RCM ONLINE COLLEGE

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TOPIC 1: INTRODUCTION TO ACCOUNTING

Definition

This is the process of identifying, measuring, classifying, summarizing, recording and communicating of financial information

- **Identifying** - in accounting, this is the process of recognition or non-recognition of business activities as accountable events. Stated differently, this is the process which determines if anevent has accounting relevance.
- **Measuring** - in accounting, this is the process of assigning monetary amounts to the accountable events.
- **Communicating** - accounting information should be communicated to the differentdecision makers. Communicating accounting information is achieved by the presentation of different financial statements.
- **Recording** - The accounting term for recording is journalizing. All the accountable events are recorded in a journal.
- **Classifying** - The accounting term for recording is posting. All accountable events that are recorded in the journal are then classified or posted to a ledger.
- **Summarizing -** the items that are journalized and posted are summarized in the five basicfinancial statements.

OBJECTIVES OF ACCOUNTING

1. **Systematic recording of transactions** - Basic objective of accounting is to systematically record the financial aspects of business transactions i.e. book-keeping.

2. **Ascertainment of results of above recorded transactions** - Accountant prepares profit and loss account to know the results of business operations for a particular period of time. If revenue exceeds expenses, then it is said that business is running profitably but if expenses exceed revenue, then it can be said that business is running under loss.

3. **Ascertainment of the financial position of the business** - Businessman is not only interested in knowing the results of the business in terms of profits or loss for a particular period but is also anxious to know that what he owes (liability) to the outsiders and what he owns (assets) on a certain date.

4. **Providing information to the users for rational decision-making** - Accounting aims to meet the information needs of the decision-makers and helps them in rational decision-making.

5.To know the solvency position: By preparing the balance sheet, management not only reveals what is owned and owed by the enterprise, but also it gives the information regarding concern's ability to meet its liabilities in the short run (liquidity position) and also in the long-run (solvency position) as and when they fall due.

ACCOUNTING EQUATION

Nature of the accounting equations

This states that a company total asset is equal to the sum of its liabilities and its shareholders equity. This straightforward relationship between assets, liabilities and equity is considered to be the foundation of the double entry accounts system.

The accounting equation can be expressed as follows:

ASSETS =CAPITAL+ LIABILITIES

NCA+CA= E+NCL+CL

ASSETS

An asset is a resource that is owned or controlled by the company to be used for future benefits.Some assets are tangible like cash while others are theoretical or intangible like goodwill or copyrights.

1. Non-current assets (fixed assets) -they are economic resources owned or controlled by a firm whose future economic benefit will flow into the organization for more than one accounting period. - They are further classified into:

a) **Tangible non-current assets** – these are assets which have a physical form eg motor

2. **Current assets** - They change their form throughout the accounting period. Eg cash, inventory (stock), debtors (receivables) etc

Another common asset is a receivable. This is a promise to be paid from another party. Receivables- when a company provides a service or sells a product to someone on credit.

All of these assets are resources that a company can use for future benefits. Here are some commonexamples of assets:

- Cash
- Accounts Receivable
- Prepaid Expenses
- Vehicles
- Buildings
- Goodwill
- Copyrights
- Patents

LIABILITIES

These are present obligation of an enterprise arising from past events, settlement of which is expected to result into an outflow of resources. -they are classified into:

A. **Non-current liabilities (long term liabilities)** -they are the present/current financial obligation whose repayments extend beyond one accounting period. Eg long term bank loan, debentures

B. **Current liabilities** -they are present obligation whose repayment falls due within the next 12 months. Eg creditors, accruals, bank overdraft etc

A common form of liability is a payable. Payables are the opposite of receivables. When a companypurchases goods or services from other companies on credit, a payable is recorded to show that the company promises to pay the other companies for their assets.

Here are some examples of some of the most common liabilities:

- Accounts payable
- Bank loans
- Personal Loans
- Officer Loans
- Unearned income

EQUITY/CAPITAL

Equity represents the portion of company assets that shareholders or partners own.
Owners can increase their ownership share by contributing money to the company or decrease equityby withdrawing company funds. Likewise, revenues increase equity while expenses decrease equity. Here are some common equity accounts:

- Owner's Capital
- Owner's Withdrawals
- Reserves
- Paid-In Capital

ELEMENTS OF FINANCIAL STATEMENTS

1. **Assets.** These are items of economic benefit that are expected to yield benefits in future periods. Examples are accounts receivable, inventory, and fixed assets.

