

Title:

Accounting Police: Do They Exist?

Word Count:

524

Summary:

Who created accounting principles? Who sets and revises accounting standards? What if you don't follow all the rules, do you go to jail? Is there an accounting police force that investigates and arrests violators? It would seem that there must be some regulatory force to make sure that providers of financial statements conform to the rules. There is, up to a point, and here is how it works:

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Article Body:

Who created accounting principles? Who sets and revises accounting standards? What if you don't follow all the rules, do you go to jail? Is there an accounting police force that investigates and arrests violators? It would seem that there must be some regulatory force to make sure that providers of financial statements conform to the rules. There is, up to a point, and here is how it works:

Mainly, it's all voluntary and it works pretty well. First, double-entry accounting originated in Italy in the 1400's, so its been around awhile. Accounting principles have evolved over the years just as have accounting standards. The reason why the system works is that the business community could not function if there was not commonality and consistency in financial statement reporting. It would be chaos, much like if there were no driving rules of the road.

Therefore, in the United States, a body of experts known as the Financial Accounting Standards Board (FASB pronounced Fasbee) was established in 1973, which superseded another board called the Accounting Principles Board (APB). The FASB members go through a lengthy process of analyzing and reviewing problems in the accounting field that are brought to them. After much thought, they will

make a pronouncement as to what they think the new or revised way of approaching the treatment of an accounting issue should be.

They are a non-governmental organization that has private financing. A big supporter of FASB is the American Institute of Certified Public Accountants (AICPA). Many Certified Public Accountants (CPAs) belong to this prestigious organization and are obligated to abide by its guidelines and principles of behavior. Other countries no doubt have similar organizations that require high levels of accounting professional conduct.

FASB established an accounting code called "Generally Accepted Accounting Principles" or (GAAP). The assumption is that if a business financial statement is prepared according to GAAP, then the user of that financial statement could rely on or trust the information more readily than if not prepared according to GAAP. Those businesses that deviate from GAAP, and many smaller businesses do, cannot say that their statements are prepared under GAAP; in fact, they should inform the reader that they are not. However, let the buyer beware.

One governmental body that has a policing function is the Securities Exchange Commission (SEC). It is primarily concerned with public companies because their job is to protect investors from unscrupulous acts. Recently, the SEC has gotten into the act of establishing accounting standards. It has its hands full today.

Since most businesses use their financial statements to prepare their required income tax returns, the Internal Revenue Service (IRS) may audit those tax returns and review the financial statements upon which the tax returns are based. Not following the rules can get you in trouble with this governmental body.

You can see that in many ways compliance to the principles and standards is a mixture of voluntary and regulatory behavior. Currently, there is an effort underway to set international accounting standards due to the inexorable globalization process. This is a massive undertaking that will take years, but it is obviously necessary and inevitable.