Bridging the GAAPs Harvard Case Solution & Analysis

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What is a GAAP?

- Generally Accepted Accounting Principles
- Rules of regulations so a company owner does not overstate/understate profits and are put in place to prevent misleading information in accounting.
- Allows them to avoid paying a lot of taxes

Who creates them?

-Established by CICA (Canadian International Chartered Accountants

-A CA designation with the F in the title (CAF) can create them

- Fellowship members are determined by CICA

Business Entity Concept

- Accounting for a business must be kept separate from the personal affairs

Example: A computer/laptop for personal use should not be listed as an asset of the company

Continuing Concern/Going Concern

- Assumes that a business will continue to operate unless it is known. Otherwise the values of assets usually suffer because of unfavorable circumstances.

Example: A jewelry showcase for a company has greater value on its book when it is still in operation, and has less value when it ceases to operate.

Principle of Conservatism

- Accounting for a business should be fair and reasonable, in order to avoid overstating/understating assets or profits
- Most powerful when matters of judgment or estimates are involved

Example: An item in inventory has a cost of $20, but it can be replaced for $15. This principle directs the account to report the item in inventory at $15 and to immediately report the loss of $5

Matching Principle

- Expenses should be matched to the revenue they helped generate in the same period.
- Expenses are recorded when incurred, whether paid in cash or on credit.

You only record an expense as an expense when it gets recorded as a revenue

Example: Wages to employees are reported as an expense in the week that the employees worked, not in the week when the employees are paid.