2. **Liabilities.** These are legally binding obligations payable to another entity or individual. Examples are accounts payable, taxes payable, and wages payable.
3. **Equity.** This is the amount invested in a business by its owners, plus any remaining retained earnings.
4. **Revenue.** This is an increase in assets or decrease in liabilities caused by the provision of services or products to customers. It is a quantification of the gross activity generated by a business. Examples are product sales and service sales.
5. **Expenses.** This is the reduction in value of an asset as it is used to generate revenue. Examples are interest expense, compensation expense, and utilities expense

Objectives Of Financial Statements

1. To provide information about the economic resources and obligation of a business.
2. To provide the true and fair view of position of the business
3. To provide the true and Fairview of financial performance of the entity i.e it revenue and its expenses.
4. To form basis for education of stakeholders
5. To report on the effectiveness and efficiency of the management

To increase the under stability of end users

USERS OF FINANCIAL STATEMENTS

1. **Shareholders** – they require accounting information in order to know the profit generated by entity for them to know whether to invest in entity for them to know whether to invest in the entity.
2. **Financial institutions (lenders and creditors)**: They require accounting information in order to determine whether the company can pay loans when granted and the value of assets in the business which can be used as a security for loan.
3. **Management** – They require financial information in order to make decisions which are sufficient for operation of the business.
4. **Government** - They require accounting information in orders to determine the tax payable by the business and the profitability of such business in order to determine the level of economic growth.
5. **Employees** - The require accounting information to be able to negotiate for better terms of employment and to evaluate future of employment.
6. **Customers** - they require accounting information so as to determine the reliability of the business.

General public – They require accounting information so as to determine how the company supports the public in corporate social responsibility.

INTERNAL USERS OF ACCOUNTING INFORMATION

1. Management -to plan, control and make decisions.
2. Employees -to assess job stability for pay rise or promotions
3. Owners-evaluate ROI, Profitability, and stock /share prices at market

EXTERNAL USERS OF ACCOUNTING INFORMATION

1. Investors -asses viability and profitability before investing
2. Creditors/lenders-evaluate ability to repay loan
3. Government -tax and regulatory purposes
4. Customers -continues supply of goods/services
5. Auditors -true and fair view of financial statements compliance to standards
6. Suppliers -creditworthiness

7. Analyst/researchers-financial analysis

ATD 1 AUG 2024 QN 6

XYZ Ltd.'s total assets as at 31 December 2023 were Sh.500,000, and its total liabilities were Sh.300,000. Determine the owner's equity for XYZ Ltd.

A= 500,000

L=300,000

E=A-L

E= 500,000-300,000

E= 200,000

ATD 3 AUG 2024 QN 6.

George Mima had opening capital of Sh.1,000,000 and closing capital of Sh. 450,000. During the period, George Mima introduced capital of Sh.400,000 and withdrew Sh.800,000 for his own use. What was his profit or loss for the period?

Solution.

Profit/Loss = Closing capital -opening capital+ drawings-additional capital

	Closing capital	450
Less	opening capital	(1000)
Add	Drawings	800
Less	Additional capital	(400)
		(150)

D Mwangi has the following assets and liabilities as on 31 April 2024::

	Sh.
Creditors	15,800
Equipment	46,000
Motor Vehicle	25,160
Stock	24,600
Debtors	23,080
Cash at bank	29,120
Cash in hand	160

Required:

a) Determine the capital as at 1st May 2024.
b) Draw up a balance sheet after the above transactions have been completed.

Kamau has a business that has been trading for some time. You are given the following information as 31.12.2024

	Sh "000"
Building	22 000
Furniture	11 000
Motor vehicle	11 600
Stocks	17 000
Debtors	11 200
Cash at bank	3 000
Cash in hand	800
Creditors	5 000
Capital	61 600
Loan	10 000

You are required to prepare a balance sheet as at 31 December 2024

Roles of the accountant general.

