Expense Recognition Principles

Expense Recognition Principles

1. **Matching Principle**
    - Expenses are recognized in the same period as the revenues they help generate, ensuring profit reflects true economic performance.
2. **Direct Association**
    - Some expenses (e.g., cost of goods sold) can be directly matched to specific revenue transactions.
3. **Systematic Allocation**
    - Other costs (e.g., depreciation) are spread systematically over the periods they benefit, since they can't be tied to a specific sale.
4. **Immediate Recognition**
    - Costs with no clear future benefit (e.g., administrative salaries, advertising) are expensed in the period incurred.
5. **Why It Matters**
    - Proper expense recognition prevents profit manipulation and ensures each period's income statement reflects a fair view of performance.