COMPLETE ACC 101 NOTE
DEPARTMENT OF ECONOMICS AND DEVELOPMENT STUDIES
GROUP 1-11

Group 1

THE HISTORY OF FINANCIAL ACCOUNTING

The history of accounting or accountancy can be traced to ancient civilizations.

The early development of accounting dates to ancient Mesopotamia, and is closely related to developments in writing, counting, money and early auditing systems by the ancient Egyptians and Babylonians. By the time of the Roman Empire, the government had access to detailed financial information.

In India Chanakya wrote a manuscript similar to a financial management book, during the period of the Mauryan Empire. His book "Arthashasthra" contains few detailed aspects of maintaining books of accounts for a Sovereign State.

The Italian Luca Pacioli, recognized as *The Father of accounting and bookkeeping* was the first person to publish a work on double-entry bookkeeping, and introduced the field in Italy.

Throughout much of ancient history and the Middle Ages, accountancy remained a fairly simple affair. The adoption of coinage meant that accounting now dealt with money rather than actual goods, but single-entry bookkeeping, much like that used in modern check registers, was used to keep track of money exchanged, where it went and who owed what. During and after the Crusades, European trade markets opened up to Middle Eastern trade, and European merchants, especially in Genoa and Venice, became increasingly wealthy. They needed a better way to keep track of large amounts of money and complex transactions, and this led to the development of double-entry bookkeeping. Double-entry bookkeeping means that each transaction is recorded at least twice, as a debit from one account and a credit to another. In 1494, a Franciscan monk and mathematician Luca Pacioli published a math book titled "Summa de arithmetica, geometria, proportione et proportionalita," which contained a description of double-entry accounting. As the book's popularity grew, double-entry accounting began to sweep Europe, as merchants realized what a valuable tool it gave them for keeping track of detailed financial information. For this accomplishment, Luca Pacioli is often called the "Father of Accounting." Still, at this point in history, accountancy was not yet a specific profession, but rather an extension of the clerical duties of scribes, officials, bankers and merchants.
With the advent of the Industrial Revolution in the late eighteenth and early nineteenth centuries, accounting developed further and came into its own as a profession. With the new complexity of accounting and the increasing demand for accurate bookkeeping, people began to specialize in accountancy, thus becoming the first professional public accountants. Some of the accounting firms that are still in operation today were founded in the mid-nineteenth century. William Deloitte opened his firm in 1845, and Samuel Price and Edwin Waterhouse opened their joint business in 1849.
Today, accounting is a business unto itself, with thousands of practitioners worldwide and a large number of professional organizations and official guidelines to codify practices and requirements. The Generally Accepted Accounting Principles, or GAAP, set forth the standards by which public accountants must do business. Every country has a similar set of accounting guidelines.

THE NATURE OF ACCOUNTING

Accounting is the art of recording, classifying, summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character and interpreting the results thereof. The Nature of Accounting can be defined in two ways:

- ∀ Quantitative Attributes of Accounting
- ∀ Qualitative Attributes of Accounting

QUALITATIVE ATTRIBUTES OF ACCOUNTING

The fundamental nature of financial statements is to provide true and fair view of the state of affairs and profit or loss for the period. Qualitative attributes simplifies and expands on the financial figures to ensure easy understanding and comparability of results. The Qualitative Attributes that describe the Nature of Accounting are as follows:

RELIABILITY; Reliability implies that the information must be factual and verifiable.

RELEVANCE; Accounting information depicted by financial statements must be relevant to the objectives of enterprise.

UNDERSTANDABILITY; Accounting information should be presented in such a simple and logical manner that they are understood easily by their users such as investors, lenders, employees etc.

COMPARABILITY; Comparability is very useful quality of the accounting. The financial statements should contain the figures of previous year along with the figures of current year so that the current performance can be compared with the past performance.

FAITHFUL REPRESENTATION; Accounting aims at preparing those financial statements that depict the true and fair view of profitability, liquidity and solvency position of an enterprise. Application of appropriate Accounting Standards normally results in financial statements portraying true and fair view of information of an enterprise.

QUANTITATIVE ATTRIBUTES OF ACCOUNTING

The Quantitative attributes explaining Nature of Accounting are as follows:

ACCOUNTING IS AN ART AS WELL AS SCIENCE; Accounting is an Art of recording, classifying, summarizing, analyzing and interpreting the accounting records with a view to ascertain the net profit/ loss and financial position of the business. Accounting as a Science is an organized body of knowledge that contains some underlying principles and rules that are followed while maintaining accounts. However, Accounting is not a pure science as it does not establish cause and effect relationship.

RECORDING OF FINANCIAL TRANSACTIONS ONLY; Accounting records only those transactions and events that are expressed in monetary terms or in quantitative form will be recorded in the books of accounts.

CLASSIFYING THE TRANSACTIONS; one of the Features of Accounting is that it classifies all the transactions recorded in the book of the Journal. Classification refers to grouping the transactions of same nature at one place, in a separate account.

SUMMARISING THE TRANSACTIONS; Summarizing is the art of presenting the classified data in a manner which is understandable and useful to management and other users of such data.

ANALYSING; Analyzing is concerned with the establishment of relationship between the various items or groups of items taken from Income Statement or Balance Sheet or both. Purpose of analysis is to identify he financial strengths and weaknesses of the enterprise.

INTERPRETATION OF FINANCIAL INFORMATION; Financial statements alone are not easily understood by the ordinary user. As such, there is a requirement for financial statements to be interpreted and explained for some of the users who have neither the access nor the resources to easily interpret financial statements.

THE SCOPE OF ACCOUNTING

Financial accounting covers an area of accounting generally referred to as reporting. Financial accounts are prepared for various user and stakeholder groups and as such they have many different objectives for the different groups and a very wide scope. The scope of financial accounting includes recording transactions, summarizing information, analyzing information, reporting information and presenting it for use by groups that include owners, management, creditors, government authorities and other external stakeholders. The scope is same as what has been discussed in the Quantitative Nature of Accounting.

ROLES OF FINANCIAL ACCOUNTING

In a business, the financial accounting function is responsible for periodically reporting pecuniary information to business owners. Interested parties such as regulators, customers, investors and creditors often require this financial information. Below are some roles Financial Accounting Play:

A SYSTEM OF CONTROL; Financial accounting forms a basic set of financial controls for your business. This requires that you have adequate knowledge and understanding of financial accounting principles and conventions so you can assign responsibilities, record financial information and divide duties among employees. Financial accounting, therefore, enables you to monitor such duties and their results more closely. Sound financial records demonstrate financial controls and oversight that reduce the risk of fraud and theft, something that investors like to see.

AS A TOOL FOR ANALYSIS; financial accounting can produce financial information in a manner that makes interpreting business performance easy. As a business owner, you can use financial accounting to develop ratio analyses and use those ratios to perform more detailed analysis of various aspects of your business. You can measure your business's cash position or measure your profit or sales ratio and compare it with your past performance or the performance of competitors. Financial accounting helps you formulate your future course of action or strategy and measure the success of this strategy with the financial information produced from another period.

TAX AND COMPLIANCE; When you are operating a business, it involves a lot of calculation regarding paying tax and filling out a lot of forms. The financial statements are introduced on the basis of various configurations. The compliance and tax-related function will make sure that form from the government are completed and sent on time. Only strong tax report will go a step further to reduce the tax burden.

Group 2

INTRODUCTIONTOACCOUNTINGPRINCIPLES

Overayear,profesionalacountantsandrelevantregulatorybodydeveloprulesand proceduresknownasGeneralyAceptedAcountingPrinciples(GAAP).Itguidesinthe preparation offinancialstatementsandisis suedoutinform ofac countingstandardbyvarious bodiesliketheNigeriaacountingstandardsboard(nasb)nowknownasfinancialreporting councilofNigeria(FRCN).

HistoryofAcountingPrinciples

ItissaidthatLUCAPACIOLIPublishedworkforthedoubleentryAcountingsystem basedon proceduresinusebyVenetianmerchantsduringtheItalianRenaisance.

TheItalianRenaisance.

Duringthe14thcentury,Aculturalmovementcal ledhumanism begantogainmomentum in Italy.Amongitsmanyprinciples,humanism ispromotedtheideasthatmanwasthecentreofis ownuniverseandpeopleshouldembracehumanachievementsineducation,clasicalart,and literaturewithscience.MostoftheAcountingprinciplesandcycledescribebyLUCAarestili n usetothisveryday.

Whenacountingprincipleswerefirstsetforthstandardizeacountingprincipledatealthe waybacktotheadventofdoubleentry.Bookkeepinginthe15thcenturyalsoin16thcentury thatintroduceaT-ledgerwithmatchedentriesforasetandliabilities.

Somescholarshavearguedthattheadventofdoubleentryacountingpracticeduringthattime providedaspringboardfortheriseofcommerceandcapitalism.TheAmericaninstituteof certifiedpublicacountantandtheNewYorkexchangeatemptedtolaunchthefirstacounting standardtobeusedbyfirm inthe1930s

MEANINGOFACCOUNTING

Acountingistheprocesofrecordingfinancialtransactionspertainingtoabusineswith procesofidentifying,Clasifying,summarisingandinterpretationoffinancialstatementsofa n individual,groupsorcompaniesandAnyform oforganisationsforthepurposeofmakingan informeddecision.

MEANINGOFPRINCIPLES
Thisisafundamentaltruthorpropositionthatservesasthefoundationforasystem.

MEANINGOFACCOUNTINGPRINCIPLES

ThiscanbedefinedastherulesandguidelinethatusersofAcountingandcompaniesmost folowedwhenreportingfinancialdata.thesefinancialAcountingstandardboard(FASB)isu ed astandardisedsetofAcountingprinciplesisUSReferedtoasGENERALLYACCEPTED

ACCOUNTINGPRINCIPLES(GAAP),theyAimstomakeinformationInfinancialstatements
reliable.Forexample,theAcrualandMatchingConceptprinciplesrequiredcompaniesto matchrevenueandexpenseswiththeperiodinwhichtheyareincuredregardlesofweather anychangeshand.

Acountingprinciplesensurethatacompanyfinancialstatementsarecomplete,consistent,And
comparable.Thismakesiteasierforinvestorstoanalysisandextrausefulinformationfrom the
companyfinancialstatementsincludingtrenddataoveraperiodoftime.Itsalsofacilitatethe comparisonoffinancialinformationacrosdiferentcompanies.Acountingprinciplesalsohelp mitigateacountingfraudbyincreasingtransparencyandalowingredflagtobeidentified.

Fundamentalprincipleofacount

1)economicentity:thebusinesisconsideredaseparateentity.theactivitiesofabusines mustbekeptseparatefrom thefinancialactivitiesofitsbusines sowners.

2)costprinciples:thecostprinciplementionsthehistoricalcostofanitem.It'sreversetocash thatwaspaidtopurchaseonitem inthepast.mostoftheseas setsamountisadjustedfor inflationandhistoricalcostisreportedonthefinancialstatements.

3)fuldisclosureprinciple:alinformationthatisrelevanttothebusinesanditimportanttoa lenderorinvestormustbedisclosedinthecontentalthefinancial.ThisisthereasonnoMarius footnotesareatachedtofinancialstatements.

4)goingconcernprinciples:itisasumedthatthebusinesunitwilcontinueinperspective. Thisis,itisexpectedthatthebusineswilnotbeliquidatedintheforeseeablefuture.Busines unitisdeemedagoingconcernifitiscapablegeneratingreasonableearningforunknown indicationofthreatsofanyform thatcouldcease thebusines sabruptly.