1. To prepare asset liability and capital entries by compiling and analyzing account information
2. To document financial transactions by entering account information
3. To recommend financial actions by analyzing accounting options
4. Maintain accounting controls by preparing and recommending policies and procedures
5. To report to management regarding financial activity of the company

Limitations of Historical cost accounting

1. Ignore inflation
2. Outdated assets valuation
3. Understatement of depreciation
4. Misleading profit figures

Guiding ethics for professional accountants

- **Integrity**- accountants must be straight forward and honest in business relations.
- **Objectivity**-accountants should disallow bias, conflict of interest or undue influence from others in their professional work.
- **Professional competence and due care**- accountants must maintain professional knowledge and skills to ensure that they provide quality services to clients.
- **Confidentiality**-accountants must not disclose financial records to unauthorized persons.
- **Professional behavior**-accountants must comply with relevant laws and regulations and avoid any action that discredits the accounting profession.

TOPIC 2: THE ACCOUNTING PROCESS AND SYSTEM

BOOKS OF ORIGINAL ENTRY

A **Books of original entry** (also referred to as Journal) is an accounting record that is used to record the different types of transactions in chronological order or date order. The reason for being called books of original entry is that this is the first place that business transactions are formally recorded. You can think of a Journal as a Financial Diary.

Specialized Journals are journals used to initially record special types of transactions such as salesand purchases. All these journals are designed to record special types of business transactions andpost the totals accumulated in these journals to the General Ledger periodically (usually once a month).

Sales Journal

The Sales Journal is a special journal where Credit sales to customers are recorded. Another name for this journal is the Sales Book or Sales Day Book.

Purchases Journal

The Purchases Journal is a special journal where Credit purchases from customers are recorded. Another name for this journal is the Purchases Book or Purchases Day Book.

Returns Inwards Journal

The Returns Inwards Journal is a special journal that is used to record the returns from debtors andallowances of goods sold on credit. Another name for this journal is the Sales Returns Book.

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Returns Outwards Journal

The Returns Outwards Journal is a special journal that is used to record the returns to creditors andallowances of goods purchased on credit. Another names for this journal is the Purchases Returns Book.

The Cash Book

The Cash Book is used to record the receipt and payment of money by the business in the form of cash, or through the business bank account. It contains the cash and bank accounts.

The Petty Cash Book

This is just a fancy name that describes a special fund that is set up and used for minor and unanticipated cash expenses where a cheque can't be written or the amount is so small that you don'twant to write a cheque. The petty cash account is based on the Imprest System which is a system of cash disbursement, cash expenditure and reimbursement of that expenditure.

The General Journal

The Journal is a textual record of events (Debit and Credit) that is characterized by the fact that all the records it contains are in a sequential chronological order. The General Journal is used to record unusual or infrequent types of transactions. Type of entries normally made in the general journal include depreciation entries, correcting entries, and adjusting and closing entries.

USES OF GENERAL JOURNALS

1. To record opening notes
2. To record purchase and sale of fixed assets on credit
3. To record transfer of records
4. To record closing entries
5. Correction of errors in ledger accounts
6. Records possession of assets
7. Adjustment of ledger entries

Advantages of books of prime entry

- They provide a chronological record
- Journal book records transactions in the occurrence of their date
- The books of prime entry minimize the possibility of errors. The nature of the transaction affects the financial position of the business and this is ascertained by recording and analyzing the transaction.
- Helps to finalize the accounts with the books of prime entry, it provides a basis for ledger posting and the ultimate draft of trial balance.
- Future references – Reference can be given to the financial transactions that become easy as these transactions are similar and are recorded in one journal
- Few mistakes and can be easily detected in the ledger accounts.

Recording Transactions from Source Documents

Journals use the information from the source documents to create a chronological listing of allbusiness transactions and detailed information about each transaction.

Journals are preliminary records where business transactions are first entered into the accounting system. The journal is commonly referred to as the book of original entry. Specialized Journals-are journals used to initially record special types of transactions such as sales and purchases in their own journal

THE CASH BOOK

The cash book is meant to record all cash transactions. It is divided into two sides — one, the left- hand side, for receipts of cash: and the-other, the right-hand side, for payments. Since in a modern business, transactions with or through bank are even more numerous than strictly cash transactions,each side has two columns. — one to record cash transactions and the other to record bank transactions payments into the bank being entered on the left-hand side and payments out of bank being entered on the right-hand side.

(The left-hand side is known as the debit side and the right-hand side is called the credit side.)
Sometimes, cash is deposited in bank and sometimes, cash is withdrawn from the bank for use in office. In this case, entries both for receipt and payment will appear in the cash book itself in appropriate columns. Such transactions are known as 'contra' transactions.

