ACC 101
INTRODUCTION TO FINANCIAL REPORTING I

COURSE OUTLINE

COURSE DESCRIPTION – 1/2

- Designed to equip students with the basic principles and concepts underpinning financial accounting.
- Exposes students to:
  - The conceptual and regulatory framework of accounting
  - Accounting equation
  - Accounting cycle
  - Procedures for recording business transactions
  - Mechanics of reporting financial information viz financial statements

COURSE DESCRIPTION – 2/2

- **Equips students with the skills of preparing final accounts for sole proprietorship after making the necessary corrections.**

- **Exposes students to the application of relevant accounting standards relating to the preparation and presentation of financial statements.**

COURSE OBJECTIVES – 1/2

- Define accounting and explain the purpose of accounting information
- Describe the conceptual and regulatory framework of accounting
- Apply the principles of double entry in recording business transactions
- Apply the relevant accounting standards in preparing and reporting financial information

COURSE OBJECTIVES – 2/2

- Locate and correct errors in the books of accounts
- Prepare bank reconciliation statements
- Prepare basic financial statements for small and medium-sized enterprises (SMEs)
- Make end of period adjustments to final accounts

COURSE CONTENTS

NATURE, FUNCTION AND REGULATORY FRAMEWORK OF ACCOUNTING

TOPIC 1

TOPIC 1: CONTENTS

- Meaning, definition, evolution & function of accounting
- The IASB & the regulatory framework of accounting
- The Conceptual framework for financial reporting
- Ethical and Professional Issues
- Accounting concepts and conventions
- Accounting standards – IFRS and IFRS for SMEs
- IFRS 1 – First-time adoption of IFRS
- IAS 1 – Presentation of financial statements

THE THEORY OF DOUBLE ENTRY PRINCIPLE OF ACCOUNTING

TOPIC 2

TOPIC 2: CONTENTS

- Source documents and books of original entry
- The cash book
- The imprest system and the petty cash book
- The accounting equation and effects of transactions on the statement of financial position
- The double entry principle for assets, liabilities, capital, revenues and expenses including VAT and NHIL issues
- The ledger, balancing of accounts and extraction of trial balance

CORRECTION OF ERRORS AND THE SUSPENSE ACCOUNT

TOPIC 3

TOPIC 3: CONTENTS

- Meaning and Location of Errors
- Correction of errors not affecting the agreement of the trial balance
- Correction of errors affecting the agreement of the trial balance
- The use of suspense account
- Effects of errors on the reported profit and the statement of financial position

BANK RECONCILIATION STATEMENTS

TOPIC 4

TOPIC 4: CONTENTS

- Meaning and purpose of bank reconciliation statement
- Causes of discrepancies between cash book and bank statement balance
- Adjusting the cash book
- Preparation of bank reconciliation statement with the aid of an adjusted cash book
- Preparation of bank reconciliation statement without using an adjusted cash book
- Correction of net profit

ACCOUNTING FOR NON-CURRENT ASSETS AND DEPRECIATION

TOPIC 5

TOPIC 5: CONTENTS

- Distinction between revenue and capital expenditure
- The nature and types of non-current assets including documentations for non-current assets
- Accounting standards relating to non-current assets: IAS 16, IAS 20, IAS 40, IAS 36, IAS 23
- Meaning and causes of depreciation
- Methods of charging for deprecation
- Ledger entries for depreciation
- Disposal of non-current assets

PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP BUSINESS

TOPIC 6

TOPIC 6: CONTENTS

- Preparation of trial balance and the extended trial balance
- Accounting standards relating to preparation and presentation of FS: IAS 1, IAS 2, IAS 8, IAS 10, IAS 18, IAS 37
- Statement of profit or loss and other comprehensive income
- Statement of financial position
- Statement of cash flows: IAS 7

ADJUSTMENTS TO FINAL ACCOUNTS

TOPIC 7

TOPIC 7: CONTENTS

- Accrued Expenses and Unearned Income
- Prepaid Expenses and Accrued Income
- Bad Debts and Provision for Doubtful Debts
- Discount Allowed and Provision for Discounts on Account Receivable
- IAS 2 and valuation of Inventory

COURSE TEXTBOOK

- Marfo-Yiadom, E., Asante, S. & Tackie, G. (2020). *Financial accounting and reporting: An introduction.* Revised Edition. Accra: Kwadwoan Publishing.

- Cost: GHC80

- NB: To be used for both first and second semesters

OTHER MATERIALS

- International Financial Reporting Standards (IFRS)
  - Full IFRS
  - IFRS for SMEs
- Companies Act, Act 992, 2019
- Incorporated Private Partnership Act, Act 152, 1962
- www.iasplus.com
- www.ifrs.org

COURSE ASSESSMENT

- Continuous Assessment……………..40%
  - Class attendance 5%
  - Class participation 5%
  - Quizzes 5%
  - Assignments 5%
  - Mid-semester exams 20%
- End of Semester examination………60%
- Total……………………………………..100%

GRADING SYSTEM

Marks	Grade	Grade Point	Remarks
80-100	A	4.0	Excellent
75-79	B+	3.5	Very Good
70-74	B	3.0	Good
65-69	C+	2.5	Credit
60-64	C	2.0	Fair
55-59	D+	1.5	Pass
50-54	D	1	Pass/Poor
0-49	E	0	Fail

COURSE POLICIES – 1/4

- **Attendance and lateness to lecture**
  - **Attendance to lectures and tutorials is compulsory**
  - **Lateness shall not be tolerated - At least 5 minutes before lectures**

- **Class participation**
  - **Active participation is strongly encouraged**
  - **Students are free to ask relevant questions**
  - **Marks will be awarded for active class participation**

COURSE POLICIES – 2/4

- Missed quizzes, tests, and assignments
  - Zero mark is award for:
    - missed quizzes and tests
    - assignments not submitted on time
  - unless due permission is sought in advance

- No retrospective permissions will not be granted

COURSE POLICIES – 3/4

- Dress code
  - Dress smartly and appropriately
  - Appropriate student dress is an integral part of professional development.
- Students are required to dress like professional executives once every month; the first lecture of each month.
- Professional executive outfits to be won during end-of-semester examinations.

Dress Code

Appropriate dressing	**Inappropriate dressing**
Dress shirt, long- or short-sleeved	Flip-flops or slippers
A tie, properly tied	'Chalewote'
Shoes with socks	Bathroom slippers.
Sandals / African slippers	Tops with bare shoulders or spaghetti-straps
Blouses, dress shirts, tops and turtlenecks	Mini-skirts, sun dresses, peasant dresses/shirts
Jeans trousers	Beach dresses, and spaghetti-strap dresses
African wear	Shorts
Executive wear / Suits	Low-cut blouses which reveal cleavage

COURSE POLICIES – 4/4

- Academic dishonesty
  - Cheating and plagiarism will be severely penalized
  - Plagiarism involves copying someone’s work and presenting it as if they were your original work.
  - Students are advised to learn from each other but not to copy colleague’s assignments and present them.

WISH YOU ALL THE BEST!

ACC101
INTRODUCTION TO FINANCIAL REPORTING I

A Word

- “Accounting is the only profession practiced on earth and in heaven”

- “You have to account for all your actions on earth and account for same in heaven”
- – Double entry

Balance Sheet of Life

- Birth – Opening Stock
- What comes to you – Credit
- What goes from you – Debit
- Your ideas – Assets
- Your bad habits – Liabilities
- Your character – Capital
- Your happiness – Profit
- Youxzr sorrow – Loss
- Your knowledge – Investment
- Your age – Depreciation
- Death – Closing Stock

….GOD IS YOUR AUDITOR

Chapter One:

Nature, Scope and Functions of Accounting

Introduction

- Accountability of scarce resources is a natural phenomenon

- Owners of entities expect their managem[illegible]vide accountability of their stewardship

- Accountability can mainly be achieved [illegible]
  - **There's proper book keeping system; and**
  - **There's a clear and transparent financial reporting system**

Chapter Outlines/Objectives

- Definition and Meaning of Accounting
- Evolution of Accounting
- Distinction b/n Accounting and Book Keeping
- Purpose of Accounting
- Function/Uses of Accounting Information
- Limitations of Accounting Information
- Branches of Accounting
- The Accounting Process
- Users of Accounting Information
- Careers in Accounting

Meaning & Definition - 1/4

- Systematic process of
  - **recording business transactions and**
  - **reporting financial information**

    (Marfo-Yiadom et. al., 2015)

- Recording, classifying, summarizing and reporting fin info

- Provision of relevant information of a financial nature for decision making

Meaning & Definition - 2/4

- Accounting is defined as …***"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 financial characteristics and interpreting the results thereof" AICPA (1961)***

- Accounting is defined as the art of collecting, analysing, recording, summarising, presenting and interpreting financial and operating data expressed in terms of money for use by management of economic entities and interested parties in making decisions.

Meaning & Definition 3/4

The provision of information about the financial performance and financial position of a business entity useful to a wide range of users for assessing the stewardship of management and for making economic decisions

Accounting aims to assess the impact of an organization or company on people both inside and outside.

