TASK 3

3.1

\*DESCRIPTION OF FINANCIAL REPORTS.

-BALANCE SHEET show the companies financial conditions on the specific period of time/date. All other financial statements report the events occurring over a period of time. Usually a year or a quarter. The balance sheet discloses assets and liabilities as of the one specified .The balance sheet is presented to stakeholders and investors.

-INCOME AND EXPENDITURE STATEMENT is the report of the company sales, expenses and mostly important the profit or loss for a certain period of time. Is one of three major financial statements that small companies prepare to report on their financial performances, along with balance sheet and cash flow statement. Its reported to managers and investors to show how the business made profit or loss during the accounting period . expenses are listed on the companies income statement.

-CASH FLOW STATEMENT it’s a financial statement that shows how changes in balance sheet accounts and income statement affect cash and cash equivalent. Also breaks the analysis down to operatimg investing and financing activities. Is to present cash inflow and outflow for the reporting period to reader of the report. These inflows and outflows are further classified into operating investing and financing activities.

\*Conventions of financial management with examples.

-Consistency

Description

The concept of consistency means that accounting methods once adopted must be applied consistently in furture. Also same methods and techniques must be used to similar situation.

Example

It’s a tuck shop dealing with brad, it use fifo method on stock valuation in respect of bread.

-Going concern

Description

It implies the business entity will continues its operations in the furture and will not be closed, or forced to discontinue due to any reason.

Example

The conputation of depreciation on the basis of the expected economic life of fixed assets. Ratherthan their current market values.

-Prudence

Description

The concept advises that the final account of the company must always show caution while reporting any figures specifically impacting the income and expenses.

Example

The provision of bad debt is reported in the receivables section of current assets and is deducted from the final figure of debtors and receivables. The provision does not show the debtors that have a resulted as bad debts rather it shows the debtors that may end up as bad debts based on their trading history with company.

Realisation

Prudence

Description

This principle guides that the profit should be realized when the goods are transferred to the layer. According to this concept revenue should be recognized when goods are sold or services are rendered. Wheather cash has been received or not .

Example

If bread is sold for R20 to Mr V, the later agrees on the proposal that goods would be transferred after 15 minutes .

Disclosure

Description

Is the accounting principles that requires an entity to disclosure on necessary information in it is financial statements and other related signification. This is to ensure that the uses of financial information are not mislead by the lack of information.

Example

The company might lose large contract with its customers to its competitors. And subsequently loss of contract could turn the entity in to bankrupty.