5)consistencyprinciple:itrequiresTheentitytoapplythesameacountingmethod,policies andstandardforreportingitfinancialstatements.Though,thereareseveralmethodsavailable fortreatingacountingtransactionwithoutmaterialyviolatingacountingprinciples.However, wheneveramethodischosen,itmustbefolowedrigorouslyorlessituationwarantsforsuch change.

6)matchingconceptprinciples:foranyacountingperiod,alrevenueearnedandcostincure mustbematchedandreportedfortheperiod.thisconceptmakesurethattheincomeand expensesintheincomestatementmustreflectintheperiodthattheyareactualyincured.

7)materiality:itensuresonlyitemsofmaterialvaluesareacordedStrictrecognitionand treatmentinthefinancialstatements.Anitem isconsideredmaterialomis sionorit'smis s statementsgooddesortthetrueandfairviewoffinancialstatementstotheextentthatsuch afectusersdecisionmakingandindividualusersjudgement.

8)reliableprinciple:itisconcernedaboutthereliabilityoffinancialinformationthatis

presentinthefinancialstatementsofanyentity.thisacountingconceptisimportantforthe usersofacountinginformationbecauseiftheinformationisnotreliable,thedecision-making wouldbeunlikelycorect.

9)substanceoverform:transactionareusualygovernedbylegalprinciplebuttheyare neverthelesacountedforandfinancialrealityandnotwiththeirlegalform.DSSistoprevent them from distortingdeartruereportunderthepretenseofRigidlyfol lowingthefootprintof thelaw.

10)fairnes:itenjoyspreparerstobeobjectivewhenpreparingfinancialstatements.The preparershouldnotbebias,heshouldnotonlytaketheinterestofagroupintoconsideration butalthestakeholders.

Bodiesofacountingprinciple 1)generalyaceptedacountingprinciple(GAAP)
2)internationalfinancialreportingstandards(IFRS)
3)financialacountingstandardsboard(FASB).

1)generalyaceptedacountingprinciple(GAAP):publictradedcompaniesinUnitedStates alwaysfilegeneralyaceptedacountingprincipleregularly,orgaapcompliantfinancial statementinordertoremainpubliclylistedonstockexchange.

GAAPappsgoverntheworldofacountingbystandardisingandregulatingthedefinitionsas optionsandmethodusedbyacountantsacrosthecountry.Thereareanumberofprinciplebut someofthemostnotableincludetherevenuerecognitionprinciples,machiprinciples materialityprinciplesandconsistencyprinciple.

Theultimategoalofstandardizedacountingprincipleistoalowfinancialuserstoviewa companyfinancialswithcertaintythattheinformationreceivedintheextentiscomplete consistentandcomparable.

Privatelyheldcompaniesandnon-profitorganisationmayalsoberequiredbylenderor investorsontheGAAPcompliantfinancialstatements.Forexample,annualaudited.GAAP financialstatementsareacommonloancovenantsrequiredbymostbankinginstitution therefore,mostcompaniesandorganisationintheUnitedStatescomplywithGAAP,eventho ugh itisnotnecesarilyarequirement.

2)internationalfinancialreportingstandards(IFRS):acountingprinciplesdiferfrom country
tocountry.Theinternationalacountingstandardboard(IASB)isuedinternationalfinancial reportingstandard(IFRS).Thisstandardareusedinover120countries,includingthosein EuropeanUnion(EU).

Thesecuritiesandexchangecommision(SEC)theUnitedStatesgovernmentagency

responsibleforprotectinginvestorsandmaintainingorderinthesecuritiesmarket,as expresedthattheUnitedStateswilnotbeswitchingtoIFRSintheforeseeablefuture. However,theFASBandtheIASBcontinuestoworktogethertoisuesimilarregulationson certaintopicsasacountingisuearises.Forexample,in2014,theFASBandtheIASBjointly announcednewrevenuerecognitionstandard.Sinceacountingprinciplediferacrostheworl d, investorsshouldtakecautionwhencomparingthefinancialstatementofcompaniesfrom diferentcountries.theusesofdiferentacountingprincipleislesofaconcerninmoremature markets.Stil,cautionshouldbeusedasthereisstilleewayfornumberdisertationunder manysetsofacountingprinciples

3)Financialacountingstandardboard(FASB):itisanindependentnon-profitorganisation, thefinancialacountingstandardsboardhastheauthoritytoestablishandinterpretgeneraly aceptedacountingprinciple(GAAP)intheUnitedStatesforpublicandprivatecompanyand non-profitorganisation.GAAPreversetoasetofstandardforourcompanies,nonprofitand governmentshouldprepareandpresenttheirfinancialstatements

DiferencebetweenIFRSandGAAP

IFRSisthestandardbasedapproachthatisusedinternationaly,whyGAAPistherulebased system usedprimarilyintheU.S.theifrsisseenasamoredynamicplatform thatisregularly beingrevisedresencetoanever-changingfinancialenvironmentwhilegaapismorestatic.

Gaapalowscompaniestouseeitherthefirstin,firstout(fifo)orlastin,firstout(LIFO)asan inventorycostmethod,however,isbannedunderIFRS

Functionoffinancialprinciplesofacounting 1.Planning

2.Organizing 3.Leading 4.Controling

Explanation 1.Planning:-itistheprocesofdevelopingbusinesstrategyandvisionforfuture

2.Organizing:-itistheprocesofcoordinatingandalocatingafirm resourcesinordertocary outitsplan

3.Leading:-itisthestrategyusedbyafirm toac celeratepayment,normal lyorcompanyfor specificposition

4.Stafing:-itistheprocesofhiringeligiblecandidateintheorganisationorcompanyfor specificpositions

5.Controling:-financialcontrolaretheprocedures,policiesbywhichanorganisation,monito rs andcontrolsthedirectionalocationandusageofitsfinancialresources.

Ultimategoalsofacountingprinciples

*toensurethatacompany'sfinancialstatementsarecomplete,consistentandcomparable

*Tofacilitatethecomparisonoffinancialinformationacrosdiferentcompanies.

*Tomitigate/curbacountingfraudbyincreasingtransparency

*tomakeiteasierforinvestorstoanalyseandextractusedtoinformationfrom thecompany's financialstatementoveraperiodoftime

Examplesoffundamentalprincipleofacounting 1.Equality

2rulesoflaw

3.Limitedgovernment 4.Representativegovernment

Fundamentalprinciple

acountingprinciplemustbetakenintoconsiderationwhenpreparingtheacounting statementtheyaresobasicthatifanyofthem arealteredtheentirednatureoffinancial busineswouldchange.

1)measurementprinciple 2)therevenuerecognitionprinciple 3)thefuldisclosureprinciple 4)theexpensesrecognitionprinciple(matchingprinciple)

1)themeasurementprinciple:principaltestthatfinancialinformationshouldbeonthemain actualcostwhichwouldbemeasuredoncashbasis.thismeansthatonlyitemsthatcanbe folowedoncashbasisshouldberecordedinthefinancialstatement.

2)therevenuerecognitionprinciple:eachstatethatrevenueshouldberecognisedonlywhen endthisprinciplegivestheleavesorwhatshouldberecordedinafinancialstatement.

3)thefuldisclosureprinciple:italowthereportoffuldetailsoffinancialstatement,it'sbeen statedwiththepreparingfinancialinformation.

4)theexpensesrecognitionprinciple(matchingprinciple):thisiswhenbusinesincuremustbe

recordedinthesameperiodasrelatedrevenue. explanationofmajorprincipleofacounting.

1)revenuerecognition:thestatethatrevenueisreleasedwhenitisearned,regardlesofwhen itisreceived.

2)objectivity:thestatethathavingtheabilitytorelyondocumentinform actiontorecord financialinformation

3)historicalcost:inacounting,istheamountofcashgivenuptoacquireaspecificitem.

4)goingconcernprinciple:itmeansthatyoubelievethatthecompanyisgoingtokeepon keepingonfairintothefuture.

5)monetarymeasurementprinciples:thismakeyouseethateverysingleacountactiondeals withmoney.

6)separateentityprinciple:itstatesthatnomaterwhatyoudoasabusinesowner,youmust keepyourpersonaldealingscompletelyseparatefrom thecompany'sdealings.

Fundamentalprincipleofacount

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Somecriticsofacountingprinciple.

Criticsofprinciplearebasedac countingsystem saytheycangivecompaniesfortoomuch freedom anddonotprescribetransparency.Theybelievebecausecompanydonothaveto folowspecificrulesthathavebeensetout,theyarereportingprovideanadequatepictureof theirfinancialhealth.InthecaseofrulesbasismethodlikeGAAP,complexrulescarcause unneces sarycomplicationsinthepreparationoffinancialmethodstatements.criticism claims arebeingstrictrulesthatcompaniesmustspendandofyearandmonthoftheirresourcesin ordertocomplywithindustrystandards.

Acountingequations.

acountingequationsisthemathematicalrepresentationofastatementoffinancial approachingofabusines satal ltimesandtheclaimsuponthem ifform ofliabilityandequity. Thewholeacountingisbasedontheequations.

Forexample,asets=capital+liability.

ac countingequationstatesthatacompanytotalas setsareequaltothesum ofitsliabilitiesand itsshareholdersequity.

Doyoustraightforwardnumberonacompanybalancesheetisconsideredtobethefoundation ofthedouble-entryacountingsystem.

Understandingtheparts.

Inordertounderstandtheacountingequationyouhavetounderstandit'sthreepartsfirstare theasets.

1)Asets:thereanythingthatacompanyowns.Itisthepropertiesorresourcesofasetsare cashlandandbuilding,equipmentandsupplies.Moneythatisowedtoacompanybyits customers,whichisknownasacountreceivable,isalsoanaset.

2)labilities:theyareobligatedtopayoutmoneyassometimesinfuture.Itisindebtednesof faretooutsiderse.gloan,creditors,overdraft.Theyarealsowhatacompanyowes.Thingssuc h asutilitybils,landpayments,employeessalaryandinsurance.

3)capital:thisisthetotalmoneyprovidedbytheownertostartabusines.itisequaly referedtothenetworthorowner'sequity.

owner'sequityistheamountofmoneythatacompanyownerhaspersonalyinvestedinthe company.Initial lystartupcostofacompanythatcomesfrom theownershomepocketsthat'sa goodexampleofowner'sequity.

Anexampleofhowacountingequationworks

EDownsasmaldiary.Productionhasbeengoodthislastfewyears,soEddecidedtoopenupa countrystoretosel lsomeofhishomemadedairyproducts.Hebor rows#25,000from

thebank
tobuildthestore.Onebuilt,thestorehasavalueof#40,000.EDalsohastohireemployeeto helphim workthestore.Theemployeesalaryis#15,000ayear.Inordertomakethecheese,ice cream,andsweetcream thatheplansonsel linginthestore,Edpurchaseequipment,itmakes the#10,000equipmentforchasewithmoneythatittakesfrom isonsavingac count.

summary

Overtheyears,profesionalacountantsandrelevantregulatorybodiesdevelopedrulesand procedureknownasgeneralyaceptedacountingprinciple(GAAP).it'sguysinthepreparatio n offinancialstatementanditisis suedoutinform ofac countingstandardsbyvariousBodieslike theNigeriaacountingstandardbyNigeriaacountingstandardboard(NASB)nowknownas financial reporting council of Nigeria (FRCN)

Group 3

ACCOUNTING CONCEPT AND CONVENTION

In FUOYE, Economics students of 100 Level are informed that pink is their departmental color. A general vest was made available to be given with the description "Proudly Economist" ,that is the generally accepted wear. We can link the vest to accounting convention because it is the norms/customs/practice and generally accepted method/procedures/principles that are followed by the firm while recording transactions and preparing financial statements.

Although, wearing of pink shirt is also allowed for 100 levels students in FUOYE. In other extreme we can link the wearing of any pink shirt to accounting concept because they are supported operation and fundamental accounting assumption that act as a foundation for recording business transactions and preparation of final accounts.