Contra entry - is an entry in the **cash book** that affects **both the debit and credit sides simultaneously** because the transaction occurs **within the business's own cash and bank accounts**.

Example of a Contra Entry

1. **Depositing cash into the bank**
   - Debit: **Bank account** (increase in bank balance)
   - Credit: **Cash account** (decrease in cash on hand)
   - This appears as a contra entry in the cash book.
2. **Withdrawing cash from bank for office use**
   - Debit: **Cash account** (increase in cash on hand)
   - Credit: **Bank account** (decrease in bank balance)

There are two types of cashbooks:

i. Two-column cashbook
ii. Three-column cashbook

Two-column cashbook

The cash at bank cashbook and cash in hand cashbook are combined together to get a two-columncashbook. The format is as follows:

Date	Details	Cash Sh.	Bank Sh.		Date	Details	Cash Sh.	Bank Sh.

ATD 1 APRIL 2023 QN 3C

Amuah Traders have provided you with the following cash transactions for the month of March 2023:

March: 1 Balances as at bank Sh.3,840,000 and Sh.2,400,000 cash in hand.

1 Paid rent amounting to Sh.240,000 in cash.

2 Made annual payment for internet amounting to Sh.38,400 in cash.

4 Paid electricity expenses of Sh.24,000 in cash.

8 Sold goods and was paid in cash an amount of Sh.592,000.

10 Received payment of Sh.89,200 through cheque from Wayne Limited.

11 Deposited Sh.1,088,000 into the bank account from the business.

13 Made payment through cheque amounting to Sh.2,202,500 to Caol Waters Ltd.

20 Paid for advertisement amounting to Sh.115,200 in cash.

29 Sent a cheque to Konny of Sh.720,000.

31 Drew a cheque for own use amounting to Sh.480,000.

31 Deposited Sh.1,240,800 cash into the bank from the business.

Required:
Two column cash book duly balanced as at 31 March 2023.

Amuah ltd -Two column cashbook for the month of 31st march 2023

Date	Details	Cash	Bank	Date	Details	cash	bank
1/3/23	bal b/d	2400,000	3840,000	1/3/23	Rent	240,000	
				2 march	Internet	38,400	
				4 march	Electricity	24,000	
8 march	sales	592,000					
10march	wayne ltd		892,000				
11march	cash-contra		1088,000	11 march	Bank -C	1088,000	
				13march	Coal ltd		2,202,500
				20 march	Advertisement	115,200	
				29 march	Konny		720,000
				31 march	Drawings		480,000
31march	cash-contra		1,240,800	31 march	Bank-C	480,000	

				31 march	Bal c/d	245,600	2,855,500
		2992000	**6258000**			**2992000**	**6258000**

THREE COLUMN CASHBOOK

Additional columns for discounts allowed and discounts received can be included with the cash atbank columns to get a 3 - column cashbook. The format is as follows:

Cash book

Date	Details	Discount Allowed	Cash Sh.	Bank Sh.		Date	Details	Discount Received	Cash Sh.	Bank Sh.

Accounting for drawings, discounts allowed and

discounts receivedDrawings

The owner makes drawings from the firm in various ways:

i) Cash or bank withdrawals

When the owner withdraws money from the business, we debit drawings and creditcashbook'(cash in hand or cash at bank).

ii) Taking goods for own use and

When the owner takes out some of the goods for his own use, we debit drawings and creditpurchases.

iii) Personal expenses, paid by the business

Here we debit the drawings and credit expense account

Taking some of the other assets from the business e.g. motor vehicles or using-part of thepremises.

Sometimes the owner may take over some of the assets of the business e.g. vehicle or, convertingbusiness premises into living quarters or not paying into the business cash collected personally from the customers.

When this happens, we debit drawings and credit the relevant asset e.g. motor vehicles, premises or some building or even debtors.

Discounts Received

A discount received is an allowance by the creditors to the firm to encourage the firm to pay theamount dues within the agreed time. It is an amount deducted from the invoice price.

Debit: Creditor
Credit: Discounts Received

Discount Allowed

These are the allowances made by a firm on the amounts receivable from the customers toencourage prompt payment. The amounts deducted from the sales invoice.

i. Debit- discount allowed
ii. Credit-debtors

ATD 1 AUG 2022 QN 3C

The following information relates to the business of Beshy Enterprises for the month of March 2022:

March 1: Opening cash balance was Sh.675,000 and the bank had an overdraft of Sh.1,875,000.

