Accounting Assignment

Name of Student

Name of institution

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*Introduction*

The accounting information plays a very important role in the decisions made by the organization. The way the accounting information is prepared is guided by certain principles laid down by past research. These principles make accounting information more meaningful and useful for both internal and external users. Some of these principles lay down the foundations of accounting information handling. Most of the financial statements do not mention on the outset that certain principles have been adopted but their representation of the information shows that these principles have been applied.

***Accounting Concepts***

*Business Entity Concept*

This concept states that any business under consideration is separate from the owners who own the business. Thus, the business is a completely separate entity from the owners. When the owners invest money in the business, it is recorded as a liability at the end of the business. The drawings made by the owners are treated as the personal expense of the owner rather than the business expense. This concept also requires that the management and ownership of the business are kept separate from each other. This will mean that the people who have invested money in any business will not be the same as those who will manage the day-to-day operations. This concept also requires that the accounting records will be made from the perspective of business rather than the owners. If we talk about the organization under consideration, it has shown drawings as a part of statement of owner’s equity rather than as a part of the income statement. Further analysis will reveal that the assets and liabilities represent the business rather than the owners. In the balance sheet section, the business has shown the owner equity section on the liability side showing that the amount of capital acquired has to be paid back by the business. The application helps the businesses to ascertain the profit for the entity by considering only those revenues and expenses that have been incurred by the business in ordinary operations. These revenues and expenses have not been received or incurred by the owners in person. This has allowed the company to record the transactions from the point of view of the business.

*Going Concern Concept*

This concept states that the time span over which the business is expected to carry on the operations is unlimited. In other words, the business is done with the aim of continuing for an indefinite period of time. This concept is an important part of the accounting discussion. This ensures that the company shows the assets in the balance sheet. This is because assets are long term resources that are used by the business. These resources are bought because the business is assumed to continue for an indefinite period of time. The usage cost of assets that is shown in the balance sheet as depreciation also shows the application of this concept by the business. The reason is that the assets are purchased to be used over a longer period of time. Thus, every year the depreciation has been shown in the expense which has been caused by the usage in that particular year. The company under consideration has applied this concept in a similar manner. The company is an airline so it also makes various agreements and contracts for the purchase of aircrafts. These contracts are fulfilled over a longer period of time. Thus, the company indulging in these contracts assumes that it will continue the operations over a longer period of time. Without implementing this concept, the company will not be able to prepare any financial statements. This concept helps the organization to ascertain the correct value of the fixed assets by deducting the depreciation from the book value. This shows that the organization knows that the operations will continue over an indefinite period of time. This concept also helps the shareholders as they will be assured that they will continue to receive income for their investments in the form of dividends. Some external users judge the business by seeing the ability of the same to earn profits in the future. This concept allows the users to judge this ability of the company.

*Accounting Period concept*

All the transactions recorded in the financial statements are assumed to be ascertained for profit after some specified period. This concept is applied by the company by making the financial statements after some specified period of time. The major purpose of applying this concept varies from company to company. The first and foremost purpose of applying this concept is that the business must be able to bring out some profit after some specified period of time. This calculation of the profit will mean that the business will also be able to compute the amount of tax that is payable. This concept assumes that the going concern concept is divided into parts which are called as accounting period. Generally, the accounting period used by the companies is one year. This may be the calendar year or some specific financial year. The company under consideration uses the financial year that ends on 30th June every year. This concept allows the business to ascertain the profit or loss over a specified period of time which is generally one year. This ensures that the revenues received in this period are matched with the expenses made to generate these revenues only. The application of this concept helps to foresee the future prospect of the business. This is especially important when things are seen from the perspectives of the investors. The investors will invest in the company only when they see that the company will provide them with suitable returns on their investments or not. The company under consideration provides proper information to the external users including the investors. The complete set of financial statements is available for all the external users for the assessment. This concept allows the company to distribute some of the profits into the shareholders. This will make the shareholders satisfied over a period of time when they will receive consistent income. The company under consideration is bearing huge losses so it has not paid any dividends.

*Accounting cost concept*

This concept states that the companies must state the assets in the accounts at the prices at which they have been bought. This price will include any expenses that have been incurred to bring the asset in the working condition. This means that the fixed assets like building are recorded in the books at the price that has been paid for them. This concept is also known as historical cost concept. In a sense, this concept allows the business to charge the depreciation on the various fixed assets. If this concept is not applied, the company may opt to use the current price of the assets in the balance sheet. This will create certain problems for the company. Firstly the financial statements for one year will not be comparable to the financial statements of the next or previous years. Secondly the financial statements will be prone to be affected by the happening outside of the company. These may include the recession that has hit the overall economy. In this situation, the value of the assets will decline and the profits will be understated. In case of a boom in the economy, the value of the assets will be overstated and so will be the profit. The company under consideration has applied the cost concept. This is shown by the fact that the depreciation has been calculated by the company on the current value of the assets shown in the books. This further shows that there has been no change in the valuation basis for the assets. Another thing that shows the application of this concept is the presence of the accumulated depreciation account. This shows that the company had recorded the asset at the price at which it was acquired and the depreciation has been calculated on per year basis.