Meaning & Definition 4/4

Key issues in accounting definition:

Collecting and recording data that is financial in nature

Processing of the selected financial data

Producing output/results that are communicated to interested parties

Aiding economic decision making

Accounting does not tell all about a business organization

Evolution of Accounting - 1/3

- Accounting existed as early as 8500 BC
- Clay tokens and wet clay tablets were used to keep records of commodities.
- Been around in one form or the other since civilization
- Account-keeping methods advanced during the thirteenth to fifteenth centuries in places like Florence, Egypt, Mesopotamia, Venice, Rome, China and Genoa.
- Double entry bookkeeping was introduced in 1340 AD in Genoa

Evolution of Accounting - 2/3

- In 1494, Luca Pacioli wrote on a branch known as double entry in his book, ***summa de arithmetica, geometria, proportioni et proportionalita. (Everything about arithmetic, Geometry and Proportion)***

- Fra Luca Pacioli is considered the father of accounting

- He formulated the first systematic record keeping in 1949

- He introduced three books of accounts which are
  - The memorandum
  - The journal
  - The ledger

Evolution of Accounting - 3/3

- Expansion in business and changes in mode of financing due to the industrial revolution changed the way of accounting.
- Accounting has evolved with the outburst of information technology.
- Currently a number of accounting software are employed
  - **Tally Accounting**
  - **SAGE**
  - **QuickBooks**
  - **Peach Accounting**

Purpose of Accounting

- Provide quantitative information expressed in monetary terms to a wide range of users to make economic decisions

Functions/Uses of Accounting

- Provides decision useful information - to management and owners
- Provides analysed and summarised information on business activities
- Facilitates the allocation of scarce resources
- Meets regulatory/legal requirements
- Acts as a control mechanism of business activities
- Provides accountability of business activities to owners
- Provides information on persons or objects of an entity
- Used to plan for future operations

Limitations of Accounting Information

- Ignores non-monetary information
- Conflict among qualitative characteristics
- Measurement unit unstable
- Contradictions among some underlying concepts’
- Subject to human error
- Accounting reports past or historical data which may not be relevant for future decision making

Branches of Accounting

- 3 main branches:
  - Financial Accounting
  - Management Accounting
  - Cost Accounting

- Other specialised areas:
  - Auditing
  - Taxation
  - Public sector accounting (governmental accounting)
  - Environmental accounting (sustainability accounting)
  - Hospitality accounting
  - Non-profit accounting
  - ....accounting

Distinction among Financial Acc, Mgt Acc and Cost Acc

Financial Accounting

- Recording transactions and reporting using financial reports.
- Accounting information mainly for external users such as shareholders, creditors, govt agencies.
- Are prepared and published quarterly, semi-annually and more often annually.
- Legal requirement for

Management / Cost Accounting

- Processing Accounting information to aid management functions.
- Accounting information for internal users such as Sales managers, production managers FD, MD.
- Prepared daily or weekly or as and when management requires.
- Optional, and prepared

Theme	Financial Accounting	Management Accounting
Definition	Defined as the process of recording business transactions and reporting financial information	Defined as the process of generating accounting information for use by management
Users of information	Intended for external parties outside the organisation	Intended for internal parties within the organisation
Reporting frequency	Prepared and published quarterly, semi-annually and annually	Prepared daily, weekly, monthly or as and when required by management
Form of reporting	Presented in the form of statements of income, financial position, cash flows, etc.	Presented in the form of budgets, performance reports and assessment reviews.
Time dimension	Reports past or historical information	Reports past, present and future information
Legal framework	Mandatory for limited liability companies	Not mandatory or optional

The Accounting Process

- Identification and collection of source documents
- Analysing the transactions
- Recording the transactions in the journals/day books
- Posting into ledgers
- Balancing off accounts and extracting the trial balance
- Preparing Financial Statements (FS) using the trial balance and after considering adjustments
- Reporting/communication of information to users
- Interpretation of FS using ratio analysis
- Using the information to make informed decision

The Accounting Process

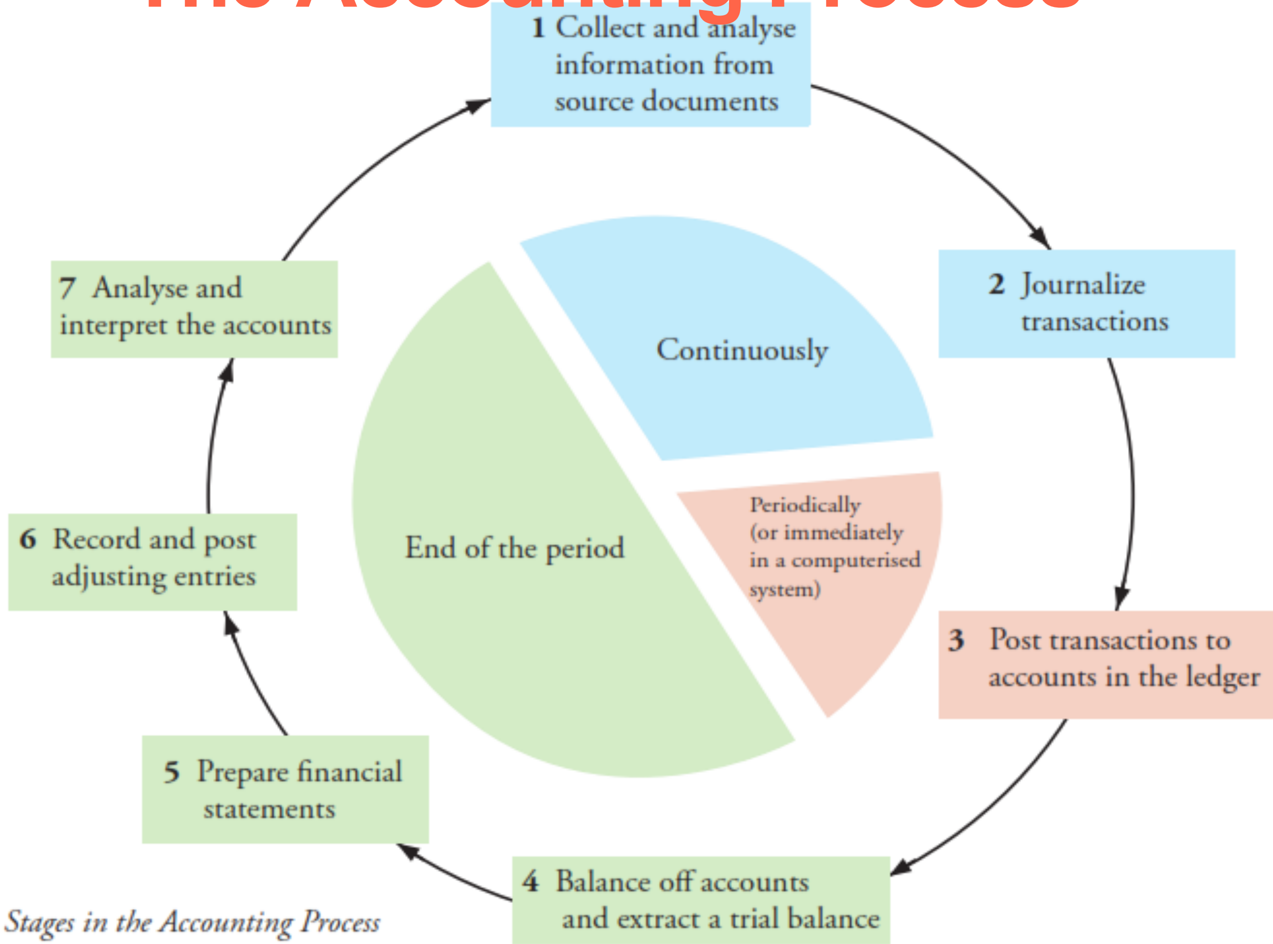


Figure 2: *Stages in the Accounting Process*

Users of Accounting Information

- Management
- Shareholders and potential investors
- Suppliers and other trade payables
- Customers and other trade receivables
- Loan providers and other providers of finance
- Government and its agencies
- Employees and trade unions
- Financial analysts and advisors
- General public

Career of Accounting

- Bookkeeper
- Financial, management and cost accountants
- Auditor
- Financial controller
- Investment advisor
- Insurance broker
- Financial analyst
- Banker
- Accounting educationist

End of Chapter One

Solve this Puzzle

A guy buys goods worth GHC20 from a shop. The guy gives GHC50 note to the shopkeeper. The shopkeeper get a change from the next shop and keeps GHC20 for himself and returns GHC30 to the guy. Later, the shopkeeper of the next shop comes with the GHC50 note saying “counterfeit” and takes his money back.

How much loss did the shopkeeper make?

A. GHC20
B. GHC30
C. GHC50
D. GHC60
E. GHC70
F. GHC80
G. GHC100

The Answer is …..

C. GHC50

Chapter Two:

Conceptual and Regulatory Framework of Accounting

Introduction

- Accounting information aims at enabling users to make informed economic decisions

- For information to be useful, it must be generated based on certain guidelines.

- These guidelines are set out in ff frameworks:
  - **The IASB conceptual framework for financial reporting**
  - **The regulatory framework for financial reporting**

IASB's Conceptual Framework for Financial Reporting

What is the Conceptual Framework?

- Promulgated by the IASB originally in 1989, revised subsequently.
- Initially, framework for the preparation and presentation of financial statements
- Now, conceptual framework for financial reporting
- The IASB Framework is not a standard
- It does not override the specific requirement of any standard
- It sets out the concepts which underlie the preparation and presentation of financial information for external users

The Conceptual Framework

Purposes

- To assist IASB in setting standards
- To serve as a basis for harmonisation
- To assist national standard-setters
- To assist preparers, auditors and users
- To assist in understanding of standard-setting

Contents of the Conceptual Framework

Users of FS

Objectives of FS

Underlying assumptions

Qualitative Characteristics of FS

Elements of FS, their recognition and measurement

Concept of capital and capital maintenance

Users of financial statements

- Investors
- Employees
- Lenders
- Suppliers and other trade creditors
- Customers
- Government and their agencies
- The Public

Users Groups of Accounting information

- Management Group - Managers, Board of Directors
- Equity interest group – existing, potential and past shareholders, partners, sole proprietors
- Business contact groups - customers, creditors
- Loan creditor group - debenture holders, lenders, bankers, other loan and finance providers
- Government - tax authorities, local authorities, government depts. and agencies etc.
- Employee Group – existing, potential and past employees, trade unions
- Analysts/advisors - Financial/investment analysts

User groups and their Information needs

- **Employees and Management -** interested in the overall profitability, financial soundness, growth and efficiency.

- **Investors -** interested in the profitability, earnings potential , dividend policy, yields on investment, financial stability and risk exposure.

- **Creditors -** concerned about the company's solvency and ability to pay debt and interest as and when they fall due, asset backing for liability, their position vis-à-vis other stakeholders etc.

User groups and their Information needs

- **Suppliers** - interested in the continued existence of their client company, and it's growth.

- **Consumers** - interested in quality of goods and/or service delivery, reasonableness of pricing and trade terms, etc

- **Bankers** - interested in the cash flow and performance efficiency of the client.

User groups and their Information needs

- **Insurance Companies** - interested in the continued operation of the client, risk management policies and safety measures.

- **Governmental agencies** - interested in the profitability and growth prospects of companies within the economy, their ability to meet their tax liability,their ability to generate employment and meet their statutory responsibility etc.

