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ACCOUNTING PRINCIPLES

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ABSTRACT

Accounting is both a science and an art, since it involves keeping track of how money is spent and where it comes from. The field of accounting is one that is always shifting and developing in order to accommodate the dynamic nature of the commercial and economic environment. The APB Statement No.4 states that "Generally accepted accounting principles encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time." Establishment of a "generally accepted accounting principle" can occur as a result of an official proclamation made by an organization such as the "Financial Accounting Standards Board in the United States, the Institute of Chartered Accountants of India (ICAI) in India, or the International Accounting Standards Committee; by a change to a Company's Act; or by a regulator with the authority to influence report preparation". When generating reports Intended for Public Consumption like "lenders, investors, regulatory agencies, and other interested groups", managers may choose from a wide array of accounting standards, methods, and principles. These provide the basis for the measures that are necessary to compile financial reports. The author of this book begins by providing a summary of accounting theory, and then proceeds to assess that theory in the context of worldwide accounting standards.

KEY WORDS: Accounting, Principles, Standards, Finance, Record

INTRODUCTION

The old joke that "old accountants never die; they just lose their balance" is as out-of-date as the stereotypical accountant as someone who wears a green eyeshade and works in a dreary office. Accountants may still be expected to conduct computations, but the majority of their time is spent exchanging information that may be helpful in making strategic decisions. There is a widespread misunderstanding that only people with formal accounting training are capable of completely comprehending the complexity of accounting. In point of fact, the vast majority of people perform at least one accounting-related activity on a daily basis. Accounting is both a science and an art, since it involves keeping track of how money is spent and where it comes from. The concepts of accounting and the information that accounting provides are utilized in a broad range of settings, ranging from the creation of a personal budget and the balancing of a check book to the administration of a multibillion dollar organization such as Reliance Industries.

STANDARD ACCOUNTING PRACTICES

The field of accounting is one that is always shifting and developing in order to accommodate the dynamic nature of the commercial and economic environment. The efforts of a variety of different professional accounting organizations have, over the course of time, resulted in the development of guidelines for financial accounting. "Generally Accepted Accounting Principles" is what "Generally Accepted Accounting Principles (GAAP)" stands for. In order to interpret financial accounts, one has to have a thorough understanding of GAAP. These are the 'ground rules' that the accounting profession has created after a significant amount of time and effort. These high-level principles have been developed with the intention of standardizing the processes that are used to track and report the financial operations of firms. In a word, GAAP is "the body of accounting standards and concepts used in the measurement of financial activities and in the preparation of financial statements." The APB Statement No.4 states that "Generally accepted accounting principles encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time." Accounting principles may be broken down into two primary categories: measurement & disclosure. The measuring principles determine the order and basis on which transactions affect financial accounts. The primary emphasis of disclosure standards is placed on the qualitative components of complete financial records. If they weren't included, the financial statements that were produced based on the measuring principles would be misleading. Disclosure principles augment measurement standards and provide more information on accounting policies, contingencies, uncertainties, and other topics (Delaney, 1995). These principles are essential to the analytical process of accounting because they explain measurement standards and provide this additional information. When generating reports Intended for Public Consumption like "lenders, investors, regulatory agencies, and other interested groups", managers may choose from a wide array of accounting standards, methods, and principles. These provide the basis for the measures that are necessary to compile financial reports. After a choice has been made, subsequent time periods are expected to conform to the same standards and processes, unless there is a compelling reason to act otherwise. In the field of accounting, fundamental truths and rules of behaviour are not the same thing at all. These are methods of data collection and reporting that are either widely used or otherwise permitted by relevant authorities. Establishment of a generally accepted accounting principle can occur as a result of an official proclamation made by an organization such as "Financial Accounting Standards Board in the United States, the Institute of Chartered Accountants of India (ICAI) in India, or the International Accounting Standards Committee; by a change to a Company's Act; or by a regulator with the authority to influence report preparation".