Accounting concept can be defined as brood base assumptions, which underline the preparation of financial Statement. We can also say it is the assumptions on the basis of which financial Statement of a business entity are prepared. All in all we are still saying the same thing. Before we move further we should understand what concept is all about: concepts are those basic assumptions and condition which form the basis upon which the accountancy has been paid. We have different kinds or types of accounting concept and these are the following:

1. Business entity concept: This concept assumes that, for accounting purposes, the business enterprise and its owners are two separate Independent entities. Thus, the business and personal transactions of its Owner are separate. For example, when the owner invests money in the business; It is recorded as liability of the business to the owner. Similarly, when the owner takes away from the business cash /goods for his/her personal use, it is not treated as business expense.

2. Goingconcernconcept:Thisconceptsstatesthatabusinessfirmwillcontinueto carry on its activities for an indefinite period of time. Simply stated, it means that every business entity has continuity of life. Thus, it will not be dissolved in the near future. This is an important assumption of accounting, as it provides a basis for showing the Value of assets in the balance sheet.

3. Dual aspect concept: This principle is the core of modern accounting. At states that every transaction as a dual aspect. It states that every Change in one element of the account equation <asset=capital +liability> is accompanied by another change of a similar amount in the Opposite direction in another element. Dual aspect is the

foundation or basic principle of accounting.

4. Matching Concepts: The matching concept states that the revenue and the expenses incurred to earn the revenues must belong to the same accounting Period. So once the revenue is realized, the next step is to allocate it to the relevant accounting Period. This can be done with the help of accrual concept if the revenue is more than the expenses. It is called Profit. If the expenses are more than the expenses revenue it is called loss. This is exactly what has been done by applying the matching concept.

Therefore, the matching concept implies that all revenues earned during an accounting year, whether received or not during that year out and all cost incurred, whether paid or not during the year to I should be taken into account while ascertaining profit or less for that year.

Significance

- It guides how the expenses should be matched with revenue for determining exact Profit or loss for a Particular Period.
- It is very helpful for the investors of shareholders to know the exact amount of Profit or loss of the business.

5. Realization Concept: This concept states that revenue from any business transaction should be included in the accounting records only when it is realized The term realization means creation of legal right to receive money, Selling goods is realization, receiving ender or not. In other words, it can be said that: Revenue have been realized when cash has been received or right to receive cash on the Sale of goods or services or both has been created for example: A Jeweler received an order to supply gold ornament worth #500,000. They supplied ornaments worth #300,000 up to the year ending 31st December 2005 and the rest of the ornaments were supplied in January 2006. The revenue for the year 2005 for a jeweler is #300.000. Mere getting an order is not considered as revenue until the goods have been delivered.

6. Accrual Concept: The meaning accrual is something that becomes due= especially an amount of money that is yet to be paid or received at the end of the accounting period. This means that revenues are recognized when they become receivable. The

accrual concept under accounting assumes that revenue is realized at the time or sale of goods or services irrespective of the fact when the cash is

received.

7. Money measurement: This concept assumes that all business transactions must

be in terms of money that is in the currency of a country. In our country such transaction are in terms of naira. Thus, as per the money measurement concept, transactions which can be expressed in terms of money are recorded in the books of accounts. For example, sincerity, loyalty is not recorded in the books of accounts because these cannot be measured in terms of money although they do affect the profit and losses of the business concern.

8. Accounting cost concept: it states that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transportation and installation and not at its market price. It means that fixed assets like building, plant and machineries, furniture etc. are recorded in the books of accounts at a price paid for them.

9. Accounting period concept: All the transactions are recorded in the books of account on the assumption that profits on these transactions are to be ascertained for a specified period. This is also known as accounting period concept. Thus, this concept requires that a balance sheet and profit and losses account should be prepared at regular intervals. This is necessary for different purposes like, calculation of profit, ascertaining financial position etc.

ACCOUNTING CONVENTIONS

An accounting convention refers to common practices which are universally followed in recording are presenting accounting information of the business entity. Convention denotes customs or traditions or usages which are in use since long. To be clear, these are nothing but unwritten laws. The accountant has to adopt the usage or customs, which are used as a guide in the preparation of accounting reports and statements. These conventions are known as doctrine.

1. Convention of consistency: This means that same accounting principles should be used in preparing financial statements year after year. A meaningful conclusion can be drawn from financial statement of the same enterprise where there is comparison between them over of time. If different accounting, procedures and practices are used for preparing financial statement of different years, then the result will not be comparable.

2. Convention of full disclosure: This requires that all material and relevant facts concerning financial Statement should be full, fair and adequate disclosure of

accounting information. Adequate means sufficient set of Information to be disclosed fair indicates an equitable treatment of users, full refers to complete and detailed presentation of information. Thus, the convention of full disclosure suggests that every financial statement should fully disclose all relevant information.

3. Convention of materiality: This state that only items of significance should appear separately a financial statement for an item to enjoy elaborate recording it should be material enough for it to be worthwhile. For instance, when a motor vehicle is purchased, the value will be significant to the business and will likely be used for more than one year. Such item is material and depreciation is charged for the number of years of usage (depreciation at this stage can simply be defined to you as the appointment of the cost of an asset over the number of financial years the asset will be used). The motor vehicle will therefore be reported separately and included in the balance sheet.

4. Convention of conservatism: This convention is based on the principle that "Anticipate no profit, but provide for all possible losses". It provides guidance for recording transactions in the books of accounts. It is based on the policy of playing safe in regard to showing profit.

The main objective of this convention is to show minimum profit should not be overstated. If Profit shows more than actual, it may lead to distribution of dividend out of capital. This is not a fair policy and it will lead to the reduction in the capital of the enterprise.

Differences between Accounting concepts and conventions

- Accounting concept is a theoretical notion while Accounting conventions are procedures to be followed.
- Accounting concepts are set by accounting bodies while Accounting Conventions emerge out of common accounting practices that are accepted by general agreement.
- Accounting concepts are related to the recording of transactions

and maintenance of accounts while Accounting conventions focus on the preparation and presentation of financial statement.

- In accounting concept there is no possibility of biases while in accounting

convention there is high case of biases

GROUP 4

THEUSERSANDUSESOFACCOUNTINGINFORMATION WhatisAccounting?

Accountingistheprocessofrecordingfinancial transactionspertainingto business.Theprocessincludes summarizing,analyzingandreportingofthesetransaction

tooversighttheagencies,regulatorsandtaxcolection entities.Italsomeanstokeepfinancialrecords.

WhatisInformation?

Informationisaknowledgecommunicatedorreceived concerningaparticularfactorcircumstance.

WhatisAccountingInformation?

Accountinginformationistheprocesstorecord,analyse, summarizeandinterpretfinancialinformationofa businessorganization.

Itisalsoadataaboutbusinessentity'stransactionsfrom buyinginventoriesandmachineryintolongterm building contracts,theeventthatoccursinabusinessoperation.

Accountinginformationistheonlywayorlanguage throughwhichabusinesscancommunicatethefinancial statusoftheorganizationtotheinternalandexternal world.

TYPESOFACCOUNTINGINFORMATION

Accountinginformationisthebasealimportantdecisionswhicharetakenby owners,management,potentialinvestors,creditors,lenders,employees,government, researchersandpublic.Theyaretheinterestedpartiesinaccountinginformation. Diferentpeopleneeddiferentaccountinginformation.So,itisnecessarytoclassify theaccountinginformationindiferenttypes.

Folowingarethemaintypesofaccountinginformationwhicharegeneratedfrom accountingrecordsforprovidingthebenefitstointerestedparties.

1.AccountingInformationofFinancialPerformanceandFinancialPosition

Thisisthemaintypeandcommonaccountinginformation.Everyuserneedthe informationofnetprofitornetlossofcompany.Attheendofyear,whatisamount ofnetprofitornetlossofcompany.Ifnetprofit'svalueisveryhigh,everyuserwil takebenefitfrom thisdata.Employeescandemandmoresalary.Shareholdersmay demandmoredividend.Investorscaninvesttheirmoneyinthecompanybecauseit isthegoodchancethattheywilreceivemorereturnontheirinvestment.Forgeting thisinformation,itisnecessarybusinesshastomaketheprofitandlossaccount. Thisaccountinginformationisalsocaledtheinformationoffinancialperformance. Nextcommoninformationisfinancialposition.Wecanfindthefinancialpositionby seeingthebalancesheet.Balancesheet'sunderstandingishelpfulfortelingwhether financialpositionisstrongorweak.FinancialAccountingprovidessuchaccounting information.

2.AccountingInformationofTotalCostandPerUnitCost

Secondtypeofaccountinginformationisofvalueoftotalcostandperunitcost.If youhavetoselyourproductinthemarket,youneedtoknowwhatisyourtotalcost andperunitcost.Alcostaccountingrecordswilbehelpfulforprovidingsuch accountinginformation.Whenbusinessmangetsthisinformation,itwilbeveryeasy forhim forfixinghisestimatedsalepricebyaddingprofitmargininit.Forexample,

MyCostofperunitis$ 100aspermycostaccountrecords.Now,Iwanttoget50% profitonmysale.So,Iusefolowingsimpleformula

Profit=CostXProfit/(100-Profit)=100X50/(100-50)=100
SalePrice=Cost+Profit=100+100=$200

3.AccountingInformationforPlanningandControlofBusiness

Therearelotsofaccountinginformationwhichareneedforplanningandcontrol overthebusiness.Suchinformationisaddedinthethirdtype.Forexample,weare interestedtopayingfastlytoourcreditor.Forthisplanning,wehavetocheckcreditor turnoverratioandaverageconversionperiod.Likethis,therearelotsofratioswhich arehelpfulfordiferentplanning.Throughbudget,wegetdiferentaccounting informationforcontrolingthebusiness.Cashflowstatementisprovidethe informationofsourceandapplicationofcash.Suchinformationishelpfultocontrol ofcashwhichisusedinoperationactivities,investingactivitiesandfinancial activities.Altheseaccountinginformation,wecangetfrom management accounting.

4.AccountingInformationforTaxManagement

Thisistheimportanttypeofaccountinginformation.Inthistype,wecolected informationwhichareonlyneedfortaxmanagement.Forexample,forcalculating incometaxontheprofit,weneedprofitbeforetaxanddividenddistribution.ForVAT Input,weneedinformationofpurchaseofdiferentproductswhicharebovghtinday from oneparty.ForVATOutput,weneedtheinformationofsaleofdiferentproduct whicharesoldinadaytooneparty.Forgetingthisaccountinginformation,itisvery needtostudytaxaccountingofbusiness.

5.AccountingInformationforSocialResponsibility

Throughsocialaccounting,wecolecttheaccountinginformationforsocial

responsibility.Inbigcorporate,asocialaccountismadewhichprovidethe informationofbenefitstosocietyandcostofnaturalresourceswhicharetakenby corporate.Futurebenefitslikeproductsafety,financialsupporttomanpower, customersatisfactionandpolutioncontrolcanbegivenontheseaccounting information.

USERSOFACCOUNTINGINFORMATIONS

Internalusersarethoseindividualswhotakeinterestinto twogroups;

1.Internalusers 2.Externalusers

INTERNALUSERS

Internalusersarethosepeoplewhohavedirect involvementinthemanagementandoperationofthe organization.Theyinclude;

ϖ Owners/shareholders

ϖ Managements

ϖ Em ployee

ϖ Internaldepartment

ϖ Internalauditors

ϖ Owners/shareholders:thesepeoplemakeuseof accountinginformationtochecktheactivitiesand situationofthecompany.