- **The general public** - would like to see corporate bodies living up to their social responsibilities

Objectives of FS

- Financial statements (FS) are the financial reports through which financial information about an entity is reported to a wide range of users in making economic decisions. E.g. about whether to buy or sell shares in an entity or whether to lend to it.

- Management displays accountability of management of resources entrusted to them through the provision of FS.

- **To provide info about the financial performance, financial position, and changes in the financial position of an enterprise that is useful to a wide range of users in decision making.**

Objectives of FS cont'd

- The objective of general purpose financial reporting is to provide information about:
  - Economic resources and claims (SFP)
  - Changes in economic resources and claims (SPLOCI)
  - Financial performance reflected by past cash flows (SCF)
  - Changes in economic resources and claims not resulting from financial performance (SCE)

The Nature of FS

- A complete set of financial statements comprise:

  A statement of financial position as at the end of the reporting period

b. A statement of profit and loss and other comprehensive income for the reporting period

c. A statement of changes in equity for the reporting period

d. A statement of cash flows for the reporting period

e. Notes comprising a summary of significant accounting policies and other explanatory information

FINANCIAL STATEMENTS

- **Income Statement**
  - Provides info about the performance of an entity over a period of time.
  - Matches revenue and gains with expenses and losses to arrive at the net profit or loss.
  - Based on the double entry system
  - Similar to trading, profit and loss account
  - Now renamed as statement of profit and loss and other comprehensive income

FS Cont'd

- **Statement of Financial Position**
  - List of balances of assets, liabilities and capital of the entity at a particular point in time.
  - Shows the financial position of the business entity at a point in time
  - A pictorial presentation of the Accounting Equation:

    Assets = Capital + Liabilities.
  - Implies total assets must agree with the total of capital and liabilities.
  - Can be presented in different forms such as Total Assets, Net Assets, and Net Current Assets.
  - Not prepared based on double entry but affected by the double entry principle.

FS Cont'd

- **Cash Flow Statement**:
  - Shows principal sources and uses of cash in the business
  - Show the relationship between profit and cash
  - Prepared to show the cash generating potential of the entity
  - Reports cash flow emanating from
    - Operating activities
    - Investing activities
    - Financing activities
  - Show the composition of cash and cash equivalents

Underlying Assumptions

- **Accrual basis:** This means that the effects of transactions and other events are recognized as they occur and not as cash or its equivalent is received or paid.
  - Underlies the preparation of the income statement

- **Going concern basis**: Assumes that the entity would continue to be in operational existence into the foreseeable future. It assumes that the entity has neither the need nor the intention to liquidate or curtail materiality the scale of its operation.
  - Underlies the preparation of the statement of financial position (balance sheet)

Qualitative Characteristics of FS

- Accounting information aims at enabling users to make informed economic decisions.

- Acc info must be useful in terms of its contents and its presentation

- For acc info to be useful for decision making, it must possess:
  - **fundamental accounting qualities and**
  - **enhancing accounting qualities**

Fundamental Accounting Qualities

- **Relevance**: Accounting information should have a direct bearing on the decision to be made. It must help the user to make predictions, evaluations, confirmations, and corrections of events.

- **Faithful Representation**: The information purports to represent what it is actually supposed to represent. It is neutral, complete, and free from material error. Hence, it can be depended upon to make decisions.

- **Materiality**: The quality of being essential or important in influencing the economic decisions of users such that its omission or misstatement could affect decision making. Materiality depends on the nature and circumstance specific

Enhancing Accounting Qualities

- **Comparability:** The quality that enables users to identify and understand similarities in, and differences among items of financial statements.

- Comparability is facilitated by **consistency** which refers to the use of the same accounting methods for the same items, either from period to period within a reporting entity or in a single period across entities.

- **Understandability:** Acc info must be prepared and presented in a clear and concise manner to make it understandable to users.

- Understandability in itself is user specific.

Enhancing Accounting Qualities contd.

- **Verifiability:** This implies there's some amount of assurance about the economic reality of the transactions from which the accounting information was prepared. One way of verifying accounting information is through the evidence provided by source documents. For instance, the entries in the sales daybook must be backed by sales invoices.

- **Timeliness** requires that information will be received on time to be relevant for decision

Elements of FS

- Assets
- Liabilities
- Equity
- Income
- Expenses

Elements of FS

- **Assets:** Resources controlled by an entity as a result of past events and from which future economic benefits will flow to the entity. Classified as current and non-current assets.
  - Composition: Non-current assets and current assets
  - Non-current Assets – acquired for use in the business, not for resale, benefit to derive span more than one accounting period, cost of acquisition substantial and significant.
  - Current Assets – acquired for resale or to be converted into cash. Benefits span within one accounting period.

Elements of FS

- **Liability**: A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity resources embodying economic benefits. We've short and long-term liabilities
  - External claims against the resources controlled by the business entity.
  - Non-Current liabilities (Long Term) – obligations which must be settled beyond one accounting period.
  - Current Liabilities(Short Term) - obligations which fall due within one accounting period.

Elements of FS

- **Equity interest (capital):** The residual interest in the assets of the entity after deducting all its liabilities. It is also the internal claims against the resources controlled by the business.

  - Internal claims against the resources controlled by the business
  - Represents the interest of the shareholders
  - Simply, Assets less liabilities
  - Also termed shareholders’ fund

Elements of FS cont'd

- **Income(revenue or gains):** Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

- Can be in the form of revenue (inflows from sale of main activity) or gains (inflows from activities incidental to major activities)
- E.g. example of revenue is sale of goods
- E.g. gains is profit from sale of non-current assets in a mechandising firm

Elements of FS cont'd

- **Expenses(or losses):** Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity other than those relating to distributions to shareholders.

- Expenses leads to outflow of an entity's resources
- When expenses incurred are not settled, they become liabilities
- When cost expires, it becomes expenses. So expenses is expired cost. So the unexpired portion of cost incurred and paid for is treated as an asset.
- Examples – salaries of employees, purchases of goods for resale
- Expenses result from main operations whiles losses result from activities incidental to the main operations

Recognition criteria of elements of FS

- Probability that there will be an inflow or outflow of economic benefits associated with the asset or liability, and

- The asset or liability can be measured reliably

Measurement bases of elements in FS

- Historical cost
- Current Cost
- Realisable value
- Present value
- Others (not specified in the Framework)
  - Depreciated Replacement cost
  - Fair Value
  - Recoverable amount
  - Deprival value

Concepts of Capital & Capital Maintenance

- **Financial Capital Maintenance**
  - Monetary Financial Capital Maintenance
  - Real/CPP Financial Capital Maintenance

- **Physical Capital Maintenance**
  - Productive-capacity Physical Capital Maintenance
  - Real/Gen Purch. Power Physical Capital Maintenance

Regulatory Framework of Accounting

- General term used to describe the laws, principles, rules and regulations that govern the recording of business transactions and the reporting of financial information.

- It includes:
  - Generally Accepted Accounting Principles. e.g. IFRS
  - Acts of Parliament. e.g.. The Companies Act, 1963 (Act 179).
  - Relevant legal requirements. e.g. Stock exchange regulations.
  - Other international influences. e.g. Pronouncements from IMF, World Bank, IFAC, IASB etc.

International Federation of Accountants (IFAC)

IFAC is the worldwide organization for the accountancy profession.

Founded in 1977

IFAC is comprised of 159 members and associates in 124 countries worldwide, representing approximately 2.5 million accountants in public practice, industry and commerce, the public sector, and education.

International Federation of Accountants (IFAC)

Its mission is to serve the public interest by continuing to strengthen the worldwide accountancy profession and contributing to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.

The IASB & the Standards Setting Process

The International Accounting Standards Board (IASB) is the global accounting standards body responsible for the issue of the International Financial Reporting Standards (IFRS)

The IASB was established in 2001 and it succeeded its predecessor body the International Accounting Standards Committee (IASC) which was established in 1973.

The IASC issued 41 international accounting standards (IASs)

The IASB now has 45 IFRSs (28 IASs + 17 IFRSs)

Structure of IASB

IFRS Foundation

Responsible for funding and appointment of members of IASB, SAC and IFRIC

IASB

Responsible for all technical matters, preparation and issue of IFRS and the approval of IFRIC proposals

