


Name: _____

Date: _____

GAAP



What Is GAAP?


GAAP, or Generally Accepted Accounting Principles, defines the standards and rules that accountants follow when reporting financial activities in the United States. Important business decisions are based on these financial data. GAAP principles provide consistency in reporting so companies can be compared. For example, Brad is evaluating whether to invest in Hewlett-Packard or Dell Inc. He compares financial information from both companies. Since both companies follow GAAP, Brad is assured that the financial data being evaluated are generated consistently. Therefore, he can make a better business decision.

Many different organizations have contributed to the rules over the years; however, since 1973, the Financial Accounting Standards Board (FASB)

has been granted the authority by the Securities and Exchange Commission (SEC) to determine GAAP. GAAP has been the uniformity standard for U.S. companies. However, as many as 100 other countries follow another set of accounting rules and standards called *International Financial Reporting Standards (IFRS)*. IFRS are set by the International Accounting Standards Board (IASB). The SEC has recognized that global business opportunities and international competition present the need for a single set of accounting standards.

INSTRUCTIONS

Describe other situations in which consistency in standards helps to make informed comparisons and decisions.



GAAP Generally Accepted Accounting Principles

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Answer: