CAMBRIDGE

Study & Master

Support Pack | Grade 12

CAPS

Accounting

GAAP principles

This revision pack for **Accounting Grade 12** provides support for learners revising the most important concepts and principles covered in the CAPS curriculum. These include concepts relating to companies, the acquisition of Fixed assets, inventories, VAT, Manufacturing and cost accounts, and budgeting. Summaries of the GAAP principles, theory of Accounting, and the format of Debtors and Creditors control accounts are provided. Furthermore, a detailed table to summarise the interpretation of Financial Statements is provided.

Cambridge University Press Africa is a proudly South African publisher – we are providing this material in response to the need to support teachers and learners during the school shutdown and for the remainder of the 2020 school year.

For more information on our *Study & Master* CAPS-approved textbooks and valuable resource material, visit ***www.cambridge.org***

We are all in this together!

Revision 2
Companies: GAAP principles

GAAP principles

GAAP principle	Description	Example
Entity rule	The financial affairs of the owners should be kept separate from those of the business – they are separate entities.	The business has its own bank account and the owners each have their own bank accounts.
Historical cost concept	Assets should be entered at its historical cost; this is the amount that was originally paid for them.	Land and buildings purchased for R500 000 will be entered at that amount in the books, even if the business can sell it for a lot more after a couple of years.
Going concern concept	The financial statements of a business are prepared with the assumption that the business will continue operating in the foreseeable future.	If a business had stationery printed in the name of the business to the value of R5 000 and it is unused at the end of the financial period, it will be shown at that value in the financial statements as a current asset. However, if the business is closing down in the next financial period, this stationery will have no value.
Matching concept	Income and expenses must be accounted for in the correct time period (the one in which they were incurred).	The telephone account for February 2020 must be taken into account in the financial period ending 28 February 2020, even though the account will only be paid in March 2020.
Prudence concept	When uncertain results are estimated, it is important to ensure that assets and income are not overstated and liabilities and expenses are not understated.	If the business expects to make a profit of R100 000 on the sale of part of the building, it will not be entered in the books until the transfer of the land has been concluded.
Concept of materiality	Information is material when its omission or misstatement can influence the economic decisions of users who rely on the financial statements.	While consumable costs may be included in the Sundry Expenses account, interest on overdraft must be shown in a specific account, as it is material to know the value of the finance cost on the overdraft.