

## GAAP principles

GAAP (Generally Accepted Accounting Practice) - arose from need for reliable and comparable; e financial statements. It is a general framework to report on financial activities. These principles are harmonised with the International Financial Reporting Standards (IFRS).

IFRS - standards based on principles, along with interpretations and the framework adopted by the International Accounting Standards Board (IASB)

GAAP principle	Description	Example
Entity rule	Financial affairs of partners should be kept separate from those of the business	Business has its own bank account. Partners each have their own bank accounts
Historical concept	Assets should be entered at its historical cost - amount that was originally paid for them	Buy property for R500 000. This amount will be entered in the books, even if the business will receive more if it sells it in the future
Going concern concept	Financial statements are prepared with the assumption that the business will continue operating in the foreseeable future	Say the business has stationery at the end of a financial year worth R500. It will be shown at this value in the company's books.
Matching concept	Income & expenses must be accounted for in the financial year they are incurred	Telephone account for January 2020 must be taken into account for in the financial period ending 28 February 2020, even if it is paid in April 2020.
Prudence concept	Financial results are reported in a conservative manner	If company expects to earn R100 000 on sale of its property, it will not be entered in the books until it is realised
Materiality concept	Material items are shown in financial statements	Interest on overdraft shown as a specific account sit is important to know the company's cost of borrowing money, while consumable stars may be included in Sundry expenses account
Consistency	<b><i>Make your own notes here...</i></b>	

Do

Task 5.13 & 5.16

## Revision of adjustments - Gr 10 work

**Depreciation** - covered in term 1

**Asset disposal** - covered in term 1

**Amounts due to partners regarding their salaries, bonuses and interest on capital** - we've just covered this under the notes I gave you

### Expenses payable (accrued)

Expenses payable - amount relates to current financial year, but will be paid in next financial year. Expense is shown in the current financial year by recording it in the GJ. The entry is reversed in the next financial year e.g. *the water and electricity account of R412 for June 2019 is still due. Financial year ends 30 June 2019.*

Recording the transaction

Journal	Account debited	Account credited
General Journal	Expense account adjusted - e.g. <i>water and electricity account</i>	Expenses payable

Effect on the accounting equation

Assets	Owner's equity	Liabilities
0	- ( <i>water and electricity account</i> increase by <i>portion due this year but paid</i> and OE decreased)	+ (Liability - Expenses payable - increase)

### Prepaid expenses

Prepaid expenses - amount that has already been paid in the current financial year, but the expense relates to the next financial year ➡ expense paid in advance e.g. *paying rent in advance*

Recording the transaction

Journal	Account debited	Account credited
General Journal	Prepaid expenses	Expense account adjusted - e.g. <i>Rent expense</i>

Effect on the accounting equation

Assets	Owner's equity	Liabilities
+ (Asset increases - Prepaid expenses)	+ ( <i>Rent expense</i> decrease by <i>portion paid for the next financial year</i> and OE increased)	0

### Income receivable (accrued)

Income receivable - amount earned in the current financial year, but has not yet been received. Income is shown in the current financial year by recording it in the GJ. The entry is reversed in the next financial year e.g. **interest on fixed deposit**

Recording the transaction

Journal	Account debited	Account credited
General Journal	Income receivable	Income account adjusted - e.g. <b>Interest on fixed deposit</b>

Effect on the accounting equation

Assets	Owner's equity	Liabilities
+ (Asset increases - Income receivable)	+ ( <b>Interest fixed deposit</b> increased and OE increased)	0

### Income received in advance

Income received in advance - amount that has already been received during the current year, but relates to income that is only going to be received in the next financial year e.g. **rent income** received in advance

Recording the transaction

Journal	Account debited	Account credited
General Journal	Income account adjusted - e.g. <b>Rent income</b>	Income received in advance

Effect on the accounting equation

Assets	Owner's equity	Liabilities
0	- <b>Rent income</b> decreased by extra portion paid in advance	+ Liability - Income received in advance - increases

### Trading stock deficit

Trading stock deficit - difference between book value of stock in the Trading Stock account and the physical value of stock in the shop. Physical value determined by doing a stocktake.

Recording the transaction

Journal	Account debited	Account credited
General Journal	<b>Trading stock deficit</b>	Trading stock

Effect on the accounting equation

Assets	Owner's equity	Liabilities
- Value of trading stock decreased	- <b>Trading stock deficit</b> expense decreases OE	0

## Consumable stores on hand

Consumable stores on hand - physical value counted during a stocktake. This is the value of stock left over or unused at the end of the financial year. e.g. stationery

Recording the transaction

Journal	Account debited	Account credited
General Journal	Consumable stores on hand	Expense account adjustment - e.g. Stationery account

Effect on the accounting equation

Assets	Owner's equity	Liabilities
+ Consumable stores on hand - Asset increases	+ Expense decreased	0

# Do

## Task 5.17 & 5.18