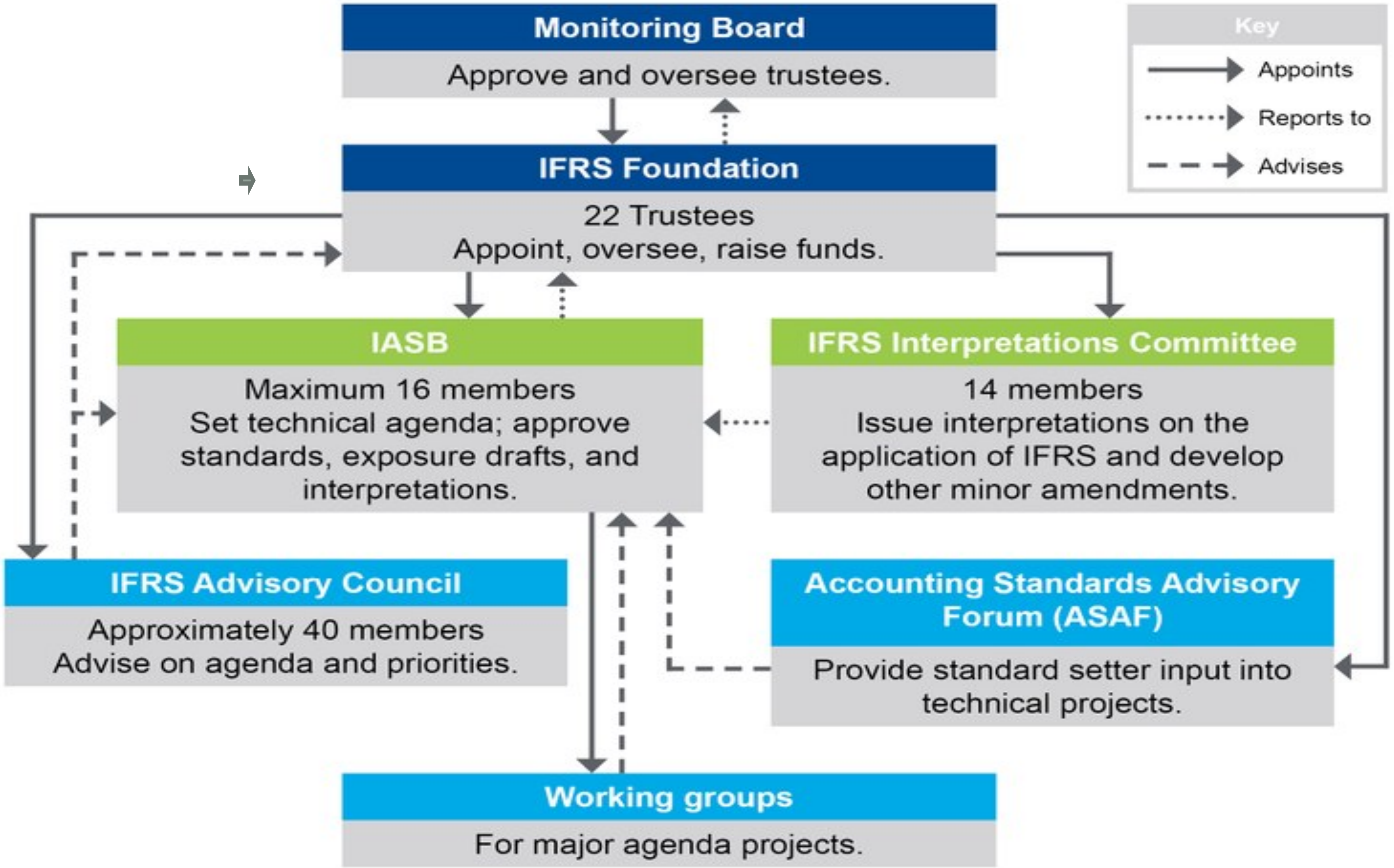
IFRIC

Responsible for the development of IFRIS

IFRS Advisory Council

Responsible for input on IASB's agenda, input on IASBs project time table and priorities and supporting IASB in promotion of IFRS

Structure of IASB



Objectives of the IASB

- To develop a single set of high quality, understandable and enforceable global accounting standards;

- To promote the use and rigorous application of those standards;

- To work actively with national standards setters to bring about convergence of national accounting standards and IFRS to high quality solutions

The Standards Setting Process

STEP 1: Setting the agenda

- The IASB evaluates the merits of adding a potential item to its agenda, also know as the work plan, mainly by reference to the needs of investors.

STEP 2: Planning the project

- When adding an item to its active agenda, the IASB also decides whether to: conduct the project alone; or jointly with another standard-setter. due process is followed under both approaches.

STEP 3: Developing and publishing the Discussion Paper, including public consultation

The Standards Setting Process

STEP 4: Developing and publishing the Exposure Draft, including public consultation

- Publication of an Exposure Draft is a mandatory step in due process.
-

STEP 5: Developing and publishing the Standard

- The development of an IFRS Standard is carried out during IASB meetings, when the IASB considers the comments received on the Exposure Draft.
-

STEP 6: Procedures after a Standard is issued

- After a Standard is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its proposals.

Standards Setting Process [Summary]

- a) Identifying a suitable topic
- b) Commissioning research study on the topic
- c) Preparing draft for discussion
- d) Allowing period of at least 6 months for comments from stakeholders
- e) Summarising and reviewing comments
- f) Producing final draft, announcing the new standard and providing date of application

The Need for Accounting Standards

- Businesses/Transactions are complex
- Judgements needed in allocating certain costs and revenues
- Different people with different opinions on what is right/appropriate
- Standards help to set the acceptable limits within which to operate
- Define what is acceptable practice and what is not
- Increases in investor confidence
- Transparency and comparability

IFRS and IFRS for SMEs

- *Full IFRS* - Global accounting standards for entities with public accountability

- *IFRS for SMEs* – Global accounting standards for Small and Medium-sized entities

Current IFRS [28 IASs + 17 IFRSs]

IFRS	DESIGNATION
IAS 1	Presentation of financial statements
IAS 2	Inventory
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Period

Current IFRSs cont’d

IFRS	DESIGNATION
IAS 12	Income Taxation
IAS 16	Property, Plant and Equipment
IAS19	Employee Benefits
IAS 20	Government Grant and Disclosure of Government Assistance

Current IFRSs cont'd

IFRS	DESIGNATION
IAS 21	Effect of Changes in Foreign Exchange Rates
IAS 23	Borrowing Cost
IAS 24	Related Party Disclosures
IAS 26	Accounting and reporting by retirement benefit plans
IAS 27	Separate Financial Statements
IAS 28	Investment in Associates

Current IFRSs cont'd

IFRS	DESIGNATION
IAS 29	Financial reporting in hyper-inflationary economies
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Statements
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets

Current IFRSs cont'd

IFRS	DESIGNATION
IAS 38	Intangible Assets
IAS 40	Investment Property
IAS 41	Agriculture
IFRS 1	First-time Adoption
IFRS 2	Share-Based Payment
IFRS 3	Business Combination

Current IFRSs cont’d

IFRS	DESIGNATION
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Segment Reporting
IFRS 9	Financial Instruments

Current IFRSs cont’d

IFRS	DESIGNATION
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 13	Fair Value Measurement
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts

IFRS for SMEs

The IASB, in 2009, developed and published a separate standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including **small and medium-sized entities (SMEs), private entities, and non-publicly accountable** entities.

That standard is the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).*

IFRS for SMEs

1 **Small and medium-seized entities**

2 Concepts and Pervasive Principles

3 Financial Statement Presentation

4 Statement of Financial Position

5 Statement of Comprehensive Income and Income Statement

6 Statement of Changes in Equity and Statement of Income and Retained Earning

7 Statement of Cash flows

8 Notes to the Financial Statements

9 Consolidated and separate Financial Statements

10 Accounting Policies, Estimates and Errors

IFRS for SMEs cont’d

13 **Inventories**

14 Investment in Associates

15 Investments in Joint Ventures

16 Investment Properties

17 Property, Plant and Equipment

18 Intangible Assets other than Goodwill

19 Business Combination and Goodwill

20 Lease

21 Provisions and Contingencies

22 Liability and Equity

23 Revenue

IFRS for SMEs cont'd

25 Borrowing Costs

26 Share Base Payments

27 Impairment of Assets

28 Employee Benefits

29 Income Tax

30 Foreign Currency Translation

31 Hyperinflation

32 Events after the end of the Reporting Period

33 Related Party Disclosure

34 Specialized Activities

35 Transition to the IFRSs for SMEs

Take a break

What do you put in a toaster?

Answer is ………

Bread, not toast

Another one:

Say “silk” five times.

Now spell “silk”.

Now ….

What do cows drink?

Cows drink water, not milk.

IFRS 1 First-time Adoption of IFRSs

- Objective
- Scope
- Definitions
- Recognition and Measurement
- Exemptions
- Presentation and disclosure

Objective

- To ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
  - (a) is transparent for users and comparable over all periods presented;
  - (b) provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (IFRSs); and
  - (c) can be generated at a cost that does not exceed the benefits.

Scope

- An entity shall apply this IFRS in:
- (a) its first IFRS financial statements; and
- (b) each interim financial report, if any,
- that it presents in accordance with IAS 34 Interim Financial Reporting for part of the period covered by its first IFRS financial statements.

Definitions/Terms

- First-time adopter
- First IFRS financial statement
- Opening IFRS statement of financial position
- Previous GAAP
- Date of transition
- Reporting date

First IFRS Financial Statements - 1/3

- The first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs.

- Financial statements in accordance with IFRSs are an entity's first IFRS financial statements if, for example, the entity:
  - (a) presented its most recent previous financial statements:
    - (i) in accordance with national requirements that are not consistent with IFRSs in all respects;
    - (ii) in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;

First IFRS Financial Statements – 2/3

- (iii) containing an explicit statement of compliance with some, but not all, IFRSs;

- (iv) in accordance with national requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which national requirements did not exist; or

- (v) in accordance with national requirements, with a reconciliation of some amounts to the amounts determined in accordance with IFRSs;

First IFRS Financial Statements – 3/3

- (b) prepared financial statements in accordance with IFRSs for internal use only, without making them available to the entity's owners or any other external users;

- (c) prepared a reporting package in accordance with IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IAS 1 Presentation of Financial Statements

- (d) did not present financial statements for previous periods.

Recognition and Measurement – 1/3

- An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting in accordance with IFRSs.

- An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period.

- An entity shall not apply different versions of IFRSs that were effective at earlier dates. An entity may apply a new IFRS that is not yet mandatory if that IFRS permits early application.

Recognition and Measurement – 2/3

An entity shall, in its opening IFRS statement of financial position:

- (a) recognise all assets and liabilities whose recognition is required by IFRSs;
- (b) not recognise items as assets or liabilities if IFRSs do not permit such recognition;
- (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRSs; and
- (d) apply IFRSs in measuring all recognised assets and liabilities.

Recognition and Measurement – 3/3

- An entity's estimates in accordance with IFRSs at the date of transition to IFRSs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Exemptions

- Business combinations
- Fair value or revaluation as deemed cost
- Employee benefits
- Cumulative translation differences
- Compound financial instruments
- Timing of adoption in groups

Presentation and Disclosure

- **Comparative information**

To comply with IAS 1 Presentation of financial statements an entity is required to report at least one year of comparative information.

