The PerfecTEN key accounting principles you need to know

to stay in business

PERFECTEN
CORPORATE SERVICES

1. You are not your business and vice versa
Did you know, as a private limited company or LLC, you are a separate legal entity from your business? This means that your personal transactions as the owner are kept distinct from your company's transactions. In financial statements, only business-related transactions are recorded.

2. Cash is king
Some business owners don’t realise that only transaction data expressed in terms of money can be included in accounting records. Money is used as the common basis for measurement and comparison. Even if you barter trade, you still need to express the transaction in monetary terms.

3. Time is relative
You have a choice to organise your accounts in different time periods. Perhaps you want to review your accounts every week, month, quarter or year. This allows for the preparation of periodic financial reports, helping you and your company decision makers make timely decisions.

4. Revalue your assets
Every time you buy an asset in your business, it needs to be recorded at its original cost plus any additional costs to get it ready for use. This valuation needs to be reassessed at market value annually.

5. Reveal it all
Your accountant will help you make sense of your financial statements by adding notes that disclose the full details behind the numbers. In this way, you and your stakeholders will be able to make informed decisions around your business.

6. No cause for concern
As a business owner, you are expected to manage your expenses and commitments to ensure that your business makes a profit. Should your business make a loss, it is still considered a “going concern” i.e. profitable, if it’s likely to stay in business without the need to liquidate assets and have funds forthcoming in the near future to keep the business operational. This is known as the Going Concern Principle.

7. It's a match
The most commonly used method is the accrual accounting method, which requires your accountant to match expenses with revenue in the same period so that your actual profit is recorded accurately.

8. Recognising revenue
Revenue is not recognised when you get paid but rather when your services are rendered or your products have been sold and the ownership transferred. If you receive funds before this, your accountant will record them as deferred revenue.

9. It's all material
Your accountant will provide a financial report of your business at the end of your financial year. This report should include all material items that could influence the decision of someone reading the report. This materiality principle guides your accountant to decide what information to report.

10. Dear Prudence
When reporting your accounts, it's a good principle to err on the side of conservatism or prudence. When choosing between two solutions, the one that will be least likely to overstate assets and income should be picked. This means that your accountant will anticipate losses not gains. In other words, your accountant will always look at the worst case scenario.

These are the 10 common accounting principles that ensure that your business accounts are being recorded accurately and in compliance with the relevant accounting standards.

To ensure that your business adheres to these 10 principles, book a discovery call with Elsa today.