* Customers

What are Generally Accepted Accounting Principles?

Generally accepted accounting principles (GAAP) is an embodiment of rules and standards that are acceptable and practiced in the accounting industry. GAAP contains a set of accounting standards, principles, and procedures that accountants and accounting companies must follow. I can explain the clearly on getting an opportunity.

What is Debit and what is Credit?

It is simple we men by debit put an entry on the debit side of an account. Now the answer is reflecting what Credit is.

**What are the Types of GAAP Accounting Principles?**

There are four main principles of GAAP that we follow throughout all of accounting. If it doesn't follow one of these four principles, then it's really not following accounting.

* Measurement Principle
* Revenue Recognition Principle
* Matching Principle
* Full Disclosure Principle

## **What is the Measurement Principle?**

* So the first one we're going to talk about is what's called the measurement principle. The measurement principle states that accounting information is based on actual value and not what we think it's worth, not what it's appraised for, not what it actually cost us.
* So, if you purchase a piece of land for ten thousand dollars, but it's actually valued at fifteen thousand dollars at the time of purchase, and you have it still five years later and it's appreciated up to twenty five thousand dollars, it's still going to be on your books at ten thousand dollars (the original purchase amount).

## **What is the Revenue Recognition Principle?**

* The second one is called the revenue recognition principle or rev-rec. This principle states that revenue must be recognized one when the goods and services are provided to the customer.
* So, I have rendered the product or the service and at the moment expected payment to be received from the customer. This principle it's telling you when you have to recognize revenue when the product is delivered or the service rendered.

## **What is the Matching Principle?**

* The matching principle is pretty much the same as the revenue recognition principle except it's dealing with expense. This principle states that the company must record its expenses in the same period used to generate the revenue.
* So, just like in the revenue recognition principle tells us when we have to recognize revenue, the matching principle tells us when we have to recognize expense. This just has to be in the same period that which we used it.

## **What is the Full Disclosure Principle?**

* The full disclosure principle states that a company must report the details behind the financial statements that would impact users decisions. These disclosures are often found in the footnotes of the statement.
* So, throughout this material, we will refer to different methods or different ways of doing things, procedures. When you're choosing what method to use, you have to state in your financial statements that this is the method I use and this is how we get the numbers or this is the percentage that I use or this is the percentage that I estimate.
* You're giving everything a value. This way, the end user can see how these numbers are calculated. We want to tell everything to to everyone.

I conclude, I can give a thorough explanation and define the accounting theories and principles in different angles if I give an opportunity.

Regards,

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