TRANSMITTING FINANCIAL DATA

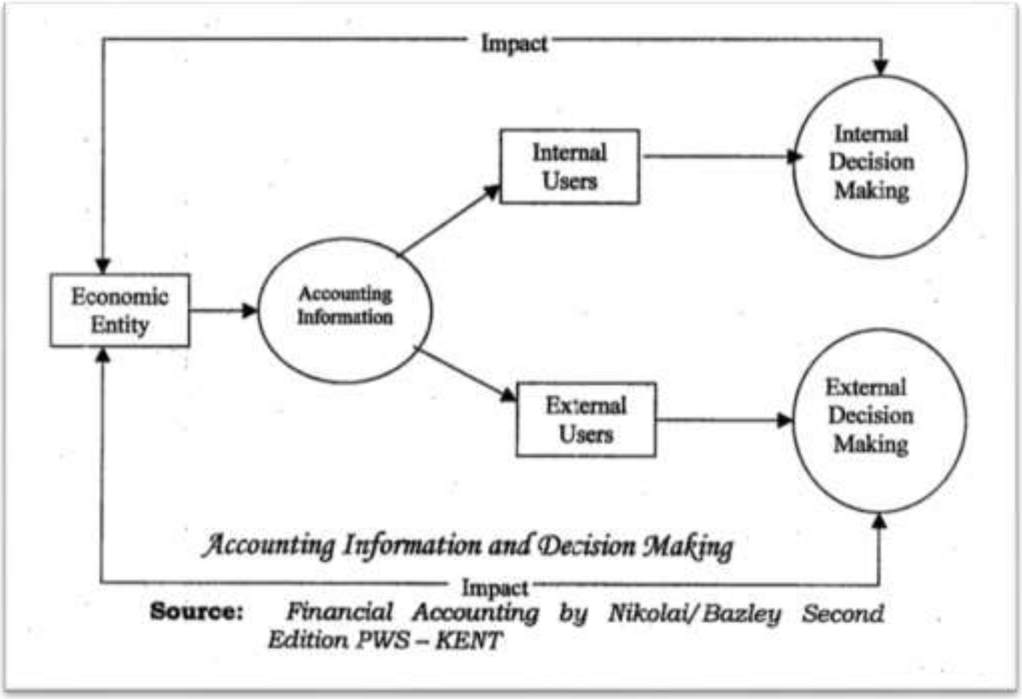
Accounting has been referred to be the "language of businesses" on more than one occasion. Accounting's primary intention is to disseminate business-related data's financial health to anybody who may be interested. End consumers of accounting data come in a broad range of forms. There are two categories of users to take into consideration: those who are not affiliated with the organization and those who are.

a) External users are users who are not linked with the firm or economic entity in issue but who need access to financial data in order to make judgments about conducting business with the entity. This group is comprised of a variety of stakeholders, including investors, banks, vendors, labour organizations, as well as "local, state & federal governments".

b) Internal users, or those who operate within a company or other economic organization, are the ones who make decisions based on the information provided by accounting systems. These decisions pertain to the firm's internal operations and activities. Users come from all levels of management, ranging from department heads at the front line to executives at regional, regional, and corporate levels.

The significance of accounting data in the formulation of intelligent business choices is illustrated at diagram 1. This demonstrates the nature of accounting as a continuous process, which involves the constant gathering and distribution of accounting information regarding economic organizations to users both within and outside the company in order to facilitate decision making. The economic entity is impacted as a result of their decisions, and a fresh iteration of the cycle of collecting and exchanging financial data commences.

DIAGRAM 1



RECEIVERS OF FINANCIAL STATEMENTS

Two categories of people require access to the information that is generated by an accounting system. One of these groups is manager, and the other is anybody outside the organization who has curiosity about or involvement in the economy of the company. In order for managers to be able to, for example, oversee operations and determine fair selling prices, they need to have access to detailed information regarding daily operating expenditures. The nature and degree of difficulty of the choices that various users are required to make will determine how much information that particular users require. However, in order for outsiders to be able to make judgments about investments, impose income taxes, or enforce rules, they require summaries of an organization's internal resources as well as information regarding the organization's operating performance for the preceding year. Because they are the primary way for outsiders to learn about the financial health of a firm, outsiders place a significant amount of weight and reliance on financial statements. The financial statements' principal use is to provide assistance to those who make judgments about a company's finances, profits & future prospects.

DIFFERENT OPINIONS ON BASIC PRINCIPLES OF ACCOUNTING

Because of the nature of humans, it is easy to overstate or underestimate the potential of a set of postulates or principles. However, just as no set of "accounting postulates and principles" can answer all accounting problems any more than the "Ten Commandments" can answer all questions of right and wrong, the "Constitution can solve all problems of legality or illegality, or the 'Laws' of physics can build a bridge, launch a rocket, or dam a river". As a direct consequence of this, a significant portion of those working in the accounting profession are sceptical that postulates ought to be formed. However, the development of a collection of assumptions & rules will give accounting with the context and underlying structure that is essential in order for its procedures to have more relevance than is immediately apparent. "Experience with the help it requires from logic" will be presented in order to shed light on the reasons why certain procedures are justifiable while others are not. This quote is attributed to Maurice Moonitz. Some accountants held the mistaken notion that formulation of rigidity in application is the result of a collection of postulates & rules or would render 'judgment' obsolete. This belief was erroneous. In general, the more traditional a society is, the greater the number of rules and regulations that each person is expected to abide by. Individuals living in highly developed cultures have more discretion in their day-to-day behaviours; nonetheless, they are still constrained by a set of 'principles' that have been established, such as in the case of inventory. Unsold inventory, which includes raw materials and unfinished projects, is typically seen as an expense that need to be carried forward at the cost it was originally purchased at. Any approach that can demonstrate that it has been computed and used in a manner that is compatible with the Inventory principle can be considered legitimate. This includes, but is not limited to, the simple moving average, the weighted average, FIFO, LIFO, and other such methods.

