

Tutorial 2 – Answers

(1a) A

(1b) D

(1c) B

(1d) C

(1e) C

(1f) A

(2a)

Balance Sheet, Income Statement, Statement of Changes / Movement in (Owners) Equity, Cash Flow Statement & Accounting Policies & Explanatory Notes.

(2b)

A balance sheet provides a statement of the financial position of a business at a particular point in time. It reports the assets, liabilities & capital at a specific date, usually the end of an accounting period.

(3a)

(i) Going Concern Concept

The going concern concept implies that the business will continue in operational existence for the foreseeable future, and that there is no intention to put the company into liquidation or make drastic cutbacks to the scale of operation.

This concept has a major influence on the assumptions made when evaluating particular items in the balance sheet.

For example assets are not normally shown at net realisable value because they are expected to be kept in the business for future use.

(ii) Historical Cost Concept

The assets are normally shown at cost price, and that is the basis for valuation of the asset.

(iii) Accruals Concept

The accruals concept requires that revenue and costs are recognised as they are earned or incurred, not when the money is received or paid. They must be matched with one another so far as their relationship can be established or justifiably assumed and dealt with in the income statement of the period to which they relate.

(iv) Prudence Concept

The accountant should always exercise caution when dealing with uncertainty while, at the same time, ensuring that the financial statements are neutral – that gains and losses are neither overstated nor understated.

By applying the prudence concept, an accountant will normally make sure that all losses are recorded in the books, but that profits and gains will not be anticipated by recording them before they should be recorded.

(4)

- To provide information on financial position, performance & cash flows of an enterprise that is useful to a wide range of users in making economic decisions.

- Show the result of management's stewardship of the resources entrusted to it.

(5)

Understandability

Users who has a reasonable grasp or knowledge of accounting and Business acumen and as well as willing & know how to study and analyze the information presented.

Reliability

This will be enhanced in the case of reports which are independently verified. E.g. having gone through external audit by qualified public accountant.

Relevance

Relevant information provides both feedback and predictive value. This helps users evaluate past and future performance. Relevant information must be made available on time. If information is only available after the decision is made, it isn't of much use.

Comparability

Comparability requires that similar events be accounted for in the same manner on the financial statements of different businesses and for a particular business, for different periods. Comparability of accounting data for the same business over time is called consistency.

(6a) Consistency concept.

The entity shall continue to prepare a 12 months ending accounts instead of a 18-month accounts. This ensures the similar pattern is maintained and equitable comparison can be made against the previous financial results. One does not change unless circumstances required, such as change of accounting year end, requirement by any accounting standards or legislation.

(6b) Accrual concept

As long as it is realized / sales been made, this concept requires that revenue or expense is to be recognized & recorded in books when it is earned or incurred, disregard when the proceed is received.

- 7) Shareholders want financial statements so that they can decide what to do with their shareholdings, whether they should sell the shares or hold on to them.

To enable them to decide upon their actions, they would really like to know what is going to happen in the future. To help them in this, they also would like information which shows them what happened in the

past. Ideally, therefore, they would like both types of report, those on the past and those on the future.