GAAP

Generally Accepted Accounting Principles

Checklist

Follow these steps to adopt GAAP, the accounting standards required by most investors and lenders.

- [ ] **Get your books done by a professional (and without any biases)**

According to GAAP's Objectivity Principle, a business's financial statements must be put together by accountants who have done their research to report based on facts, not opinions or hidden motives.

- [ ] **Include information that makes your company easy to understand**

What do investors need to know?

The Materiality Principle requires accountants include information if they believe it will affect an outsider's judgment of your business as an investment opportunity.

But don't over share.

According to the Full Disclosure Principle, financial data should ONLY be reported if it will make sense to someone who has reasonable knowledge of your industry. So, no trivial or overly technical information!

Example:
A guitar manufacturing company will need to disclose their inventory method, any pending litigation they're involved in, how they recognize revenue, etc. But probably not that they sell guitars to Bon Jovi on a weekly basis.

Track down your receipts

The Historical Cost Principle requires the costs of assets and liabilities' value is recorded at the time they were purchased, instead of current rates (which could be higher or lower based on depreciation or interest). If original values can't be tracked down (tisk, tisk), accountants will revert to researching an item's fair market value (which can get pricey if you're paying them by the hour).

Adopt the accrual method of accounting

Timing is everything! According to GAAP's Revenue Recognition Principle, income isn't really revenue until you've earned it. So instead of recognizing income and expenses as they are received or paid (as you would using the cash accounting method), the accrual method allows you to recognize these transactions when the goods and services are earned, provided, or performed.

Connect spending to income.

In tandem with the Revenue Recognition Principle, GAAP's Matching Principle states that expenses must been recognized in the same time period they contribute to revenue.

Example:
If you buy sound equipment for $10,000 that has a projected life of 10 years, the Matching and Revenue Recognition Principles say you should recognize the cost of that equipment as an expense for $1,000 each year. (This is all covered by the accrual method).

Reports you'll need

- Balance Sheet
- Profit & Loss (Income Statement)
- Cash Flow Statement

Going GAAP is one of the most important changes you make toward your company's success.

Get advice about making the switch from one of our financial experts!

Let's Talk

www.indinero.com info@indinero.com (951) 438-8003