ϖ Management:thesepeoplealsomakeuseof

accountinginformationinordertochecktheprogress ofthecompanyandalsomakerationaldecisionofthe financialstate/afairsofthecompany.

ϖ Employees:theymakestudyonfinancialstatementof companiesaspartoftheirdutytopracticefor importantlabournegotiation.Also,ifthecompanyis financial ly buoyantto provide long-term em ploym ent foritsworkforce.

EXTERNALUSERS

Externalusersarethoseindividualswhotakeinterestin theaccountinginformationofanorganizationbuttheyare notpartoftheorganization'sadministrativeprocess.They include;

υ Creditors/Lenders

υ Investors

υ Government

υ Tradingpartners

υ Customer

υ Creditors/Lenders:theuseaccountinginformationto findouttheabilityofthebusiness/debtortorepaythe loan.Theytakeintoconsiderationthenumberof assetsandliabilitiesoftheborower,evidenceof income,economicpositione.t.cbeforelendingmoney tothebusinessentity

∪ Investors:thesearecapitalproviderofthebusiness.

Beforeaninvestorinvestinabusiness,hewould requesttoseethefinancialreportofthebusinessin othertofigureoutthepossibilitiesofthebusinessin thefuture.Financialinformationisimportantto investor(s)tomakesurehis/herinvestmentissecure.

∪ G o v e rn m e n t: G o v e rn m e n t b o d ie s e s p e c ia l ly ta x authoritiesareinterestinthebusinessfinancial informationfortaxationandregulatorypurpose.The governmentthroughthefinancialinformationcharges thebusinesshowmuchtaxtopay.

∪ Tradingpartners:associatetradingpartnerslooksat thefinancialinformationanddecidesiftradingwilbe beneficialtoherbeforetrading.

∪ Customers:Customersbecomeinterestedina company' sabilityandstabilityofoperationwhenthere isalongterm ofcontractbetweenthem andthe company.Customersarepeoplewhopurchasegoods andservicesprovidedbybusinessorcompany.

USESOFFINANCIALINFORMATION

1.InvestmentDecision:Externalbusinessstakeholder oftenusefinancialinformationtomakeinvestment decision.Banks,lendersorprivateinvestorsoften reviewacompanyorbusinessfinancialinformation andoperationalprofitability.

2.Planning:Financialinformationprovidesinformation andgivesroom forfutureplanning.Infact,onecannot planproperlyforthefuturewithoutthegoodviewof one'spresentfinancialposition.

3.Financialstatement:Accountinginformationisusedto preparefinancialstatementwhichreportacompany positionforaspecificperiodoftime.Theyshow company'sabilitytocoveruptheirshort-ternandlong- term debts,theirprofitsandlossesandtheabilityto meettheircashneeds.Thefinancialstatementpul datadirectlyfrom thegeneraledgeraccount.

4.Goingconcern:Thisisthecompany'spositionrelated toitsabilitytocontinueoperatingintothefuture. Accountinginformationisusedtodeterminethegoing concernpositionofthecompany.

5.Ratioanalysis:Theevaluationofthecompanyliquidity, solvencyandlevelofdebt.Thecompany'sliquidity determinesitsabilitytopayitslongterm debt.Other ratiodeterminesifthecompanytimingoverinventory isfastenoughandiscolectingreceivableinatimely manner.

6.Budgeting:thisisacriticalfunctioninalbusiness operation.Accountingdataprovidescriticalfigurein creatingfuturebudget,revenue,expenses,profitand retainedearningarelookedatwhencreatingabudget.

7.ManagementDecision:Decisionrequiresinformation,a decisionwithoutabasisorinteligenceonthesubject materiscaledgambling.Withthehelpofaccounting

informationoneisablemakedecisiononhowto managethebusinessonwhethertoborowtocover one'sneedorinvestsurpluscashorexpandproduction orpossibleproductionlinee.t.c

LIMITATIONOFACCOUNTINGINFORMATION

limitationsofaccountingare; 1.Recordingonlymonetaryitems. 2.Timevalueofmoney. 3.Recommendationofalternativemethods. 4.Restrainofaccountingprinciples. 5.Recordingofpastevents. 6.Alocationoftheproblem. 7.Maintainingsecrecy. 8.Thetendencyforsecretreserves. 9.Importanceofform oversubstance.

Theselimitationsarestatedbelow;

1.Recordingonlymonetaryitems

Asperaccountingprinciples,onlytheeventsmeasurable intermsofmoneyarerecordedinthebooksofaccounts. Buteventsofgreatimportance,ifnotmeasurableinterms

ofmoney,arenotaccountedfor.

Forthatreason,recordedaccountinginformationfailsto exhibittheexactfinancialpositionofabusinessconcern.

2.TimeValueofMoney

Undertheaccountingsystem,moneyvalueistreated constantly.

Butthevalueofmoneyalwayschangesduetoinflation. Underexistingaccountingsystems,accountsare maintainedconsideringhistoricalcostignoringcurent changedvalue.

Asaresult,theaccountsmaintainedfailtoexhibitthe exactfinancialpositionofabusinessconcern.

3.Recommendationofalternativemethods

Thereexistsanapplicationofalternativemethodsin determiningdepreciationofassetsandvaluationofstock etc.

Informationregardingtheactivitiesofthebusinessis expressedinamisleadingwayifanalternativemethodis usedtoachieveaparticularobject.

4.RestrainofAccountingPrinciples

Exhibitedaccountinginformationcannotalwaysexhibita trueandfairpictureofabusinessconcernowingto limitationsoftheaccountingprinciplesused.

Forexample,

Fixedassetsareshownafterdeductingdepreciation.In thecaseofinflation,thevalueoffixedassetsshowninthe accountsdoesnotcorespondtotherealposition.

5.Recordingofpastevents

Accountingpasteventsareaccountedfor.Butnaturaly, thereisnosystem ofrecordingeventsthatmayoccurin thefuture.

6.Alocationofproblem

T h e a l lo c a tio n p ro c e s s is a n im p o rta n t p ro b le m in th e accountingsystem.Thevalueoffixedassetsisexhausted, chargingdepreciationforthealocatedperiod.

Theusefulifeoffixedassetsisfixeduphypotheticaly, whichdoesnotstandaccuratelyinmostcases.

7.Maintainingsecrecy

Secrecycannotbeensuredfortheinvolvementofmany employeesinaccountingwork,althoughmaintaining secrecyisveryimportant.

8.Thetendencyforsecretreserves

Oftenmanagementcreatessecretreservesintentionaly byincreasingordecreasingassetsandliabilitiesforwhich thetotalfinancialpictureofanorganizationisnot reflected.

9.Importanceofform oversubstance

Atthetimeofpreparingaccountsforaparticularperiod, theemphasisislaidontheform,table,etc.insteadof givingimportancetoanexhibitionofsubstantial information.

AsperCompanyAct,preparationofthebalancesheetin theprescribedform ismandatory.

Althoughtherearesomelimitationsinthepresent accountingsystem,accountinginthepresent-dayworld hasgeneralybeenacceptedasarecognizedprofession.

Efortsareonthroughouttheworldtoovercomethese

limitations.Economicactivitiesofanysocietywithout accountingareneitherpossiblenorlegal.

QUALITIESOFAGOODACCOUNTINGINFORMATION

Thereisgeneralagreementthat,beforeitcanberegarded asusefulinsatisfyingtheneedsofvarioususergroups, accountinginformationshouldsatisfythefolowing criteria:

1.Understandability

Thisimpliestheexpression,withclarity,ofaccounting informationinsuchawaythatitwilbeunderstandableto users-whoaregeneralyassumedtohaveareasonable knowledgeofbusinessandeconomicactivities

2.Relevance

Thisimpliesthat,tobeuseful,accountinginformation mustassistausertoform,confirm ormaybereviseaview -usualyinthecontextofmakingadecision(e.g.shouldI invest,shouldIlendmoneytothisbusiness?Shouldi workforthisbusiness?)

3.Consistency

Thisimpliesconsistenttreatmentofsimilaritemsand applicationofaccountingpolicies

4.Comparability

Thisimpliestheabilityforuserstobeabletocompare similarcompaniesinthesameindustrygroupandto makecomparisonsofperformanceovertime.Muchofthe workthatgoesintosetingaccountingstandardsisbased aroundtheneedforcomparability.

5.Reliability

Thisimpliesthattheaccountinginformationthatis presentedistruthful,accurate,complete(nothing significantmissedout)andcapableofbeingverified(e.g. byapotentialinvestor).

6.Objectivity

Thisimpliesthataccountinginformationispreparedand reportedina"neutral"way.Inotherwords,itisnotbiased towardsaparticularusergrouporvestedinterest.

Group 5

PROJECT TOPIC

Source document and book of original entry

Application of double entry principle in recording into journals and ledger, extraction of trial balance.

***Definition of Source Documents**

*** Definition of Book of Original Entry**

*** Application of double entry principle in recording into journals and ledger**

***Lastly extraction of trial Balance.**

What is a Source Document?

A source document is the original document that contains the details of a business transaction. A source document captures the key information about a transaction, such as the names of the parties involved, amounts paid (if any), the date, and the substance of the transaction. Source documents are frequently identified with a unique number, so that they can be differentiated in the accounting system. The pre-numbering of documents is particularly useful, since it allows a company to investigate whether any documents are missing. Source documents are critical to auditors {from these place i think we need to define who an auditor is} "An auditor is an individual who examines the accuracy of recorded business transactions". , who use them as evidence that recorded transactions actually occurred. A source document is also used by companies as proof when dealing with their business partners, usually in regard to a payment.

Examples of source documents are:

Cancelled check

Credit memo

Deposit slip

Expense report

Invoice

Materials requisition form

Purchase order

Time card

Sales receipt

What are Books of Original Entry?

A book of original entry refers to the accounting journals in which business transactions are initially recorded. The information in these books is then summarized and posted into a general ledger, from which financial statements are produced.

What is a Journal? The journal, also called the book of first entry, is a record of business transactions and events for a specific account.

What is a Ledger? A ledger is a written or computerized record of all the transactions a business has completed.

Each accounting journal contains detailed records for the types of accounting transactions pertaining to a specific area. Examples of these accounting journals are:

Cash journal

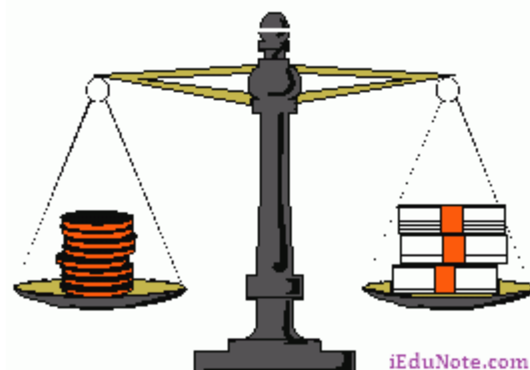
General journal

Purchase journal

Sales journal

The Basics of Double Entry

In the double-entry system, transactions are recorded in terms of debits and credits. Since a debit in one account offsets a credit in another, the sum of all debits must equal the sum of all credits. The double-entry system of bookkeeping standardizes the accounting process and improves the accuracy of prepared financial statements, allowing for improved detection of errors.



Characteristics of the double-entry system are stated below;

∀ **Two parties:** Every transaction involves two parties – debit and credit. According to the main principles of this system, every debit of some amount creates corresponding credit, or every credit creates the corresponding debit for the same amount.

∀ **Giver and receiver:** Every transaction must have one giver and one receiver.

∀ **Exchange of equal amount:** The amount of money of a transaction the party gives is equal to the amount the party receives.

∀ **Separate entity:** Under this system, business is treated as a separate entity from the owner. Here the business is considered as a separate entity.

∀ **Dual aspects:** Every transaction is divided into two aspects. The left side of the transaction debit and the right side is credit.