*Dual aspect Concept*

This concept is the basic corner stone of all the accounting that is undertaken by the companies and organizations. All the transactions that are recorded in the financial statements are assumed to be having a minimum of two aspects. In other words, the transaction will affect a minimum of two accounts and the recording will be done on the opposite sides of these accounts. This means that in order to record the transactions correctly, the company should record both the aspects of the transaction. The company under consideration has applied the dual aspect concept by making the balance sheet. The balance sheet is an extended version of the classical accounting equation which shows that any effect on one side of the equation should be equally accounted for on the other side of the equation as well. The accounting treatment of depreciation is another example of application of dual aspects concept. The depreciation is subtracted from the value of asset and is also shown as an expense in the income statement. The knowledge of this aspect allows the person to identify the effects that the transaction will have on the overall accounting situation of the company.

*Realization Concept*

This concept requires that the revenues that have been earned by the company should be recorded in the books of accounts when it is realized. In other words, we can say that the point at which there is a legal obligation and right created for the receipt of money, realization takes place. The receipt of order is not sufficient for the revenue realization. The accounting information made by using this principle is more objective in nature. The company under consideration receives some advanced payments but cannot record the revenues until the services have not been delivered to the customers completely.

*Accrual Concept*

This concept identifies that some of the business transactions take place on credit. The term accrual specifically means some amount that is receivable or payable when the current accounting period comes to an end. The existence of receivables on the balance sheet of the company shows that the company uses accrual concept. This concept should be applied if the organization needs to know the actual revenues and expenses pertaining to a particular period.

*Matching concept*

The matching concept states that the revenues of a particular accounting period must be offset by the expenses that have been incurred to generate those revenues. This is applied by the company by apportioning the expenses that will benefit the business for more than one accounting period. The company uses the matching concept by dividing the lease payment over a number of years.

*Answer 2*

The business can use more than one methods to measure the values of the various figures that are available on the financial statements. The final choice of the measurement method is done on the basis of how a particular method affects the financial statements. Reporting certain items on the financial statements has certain costs associated to it. The benefits that are expected to be taken from the information should be more than the costs incurred. The methods of measurement should be kept consistent over time unless there is some good reason to change.

The current framework with regards to concepts does not provide a clear stance regarding measurement. The little guidance that is provided on this aspect presents a serious knowledge gap in the system. The information required by all the stakeholders may not be sufficiently provided by a single method of measurement. Thus IFRS allows the companies to adopt various standards for various purposes. Different measurement methods include the fair value, historical costs and net realizable value. All of these measures may become relevant under different circumstances to be used as measurement methods. Using different measurement methods will affect the credibility of the financial statements. This will also affect the comparability of the statements.

A business that undertakes value addition at certain levels and presents the final product for sale can give more importance to the current values of the sales. In this case the current values play a vital role in the measurements applied by the company. Thus, the assets and liabilities will also be valued based on the current market values for the reporting purposes.

The board that manages the international accounting standards allows the business concerns to apply different measurement methods depending upon the target audience of that particular information. The drawback or the discrepancy created by the usage of mixed measurement is set off by the level of relevance that is achieved with their usage. The standard number 9 allows the usage of fair value in some circumstances and use of cost in some other circumstances.

When selecting a measurement basis, the level of uncertainty that is associated with the basis itself should be considered as well. In some cases the uncertainty may be that much high that it will affect the relevance of the information.

The measurement basis can be categorized as either being historical costs or current value. The company under consideration uses the historical costs for the measurement of the fixed assets. This aspect is evident from the calculation of depreciation on the original cost.

*Answer 3*

The question whether the financial statements should be relevant or should represent fair value of the assets and liabilities arouses a political debate that discusses the tradeoff between the two dimensions namely relevance and reliability. The conceptual framework developed by the accounting authorities does not consider these two aspects as conflicting with one another. Different accounting systems give variable importance to both these aspects. The answer to the question pertaining to the relative importance of relevance and fair representation cannot be given completely on the technical basis because of the nature of the accounting information presented in the financial statements.

The concept of true and fair view was first added to the accounting law in 1978. The appearance of the idea of fair value has given rise to a fresh debate on this aspect. This particular term was used for the first time in the accounting standard 16 that was about the valuation of property, plant and equipment. The financial crisis that hit the world in 2008 started a stream of research on the impact of cyclical variation on the fair value valuation of assets. The companies and banks in particular were suggested to value the financial assets in such a way that they will not be valued at a fair value.

There is a lack of compatibility between relevance and fair representation. The financial statements should represent the position of the company fairly. In other words, these statements should give a true and fair view of the current position of the company. Any signal that is seen in the financial statement of the company cannot be considered relevant unless it is seen in the light of some objective set by the organization. Some of the questions raised regarding the relevance and fair value aspects are still unanswered and they can be used to do some further research in the field. In my opinion representational faithfulness is more important than relevance when we talk about financial statements. This is because some information may not be relevant to some of the external users yet if they go through it, the information should represent a true and fair picture of the overall operations of the company. This is also important if some particular information is relevant to some particular group. The relevance will hurt the external user if the financial statements do not present a true and fair view of the financial condition of the company. Many frauds committed by the companies in the field of accounting have taken place because the said company has not shown a true and fair picture of its operations. The company under consideration has shown a true and fair view of its operations. We can say this because the company has shown loss on the income statement, it could have altered used the concept of window dressing to make things look better. The relevance aspect is of secondary importance to some of the external users. This is because all external users consider different aspects of the financial statements relevant to them so they will be able to find their relevant material. The most important aspect is that the material should show a true and fair picture of the position of the company.

*Conclusion*

All the three aspects discussed above are related to each other. The company cannot produce relevant and fair results if it does not follow the basic principles of accounting that have been presented here. In case of measurement, the company is using different basis for measurement for different aspects of its business. This is because one basis for measurement is more appropriate than others in certain cases. Thus, the company has to consider all three aspects while preparing financial statements.