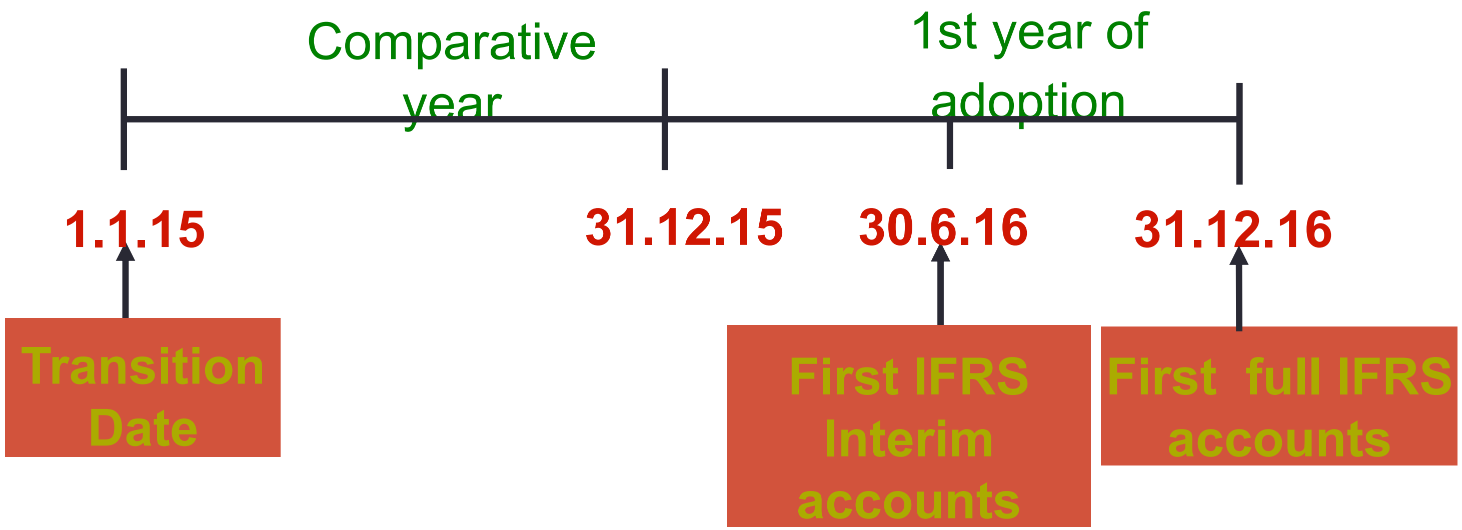
- **Explanation of transition**

An entity should explain how the transition from its previous GAAP to IFRS has affected the financial statements in relation to its financial performance and position and cash flows.

IFRS 1 [Summary]

- Transition date
- Opening IFRS Statement of Financial Position
  - Recognise all assets and liabilities required by IFRS
  - Not recognise assets/liabilities if IFRS do NOT permit
  - Reclassify items in accordance with IFRS
  - Apply IFRSs in measuring assets/liabilities

Transition Date 31 December year end



Solve this puzzle

- Two fathers and their two sons went to a restaurant for their dinner. The cost per plate for each person was GHC10. After they finished having their dinner, the total cost to be paid was GHC30. How come they paid GHC30 and not GHC40?

The reason is ….

Grandfather, Father and Son
= 3 persons x GHC10 = GHC30

IAS 1
Presentation of Financial Statements

IAS 1 Presentation of Financial Statements

- Objective
- Scope
- Definitions
- Components/complete set of FS
- General features

IAS 1 Presentation of Financial Statements

Objective

- Prescribes the basis for the presentation of general purpose financial statements both with the entity's financial statements of previous periods and with the financial statements of other entities
- Sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content

IAS 1 Presentation of Financial Statements

Scope

- An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with International Financial Reporting Standards (IFRSs).

Definitions/Terms

- General purpose financial statements
- Impracticable
- IFRSs
- Material
- Notes
- Other comprehensive income
- Owners
- Profit or loss
- Reclassification adjustments
- Total comprehensive income

IAS 1 Presentation of Financial Statements

Fair Presentation and Compliance with IFRSs

- Financial statements are required to present fairly the financial position, financial performance and cash flows of an enterprise

- Compliance with IFRSs will result, in virtually all circumstances, in financial statements that achieve fair presentation

IAS 1 Presentation of Financial Statements

Contents of Financial Statements

A complete set of financial statements must include:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information

General Features

- Fair presentation and compliance with IFRSs
- Going concern
- Accrual basis of accounting
- Materiality and aggregation
- Offsetting
- Frequency of reporting
- Comparative information
- Consistency of presentation

IAS 1 Presentation of Financial Statements

Fair Presentation and Compliance with IFRSs

- Financial statements, if they comply with IFRSs, must state that fact

- Financial statements must not be described as complying with IFRSs unless they comply with each applicable IFRS and each applicable SIC/IFRIC Interpretation

IAS 1 Presentation of Financial Statements

Fair Presentation Override

- Non-compliance with a requirement in a standard is permitted where, in management's opinion, compliance would be misleading and would not give a fair presentation

- This is expected to be extremely rare and would need to be accompanied by detailed disclosures outlining the reason for, the nature of, and the financial effect of the non-compliance

IAS 1 Presentation of Financial Statements

Going Concern

- Must be assessed at each reporting date and must be prepared on that basis, unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative

- If the going concern basis is not applied, must state that fact, explain why and state the basis on which the financial statements have been prepared

IAS 1 Presentation of Financial Statements

Accrual Basis

- Should be applied in the preparation of financial statements, except the cash flow statement

IAS 1 Presentation of Financial Statements

Consistency

Presentation and classification of items should be retained from one period to the next unless:

- the enterprise significantly changes the nature of its operations or identifies that a change will result in a more appropriate presentation
- a change is required by an IFRS or a IFRIC/SIC interpretation

IAS 1 Presentation of Financial Statements

Materiality and Aggregation

- IFRSs apply to only material items
- material items should be presented separately
- immaterial items are to be aggregated with amounts of a similar nature and function

IAS 1 Presentation of Financial Statements

Offsetting

Not permitted in respect of assets and liabilities unless specifically required or permitted by another IFRS

Income and expense items are to be offset only:

- if an IFRS requires or permits: or
- gains, losses and related expenses arising from the same or similar transactions and events are not material

IAS 1 Presentation of Financial Statements

Comparatives

- Required for the previous period unless specifically exempted in another IFRS

- Must be reclassified if the presentation and classification in the financial statements is amended, unless it is impracticable to do so

IAS 1 Presentation of Financial Statements

Identification of Financial Statements

- The financial statements must be clearly identified and distinguished from other information in the financial report
- Each component of the financial statements must be clearly identified and the following disclosed:
  - (a)name of the enterprise
  - (b)whether individual or consolidated statements
  - (c)reporting date or period covered by the statement
  - (d)reporting currency
  - (e)the level of precision in the presentation of figures

IAS 1 Presentation of Financial Statements

Reporting Period/Frequency

- Financial statements must be presented at least annually

- Where, in exceptional circumstances an enterprise is required to, or decides to, change its reporting date, it is required to state why the change occurred and the fact that the comparative amounts are not comparable

IAS 1 Presentation of Financial Statements

Statement of Financial Position

- Assets and liabilities can be presented either:
  - **on a current/non-current basis or**
  - **in order of their liquidity**
- But must disclose the amounts of assets and liabilities expected to be recovered or settled after more than twelve months

IAS 1 Presentation of Financial Statements

Current Assets

Are assets:

(a) expected to be realised, consumed or disposed of in the normal course of the enterprise's operating cycle; or

(b) held primarily for trading purposes or the short-term and expected to be realised within 12 months of balance date; or

(c) is a cash or cash equivalent asset not restricted in its use

IAS 1 Presentation of Financial Statements

Current Liabilities

Are liabilities:

- Expected to be settled in the normal course of the enterprise's operating cycle; or
- Due to be settled within 12 months of balance date

IAS 1 Presentation of Financial Statements

Statement of Comprehensive Income

Two statements or one

- **Information to be presented on the face of the Income Statement**
- **Allocation of profit – NCI/equity holders of parent**
- **Analysis of expenses – nature or function**

IAS 1 Presentation of Financial Statements

Additional Information Disclosed on the Face of the Income Statement or in the Notes

- Enterprises must present an analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise

IAS 1 Presentation of Financial Statements

Additional Information Disclosed on the Face of the Income Statement or in the Notes

- If functional classification is adopted, must also disclose information on the nature of expenses, including depreciation and staff costs
- Dividends per share, declared or proposed, must be disclosed

IAS 1 Presentation of Financial Statements

Statement of Changes in Equity

- A statement showing the change in equity for the period resulting from income, expenses, gains and losses (including prior period adjustments) must be presented

- Other changes in equity must also be disclosed either as part of the statement or in the notes

IAS 1 Presentation of Financial Statements

Statement of Changes in Equity

- A statement showing the change in equity for the period resulting from income, expenses, gains and losses (including prior period adjustments) must be presented
- Other changes in equity must also be disclosed either as part of the statement or in the notes