∀ **Results:** Under double entry system totality of debit is equal to the totality of credit. In its ascertainment of the result is easy.

∀ **Complete accounting system:** Double entry system is a scientific and complete accounting system.

The process of keeping accounts under the double-entry system;

1. Journal: At first, transactions are recorded in the primary book of accounting called a journal.
2. Ledger: In the second phase, transactions are classified and recorded permanently in the ledger in brief.
3. Trial balance: In the third phase, the arithmetical accuracy of the account is verified through the preparation of the trial balance.
4. Financial statements: In the fourth or final stage through financial statements, the results of all the financial activities of a year are determined.

TRIAL BALANCE

A trial balance is a list of debit and credit balances extracted from various accounts in the ledger including cash and bank balances from cash book. The rule to prepare trial balance is that the total of the debit balances and credit balances extracted from the ledger must tally. Because every transaction has a dual effect with each debit having a corresponding credit and vice versa.

Therefore, at the end of the accounting period or at the end of each month, the balances of the ledger accounts are extracted, and trial balance is prepared to test as to if the total debits are equal to total credits or not.

Rules to prepare the Trial balance

The rule to prepare the Trial balance is an equation which is as follows:

Total Debit Entries = Total Credit Entries

Debit	**Credit**
∀ All Assets (Cash in hand, Cash at Bank, Inventory, Land and Building, Plant and Machinery etc.) ∀ Sundry Debtors ∀ Expenses (Carriage Inward, Freight, Rents, rebates and rates, Salary, Commission etc.) ∀ Purchases ∀ Losses (Depreciation, Return inwards, Profit and loss A/c (Dr.), Bad debts etc.)	∀ All liabilities (Bank Overdraft, Secured and unsecured loans, bills payable, Outstanding Payables or expenses, Loan on mortgage etc.) ∀ Sundry Creditors ∀ Reserve fund, general reserve, provision for depreciation, Accumulated depreciation etc.,

	∀ Sales Gains (Discount received, Return Outwards, Bad debts recovered, Profit and loss A/c (Cr) etc.)

Steps to prepare Trial balance

The following are the steps to prepare Trial Balance.

Step 1	Cast/ Balance all the ledger accounts in the books.
Step 2	List all the Debit balances on the debit side and sum them up.
Step 3	List all the Credit balances on the credit side and sum them up.
Ideally, the Trial Balance should Tally at Step 3.	

Specimen of Trial balance

Trial Balance of XXX Ltd as at ______

SI No	Particulars	L.F	Amount DR	Amount CR

Example of Trial Balance

____ Ltd Trial Balance 31- Dec 2019 (in Dirham)

Accounts	Debit	Credit
Cash	1,02,280	-
Accounts Receivable	7,500	-
Office Expenses	2,500	-
Prepaid Rent	600	-
Prepaid Insurance	120	-
Office furniture and equipment	15,000	-
Bank loan	-	15,000
Accounts Payable	-	5,000
Unearned Revenues	-	7,500
Capital	-	1,00,000
Drawings	3,000	-
Commission Revenue	-	12,500
Salary Expenses	9,000	-
Total	1,40,000	1,40,000

References

www.iedunote.com/double-entry-system

www.accountingtools.com

www.myaccountingcourse.com

CLASSIFICATIONOFEXPENDITUREBETWEENCAPITALANDREVENUEEXPENDITURE

Itisveryimportanttoknowandunderstandthedistinctionbetween"CAPITAL"(whichismoney usedinstartingabusiness)"REVENUE(whichisincomereturnedonaninvestment).Itis importantbecauseafterthetrialbalanceispreparedthefinalaccountcanbepreparedinsucha waythatalltheamountisappearinginthetrialbalanceandeithertransferedtotheprofitand lossaccountsorbalancesheet.

WHATISANEXPENDITURE

Expenditurecanbereferedtoastheincurecostofacompanyororganisation.Expenditurecan besimplybedefinedaspaymentmadeorliabilitiesincuredinexchangeforgoodsandservices.

CAPITALEXPENDITURE:

Thisistypicalyonetimelargepurchasesoffixedassetsthatwilbeusedforrevenue generationoveralongerperiod.Capitalexpenditurearepaymentsincuredforfixedassets itemsandarepaidonceI.ecapitalexpenditurewhichisusualyaonetimecostandisincured toreceivealongterm benefitsuchasthepurchaseofafixedassete.gland,machineries. Capitalexpenditurearealsofundsusedbyacompanytoacquireupgradeandmaintainphysical assetssuchasequipment.Capitalexpenditurecanalsobecaled(CAPEX).

Expendituremaybeidentifiedasacapitalexpenditure:

1.Expenditureincuredforfixedassetsland,building,plantandmachinery,costofinstalation

oflights,fans,costoferectionofplantandmachinery.

2.Whenexpenditureincuredinoneyear,givesbenefitsforanumberofaccountingyears
3.Whenexpenditureisincuredtoincreasetheearningcapacityofbusiness

4.Alpreliminaryexpensesincuredbeforethecommencementofabusiness.

EXAMPLEOFCAPITALEXPENDITURE

1.costofland,building,plantandmachinery
2.Costofmanufacture,purchaseoffurnituree.t.c. 3.Purchaseofvehicle,carsandvans.
4.Preliminaryexpenses.

REVENUEEXPENDITURE:

Accordingto"KOHLER"itisanexpenditurechargedagainstoperation.Aterm usedtocontrast withcapitalexpenditure.Revenueexpenditureareshortterm expensesusedinthecur rent periodortypicalywithinoneyear.Revenueexpenditureincludetheexpensesrequiredtomeet theongoingoperationalcostofrunningabusiness.Itisalsoapaymentmadeorincuredduring

thenormalcourseofthebusiness,thebenefitsofwhichareusualyreceivedwithinthesame accountingyear.Revenueexpenditurearealwaysrecuringexpensesthatareincuredbythe businesstogeneraterevenuesfortheaccountingperiode.gdirectlabourpayments,stocke.t.c. Itsalsocaled(OPEX)whichistheoperatingexpenses.

Expenditureisincuredforthefolowingpurposes:

A.Alestablishmentandotherexpensesincuredinthenormalcourseofbusiness,forinstance

administrationexpensesofabusiness,expensesincuredinmanufacturingandseling

products.

B.Expensesincidentaltothecaryingofabusiness,thebenefitsofwhichisconsumedwithin

theaccountingperiodforinstancerent,wages,salary,advertisingandtaxes.

C.Expenditureongoodspurchasedforresale.Forinstance,costofgoodspurchasedorcostof

rawmaterials.

EXAMPLEOFREVENUEEXPENDITURE:
1.Expenditureonrents,wages,cariage,salaries,postage.
2.Interestonloanborowedforrunningabusiness 3.Costofgoodsboughtforresale

4.Taxesandlegalexpenses

5.Discountsandalowances 6.Costofrawmaterialsconsumedinthecourseofmanufacturing
7.Utilitybils

DIFFEREDREVENUEEXPENDITURE:

Thisislesscommoncomparedtothefirsttwobutalsocontributestotheincreaseinthevalue ofassetsinthebalancesheet.Deferedrevenueexpenditurereferstoanadvancepaymentfor goodsorservices.Thebenefitsofwhichistobereceivedonlyinthefutureeitherduringthe curentaccountingperiodoroverthesubsequentaccountingperiods.

EXAMPLEOFDEFFEREDREVENUEEXPENDITURE:
1.Oneyearadvancesubscriptionpaymentfortrademagazines
2.Oneyearadvancessubscriptionfornetworkservices 3.Rentpaymentreceivedinadvance

4.Pre-paid.

Group 7

BANK RECONCILIATION STATEMENTS

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Bank Reconciliation Statements
3.1 Bank Statements and Reconciliation
3.2 The Bank Reconciliation Statement
3.3 Method of Bank Reconciliation
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignments
7.0 Reference/Further Readings

1.0 INTRODUCTION

In Unit 2 of module 3, we discussed the Two-Column Cash Book which provides two columns, each for cash and bank transactions. Therefore, this cash book brings together the cash and bank accounts maintained by the organisation or medical establishment. Usually, the organisation or hospital transaction with the bank while the bank transacts with the hospital. The cashbook records all the hospital's transactions with the bank, and for the entire bank's transactions with the hospital, a bank statement records the proceedings. However, the balance on the cashbook is rarely the same as the balance on the bank statement. In this unit, we shall reconcile the balance reflected in the cash book with the balance reflected on the bank statement. We shall also consider the factors responsible for the difference in the cash book and the bank statement, and show how they are treated.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain why the bank balance obtained from the cash book differs from the bank statement;
- Discuss the need for bank reconciliation statements; and
- Prepare the bank reconciliation statement to agree with the two balances.

3.1 MAIN CONTENT

3.2 BANK STATEMENTS AND BANK RECONCILIATION

Banks send monthly or periodical statements to their customers–individuals, hospitals, associations, corporate entities, etc. A bank statement shows details of bank's transactions (deposits, withdrawals and charges) with their customer's during a given period. At the end of the period to which the statement relates, it would indicate the balance in the account taking note of the credits (deposits) and debits (withdrawals and charges).

Earlier in the introduction, we noted that it is difficult for the cashbook balance to agree with the balance on the bank statement, why?

One reason can be attributed to timing differences. For example, a cheque payment may be recorded in the cash book when it is issued. The bank only records such a cheque when it is paid by the bank, which may be several days or even weeks later (unpresented cheque).Other examples are outstanding deposits and unaccredited lodgements.
Secondly, some items may appear in the bank statement but yet to be entered in the cashbook, and these include bank charges, bank interest paid (on overdrafts) or received (on deposits), standing orders and direct debts, credit transfers (where a receipt has been paid direct into the organisations bank account), cheques returned unpaid, and unauthorised debits due to genuine mistakes or fraud.

Therefore, bank reconciliation is the process of investigating the difference in both balances and attempt to agree them.

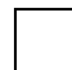
SELF-ASSESSMENT EXERCISE
Explain why the cashbook is rarely the same as the balance on the bank statement.

3.2 THE BANK RECONCILIATION STATEMENT

This is a statement prepared to agree the balances of both the bank statement and the cashbook. Apart from this function, the bank reconciliation statement helps to ensure that:

✔ All deposits and withdrawals have been entered
correctly; ✔ No unauthoriseddebits have been made in the account;
and ✔ Frauds and errors are detected early and corrected.
The reconciliation process is to verify the entries by ticking the credit side of the bank statement to the debit side of the cash book and vice versa. Any un-ticked entries in either the statement or the cashbook represent items given as examples in explaining the reasons why balances in the statement and the cashbook do not agree. The items could be treated as follow:

Unpresented Cheques have been deducted in the cashbook already but not in the bank statement. We treat such transaction by either adding it back to cash book balance or deducting it from bank statement balance. Direct debits are either added to cash book balance or deducted from bank statement balance.



Uncredited lodgements are either added to the statement balance or deducted from cashbook balance.
Frauds and errors should be investigated and corrected.

3.3 METHODS OF BANK RECONCILIATION

There are two methods of bank reconciliation:

The first is to update the cash book by recording items in the bank statement not in it, and then, reconcile the adjusted cash book balance to the statement balance. And the second is to do straight reconciliation.

We shall demonstrate both methods in the following illustration:

On 31 July, 2004, Dr Victor Akhabue received a bank statement which showed a balance of N198,000 whereas the bank column of the cash book showed a balance of N140,000.
After comparing the entries in both records, the following items were revealed as accounting for the difference:

29 July 2004 Dividend received from ABC Ltd. Credited by bank not yet recorded in the cash book amounts to N16,000.

30 July 2004 Payment of N10,000 by standing order not yet recorded in the cash book.

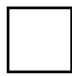
30 July 2004 Transfer charges (N300) and bank commission (N700) not yet recorded in the cashbook.

