

ACCOUNTING PRINCIPLES FOR ETHICS CASES

RELEVANCE: Accounting information is relevant if it is capable of making a difference in a decision. To be relevant, information should have predictive or feedback value, and it must be presented on a timely basis.

RELIABILITY: Accounting information is reliable to the extent that users can depend on it to represent the economic conditions or events that it purports to represent. To be reliable, information must be verifiable, representationally faithful, and neutral.

COMPARABILITY: Accounting information that has been measured and reported in a similar manner for different enterprises is considered comparable.

CONSISTENCY: Accounting information is consistent when an entity applies the same accounting treatment from period to period to similar accountable events.

ECONOMIC ENTITY ASSUMPTION: The economic activities of an entity can be accumulated and reported in a manner that assumes the entity is separate and distinct from its owners to other business units.

PERIODICITY ASSUMPTION: The life of an economic entity can be divided into artificial time periods for the purpose of providing periodic reports on the economic activities of the entity.

HISTORICAL COST PRINCIPLE: Acquisition cost is the most objective and verifiable basis upon which to account for assets and liabilities of a business enterprise. Cost has been found to be more definite and determinable than other suggested valuation methods.

REVENUE RECOGNITION PRINCIPLE: Revenue is recognized when the earning process is virtually complete and an exchange transaction has occurred. Generally this takes place when a sale to another individual or independent entity has been confirmed.

MATCHING PRINCIPLE: Accountants attempt to match the revenues earned during a fiscal period with the expense incurred in earning those revenues. Use of accrual accounting procedures assists the accountant in allocating revenues and expenses properly among the fiscal periods that compose the life of a business enterprise.

FULL DISCLOSURE PRINCIPLE: In the preparation of financial statements, the accountant should include sufficient information to permit the knowledgeable reader to make an informed judgment about the financial condition of the enterprise in question.

MATERIALITY: In the application of basic accounting theory, an amount may be considered less important because of its size in comparison with revenues and expenses, assets and liabilities, or net income. Deciding when an amount is material in relation to other amounts is a matter of judgment and professional expertise.

INDUSTRY PRACTICES: Basic accounting theory may not apply with equal relevance to every industry which accounting must serve. The fair presentation of financial position and results of operations for a particular industry may require a departure from basic accounting theory because of the peculiar nature of an event or practice common only to that industry.

CONSERVATISM: When in doubt, an accountant should choose a solution that will be least likely to overstate assets and income. The conservatism should be applied only when doubt exists. An intentional understatement of assets or income is not acceptable accounting.