



Guide Sheet

Generally Accepted Accounting Principles (GAAP)

Grant Financial Management Requirement

The Uniform Guidance for federal awards requires allowable costs, rental costs, interest, depreciation, compensation and fringe, and audits to be in accordance with GAAP. The first example is found in [2 CFR 200.403](#), which states that costs must meet the following general criteria in order to be allowable under Federal awards: “Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.” [2 CFR 200.515](#) states that the auditor’s report(s) must state that the audit was conducted in accordance with this part and include the following: “The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP....”

Important Information to Know

What is GAAP?

GAAP consists of a common set of accounting rules, requirements, and practices issued by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). GAAP sets out to standardize the classifications, assumptions and procedures used in accounting in industries across the US. The purpose is to provide clear, consistent and comparable information on organizations’ finances.

Why should an organization follow GAAP?

Following GAAP ensures financial information is consistently and accurately reported. It is an accounting practice required by for profits, not-for-profits, and government entities.

What topics should be included for GAAP compliance?

- What accounting methods, at a minimum, have to be in place to satisfy requirements set by federal, tribal, or state laws or by regulations and guidelines such as GAAP?



What additional accounting methods must be put in place to meet government accounting standards such as GASB and FASB, whichever is applicable?

- ▶ What procedural issues should be considered in a GAAP policy?
- ▶ What are the end of the month procedures to ensure GAAP compliance?
- ▶ What are the end of the fiscal year procedures to ensure GAAP compliance?
- ▶ How is GAAP monitored internally and by whom?

Why should an organization follow GAAP?

There are 10 main principles (shown in figure 1), which can help you remember the main mission of GAAP.

FIGURE 1: 10 MAIN PRINCIPLES OF THE GAAP FRAMEWORK

Principle of regularity	The organization's accounting adhered to the standards of GAAP.
Principle of consistency	The organization's accounting practices are consistent and comparable every reporting period.
Principle of sincerity	The organization's accounting is an accurate and correct depiction of the financials.
Principle of permanence of methods	The organization's accounting practices are constant across financial periods.
Principle of non-compensation	All aspects of an organization's performance are fully reported with no prospect of debt compensation.
Principle of prudence	The accounting entries are timely and realistic.
Principle of continuity	Short-term and long-term classifications of financial information are based on the idea the entity will remain in business.
Principle of periodicity	The accounting periods are regular, routine, and consistent.
Principle of materiality	Assets are valued at cost and all financial reports are based on truthful information.
Principle of utmost good faith	Every person involved in the accounting process is acting honestly.

Adapted from [Investopedia](#)



How This Applies to Your Grant

GAAP are standardized accounting practices utilized in ensuring that financials are accurately recorded and managed. Recipients of federal awards are required to accurately maintain their financial records; hence, they would need to follow GAAP.

If an organization is using the accrual method, it must continue using this method, unless it acquires approval from the Internal Revenue Service to switch. Organizations should have appropriate internal controls for checks and balances and to keep everyone in their accounting process honest. Conducting monthly reconciliations will ensure that errors are identified and rectified for the purpose of accurate reporting. These measures are some of the ways recipients can verify that they are providing transparent and consistent financial records, despite the structure of their organization.

If recipients do not submit accurate and timely SF-425 Federal Financial Reports, an automatic hold can be placed on the remaining federal funds awarded, and any payment requests that are submitted through the Automated Standard Application for Payments (ASAP) will be denied. If a recipient does not have their reports current, adjustments to current awards can be affected and restrictions can be placed on any new award.

Awards are subject to conditions of fiscal, program, and general administration to which the recipient expressly agrees upon acceptance of the award. Per [2 CFR 200.514](#), prepared financial statements should be “presented fairly in all material respects in accordance with generally accepted accounting principles.”

References

IRS. (2022, January). *Publication 538 (01/2019), changes in accounting method*.
https://www.irs.gov/publications/p538#en_US_201809_publiclink1000270768

Miller, S. (2020, October 1). Generally accepted accounting principles. Greater Washington Society of CPAs. <https://www.nonprofitaccountingbasics.org/accounting-bookkeeping/generally-accepted-accounting-principles>

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