Assignment Cover Sheet

BRENTWOOD OPEN LEARNING COLLEGE

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Course:	Diploma in Accounting and Finance
Assignment NO:	1

Marking Criteria:

We expect the learners to write minimum one well expressed point in three lines against each allocated mark. This means one needs to write 15 lines with 5 well expressed points to get high grades for a 5 marks question.

For high grades use examples and illustrations where appropriate.

1. Give short answers for the following questions:

i. Define 'Accounting'.
Ans: As per the American Institute of Certified Public Accountants (AICPA), accounting is "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events, which are, in part, at least, of a financial character and interpreting the results thereof." Accounting can also be known as the "language of business". Through the financial statements, the end-product reports in accounting, it delivers information to different users.

ii. Explain the primary objectives of accounting.
Ans: Accounting fulfils different objectives depending on the specific requirements of businesses. However, some basic accounting objectives are as follows:

- To keep Systematic Records: A business is involved in various business transactions on a daily basis and accounting keeps track of these transactions by recording them in books of accounts.
- To Ascertain the Results of the Operation: Accounting ascertains any profit earned or loss incurred by a business during a particular period through Trading Profit and Loss account or an Income and Expenditure account. These accounts match the revenue earned by the business with the expenditure during the same period to calculate the profit or loss.
- To ascertain the financial position of the business: A business' financial statements reflect its financial position with regard to cash, assets, liabilities, capital, etc. They help the business owner to determine the health of his enterprise.
- To portray the liquidity position: A business obtains and spends cash for numerous purposes such as lending, repayment of loans, capital transactions, paying cash dividends to shareholders and distribution of resources among owners. This information, along with other factors that determine an entity's liquidity and solvency, is portrayed in financial reports.
- To protect business properties: Accounting keeps an updated record of the business' assets

and liabilities to prevent false claims against the entity's properties.

- To facilitate rational decision – making: Financial statements and records help a business owner analyse different aspects of his business and decision-making.
- To satisfy the requirements of law: Laws, such as, the Companies Act, Societies Act, Sales Tax Act, Income Tax Act, etc. which govern business operations required by companies, public trusts, and other business entities to maintain up to date accounts.

iii. Discuss the limitations of accounting.
Ans: Accounting facilitates in making assessments of the values of businesses in terms of profits, losses, assets and liabilities. It gives the information that helps to decide future course of actions. Accounting provides us with logical conclusions; however, the facts derived from accounting at times can be biased, inclined, or influenced by one factor or the other and hence, it is false.

Accounting has the following limitations:

- Record keeping: Accounting helps in maintaining records of financial transactions only. Any actions, dealings or events that have a non-financial nature do not fall in accounting. Sometimes these may include information that directly or indirectly influence the financial health of the business. Management skills, variation in consumer preferences, or any other changes in the Human Resources may not be recorded in accounting but are, nonetheless, very important factors in running a business.
- Accuracy of information generated by accounting system: Financial health of a business, including revenues, losses, assets and liabilities, are analysed by Accounting. During the analysis accountants rely on both real and assumed estimates. The methods of determining depreciation and valuating stocks may differ from business to business as each has their own standard practices and provisions.
- Value of assets: The true market value of the assets is not normally reflected in balance sheets. The assets shown on the balance sheet have their costs adjusted according to the conventional rules of accounting. Furthermore, many assets enlisted in a balance sheet do not have any real market value at all. These assets may include patents, goodwill, preliminary expenses, etc. When these assets are shown on the balance sheet, the final results may appear dubious.
- Window dressing: Many firms adopt actions described as window dressing practices in order to increase profits in the short term. These actions may include postponing the maintenance of plant and machinery, which will decrease costs and increases profitability in the short term but, such a strategy can lead to a complete disruption in production and operations when the machinery breaks down.
- Changing price levels: Accounting measures of performance and evaluation of financial position may not be accurate due to changing prices and changes in the value of assets. Additional information based on the current replacement value of assets is required to get a closer estimate.

iv. What types of activities are included in data evaluation?
Ans: Data evaluation controls the business activities through budgets and standard costs, evaluating the performance of the business, analysing financial statements, analysing cash flows, and choosing alternative courses of action for decision-making process. Therefore Evaluation of data is one of the most important business activities.

v. Outline the main functions of accounting considering the following groups;
a) Lenders
Creditors, who are also known as lenders, can be given for the short - term or long - term. Short-

term creditors are also called trade creditors since they supply raw materials, goods and services. They usually lend money for a year or less. Long-term creditors are those who give loans for longer periods of times (usually more than a year) and issue the loans in the form of secured loans.

They are interested in company's credit worthiness, liquidity, profitability, etc. Before lending money to the company, the creditors rely on the financial statements to know if the company will be able to pay back its debts in the foreseeable future.

b) Employees

Business organisation has moved beyond just maximising profits for shareholders to ensuring the welfare of its employees. The economic and social role of managers has undergone a shift as management theories have progressed. Employees are considered important users of the company's financial information, as their input is required for matters such as settlement of wages, bonuses, output benchmarks, and profit sharing.

c) Customers

Consumers' groups and other organisations, which look after welfare of consumers and public, use information generated by accounting for several reasons. Through this accounting information, these organisations can analyse and keep a check on the performance and efficiency of businesses. The information also gives an insight into social responsibility of businesses. By looking at various accounting information, including profits and outputs generated by businesses, the consumers' organisations can also keep a track of the growth of businesses and find out whether they are in line with the defined national goals.