2: Paid for stationery Sh.85,000 cash.

4: Received cheque from Jessica Wambui Sh.2,275,000 after allowing a discount of Sh.12,500.

5: Settled in full Linet Achieng's account of Sh.71,500 by cheque after being granted a 10% cash discount.

9: Deposited Sh.500,000 to the bank account from the business.

12: Withdrew Sh.81,250 for personal use from cash account.

19: Bought a printer worth Sh.750,000 on account and paid half the amount by cheque.

22: Paid Asili Sacco loan of Sh.187,500 by cheque.

23: Withdrew Sh.200,000 for office use.

31: Paid salaries of Sh.150,000 in cash and Sh.437,500 by cheque.

31: Sold some equipment and received Sh.293,750 in cash.

Required:

Three column cashbooks duly balanced as at 31 March 2022.

Date	Details	Cash Sh.000	Bank Sh. 000	Discount allowed Sh.000	Date	Details	Cash Sh.000	Bank Sh.000	Discount received Sh.000
March 1	Bal b/d	675			March 1	Bal b/d		1875	
					2	Stationery	85		
4	J.Wambui		2,275	12.5					
9	Cash-C		500		5	Linet achieng		64.35	71.5
					9	Bank-C	500		
					12	Drawings	81.25		
23	Bank -C	200			19	Printer		375	
31	Equipment	293.75			22	Asili Sacco		187.5	
					23	Cash-C		200	
					31	Salaries	150	437.5	

90%*71500= 64,350

<u>THE LEDGER AND THE CONCEPT OF DOUBLE OF DOUBLE ENTRY</u>

Double Entry -Every debit entry must have a corresponding credit entry and every credit must have corresponding debit entry.
Account -is a page of a ledger which records transactions relating to a particular person or property

<u>Classification of accounts</u>

Personal account -account kept for persons e.g creditors, debtors etc
Impersonal -tangible and intangible property

Classes of Accounts

1. Personal accounts -relates to individuals, firms, companies and other organization
Example Debtors-johns A/C, Creditors -ABC ltd
Golden rule,: Dr. receiver
Cr. Giver

2. Real accounts -accounts related to intangible and tangible property owned by the business. separate A/C is maintained to show increase or decrease in assets e.g Tangible property -land machinery, equipment cash etc
Golden rule Dr. what comes in
Cr. What goes out
Intangible property -goodwill, patents, trademarks etc

3. Nominal account- relates to incomes, gains , losses, and expenses of the business
Golden rule Dr. expenses and losses
Cr. Incomes and gains

Double Entry rules in business USE PEARLS/ DEALER

ITEM	Increase	Decrease
P-purchases	Dr.	Cr.
E-expenses	Dr.	Cr.
A-assets	Dr.	Cr.
R-revenue	Cr.	Dr.
L- liabilities	Cr.	Dr.
S-share capital	Cr.	Dr.

ITEM	INCREASE	DECREASE
D-debtors	Dr.	Cr.
E-Expenses	Dr.	Cr.
A-assets	Dr.	Cr.
Liabilities	Cr.	Dr.
E-equity	Cr.	Dr.
R-revenue	Cr.	Dr.

ATD 1 AUG 2021 QN 1B.

Celia Atieno lost her job after her employer closed shop due to effects of COVID-19 pandemic. With her savings amounting to Sh.950,000 she started a general supplies shop in January 2021. Her transactions for the month were as follows:

January:	1	Started business with Sh.950,000 in cash.
	2	Bought goods on credit from Joncy Traders Sh.180,000.
	3	Credit sales: Bidii Ltd. Sh.66,000, Swaju Investment Sh.25,000, Swan Ltd. Sh.43,000.
	4	Purchased goods in cash Sh.230,000.
	5	Bought second-hand motor van for Sh.256,000 paying by cheque.
	7	Paid motor expenses Sh.12,000 cash.
	9	Credit sales: Paris Traders, Sh.24,000, Calvary Group, Sh.26,000, Finly Ltd. Sh.68,000.
	11	Purchased goods on credit: Joncy Traders Sh.240,000, Davincy Ltd. Sh.62,000.
	13	Purchases returned to Joncy Traders Sh.25,000.
	19	Sales returns from Swaju Investments Sh.11,000.
	20	Cash drawings by the proprietor Sh.44,000.
	21	Payments made to Davincy Ltd. Sh.62,000 cash.
	23	Received payment from Bidii Ltd. Sh.66,000 through a cheque.
	25	Received payments from Swan Ltd. Sh.43,000 through a cheque.
	28	Purchases returned to Joncy Traders Sh.42,000.
	29	Purchased stationery Sh.4,000 paying cash.
	30	Credit sales: Swaju Investments Sh.42,000, Calvary Group Sh.54,000.