IAS 1 Presentation of Financial Statements

Early Application of IASs/IFRSs

Must be disclosed in the financial statements

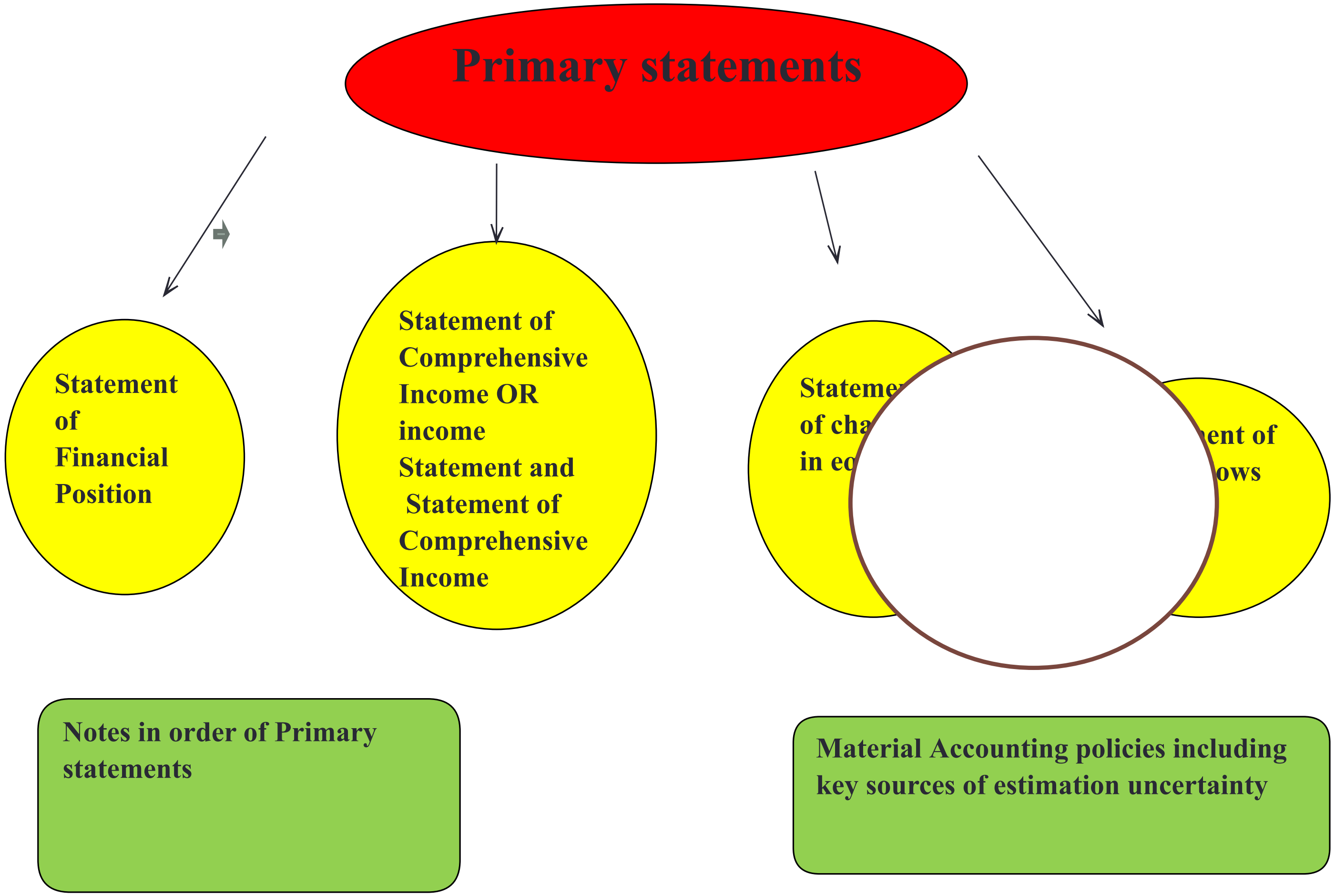
IAS 1 Presentation of Financial Statements

Notes to the Financial Statements

- Must include an “Accounting Policies Section” identifying the measurement basis used in preparing the financial statements and the significant accounting policies adopted

- Must include other information required by IASs or necessary for a fair presentation

IAS 1 Summary



End of Chapter Two

Solve this puzzle

- Some birds were flying and met a bird on their way. The bird greeted them; hello hundred! They responded, ‘we are not hundred, we need half of us plus you to make us hundred’.

- Question: How many birds were flying?

Answer is …..

66 birds

Explanation:

Half of 66 is 33

So, 66 + 33 + 1 = 100

Alternatively,

Let the birds flying = x

Half of x = 1/2x or 0.5x

Hence, x + 0.5x + 1 = 100

Group like terms, x + 0.5x = 100 – 1

1.5x = 99

x = 99/1.5

x = 66

Chapter Three:

Accounting Concepts and Conventions

Introduction

- Accounting concepts and conventions are the set of rules, principles, postulates, conventions, and methods applied in the measuring and recording of business transactions and reporting financial information.

- Accounting concepts and conventions are part of the regulatory and conceptual framework for financial reporting

- It is supported by IAS 8 – Accounting policies, …..

Usefulness of accounting concepts

- 1. **Standardisation**: Adherence to concepts and conventions enable companies to prepare uniform and standardised accounting systems.

- 2.**Consistency**: Businesses are able to maintain consistent accounting policies and practices if they adhere to concepts and conventions

- 3. **Comparability**: Uniform and standardised accounting information facilitate useful comparisons of financial performance.

- 4. **Going concern** helps companies to make plans and gives them time to gather funds to sort out financial problems

Fundamental Accounting Concepts

- **The going concern (continuity) concept**
- **Prudence (conservatism) concept**
- **Accrual matching concept**
- **Consistency concept**

Fundamental Accounting Concepts

- **Going concern:** Assumes that an entity will continue to be in operational existence into the foreseeable future or for an indefinitely long period of time, and there is no intention to liquidate the entity or make drastic cutbacks to the scale of operations.

- **Prudence:** Requires that losses, whether actual or anticipated, should be recognised and accounted for while profits should only be recognised when realised.

- **Accrual:** The effects of transactions and other events are recognized as they occur and not as cash or its equivalent is received or paid. In computing profits, revenue earned must be matched against the expenditure incurred in earning it.

- **Consistency:** The use of the same accounting methods for the same items, either from period to period within a reporting entity or in a single period across entities

Other Accounting Concepts

- Business Entity Concept
- Double Entry(Dual Aspect) Concept
- Money measurement Concept
- Periodicity
- Historical Cost Convention
- Materiality Concept
- Realization Concept
- Objectivity Concept
- Substance over Form concept
- Full Disclosure

Concepts and Accounting Conventions

- **Business entity Concept-** separation between owners and business activities
- **Money Measurement-** Money as a unit of measure and accounting information only measure transaction that can be expressed in monetary terms.
- **Materiality Concept** - information is material if its omission/misstatement will affect economic decision
- **Duality**-two sides to every transaction and both sides must be reflected in the books.
- **Revenue recognition**- revenue is realised when goods sold or services rendered pass to the consumer and he assumes liability for them

Accounting Concepts and Conventions

- **Periodicity** - financial statements are prepared for specific periods.
- **Objectivity** – no subjectivity/personal feeling/biases.
- **Historical cost convention** - values of assets, liabilities Capital etc. must be recorded at cost
- **Substance over form -** report the substance /financial reality and not just the legal form of transactions.
- **Full Disclosure** – every relevant and material info should be fully disclosed.

Accounting Concepts, Bases & Policies

- **Accounting concepts**: The general set of rules, principles, postulates, conventions and methods applied in the provision of financial information. E.g. accrual (or matching) concept

- **Accounting Bases**: Methods which have been developed applying fundamental accounting concepts to financial transactions and events when preparing and presenting FS. E.g. Depreciation of non-current assets.

- **Accounting Policies**: Specific accounting bases selected and consistently applied by a business enterprise as being, in the opinion of management, appropriate to its circumstances and best suited to present fairly its results and financial position. E.g. Straight-line method of depreciation.

ETHICAL AND PROFESSIONAL ISSUES

- A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

- A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.

- In acting in the public interest, a professional accountant must observe and comply with Code of Ethics of the accounting profession.

Fundamental Principles (Code of Ethics)

- **Integrity**
- **Objectivity**
- **Professional competence and due care**
- **Confidentiality**
- **Professional behaviour**

Integrity

- ***To be straightforward and honest in all professional and business* relationships.**

Objectivity

- ***To not allow bias, conflict of interest or undue influence of others to* override professional or business judgments.**

Professional Competence and Due Care

- ***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 and act diligently and in accordance with applicable technical and professional standards.**

Confidentiality

- ***To respect the confidentiality of information acquired as a result*** **of professional and business relationships and, therefore, 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, nor use the information for the personal advantage of the professional accountant or third parties.**

Professional Behavior

- ***To comply with relevant laws and regulations and avoid* any action that discredits the profession.**

End of Chapter Three

Puzzle Break

If a red house is made from red bricks and a blue house is made from blue bricks and a pink house is made from pink bricks and a black house is made from black bricks, what is a green house made from?

Greenhouses are made from glass, not green bricks.

Chapter Four:

Documents used in Business

Introduction

- For accounting information to be useful for decision making, it must faithfully represent what it purports to represent.

To faithfully represent what

Uses of Source Documents

- Provide evidence of the occurrence of business transactions.

- Identify and describe transactions and events.

Examples of source documents

- Purchase requisition
- Letters of enquiry
- Quotation
- Delivery note
- Pro Forma invoice
- Voucher
- Invoice
- Credit note
- Debit note
- Receipt

Examples of source documents

- **Invoice** - A document sent to a buyer by a seller, as evidence of sale or purchase transaction. Used most especially for sales made on credit and serves as demand for payment.

- **Debit Note-** a document sent either by a seller or a buyer to indicate that an account will be debited with the amount stated on the note.

- **Credit Note**-sent by a supplier to a customer in respect of goods returned or overpayment made.

Examples of source documents

- **Quotation** - A written offer from a business to a client/prospective client to produce or suppler goods at certain amount.

- **Pay-In-Slip** - document showing an amount of money has been deposited into a bank account.

- **Remittance Advice** - document sent with a payment detailing which invoices are being settled and credit notes being off set.

End of Chapter Four

Break Puzzle

Twenty years ago, a plane crashed from 20,000 feet over Germany. At that time, Germany was politically divided into East and West Germany.

Where do you think the survivors were buried? East Germany, West Germany, ‘no man’s land’?

You don’t bury survivors!!!

Chapter Five:

Books of Prime Entry

Books of Prime Entry

- Accounting data from source documents are first entered into books of prime entry/Journals.

- These are books or journals in which transactions are first recorded before being entered into the ledgers.

- Provides chronological record of daily business transactions.

- Also referred to as: books of original entry, Day books, subsidiary books of account etc.

- Does not form part of the double entry system….(Except Cash book-both journal & Account)

Books of Prime Entry - Types

- **Special journals** are used to record and post transactions of specific and similar nature.
  - Examples-Sales journal, Purchases journal, Returns Journal, Cash book , Petty Cash book.

- **The General Journal/The Journal** – used to record all other transactions that are not covered in the special purpose journal.
  - The GJ records transactions such as recording opening and closing entries and correction of errors, sale and purchase of fixed assets on credit.

Books of Prime Entry – Special Journals

- **Sales Journal/Sales Day book** – for sales made on credit.
- **Sales Returns Journal/Sales Returns Day book** – for credit sales returned.
- **Purchases Journal/Purchases day book** – for purchases made on credit.
- When fixed assets are bought on credit, they are recorded in the general journal.
- Cash purchases are recorded in the cash book.
- **Purchases Returns journal/purchases day** book – for the return of purchases made on credit.

Book of Prime Entry – Special Journals

- **Cash Book/Cash journal** – for cash receipts and payments.
  - Serves both as journal and an account
  - Cash book can be any of the ff: Cash receipts book, cash payments book, single column cash book(cash or bank only), two column cash book(cash and bank), three column cash book.

Petty Cash Book – a dedicated cash book for daily internal petty/small payments.

