

Name: _____

Date: _____

Understanding GAAP



GAAP, or Generally Accepted Accounting Principles, is a set of standards and guidelines for financial accounting that are used in the United States. These standards ensure that financial statements are prepared in a consistent and transparent manner, making it easier for investors and other stakeholders to understand a company's financial performance.

The Financial Accounting Standards Board (FASB) is responsible for establishing and updating GAAP. The FASB is an independent, non-profit organization that was created in 1973 to develop and improve accounting standards in the United States.

GAAP covers a wide range of accounting topics, including revenue recognition, inventory valuation, and depreciation. It also includes rules for financial statement presentation and disclosure.

Adhering to GAAP is important for companies that want to maintain credibility with investors and other stakeholders. Failure to follow GAAP can result in penalties, fines, and legal action.

GAAP is a vital component of financial accounting in the United States. By providing a consistent framework for financial reporting, it helps ensure that investors and other stakeholders have access to accurate and reliable information about a company's financial performance.

Instructions:

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