

# Ethical revenue

[Sociology](#), [Ethics](#)



Discuss whether it is ethical to record the revenue transaction in December. Identify the accounting principle relevant to this situation, and give the reasons underlying your conclusion.

It is ethical to record the revenue transaction in December provided it meets the requirements in recognizing a business transaction as a revenue transaction. There are two criteria for recognizing revenue. The first is the occurrence of a significant event. That is when a seller has delivered to the buyer his goods or services and the latter had received it and either pays it upon delivery or at a later date.

Second requirement is that the seller and the buyer had agreed on the price of the goods or services delivered which the buyer will pay the seller. The goods delivered are acknowledged by the buyer to be complete and in good condition. With that the seller can record the transaction in December as part of his revenue for the year.

As per the accounting principle of revenue recognition, revenue should be recognized when earned. Consequently, expense is also recognized when incurred. This is called the expense recognition principle. Both revenues earned and expenses incurred for a given accounting period are matched. This is the matching principle of Accounting. All these principles are Generally Accepted Accounting Principles (GAAP).

If the revenue in December is not recorded, there would be no proper matching of revenue and expenses. This would be a violation to the Generally Accepted Accounting Principles (GAAP) which is the matching principle.

Total sales or revenue reported for the year would be understated. The net income would also be understated as well as the owner's equity and assets. Hence a Generally Accepted Accounting Principle was not followed, and this is the adequate disclosure principle.

#### References

CliffsNotes. com. *Generally Accepted Accounting Principles* . 7 Nov 2008 .

[investopedia. com/terms/g/gaap. asp](http://investopedia.com/terms/g/gaap.asp)