

GAAP principle	Description	Example
Business entity rule	The financial affairs of the owner should be kept separate from that of the business – they are two separate entities.	The business and the owner must each have their own bank account.
Historical cost concept	Assets should be entered at its historical cost; that is,	Land and buildings purchased for R500 000 will be entered at that amount in the books, even if the
	the amount that was originally paid for them.	business can received a lot more for it 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.	Assets are valued at the historical cost and not at the value the business will receive for it, should the business be sold in the following year.
Matching concept	Income and expenses must be accounted for in the correct time period.	The telephone account for February 2015 has to be taken into account in the financial year ending 28 February 2015, even if the account is only being paid in March.
Prudence concept	Financial results are reflected in a conservative manner.	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	Material items must be shown in the financial statements, but the immaterial items need not be highlighted.	<i>Interest on Overdraft</i> must be shown in a specific account, while <i>Consumables</i> can be included with <i>Sundry Expenses</i> .

Match the explanations in column A to the concepts in column B by writing the correct letter next to the correct question number.

COLUMN A		COLUMN B	
1.	The financial statements of a business are prepared as if the business will continue trading in the foreseeable future.	A.	Concept of materiality
2.	A business trading in MP3 players will show the value in the books at the cost price of R350 each, even if it is planning to sell each player at R600.	B.	Matching concept
3.	If a business purchased a building three years ago at R600 000 and its worth R900 000 today, it will still be shown at the value of R600 000 in the business's statements.	C.	Going concern concept
4.	The telephone account at the end of February 2017 is still payable. This will be added to the <i>Telephone</i> account before closing it off to the <i>Profit and Loss</i> account.	D.	Historical cost concept
5.	Consumable, postage and bank charges can all be posted to one account called <i>Sundry expenses</i> .	E.	Prudence concept