2. Discuss the role of accountants in modern business organisations.

The modern business environment has changed drastically in a short time. Business technology has advanced business functions and operations to levels not previously believed possible. The role of accounting and business is perhaps one of the most reliable functions in business. While a few basic procedures or methods have changed, the purpose of accounting remains the same. Business owners often use accounting to measure their company's financial performance and make business decisions.

- *Facts*

The goal of most businesses is to make a profit. Accounting allows business owners to record, report and analyze their company's financial information. Accounting provides information relating to income, cost of goods sold, expenses, assets, liabilities and owner's equity. Business owners often rely on this information to provide them with information on how money was spent in the business. Financial statements are usually the final output of accounting. These statements include a company's aggregate financial information for accounting period.

Features

Accounting provides business owners with potential benchmarks for comparing their company with the industry standard. Business owners and managers often use financial ratio analysis to break down their company's financial performance. These ratios provide indicators or percentages to compare against a competing company in the business industry. Companies with financial indicators or percentages worse than the industry standard usually need to improve business operations. Ratios provide focal points so business owners know where to start when making improvements.

- *Function*

Small business owners often use accounting information to secure bank loans or investor financing for their business. Many small businesses require startup capital when beginning business operations. Entrepreneurs and business owners will often prepare pro forma financial statements to provide banks and investors with information relating to the businesses expected financial return. Business owners needing additional financing during business operations often provide banks and investors with a track record of their company's financial accounting information.

- *Significance*

Accounting is often called the language of business. This statement refers to the analysis methods used to measure different companies using the same measuring stick. Comparing one company with another is often difficult because each company has different operations. Accounting boils down a company's operational performance to a basic financial analysis. Accounting may also provide individuals with an analytical comparison of international companies.

- *Expert Insight*

The accounting industry has seen significant growth over the past several years. Public accounting firms and individual certified public accountants offer professional accounting services to small and large businesses. The growth in accounting is often attributed to increasing government regulations, the number of new businesses in the economic environment and increasingly complex financial situations. Small business owners typically use professional accountants to prepare business tax returns.

3. What is accounting cycle? Outline the basic steps included in accounting cycle.

Ans: The accounting cycle is the name given to the collective process of recording and processing the accounting events of a company. The series of steps begin when a transaction occurs and end with its inclusion in the financial statements. Additional accounting records used during the accounting cycle include the general ledger and trial balance.

The basic steps included in an accounting cycle are as follows:

- *Transactions*

Financial transactions start the process. Transactions can include the sale or return of a product, the purchase of supplies for business activities, or any other financial activity that involves the exchange of the company's assets, the establishment or payoff of a debt, or the deposit from or payout of money to the company's owners.

- Journal entries

The transaction is listed in the appropriate journal, maintaining the journal's chronological order of transactions. The journal is also known as the "book of original entry" and is the first place a transaction is listed.

- Posting

The transactions are posted to the account that it impacts. These accounts are part of the General Ledger, where you can find a summary of all the business's accounts.

- Trial balance

At the end of the accounting period (which may be a month, quarter, or year depending on a business's practices), you calculate a trial balance.

- Worksheet

Unfortunately, many times your first calculation of the trial balance shows that the books aren't in balance. If that's the case, you look for errors and make corrections called adjustments, which are tracked on a worksheet.

Adjustments are also made to account for the depreciation of assets and to adjust for one-time payments (such as insurance) that should be allocated on a monthly basis to more accurately match monthly expenses with monthly revenues. After you make and record adjustments, you take another trial balance to be sure the accounts are in balance.

- Adjusting journal entries

You post any corrections needed to the affected accounts once your trial balance shows the accounts will be balanced once the adjustments needed are made to the accounts. You don't need to make adjusting entries until the trial balance process is completed and all needed corrections and adjustments have been identified.

- Financial statements

You prepare the balance sheet and income statement using the corrected account balances.

- Closing the books

You close the books for the revenue and expense accounts and begin the entire cycle again with zero balances in those accounts.

Activity

List the various accounting activities that an organisation under takes and give reasons for each as to why that particular activity is performed in the organisations.

1. Journal Entries

Reason: Journal entries are the first set on entries done to start accounting. Journal is also known as the book of original entry.

2. Posting

Reason: Posting refers to the process of transferring entries in the journal into the accounts in the ledger. Posting to the ledger is the classifying phase of accounting.

3. General Ledger

Reason: A general ledger contains accounts that are broad in nature such as Cash, Accounts Receivable, Supplies, and so on. There is another type of ledge which we call subsidiary ledger.

4. Assets

Reason: Assets refer to resources owned and controlled by the entity as a result of past transactions and events, from which future economic benefits are expected to flow to the entity.

5. Liabilities

Reason: Liabilities are economic obligations or payables of the business. Company assets come from 2 major sources – borrowings from lenders or creditors, and contributions by the owners. The first refers to liabilities; the second to capital.

6. Capital

Reason: Capital refers to what is left to the owners after all liabilities are settled. Simply stated, capital is equal to total assets minus total liabilities.

Student Statement:

By submitting this assignment, I confirm that this is my own work.

Student Signature		Date	15/11/2016

For Tutor / Assessor Use Only

Total Marks	
Marks Obtained	
Percentage / Grade	