- Based on Imprest System - An amount (Cash float or Imprest) advanced to petty cashier to meet payments for a period.
- The petty cashier accounts for the amount received and is reimbursed for the total payments made to make up the float.
- Vouchers are used to support such payments and which gives details of the payment and the expense to charge, and payment authorisation

Value Added Tax (VAT)

- An indirect tax levied on the sale of goods and services.
- A cumulative tax collected at various stages of a product life.
- The full tax is paid by the final consumer but paid to VAT Service at different stages.
- VAT is charged on goods and services by VAT - Registered Businesses, at a standard rate or at a zero rate .
- Currently, the standard rate of VAT is 15% plus 2.5% for NHIL, totalling 17.5%, plus COVID levy 1%, totalling 18.5%.

Value Added Tax (VAT)

- VAT charged on goods and services sold by a business is called Output VAT.

- VAT paid on goods and services bought in by a business is called Input VAT.

- If the O/VAT exceeds the I/VAT, the difference is paid to VAT service.

- If the I/VAT exceeds the O/VAT, the difference is a refund to the business.

Value Added Tax (VAT)

- There are instances where VAT cannot be recovered - Non registered persons, Registered but exempted activities, non deductible inputs.

- In accounting for VAT, some businesses keep one account for input and output VAT(VAT Account) whiles others maintain separate accounts for Input VAT and Output VAT.

- Vat on Sales is entered in Output VAT Account

- VAT on Purchases is entered in Input VAT Account

- With Cash Discount, VAT is on amount less cash discount.

Break Puzzle

You are driving a bus from Accra to Cape Coast. In Accra, 20 people get on board, in Cape Coast, 19 get off.

What is the name of the driver?

Stop crying out loud! Don’t you remember your own name?

It was YOU!!

THE THEORY OF DOUBLE ENTRY AND LEDGER

Lesson Objectives

- Explain the Accounting Equation
- Explain the relationship between the AE & SFP
- Describe the effect of transactions on the SFP
- Skills to draw up SFP from given information
- Explain the Double entry system and the rules for the elements of the Financial Statements
- skills in the use of double entry principles
- Knowledge of Accounts and the classes
- Knowledge of Ledger and the Divisions
- Skills in making entries in the Accounts

The Accounting Equation (AE)

- Assets owned by a business are acquired through owners or outsiders.

- Contribution from the owner is referred to as owner's equity or simply, capital.

- Contributions from outsiders are referred to as Liabilities.

- Thus at any point in time, the total assets of a business equals Capital, or equals the capital and liabilities.

The Accounting Equation

- It is a fundamental accounting equation
-
- Expresses the relationship between assets of the business on one side, and the liabilities and capital that acquired them on the other side. A = C+L

- As an equation, it can be re-written, making each variable a subject of the equation, i.e. C=A-L; L=A-C.

The Accounting Equation

- As earlier stated the Statement of Financial Position (Balance Sheet) is a pictorial presentation of the accounting equation.

- Anytime a transaction occurs, it affects the financial position of the business, i.e. the SFP.

- ***Illustration-Effects of Transactions on the STP***

THE THEORY OF DOUBLE ENTRY

- When a transaction occurs, elements of the financial statements are identified and changes occur in them, e.g. assets, expenses, liabilities, gains, capital, etc.

- Every transaction has two aspects to it, the dual effect- one giving and another receiving, an inflow and outflow, an increase and a decrease.

- Both aspects must be recorded in the books through the double entry system.

- The Double Entry Theory states that for every debit entry there must be a corresponding credit entry and vice-versa.

THE THEORY OF DOUBLE ENTRY

- The double entry rule is applied in Accounts which are kept in a ledger.
- Thus postings are made from the journals to accounts in the ledger.
- An Account is a dedicated record of increases and decreases in a specific item of asset, liability, capital, gains expenses etc, and the balance if any.
- Accounts are normally kept in a ‘T’ form, with the left hand side known as the debit side and the right hand side known as credit side. Provides the date, particulars, L/F and amount of the transaction.

Double Entry Rules

Assets/Expenses/Loses

- Increases = Debits
- Decreases = Credits

Liabilities/Capital/Gains

- Increases = Credit
- Decreases = Debit

The Ledger and Its Divisions

- An account – individual accounting record of increases and decreases in a specific asset, liability or owners equity.
- A ledger is a collection of the various accounts kept by the business.
- For order and ease of reference, ledgers are kept according to account types.
- Ledgers are kept for Sales on Credit, Purchases on Credit, cash transactions and general purpose ledger for all other transactions.
- Sales Ledger – Contains accounts of debtors

The Ledger and Its Divisions

- Purchases Ledger – Contains the accounts of creditors
- Cash Book – Contains cash and bank accounts
- General Ledger – Contains all oth included in the above.

Classes of Accounts

- **Personal Accounts**
  - for natural persons and businesses the entity deals with
  - suppliers with credit balances (Creditors) – accounts payables
  - debtors with debit balances (Debtors) – accounts receivables
  - capital accounts
  - loan accounts
  - drawings accounts

- **Impersonal Accounts**
  - for items other than individual persons and institutions
  - subdivided into:
    - nominal accounts - for things existing only in name, no physical existence, e.g. incomes, gains, profits or losses, expenses.
    - real accounts – for assets – tangible or intangible – non-current assets, inventory, cash in hand, cash at bank.

Recording Transactions and Balancing Off Accounts

- When a transaction occurs, the two accounts involved must be identified by name and T accounts opened for them.

- The account needing debit entry mus ... and the entry made. Same with account for c...

- Balance off the Account by comparing ... the debit entries to the total of the credit entries. The side with the greater amount determines the balance on the account.

<u>ALZHEIMERS' EYE TEST</u>

Count every "F" in the following text:

FINISHED FILES ARE THE RESULT OF YEARS OF SCIENTIFIC STUDY COMBINED WITH THE EXPERIENCE OF YEARS …

How many "F" did you count?

3 …… 4 ……….

There are 6.

The brain cannot process “OF”

Let’s go back and check!

Amazing!!

THE TRIAL BALANCE, CORRECTION OF ERRORS AND SUSPENSE ACCOUNT

Trial Balance: Meaning & Purpose

- A list of all ledger account balances with debit balances in one column and credit balances in another column.
- A list of accounts and their balances at [illegible]ific time
- TB is to check the arithmetical accu[illegible]er postings - the equality of debits and [illegible]osting.
- The total of debit balances must be equal to the total of credit balances, given that the double entry rules have been followed accurately.

Uses and Limitations of TB

- The trial balance is a check to ensure that:

  a)Same amount is entered as debit and credit.

  b)Debit and credit postings have been made into the account.

  c)The account balances have been accurately determined.

- If therefore the TB totals agree, it implies the addition, subtraction and extraction of balances are correct

Uses and Limitations of TB

- The TB thus help to reveal some kind of errors if made in the accounts, for necessary corrections to be made.

- Serves as summary of account balances for the preparation of Final Accounts(CIS and

- It should however be noted that eve may agree, there could be errors which a ed by the TB.

- TB is a memorandum listing of ledger balances and not based on double entry.

Accounting Errors

- Errors are material misstatements in financial statements and/or the underlining accounting records of an entity
- Where the errors are committed intentionally, they are termed as fraud
- Two types of error:
  - Type 1 – errors not disclosed by the trial balance
  - Type 2 – errors disclosed by the trial balance
- Remember IAS 8 – Accounting policies, changes in accounting estimates and errors

Errors not disclosed by the TB

- **Error of original entry -** incorrectly posted into the ledger right at the on set.
- **Error of omission -** a transaction not recorded into the books of original entry at all.
- **Error of commission -** posting into the f similar type/same class.
- **Error of principle -** posting into wrong class of account
- **Compensating error -** same error made in debit and credit entry, thus cancelling out.

Errors disclosed by the TB

- **Errors that affect the agreement of the trial balance:**

➢ **Single Entry -** double entry rule not applied

➢ **Error in Posting -** same amount entered twice as debit or credit

➢ **Error of Transposition -** different amounts entered for the same transaction

➢ **Omission of a Balance -** an account balance not extracted into the TB

Errors disclosed by the TB

- **Error in Addition –** overcast/undercast
- **Extraction Error -** wrong amount to TB, or correct amount to wrong side of trial TB

- **These errors once detected must be and corrected.**

The use of Suspense Account

When TB disagrees and errors are not immediately detected, a suspense account is opened to take care of the difference whiles time is taken to trace the error.

- If the debit side is short, Suspense A/C is debited.
- If the credit side is short, Suspense A/C is credited.
- Note: Suspense a/c is a temporary measure. The error must be investigated, corrected and suspense account closed.

Adjustment of Net Profit / Loss

- Errors may affect reported profit/loss

- When errors are found corrected, reported profit/loss must be adjusted to correct the effect [illegible]s.

- Errors must be carefully analysed to [illegible]r effect on the financial reports.

BANK RECONCILIATION STATEMENTS

LEARNING OBJECTIVES

- To define and explain bank reconciliation (BR)
- To understand the purpose of BR
- To identify and explain reasons for differences between bank statements and cashbook
- To correct cashbook errors and/or omiss
- To prepare bank reconciliation stateme
- To derive cashbook and bank statemen given information
- To identify bank balance to be reported in the final accounts

Definition and Purpose of BR

- All bank transactions recorded in the bank column of the cash must agree with entries on the bank statement

- BR involves the comparison of a bank statement balance with the cashbook (bank column) balance of the business.

- The purpose is to ascertain the difference between the two balances and the causes of the differences and to account for them.

- This is done to ensure that all transactions kept with the bank are all recorded and posted into the appropriate books of accounts.

