

Generally accepted accounting principles

Finance



Generally Accepted Accounting Principles What are GAAP GAAP is the abbreviated form of Generally Accepted Accounting Principles that refers to the accounting standards that are to be followed in the process of financial accounting. The standards of accounting provide the guidelines to accountants in the preparation of financial statements and accounts in the jurisdiction and laws of any country. The conformance to the International Financial Reporting Standards, rules and conventions under GAAP leads to recording, summarization and reporting of financial statements that are comparable in international accounting context. The preparation of financial statements and accounts in accordance with the GAAP helps the capital markets to operate efficiently (Everingham, Kleynhans and Posthumus, 2007).

Importance of GAAP to Fidelity Investment Analysts

Fidelity Investments Company is a well known mutual fund that offers portfolio of investments to their clients. The portfolio solutions are provided by the Fidelity Investments Company by selecting stocks of companies listed in the New York Stock Exchange as well as in other stock exchanges in the worldwide markets. For this, the company invests billions of dollars in various stocks listed in the well known stock exchanges. The investments in these companies by Fidelity Investment Company are done after analysis of the risk and return on investments by their analysts. Thus the Fidelity Investment Analysts undertake analysis of the financial statements of the companies listed in various stock exchanges including New York for formation of the investment portfolio. As the accounting standards in different countries are different and are influenced by a several factors like

the capital market environment, financial reporting requirements, form of business ownerships, corporate culture, etc; it is important for the Fidelity Investment Analysts that the accounting and financial information presented in the consolidated statements of the chosen companies adhere to the accounting standards as mentioned in GAAP. The preparation of financial statements of companies according to GAAP and audited by independent and certified public accountants guarantees true and fair financial information of the companies that are comparable across all jurisdictions. This is important for the Fidelity Investment Analysts as they would be able to compare the projected financials of the company in the international context and calculate the risk and return of the portfolio of investments in an accurate manner (Gibson, 2010). This would enhance the abilities of Fidelity Investment Company in maximizing the wealth of the customers by offering appropriate investment and mutual fund solutions.

Ways in which GAAP is influenced by organizations

The accounting standards set under the generally Accepted Accounting Principles are designed by the Financial Accounting Standards Board (FASB). The authority for setting the rules, conventions and accounting standards is provided to FASB by the Securities and Exchange Commission (SEC) which plays the role of the regulatory authority for financial and capital markets. The standards of accounting set by the FASB are approved by SEC and also agreed upon by the American Institute of Certified Public Accountants (Warren, Reeve and Duchac, 2008). The financial statements and accounts prepared in accordance with the accounting standards are used by the investors and other stakeholders for taking informed decisions on

investments.

References

Everingham, G. K., Kleynhans, J. E. and Posthumus, L. C. (2007). Principles of Generally Accepted Accounting Practice. Capetown: Juta and Company Ltd.

Warren, C. S., Reeve, J. M. and Duchac, J. E. (2008). Accounting. New York: Cengage Learning.

Gibson, C. H. (2010). Financial Reporting and Analysis: Using Financial Accounting Information. New York: Cengage Learning.