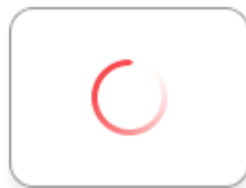
31 July 2004 Interest of N24,000 credited by bank not yet entered into the cashbook.

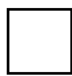
31 July 2004 Cheque Nos. 311, 316 and 317 in favour S.Kasali, John Dans and Dennis Kayfor N6,000, N16,000 and N7,000 respectively, have not been presented for payment. You are required to prepare a bank reconciliation statement.

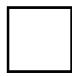
Method I:

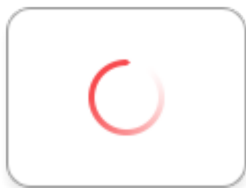
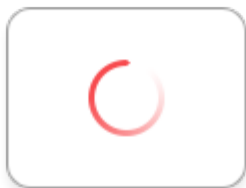
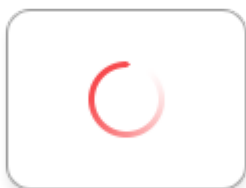
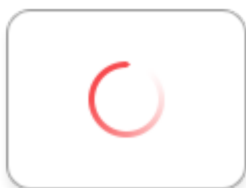
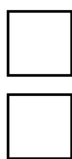
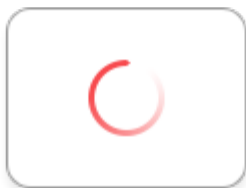
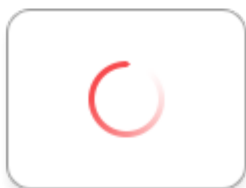
Dr Victor Akhabue

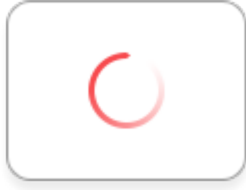
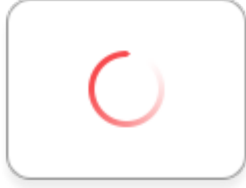
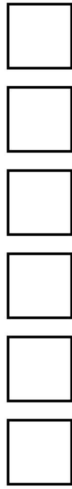


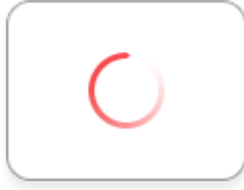


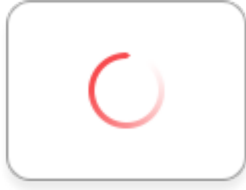
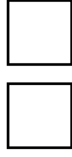
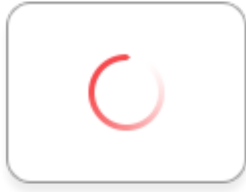


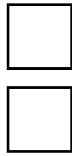


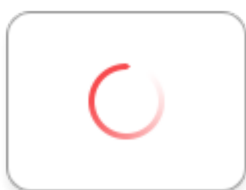








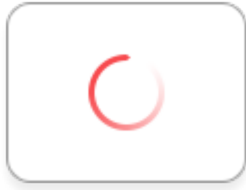




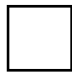
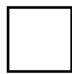


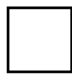




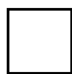


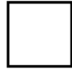
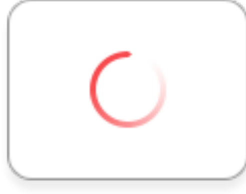
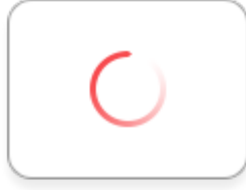
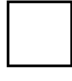
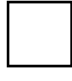
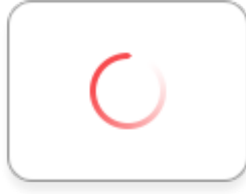
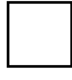
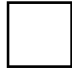
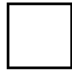
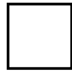
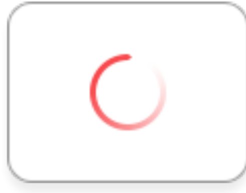
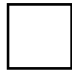
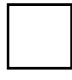


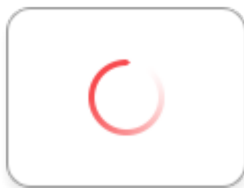


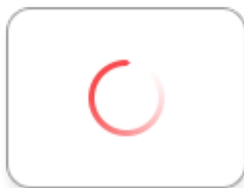







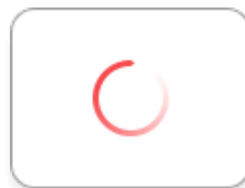














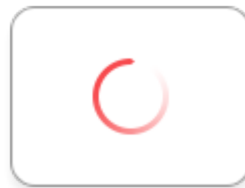




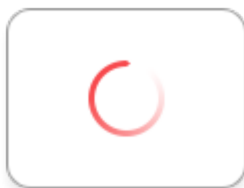
Dr. Adjusted Cash Account (BankColumn) Cr.

Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
	Balance as given		140,000	30/7/04	Payment by order		10,000
29/7/04	Dividend (ABC Ltd.)		16,000	30/7/04	Transfer Charges		300
31/7/04	Interest (bank)		24,000.00	30/7/04	Bank Commission		700





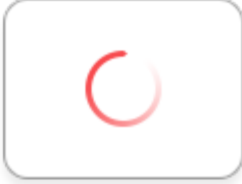
31/7/04 Balance c/d 169,000



	180,000		180,000	31/7/04
Balance c/d	169,000			

Bank Reconciliation Statement

		N	N
Balance as per Bank Statement		198,000	
Less: Unpresented cheques:			
S.Kasali (311)	6,000		
JohnDans(316)	16,000		
DennisKay(317)	7,000	29,000	



Balance as per adjusted Cash Book **N169,000**

Method II: A Straight Reconciliation

	N	N
Balance as per Bank Statement		198,000
Add: Direct debits:		
Transfer charges	300	
Bank Commission	700	
Payment by order	10,000	11,000
		209,000
Less: unpresented cheques:		
S.Kasali (311)	6,000	
JohnDans (316)	16,000	
DennisKay (317)	7,000	
	29,000	
Direct credit:		
ABC Ltd dividend	16,000	
Bank interest	24,000	69,000
Balance as per cash book		**140,000**

SELF-ASSESSMENT EXERCISE

Prepare a bank reconciliation statement using the following particulars:

30 April, 2002	Bank statement balance	N780,000
	Cash book balance	N680,000
	Cheques drawn not presented for payment	N300,000
	Cheques paid into bank not yet credited	N200,000

4.0 CONCLUSION

We wish to conclude that usually, the balance on the cashbook and the bank statement do rarely agree with each other, due to timing differences as well as the fact that some items may appear in the bank statement but yet to be recorded in the cash book. A process of bank reconciliation which involvesinvestigating the differences in both balances is employed to agree the balances. This leads to the generation of a bank reconciliation statement.

5.0 SUMMARY

In this unit, we have examined the need to agree our cash book balance to the bank statement balance. We considered, also, reasons for the differences in both balances, and how they could be reconciled. Two methods were employed to illustrate/demonstrate how bank reconciliation statements are drawn.

6.0 TUTOR-MARKED ASSIGNMENTS

1. Discuss the need for bank reconciliation.

2. The following cashbook and bank statement relates to Narrow Way Clinic and Maternity for the month of June 2002.

Dr. **CASHBOOK**

Cr.

Date	Particulars	Folio	Amount	Date	Particular	Folio	Amount
1/6/02	Balance b/fwd		105,000.00	2/6/02	Cheque– Oweh		800.00
3/6/02	Cash		1,000.00	2/6/02	Cheque– Peter		300.00
5/6/02	Cheque-KonbeCheque–Ladi		170.00	6/6/02	Cheque– Bello		210.00
7/6/02	Cheque- Yinka		440.00	8/6/02	Cheque– Smart		730.00
8/6/02	Cheque–Michael		1,200.00	10/6/02	Cheque–		2,240.00
9/6/02	Cheque-Nwafa		310.00	12/6/02	Thomas Balance		104,560.00
11/6/02			720.00	13/6/02	c/d		
	Balance b/d						
14/6/0 2							107,640.00
			108,840.00				
			104,560.00				

NARROW WAY CLINIC AND MATERNITY

BANK STATEMENT AS AT 12TH JUNE, 2002

	Dr	**Cr.**	**Balance**
1/6 Balance			105,000.00 Cr.
2/6 Cheque No.5554	800.00		104,200.00 Cr
3/6 Cash	1,000.00		105,200.00 Cr.
4/6 COT	40.00		105,160.00Cr
5/6 Cheque deposits		170.00	105,330.00 Cr.
6/6 Cheque No.5555	300.00		105,030.00 Cr.
7/6 Cheque deposit	440.00		105,470.00 Cr.
8/6 Cheque deposit		1,200.00	106,670.00 Cr.
9/6 Cheque dishonoured	170.00		106,500.00 Cr.
11/6 Standing Order (Insurance Premium)	1,120.00		106,380.00 Cr
12/6 Cheque No. 5556	210.00		106,170.00 Cr

You are required to:

(a) Adjust the Cash Book

(b) Prepare a Bank Reconciliation Statement.

7.0 REFERENCES/FURTHER READINGS

ACCA (2004).*Preparing financial statements*. Middlesex: A.T.Foulks Lynch Limited.

Akplu, H.F. (1985). *Introduction to accounting*. London: Macmillan Publishers Limited.

Wood, Frank (1990).*Business accounting I*.5th Edition London: Longman Company Limited.

Group 8

Group 8

Topic: DEVELOPMENT OF ACCOUNTING STANDARD, HISTORY OF ACCOUNTING STANDARD, REGULATORY FRAMEWORK FROM THE FINANCIAL ACCOUNT.

ACCOUNTING STANDARD

According to the learners advance dictionary, standard can be seen or defined as a rule or set of rules or requirements which are widely agreed upon or imposed by the government.

Accounting standard is a set of principle, standards and procedure that define the basis of financial accounting polices and practice. Accounting standards are concepts or principles guiding the presentation of financial statement. It is a standardized guiding principle that determine the policies and practices of financial accounting. Accounting

standard does not only improve the transparency of financial reporting but also facilitate fanancial accountability.

Accounting standard are rules and guidelines set up by governing bodies like FASB and IASB to keep accounting practices consistent and understandable across all companies and industries. The standardization of accounting procedures helps business to record and monitor their business activity and achieve comparability of accounting information between companies that operate in the same industry. An accounting standard is relevant to company financial reporting. Some common examples of accounting standards are; Goodwill Accounting, Revenue Recognition, Asset Clarification, Lease classification, Segment reporting,etc.

1) Goodwill Accounting: An intangible asset valued in accordance to the advantage or reputation a business has acquired.

2) Revenue Recognition: s a cornerstone of the accrual accounting agenda with the matching principle. They determine the accounting period in which revenues and expenses are recognized.

3) Asset Clarification: is a system of assigning assets into groups based on a number of common characteristics.

4) Lease Classification: A lease is a type of transaction undertaken by a company to have the right to use an asset. Example; Operating leases and capital leases.

5) Segment reporting: It is the reporting of the operating segments of a company in the disclosures accompanying it's financial statements.

OBJECTIVE OF ACCOUNTING STANDARD

1) Accounting standard is to ensure that there are no difference in the approach of accounting and to standardized the presentation of accounts.

2) It helps business to record and monitor their business activity and achieve comparability of accounting information between companies that operate in the same industry.

3) It is to ensure transparency in reporting and set the boundaries for financial reporting measures.

4) It is to ensure relevant and accurate information is provided about the entity.