The acceptable level of consistency in accounting theory and practice, as well as the appropriate level of flexibility in accounting theory and practice, is one of the most heated disputes. No self-respecting accountant would wish to be relegated to the duty of a simple clerk by recommending that all accounting be reduced to a set of clear and fast rules — a 'cook book' — that any person of normal intellect could follow. This would be an insult to the profession. On the other hand, it is quite doubtful that you will find a sensible and educated CPA who feels that accountants should be allowed to pick whatever accounting style that they like to practice. It is very clear that a middle ground must be found. The theory and practice of accounting are both based on the well-known Generally Accepted Accounting Principles and Concepts. These include concepts and principles such as going concern, objectivity, consistency, total transparency, cost as the main measure of value, the matching of cost and revenue realization, and many more. In this area, there is widespread agreement; yet, there may be a few points of contention over the vocabulary that is used to define the beliefs that are most prevalent.

HOW SHOULD THE FINANCIAL IMPACTS BE DIVISED?

There are a variety of depreciation techniques, however these are not viable alternatives. The best approach is the one that most closely depicts the consummation of the service potential embedded in each asset. The same logic may be applied to the valuation of stock or any other area where alternative systems of accounting are in use. There is only one approach that is appropriate in each given situation, and the others are not viable alternatives. The solution is not found in a standardized set of accounting processes, but rather in the recognition by working accountants that it is their duty to ensure that the right approach is used. It is obvious that there would be benefits to having widespread agreement on the accounting postulates and principles. To the best of their ability, a company's financial statements should reveal the true status of that company's finances. It's undeniable that accountants require a "uniform" set of overarching concepts and postulates to follow while keeping financial records, compiling financial reports, and labeling financial data. Of course, there is also the certainty that such financial details differ from one business to the next and even within the same business. Therefore, there should not be uniformity in the procedures and methods used to execute the accounting principles; indeed, there cannot be. As the watchdog of the public interest, it is the public accountant's responsibility to ensure that the best possible approach is used to communicate a particular set of facts, rather than leaving the decision up to management. The purpose of financial statements is to present the financial information of a company as precisely as possible.

While the basic premise of GAAP is the matching of expenses and revenues, it is possible to have conformance with GAAP without fairness in presentation; for example, the straight-line approach of depreciation adheres to GAAP. However, if the asset in question has a useful life that declines predictably with mileage rather than with time, then straight-line depreciation must result in an unfair presentation because it does not present the facts insofar as they can be determined. Therefore, a public accountant in this case must rule out the use of straight-line depreciation. To begin with, there is no such thing as a "generally accepted accounting method/procedure." Acceptable accounting techniques must conform to the facts and adhere to generally recognized accounting rules. If generally accepted accounting principles did not yield this type of disclosure, then accountants could not hide behind the principles and instead had to go behind the principles to make whatever disclosures were necessary for full disclosure. This means that GAAP does not inevitably lead to "present fairly," but rather that "present fairly" is a distinct idea.

EQUIVALENCE WITHIN VARIATION

The production of similar financial statements is made possible by making the assumption that two companies are comparable, even if this might not actually be the case. It is unreasonable to expect that both Company A and Company B use the same accounting methods, such as using cost as the measure of asset valuation. However, users of financial statements have every right to expect that both companies' statements are based on the same generally accepted accounting principles (GAAP). It is possible that costs related with the sale of assets will be recorded in a same method; however, this will only be the case if the sale of the assets followed the same pattern. Let's say we have two businesses, X and Y, and let's say that X values its stock using the UFO rate, whereas Y uses the FIFO rate. The processes that are used by each of these companies are the ways that provide the clearest picture of how those companies truly operate. If the financial accounts of Company X were adjusted to be based on FIFO so that they could be compared to those of Company Y, then the two sets of financial statements would be comparable (i.e. in a mechanical sense). The comparison, on the other hand, would be invalid due to the fact that the updated statements for Company X would not be accurate. It's possible to get false results if you try to force a comparison when none exists. Users of financial statements need to be aware that the consistency of the statements they use is dependent on the consistency of the businesses that are represented by those statements. Comparisons that are made without intention are almost never accurate. Comparability should have as its major objective the facilitation of investors making prudent financial decisions, which in turn promotes the operation of efficient capital markets, and the provision of a fair means by which shareholders may evaluate the impact of actions made by management. Comparability may be desirable for a number of reasons, including the acquisition of useful economic information for specific industries, regions, or the country as a whole; the enforcement of laws; and the provision of a plausible foundation for the establishment of government regulations.

CONCLUSION

A solid structure for performing assessments of this kind and verifying whether accounting standards are acceptable must first be put in place before work of this kind can be started. This is a prerequisite step that must be completed before the job can move forward. This is especially true when it is considered in light of the dynamic economic landscape that now prevails both domestically and globally. This is true both locally and internationally. Stakeholders such as investors, lenders, and creditors will not be able to confidently place their faith in the standards unless they are able to show beyond a reasonable doubt that the methods used to generate the standards are free from any chance of bias. If this is not the case, then stakeholders will not be able to place their trust in the standards. In the absence of any evidence to the contrary, the various parties involved will be unable to put their full trust in the standards.

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