Required:

(i) The relevant ledger accounts and close them as at 31 January 2021. (12 marks)

(ii) Trial balance as at 31 January 2021. (4 marks)

The Trial Balance

Is a two-column schedule listing the titles and balances of all the accounts in the order in which they appear in the ledger.
Debit balances listed on the left side and credit balance on the right side

Objectives of a trial balance

1. To check arithmetical accuracy
2. To help in preparing financial statements
3. Helps in locating reports
4. Helps in comparison
5. Helps in making adjustments

Limitation of trial balance

1. Trial balance can only be prepared where double entry system of accounting is adopted
2. There are certain errors that's goes undetected
3. Incase of errors final accounts may not show true and fair view of the state of affairs of the business.

Books of original entry used in accounting

- Sales journal – To record sales invoices issued by the firm when selling goods on credit
- Purchases journal – to record purchases invoices received by the business from suppliers, when buying goods on credit
- Return inwards journal – To record sales return from customers
- Return outwards journal – to record purchases returns to suppliers

TOPIC 3

REGULATION AND OTHER PRINCIPLES GUIDING THE ACCOUNTING PROFESSION

Functions of the international accounting standards board (IASB)

1. **Development and creation of global accounting standards** – This help users of the financial statements to participate in the worlds capital market and to make economic decisions
2. **Enforcement of standards** – IASB committee has the power to enforce the organization to comply with the accounting standard that promotes the use of rigorous applications of those standards.
3. **Systematic and in depth research on enterprise** - IASB does in depth research on the special needs of small and medium sized enterprises and emerging economies in fulfilling the objective of harmonization of an accounting standards.

Benefits of adopting international financial reporting standards (IFRS)

- They improve accountability and transparency
- It improves the reliability of accounts and boosts the confidence of external agencies
- it enhances comparability among government entities
- It emphasis on performance as well as reducing misuse of public funds
- Improvement in consistence in preparing and reporting of financial information.

Objectives of the international financial reporting standards (IFRS) foundation

1. To develop in the public interest a single set of high quality, understandable and enforceable global accounting standards that require high quality transparent and comparable information in financial statement and other financial reporting to help the participant to make economic decision.
2. To promote the use and rigorous application of the standards

To bring about convergence at national account standards and international standards and IFRS to high quality solutions

Objectives of accounting regulatory bodies

- Advancement of accountancy as a language of business
- To maintain professional competence of the members through relevant training.
- To maintain high standards of practice and professional conduct.
- To promote high standards of prequalification training and education
- To set high standards for entry into and detention of membership.
- To promote public understanding and presentation of accountancy

DEC 2023 QN1A

Qualities of useful financial information

- **Relevance** – information is relevant when it provided on time and it has the ability of influencing decision of users.
- **Reliability** – information is reliable when it is free from errors and biases
- **Understandable** – Financial information must be understandable by the users.
- **Comparability** – users of financial information must be able to compare the financial statement of entity over time.

Characteristics that accounting information could have in order for it to be reliable

a) **Faithful representation –** information must represent faithfully the transaction and other events that took place during the accounting period.
b) **Completeness –** reliable information must be complete.
c) **Neutrality –** reliable information should be free from bias.
d) **Prudence –** it requires an entity not to overstate its assets and incomes but to disclose all liabilities provided for and provide for all loses

Attributes that financial statement should possess in order to meet the faithful representation criterion

Completeness – Adequate or full disclosure should be made of all necessary information.

Neutrality-Information should be presented fairly and free from bias

QUALITIES OF FINANCIAL STATEMENTS

(i) Relevance: Relevance means that the information in the financial statements is capable of making a difference in the decision-making of users. The information should be timely, predictive of future events, and have confirmatory value.