5) It is to specify when and how economic events are to be recognized, measured and displayed.

DEVELOPMENT OF ACCOUNTING STANDARD

Before the development of accounting standards, each company developed and used their own approach to prepare and report financial information. In the 1930s, following the stock market crash, The American institute of accountants, In partnership with the New York Stock Exchange (NYSE) formed the committee on Accounting procedure (CAP), which recommend the broad principles of accounting.

To improve accounting practices, the institute's membership introduced an additional principle, making six in total progressively, the institute enacted the securities Act of 1933 and the securities exchange act of 1934, which saw the creation of the securities and exchange commission (SEC). The SEC was charged with reviewing periodic

fillings of companies to ensure they adhered to it's requirements, especially to full disclosure, Adherence to proper accounting and comparability.

HISTORY OF ACCOUNTING STANDARD

The U.S Generally Accepted Principles (GAAP) is the bedrock of accounting of standards. GAAP is established and maintained by financial accounting standards board(FASB). It is an established set of standards applicable to a specific jurisdiction. The evolution of the international accounting standards began in 1966 with a suggestion to set up a worldwide study group. The International Accounting Standard commission (IASC) named and numbered from IAS 1 to IAS 41. The American institute of certified public Accountants developed, managed and enacted the first set of Accounting standards. In 1973, these responsibilities were given to the newly created financial accounting standard board (FASB).

The Nigeria Accounting Standard Board (NASB) was established in 1982 as a private sector initiative closely associated with the institute of chartered Accountants of Nigeria (ICAN). NASB became a government parastal in 1992 as a component of the federal ministry of trade and tourism.

The International Accounting Standards Board (IASB) provides rule-based and principle-based accounting guidelines for international companies that are based outside the U.S. The international Accounting standards (IAS) are intended to achieve the uniformity of approach and identify of meaning. Accounting standards of a specific country are strongly influenced by it's governance arrangement and tax policy.

The International Financial Reporting Standards (IFRS) specifies how international companies should manage and report their financial statements and define different types of transaction with financial implications. It is a principle-based Accounting standards whose foundation set the ground for investors and business to analyze

financial records and make a decision.The IFRS began as an attempt to harmonize accounting across the European Union, but the value of harmonization quickly made the concept attractive around the world.

Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.

SCOPE OF ACCOUNTING STANDARD

1) Provide Accounting Norms: Accounting Standards provide norms which serve as the

basis for preparation of financial statement of company. It gives a complete guide for Accounting processes to accountants. All transaction are recorded and presented in account of business as per the guidelines provide by accounting standards.

2) Conformity with laws: These standards are formulated and issued in conformity with provisios of all applicable laws, customs and business environment of a country. In case, if any accountancy Standard is not found in conformity with any of the law, then provision of such law will prevail over the accounting Standard.

3) Ensure reliable financial statement: Accounting Standard ensure that financial statements prepared by the company deliver reliable information. These Standard act as a dictator which guide the Accountants by providing the rules and format to be adopted in preparing financial statement.
4) Act as a harmonizer: Accounting Standard act as harmonizer for solving any conflict arising in a counting process of organization. These standard are non-based in nature and aims at attaining uniformity in the whole Accounting procedure.
5) Determine the extent of disclosure: These standards determine the extent to which financial information should be disclosed by company in it's financial statement. It ensures that detailed information is provided in true and fair manner to all user for Accounting information.
6) Mandatory to follow: Accounting standards are not optional to be followed by companies. They are mandatory in nature. Accounting Standards need to be implemented in the accounting process of every company.
7) Flexible in nature: Accounting standards provide flexibility to the business. These do
not compel companies to follow their instructions in every matter. In many cases, companies are free to adopt any method when the option of different accounting practices is available. Companies can choose any of the alternatives with proper and full disclosure.

REGULATORY FRAMEWORK FROM THE FINANCIAL ACCOUNTS

An accounting framework is a published set of criteria that is used to measure, recognize, present and disclose the information appearing in an entity's financial statements. An organizations financial statement must have been constructed using a recognized frame work or else auditors will not issue a clean audit opinion for them. The most commonly used frame works are Generally Accepted Accounting

principle (GAAP) and international financial reporting standard (IFRS). The framework sets out the fundamental concepts for financial reporting that guide the board in developing IFRS Standards. It helps to ensure that the standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors.
The list of Accounting Standards are as follows:
International Accounting Standards
1) IAS 1. Presentation of financial statements.
2) IAS 2. Inventorrers.
3) IAS 7. Statement of cash flows.
4) IAS 8. Accounting polices, changes in accounting estimates and so on. 5) IAS 10. Events after the reporting period.
6) IAS 11. Construction contracts.
7) IAS 12. Income taxes.
8) IAS 16. Property, plant and equipment.
9) IAS 17. Leases.
10) IAS 18. Revenue.

11) IAS 19. Employee benefits.
12) IAS 20. Accounting for government grants and disclosure of government assistance. 13) IAS 21. The effects of changes in foreign exchange rates.
14) IAS 23. The effects of changes in foreign exchange rates.
15) IAS 24. Related party disclosures.
16) IAS 26. Accounting and reporting by retirement benefits plans.
17) IAS 27. Consolidated and separate financial statement.
18) IAS 28. Investments in associates and joint ventures.
19 IAS 29. Financial Reporting in hyper inflationary economics.
20) IAS 31. Interest in joint ventures.
21) IAS 32. Financial instruments: presentation.
22) IAS 33. Earings per share.
23) IAS 34. Interim financial reporting.
24) IAS 36. Impairment of assets
25) IAS 37. Provisions, contingent, Liabilities and contingent assets.
26) IAS 38. Intangible assets.
27) IAS 39. Financial instruments: Recognition and measurement.
28) IAS 40. Investment property.
29) IAS 41. Agriculture

Group 9

INTRODUCTION TO IFRS

International Financial Reporting Standards (IFRS) are a set of accounting rules for the financial statement of public companies that are intended to make them consistent, transparent, and easily comparable around the world. It is an international accounting framework within which to properly organize and report financial
information.

IFRS specify in details how companies must maintain thier records and report thier expenses and income. they are established to create a common accounting language that could be understood globally by investors, auditors, government regulators, and other interested parties.

IFRS is a set of accounting rules for the preparation of financial statements of public companies that are intended to make them consistent, transparent, and easily comparable around the world.

PRINCIPLES OF IFRS

CLARITY:Means IFRS is logical and formal to its rules.

RELEVANCE:Means IFRS is closely connected to eachother and appropriate.

RELIABILITY:Means IFRS is performing consistently well.

COMPARABILITY:Means IFRS is being similar to eachother and can be compared.

IMPORTANCE OF IFRS

1.It brings uniformity in accounting system.

2.Easy comparability of financial statements.

3.Assist auditors in performing their duties.

4.It makes accounting information easy and simple.

5.It aviod frauds and manipulations.

6.It provides reliability to financial statements.

7.It measures management performance.

ADVANTAGES OF IFRS

1.Companies may benefit by using IFRS if they wish to raise capital abroad.

2.Companies need to convert to IFRS if they are a subsidary of a forgien company.

3.Businesses can present its financial statements on the same basis as its foreign competitors.

HISTORY OF IFRS IN NIGERIA

On the 3rd of september,the Nigerian Accounting Standard Board (NASB) announced a staged implementation of IFRS. as follows:

1.Publicly listed entities and significantvpublic interest entities are expected to implement IFRS by January 1st 2012.

2.Other public entities are expected to implement by january 1st 2013.

3.While small and medium sized entities are expected to implement same by january 2014.

These staged implementation outlined by the NASB was approved by the Federal Executive Council (FEC) on 28 july, 2010 (okpala 2012).

On 28 july 2010, The Nigeria Federal Executive Council approved 1 January 2012 as the effective date for convergence of accounting standards in Nigeria with International Financial Reporting Standard [IFRS]. The council directed the Nigerian Accounting Standard Board [NASB], under the supervision of the Nigerian Federal Ministry of Commerce and Industry,to take further necessary actions to give effect to councils approval.

HISTORY OF IFRS IN THE WORLD

IFRS originated in the European union with the intention of making business affairs and accounts acessible across the continent. It was quickly adopted as a common accounting language.IFRS is uses in 120 countries including all of the nations in the European Union as well as Canada,India,Russia,South Africa and Chile.The USA and China each have their own systems. It is derived from the pronouncements of the london based International Accounting Standards [IASB]. It is currently the required account framework for more than 120 countries. IFRS requires businesses to report their financial results and financial position using the same rules:This means that barring any fraudulent manipulation, there is considerable uniformity in the financial reporting of all businesses using IFRS which makes it easier to compare and contrast their financial results.

IFRS began as an attempt to harmonize accounting across the European Union,but the valve of harmonization quickly made the concept attractive around the world.They ar occasionally called by the original name of International Accounting Standards(IAS).

INTERNATIONAL FINANCIAL REPORTING ACCOUNTING STANDARDS(IFRS).

LIST	TITLE	DATE ISSUED	DATE EFFECTIVE
1	First time adoption of IFRS	2003	January 1,2005.
2	Share based payment.	2004	January 1,2005.
3	Business combinations	2004	April 1,2005.
4	Insurance contracts	2004	January 1,2005.
5	Non-current assets held for sale and discontinued operations	2004	January1,2005.
6	Exploration for and evaluation of mineral resourses	2004	January1,2006.
7	Financial insttruments:Disclosure	2005	January1,2007.
8	Operating segments	2006	January1,2009.
9	Finanial Instruments	2009	January1,2018.
10	Consolidated financial statements	2011	January 1,2013.
11	Joint arrangements	2011	January1,2013.
12	Disclosure of interests in other entities	2011	January1,2013.
13	Fair valve measurement	2011	January1,2013.
14	Regulatory deferral accounts	2011	January1,2013.
15	Revenue from contracts with customers	2014	January1,2016.
16	Leases	2016	January1,2019.
17	Insurance contracts	2017	January 1,2017.

Group 10

Fixed Assets & Depreciation | Accounting Principles | HashMicro

Fixed assets are company’ s tangible assets that are relatively durable and used to run operations and generate income. Thus, they are not used to be consumed or sold, but to produce goods or services.

Due to the long-term use, the value of fixed assets decreases as they age. Some examples of depreciable fixed assets are buildings, machinery, and office equipment. However, land is not one of them, because it has an unlimited useful life and it increases in value over time.

In short, depreciation is the allocation of the acquisition cost of a fixed asset caused by a decrease in its value. Thus, to find out what factors affect the depreciation of fixed assets and how to calculate them, see the explanation below.

The Causes of Depreciation

In general, there are two main causes of depreciation:

Physical Factor

The value of company' s assets can shrink due to overuse, aging, and damage.

Functional Factor

Depreciation of assets can also be caused by the inability of assets to meet production needs, so that they need to be replaced with new ones.

Factors That Affect the Depreciation Expenses Acquisition Cost

This is the most influential factor on the depreciation expense. In addition, the acquisition cost refers to the total cost of buying an asset. Thus, it becomes the basis for calculating the depreciation that should be allocated per accounting period.

The acquisition cost includes shipping, sales and customs duty, as well as site preparation, installation and testing fees. In addition, With regard to manufacturing or production equipment, any costs related to bringing the equipment to an operational state may also be included in the acquisition cost. This includes the cost of shipping & receiving, general installation, mounting and calibration.

Salvage Value

The salvage value is the amount for which the asset can be sold at the end of its useful life. To determine the total amount depreciated, the salvage value must be subtracted from its initial cost.

For example, company A buys an asset worths 100,000,000 and they estimate that the salvage value will be 20,000,000 in five years. That means, they will depreciate 80,000,000 of the total cost of the asset and may expect to sell it for 20,000,000.

