**General Accepted Accounting Principles at a Glance**

| **Principle** | **What It Means** | **Related GAAP Rules** | **What the Rules Require** | **Example** |
| --- | --- | --- | --- | --- |
| **Conservatism Principle** | Be cautious about recording gains, quick to record potential losses | • Loss contingency rules (ASC 450-20)• Asset impairment rules (ASC 360) | Specific criteria for when to record potential losses and how to value impaired assets | Must record likely and reasonably estimated lawsuit losses immediately but wait to record potential gains until certain |
| **Consistency Principle** | Use the same accounting methods over time | • Accounting changes rules (ASC 250)• Disclosure Requirements | Detailed requirements for when and how accounting methods can be changed | If changing depreciation methods, must justify change and retroactively adjust prior statements |
| **Cost Principle** | Record items at original purchase price | • Asset valuation rules (ASC 360)• Historical cost requirements throughout | Specific guidelines for determining and recording initial cost of assets | Must record equipment at purchase price plus installation, not market value |
| **Economic Entity Principle** | Keep business and personal transactions separate | • Consolidation rules (ASC 810)• Related party rules (ASC 850) | Detailed criteria for how to report relationships between related entities, including requirements for consolidated financial statements that present a parent company and its subsidiaries as a single economic entity. | A parent company must prepare consolidated financial statements that include the financial results of its subsidiaries, even though they are separate legal entities |
| **Full Disclosure Principle** | Report all significant financial information | • MD&A Requirements• Footnote rules throughout• Segment reporting rules (ASC 280) | Specific items that must be disclosed and how to present them | Must disclose significant customers representing over 10% of revenue |
| **Going Concern Principle** | Assume business will continue operating | • Going concern assessment rules (ASC 205-40) | Evaluative criteria for determining if a business remains viable | Must evaluate and disclose if there's substantial doubt about continuing operations |
| **Matching Principle** | Record related revenues and expenses together | • Revenue recognition rules (ASC 606)• Expense recognition rules | Detailed guidelines for matching expenses with related revenues | Commission expense must be recorded in same period as related sales |
| **Revenue Recognition Principle** | Record revenue when earned, not when cash received | • Five-step revenue recognition model (ASC 606) | Specific criteria for when and how to record revenue based on five-step process | Software companies must recognize subscription revenue over service period |

*This table presents simplified examples. Actual accounting situations are often more complex and require professional guidance.*

Table: Investopedia/Peter Gratton