(ii) Reliability: Reliability means that the information in the financial statements is free from material errors and bias. The information should be neutral, verifiable, and capable of being reproduced by others.

(iii) Faithful representation: Faithful representation means that the information in the financial statements accurately depicts the economic reality of the entity. The information should be complete, neutral, and free from errors.

(iv) Neutrality: Neutrality means that the information in the financial statements is not biased towards any particular set of interests. The information should be presented in an unbiased manner, and should not be influenced by the personal opinions or beliefs of the preparers.

(v) Completeness: Completeness means that the information in the financial statements includes all the information that is necessary for users to make informed decisions. The information should be presented in full, and should not be incomplete or misleading.

(vi) Comparability: Comparability means that the information in the financial statements can be compared with the information of other entities, or with the information of the same entity over different time periods. The information should be presented in a consistent manner, and should be able to be compared meaningfully. These are the six qualitative characteristics of financial information that are used in the preparation of financial statements. These characteristics are important to ensure that the information in the financial statements is useful to users for decision-making.

The guiding ethics for professional accountant

1. **Integrity:** A professional accountant should be straightforward and honest in all professional and business relationships
2. **Objectivity:** A professional accountant should not allow bias, conflict of interest or undue influence of others.
3. **Professional Competence and Due Care:** A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques. A professional

   accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.
4. **Confidentiality:** A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

   5.Professional Behavior: A professional accountant should comply with the relevant laws and regulations and should avoid any action that discredits the profession

ACCOUNTING POLICIES VS ACCOUNTING STANDARDS

Accounting policies are specific principles, bases conventions, rules and practices applied by an entity in preparing and presenting financial statements

Accounting standards are methods and approach of preparing accounts which have been chosen and established by bodies overseeing the accounting profession.

Challenges that might be faced when adopting International Financial Reporting Standards (IFRS)

1. **They can be inflexible –** The standard involves the inflexible framework the accountant must comply with.
2. **Compliance can be costly –** Ne accounting standards require the company to consider the requirements of the standards, what actions the must take to implement the standard and what they cost will be.
3. They **hinder development** of critical thought.
4. They **reduce the scope** of professional judgments of accounts

ACCOUNTING CONCEPT

Accounting Concepts and Principles are a set of broad conventions that have been devisedto provide a basic framework for financial reporting.

Materiality Concept - An item is considered to be material if its omission or misstatement will affect the decision of the users.

Matching Concept – States that revenues earned in a period should be matched with the cost incurred in order to determine the profit or loss during the period.

Going concern concept – it is an accounting concept which states that tan entity will continue in operations for a foreseeable future with no intention of winding up.

Business entity concept – This states that an entity should be regarded as a separate entity from its owners

Realization concept -This requires revenues and profits be recognized when realized and shall not be anticipated

Duality concept – it states that every business transaction requires recording in two different accounts. it is the bis of double entry accounting.

Prudence concept. it states that revenue should not be overestimated expenses underestimated and one should be conservative in recording the amount of assets and not under estimate liabilities

Matching Principle & Concept

Matching Principle requires that expenses incurred by an organization must be charged to the income statement in the accounting period in which the revenue, to which those expenses relate, isearned.

Accruals Concept

Financial statements are prepared under the Accruals Concept of accounting which requires that income and expense must be recognized in the accounting periods to which they relate rather than on cash basis. An exception to this general rule is the cash flow statement whose main purpose is to present the cash flow effectsof transaction during an accounting period.

Business Entity Concept

Financial accounting is based on the premise that the transactions and balances of a business entity are tobe accounted for separately from its owners. The business entity is therefore considered to be distinct fromits owners for the purpose of accounting.

ACCOUNTING PRINCIPLES

1. **PRUDENCE**- Where alternatives exist the one selected should be one that gives the most cautious presentation of financial position of the business.

2. **Substance over form**-some transactions have real nature that differs from legal form. It states that whenever legally possible, real substance should prevail over the legal form.

3. **Accrual/ matching concept -**revenues and costs are recognized when earned or incurred and not as monetary attachment is received or paid.

Assignment
CPA DEC 2024 QN 3A
APRIL 2024 QN 3
DEC 2022 QN5
AUG 2022 QN 2A
DEC 2021 1A
MAY 2017 QN 2A