Economic Life

The economic life of an asset is the expected period of time as long as the asset remains useful to the owner. It can differ from its actual age. It is important for business owners to estimate the economic life of their assets, so they can determine when the right time to invest in or allocate funds for new assets.

How to Calculate Depreciation on Fixed Assets

There are several methods that you can implement to calculate depreciation on your fixed assets. Here are the five most commonly used methods:

Straight-Line Depreciation Method

According to the straight line method, the depreciation value of a fixed asset will always be stable until the end of its economic life.

For example, if you buy a production machine for 50,000,000, the depreciable amount is 5,000,000, and the estimated economic life is 5 years, then the calculation is as follows:

Depreciation expense = (50,000,000 – 5,000,000)/5

Depreciation expense = 9

Double Declining Balance Method

The double-declining balance method is a form of accelerated depreciation in which most of the depreciation associated with a fixed asset is recognized for the first few years of its economic life.

To calculate depreciation with this method, double the book value of the asset at the beginning of the fiscal year with a multiple of the straight-line depreciation rate. The formula is as follows:

Sum of the Years' Digits Depreciation

Sum of the years' digits depreciation is an accelerated form of depreciation based on the assumption that the asset productivity decreases over time.

This method seeks to impose higher depreciation cost in the early years of an asset's economic life, because it is most productive in the early years of their use. The formula is as follows:

Service Unit Method

This method is especially useful for depreciating company's vehicles. This method takes into account the life span of an asset to calculate depreciation. With this method, depreciation is calculated by dividing the total net cost of the asset by its estimated useful life. For example, in the case of a car, its useful life is its effective mileage.

Here is the formula:

Depreciation expense per year = reachable hours of work X depreciation rate per hour

Unit of Production Method

The unit of production method calculates depreciation on the actual use of an asset. According to this method, the depreciation expense of a fixed asset is determined based on the number of units of product produced.

The formula is as follows:

How to Instantly Calculate Depreciation on Your Fixed Assets

Depreciation of fixed assets must be calculated to account for the wear and tear on business assets over time. As depreciation is a noncash expense, the amount must be estimated. Each year a certain amount of depreciation is written off and the book value of the asset is reduced.

Accounting software by HashMicro helps automate your depreciation calculations. With this accounting software, you can easily record and manage a list of your assets. Asset evaluation reports can also be created in a few seconds.

For more information about accounting system from HashMicro, please visit our website or discuss directly with our software experts.

Group 11

The preparation of simple financial account involves the process of aggregating accounting information to a set of standardized financials

WHAT IS FINANCIAL ACCOUNTING

Financial accounting is the process of documenting,summarizing, and reporting the transaction arising from the business operation for a period of time. In a particular sense, the main objective of financial accounting is to accurately prepare an organization is financial account for a specific period otherwise known as financial statement

WHAT ARE FINANCIAL STATEMENT

Financial statement are written records that covey the business activities and the financial performance of a company.

The three primary financial statement are as follows.

∀ The income statement

∀ The balance sheet

∀ The statement of cash flow

THE INCOME STATEMENT

The income statement is also known as profit and loss account. It is a financial Statement that shows you how profitable your business was over given reporting period. The income statement shows a company expense, income, given and loss.

It also shows whether a company’s financial performance over a period.

Net income =revenue-expenses

The balance sheet

Balance sheet is a financial statement that report a company assets liability and shareholder’s equity. It is a summary of all the business assets and liability. The balance sheet is based on the fundamental equation

Assets=liability + equity

The shareholder's equity is a company total assets minus its total liabilities shareholders it all of the assets were liquidated and all of the company's debt was paid off.

The statement of cash flow

Cash flow is a financial statement that summarizes the amount of cash and cash equivalents entering and learnings or a company. The primary purpose is to provide information about cash receipt, cash payment and net change in cash resulting from the operation, investing and financial activities of a company during the period.

The completed financial statement is then distributed to management, lenders, creditor, and investors who use them to evaluate the performance liquidity and cash flows of a business.

The preparation of financial statement includes the following steps [the exact order may vary by company]

Step1: verify receipt of supplier invoices; Compare the received log to account payable to ensure that all suppliers invoice have been received. Accrue the expense for any invoices that have not been received.

Step2: Verify issuance of customer's invoice; Compare the shipping logs to accounts receivable to ensure that all customers invoices have been issued. Issue any invoice that have not yet been paid

Step3: Accrue unpaid wages; accrue an expense for any wages earned but not yet paid as of the end of the reporting period.

Step4: Calculate Depreciation; Calculate depreciation and amortization expense for all fixed assets in the accounting records. AMORTIZATION EXPENSE means the provision for the consumption of an asset with legal life such as leases, patents and copyrights.

Step5: Value Inventory; conduct an ending physical inventory count or use an alternative method to estimate the ending inventory balance. Use this information to derive the cost of goods sold and record the amount in the accounting records.

Step6: Reconcile bank account; Conduct a bank reconciliation and create journal entries to record all adjustments required to match the accounting records to the bank statement

Step7: Post Account balances; Post all subsidiary ledger balances to the general ledger.

Step8: Review Accounts; Review the balance sheet account and use a journal entry to adjust account balance to match the supporting details.

Step9: Review Financials; Print a preliminary version of the financial statements and review them for errors. There will likely be several errors, so create journal entries to correct them and print the financial statement again. Repeat until all errors have been corrected.

Step10: Accrue Income Taxes; Accrue an income tax expense based on the corrected income statement.

Step11: Close Accounts; Close all subsidiary ledgers for the period and open them for the following reporting period.

Step12: Issue Financial Statement; Print a final version of the financial statement. Based on this information write footnotes to accompany the statements. Finally, prepare a cover letter that explains key point in the financial statement, then assemble this information into packets and distribute them to the standard list of recipients.

The need for the preparation of financial accounts is to get the books ready for the next accounting period by clearing out the income and expense account in the general ledger and transferring the net income (or loss) to your owner's equity accounts.

ADJUSTING JOURNAL ENTRIES

An adjusting journal entry is usually made at the end of an accounting period to recognize an income or expenses in the period that is incurred. The three most common types of adjustment journal entries are "Accruals,

Deferrals and Estimates. Sometimes it is also used to correct accounting mistakes. To deal with the mismatches between cash and transactions, deferred or accrued accounts are created to record the cash payment or actual transactions.

Adjusting journal entries consist of an income statement accounts (which is revenue or expenses) and balance sheet account (which is asset or liabilities).

ACCRUAL

Accrual describes a revenue or an expense event that is recognized before cash is exchanged. Accrual accounting requires companies to recognize revenue in the period in which the work is done regardless of when cash is collected. It also occurs when a company's goods or services is delivered prior to receiving payment. These events affect the income statement of cash flow. But the statement of cash flow will be affected in the future when the cash is collected.

TYPES OF ACCRUAL

1. Accrued Expense; Expense is the money spent or cost incurred by a business to generate revenue. Accrual expense is the expense that are recognized on book (goods or services that have been consumed) before cash payment has been made. Examples include salaries and taxes charged in a later period after they have been incurred. When cash is paid, an adjusting entry is made to remove the account payable that was recorded together with accrued expense previously. This is treated as LIABILITY in the balance sheet.

2. Accrued Revenue; Revenue represent the economic benefit that results in an increase in assets from providing goods and services to customers. An accrued revenue is the revenue that has been earned (goods and services that have been delivered), while cash has neither been received nor received. A typical example is credit sales. The revenue is recognized through an accrued revenue account and receivable account.

When cash is received at the later time, an adjusting journal is made to record the payment for the receivable account. This must be treated as ASSET in the balance sheet.

PREPAYMENT

Prepayment also known as Deferral are amount Paid for by a business in advance of the goods and services being received later on prepayment is the sum paid for goods and service before their receipt or invoice due date. a prepayment is not dissimilar to a deposit but generally falls under a more but generally falls under a more set time period for fulfillment of the goods and services purchased.

A deposit is also generally apart of the total amount, while a prepayment usually covers the full cost. Goods and services can be prepaid, if they have not been received by the end of the financial year, then the amount prepaid will appear in the balance sheet as prepayment not as costs in the profit and

loss account. This amount will be subtracted from the balance sheet and added to the cost of the profit and loss account, this way the costs involved will be charged to the correct account period. A prepayment is recorded as a debit to the prepaid expenses account and credit to the cash account. Two common examples of a prepaid expenses are insurance and rent because payment has been made at the beginning of the coverage period.

TYPES OF DEFERRALS

1. **Deferral Revenue;** Deferral revenue also known as unearned revenue refers to advance payments a company receives for product or services that are to be delivered or performed in the future. These are cash received/reported with an unearned revenue account, which is a liability to record the goods and services owned to customers. When the goods or services are actually delivered at a later time and the revenue is recognized then the liability account can be removed. This will be treated as liability in the balance sheet.
2. **Deferrals Expenses;** Deferral expenses is a cost that has not already been incurred but which has not yet been consumed. Deferred expense is not reported on the income statement, instead they are recorded as an asset on the balance sheet until the expenses are incurred. The adjustment entry is made, when the goods or services are actually consumed which recognizes the expense and the consumption of the assets. Two common examples are rent and insurance.

CORRECTION OF ERRORS

The main purpose of the trial balance is to show arithmetical accuracy of the entries in the ledgers, the two sides (debit and credit) must be equal. If the debit side is not equal with the credit side, then there is an error. These errors are referred to as errors that do not affect the agreement of the trial balance.

1. **Error of Omission;** This is an error whereby a transaction is completely omitted from the book of account i.e. from the debit and credit sides.
2. **Error of Commission;** This error occurs when correct amount is entered in a wrong person's account.
3. **Error of Original Entry;** This occurs when a wrong amount is entered on the debit and credit sides
4. **Errors of Principles;** This is an error where by transactions are entered in a wrong class of account.
5. **Complete Reversal of Entry;** This occurs when the accounting entry is posted in the wrong direction i.e. the transaction /entry was debited instead of being credited or vice-versa.
6. **Transposition Error;** This occurs when the amount was reversed or transposed i.e. incorrect amount by reversing form.
7. **Error of Duplication;** This error occurs when the same transaction is recorded more than once in the book of account.

PROCEDURES FOR CORRECTION OF ERRORS

1. The type of error must be identified
2. The two account involved must be identified
3. Familiarity with whether an account has debit or credit balance. This can be expatiated below;

i. Asset Account	Dr
ii. Income Account	Cr
iii. Expense Account	Dr
iv. Sale Account	Cr
v. Purchase Account	Dr
vi. Liability Account	Cr

4. Interprete the errors in the ledger
5. Correct the ledger first before posting.

FORMAT FOR TRADING ACCOUNTS

Trading profit and loss account for the year ended

Dr					
Opening stock		x	Sales		
Add: purchases	x		Less: return inward		x
carriage inward	x				
		xx			
Less: goods withdrawn	x				
		xx			
		xx			
Less: return outward	xx				
Cost of goods available for sale	xx				
Less closing stock	xx				
Cost of goods sold	xx				
Gross Profit	x				
		XX			
EXPENSES			Gross profit b/d		x
Rates		x	Income receivable		x
Salary		x	Interest receivable		x
Electricity		x			
Advertisement		x			
Bad debts		x			
Provision for bad debts	x				
Depreciation		x			
Net profit		x			
		XX			

FORMAT FOR BALANCE SHEET

Dr					C
Capital		x	Fixed asset		
Add: Net profit	x		Land & building	x	
		xx	Plant & Machinery	x	
		xx			xx
Less drawings	xx		Current asset		
		xx	Cash at bank	x	
Current liabilities			Prepaid rent	x	
Account payable	x		Insurance prepaid	x	
Salaries payable	x				
		XX			XX