Causes of Differences

- Errors by the business entity and/or the Bank
- Transactions with the business bankers by clients not known to the business - direct transfers
- Instructions to the bank by the business [illegible] d for in the books - standing orders.
- Timing differences
  - Cheques to suppliers not presented to the bank
  - Cheques received and deposited with the bank but not cleared.
- Dishonoured cheques by the bank

Adjusted Cashbook

- Once the differences are identified, the business needs to correct the cashbook.
- Done by recording the transactions in the bank statement that are not in the cash book
- Correcting errors and omissions by the business
- Once these are done, the cashbook become adjusted

The Bank Reconciliation Statement

- Once the cashbook is adjusted, the BRS is prepared
- BRS with adjusted cashbook will reflect the transactions in the cashbook but not in the bank statement
- BRS without adjusted cashbook will re[illegible]ng in both the bank statement and the cash[illegible]
- **Note:**
  - **Omissions and errors in the cashbook but not in the bank statement are corrected in the adjusted cash book**
  - **Omissions and errors in the bank statement but not in the cash book are corrected in the BRS**

BANK RECONCILIATION STATEMENT

Adjusted Cash balance to Bank Balance		Bank Balance to Adjusted Cash Balance	
Balance per ACB	x	Bal Per Bank Statem't	x
Add Unpresented Cheques	x	Add Uncredited Chqs	x
Less Uncredited Cheques	(x)	Less Unpresented Chqs	(x)
Balance Per Bank Statement	xx	Balance Per ACB	xx

ACCOUNTING FOR NON-CURRENT ASSETS AND DEPRECIATION

Lesson Objectives

- Distinguish b/n Capital and Revenue Expenditure
- Distinguish b/n Capital and Revenue Receipts
- Explain Depreciation and causes
- Differentiate depreciation from Depletion and Amortisation
- State and describe methods of Depreciation
- Calculate annual depreciate charge using various methods
- Make ledger entries for acquisition, depreciation and disposal of non-current assets

Capital and Revenue Expenditure

- **Capital Expenditure**
  - Incurred to obtain a long term advantage for the business
  - Incurred to acquire non-current asset, or add to the value to an existing non-current asset to improve its earning capacity
  - Includes all cost incurred to get a non-current asset ready for use
  - Examples: costs of acquiring non-current asset, installation, patent and copy rights
  - Not charged to income statement, but written off over a period of time.

Capital and Revenue Expenditure

- **Revenue Expenditure**
  - Arises out of regular business transactions/for the purpose of the trade of the business
  - Incurred to maintain the existing earning capacity of non-current asset
  - Simply termed expenses
  - Examples: administrative expenses, cost of sales, repairs expenses
  - Charged to income statement provided they relate to the accounting period.

Capital and Revenue Receipts

- **Capital Receipts**
  - Proceeds from the sale of non-trading assets-i.e. non-current assets and long term investments as well as receipts that are not from the trading activities of the business
  - Examples: loan raised and additional capital from owners and shareholders.
  - Cash received different from capital profit or loss (Capital income)
  - Profit or loss from the sale of non-current assets are included in income statements.

Capital and Revenue Receipts

- **Revenue Receipts**
  - Any receipt which is not capital.
  - Normally derived from sale of trading assets, provision of service, interest and dividends received from investments for cash.

Why the distinction?

Depreciation

- Can be defined from different angles

- From income generation point - spreading the cost of a non-current asset over its estimated useful economic life to reflect its use to generate income (Matching)

- From usage perspective - measure of wearing out , consumption and reduction in the useful economic life of a non-current asset arising from use, effluxion of time or obsolescence through technology or market changes

Depreciation

- A challenged view - replacement cost

- Depreciation is governed by IAS 16 - Property Plant and Equipment and is defined as the allocation of depreciable amount of an asset over its estimated useful life.

Causes of Depreciation

- **Wear and Tear** – Physical loss of value through usage
- **Obsolescence** – loss of value/usefulness because of technological changes/new models available
- **Inadequacy** – loss due to organisational growth or increase in demand
- **Time Factor** – for assets acquired for limited/specific time. Examples are copyrights, patent rights, leaseholds properties
- **Depletion** – for assets of wasting nature. Examples are mines, quarries, oilfields. As extraction continues, the stock of assets get depleted.

Depreciation/Depletion/Amortisatio

- Depreciation of cost of tangible non-current assets
  - Examples: Motor Vehicles, Equipment, furniture and fittings etc.

- Depletion – allocation of cost of wasting assets/natural resources.
  - Examples: oil wells, mines, quarries etc.

- Amortisation – allocation of cost of intangible assets.
  - Examples: patents, copyrights

THE FINAL ACCOUNTS OF A SOLE PROPRIETOR AND ADJUSTMENTS

LESSON OBJECTIVES

- Define Sole Proprietorship and its characteristics
- Determine periodic profits using 2 approaches
- Prepare TPL and Balance Sheet from Trial Balance
- Identify and make adjusting entries for incomes and expenses – Accruals and Prepayments
- Explain BD and Provisions for BDD, and how to adjust them.
- Calculate and provide for depreciation in the final accounts

SOLE PROPRIETORSHIP

- SP/ship is a form of business entity owned and managed by one man.
- Management is rested in one person, the owner, but may employ people as work force.
- The simplest form of business and may trade under the owners name or a name chosen by him.
- The final accounts of a sole proprietor comprise the trading, profit and loss account and the balance sheet.

Advantages and Disadvantages

Advantages

- Ease of set up
- Rewards in the form of profits are all enjoyed by the sole proprietor
- Free hand to manage
- Ease of dissolution
- Few legal restrictions
- Taxes paid by owner and not the business

Disadvantages

- Unlimited liability- Risk and losses borne by owner
- Challenges in raising capital
- Maintaining the overall direction of the business
- Death of the owner
- Tax disadvantage – some expenses are not tax deductible from the business

APPROACHES TO INCOME DETERMINATION

- Assets and Liabilities Approach
  - Balance sheet approach
  - Compares opening and closing balance sheets of the entity to establish profit or loss
  - Compares changes in net assets (Capital) from one period to the other
  - Any additional capital or drawings must be adjusted to determine profit or loss

- Revenue and Expenses Approach
  - Net income = (Revenue + Gains) - (Expenses + Losses)
  - Income > expenses = Net profit
  - Expenses > incomes = Net loss
  - Presented in the form of an income statement
  - Statement of profit or loss and other comprehensive income

The Income Statement

- Prepared to ascertain the net profit or net loss
- Prepared based on the accrual/matching concept
- Revenue less cost of sales = Operating profit
- Operating profit less operating expenses = net profit or loss
- Accounting standards applicable: IAS 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 16, IFRS 16, IFRS 15, IAS 19, IAS 20, IAS 23, IAS 37.

The Income Statement

- It must show:
  - The name of the reporting entity
  - The title of the account/statement being prepared
  - The accounting period for which the profit/loss is determined

- Information for the preparation of the income statement is derived from the trial balance extracted at the end of the accounting period

A SIMPLE FORM OF INCOME STATEMENT

Sales	xxx	
Less Cost of Sales		(xxx)
Gross Profit	xxx	
Add other Income	xxx	
Less Operating Expense	(xxx)	
Net Profit/Loss	xxx	

The Statement of Financial Position (SOFP)

- **Balance Sheet**
  - A sheet of balances of assets, liabilities and capital of the entity at a particular point in time
  - Shows the financial position of the business entity at a point in time – **Statement of financial position**
  - A pictorial presentation of the Accounting Equation: **Assets = Capital + Liabilities**
  - Implies balance sheet total of assets must agree with the total of capital and liabilities
  - Can be presented in different forms, such as Total Assets, Net Assets, and Net Current Assets
  - Not a double entry account but based on double entry principles

Elements of the SOFP

- **Assets** – resources owned and controlled by the business as a result of past events and from which future economic benefits are to flow to the entity.

- **Non-current Assets (Fixed) –** acquired for use in the business, not for resale, benefit to be derived span more than one accounting period, cost of acquisition substantial and significant.

- **Current Assets** – acquired for resale or to be converted into cash. Benefits span within one accounting period.

Elements of the SOFP

- **Liabilities**
  - Present obligations arising from past events, settlement of which result in an outflow of resources with economic benefits.
  - External claims against the resources controlled by the business entity.

- **Non-Current liabilities(Long Term)**
  - obligations which must be settled beyond one accounting period

- **Current Liabilities (Short Term)**
  - obligations which fall due within one accounting period.

- **Equity Interest (Capital)**
  - Residual interest in the assets of the entity after deducting all liabilities.
  - The internal claims against the resources controlled by the business

Adjustments to Final accounts

- Why Adjustments?

1. Periodicity issues
2. All items not captured in the trial balance
3. Errors discovered after TB is extracted
4. Some items are only dealt with at the end of the accounting period, e.g. stock, depreciation
5. Consider IAS 2, IAS 10, IAS 37

Adjustments - Accruals and Prepayments

- **Accrued expenses**
  - Incurred within the period in review but not paid for
  - Treated as expense liabilities to be paid later.
  - Dr. P & L a/c; Cr, Accrued Expenses a/c
  - Present as current liability in the SOFP.

- **Accrued Income**
  - Income earned within the period but the actual cash not yet received
  - Treated as current assets
  - Cr. P & L a/c; Dr Accrued income a/c

Adjustments - Accruals and Prepayments

- **Prepaid Expenses**
  - Payments made for expenses for which benefits have not been enjoyed during the period.
  - Dr. Prepaid Expenses a/c, Cr. P & L a/c
  - Treated as current asset in the SOFP

- **Income received in advance (Unearned Income)**
  - Income received or advances received during the period for which goods or services has not yet been provided
  - Dr. P & L a/c; Cr. Income received in advance a/c (customer deposits)
  - Treated as current liability in the SOFP

Bad Debt and Provision for Doubtful Debts

- **Bad Debts**
  - Debts that are deemed irrecoverable for various reasons
    - client is gone bankrupt
    - Debt is very old and negligible
    - Dispute over an invoice or part of the invoice
    - Debt is considered uncollectible as a matter of policy

  - Written off as expense in the P & L a/c
  - Dr. Bad debt a/c and Cr. Accounts receivable a/c, to write off debt
  - Dr. P & L and Cr. Bad debt a/c, to write off against income

Bad Debt and Provision for Doubtful Debts

- **Bad debt** is an expense against profit and a liability against assets (debtors – accounts receivables)
- **Provision for doubtful debts** is a provision (expense liability) made against profit which eventually reduces assets (debtors)
- There is always risk associated with selling goods or rendering services to customers on credit.
- Provisions are made in the FS as a way of anticipating risk and reducing its effects on the business
- Remember prudence concept and IAS 37
- **2 Types**
  - **Specific** provisions (treated similar to bad debts)
  - **General** provision (estimates based on probability not possibility)