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**MODULE 2 ASSIGNMENTs.**

What are operating and non-operating profits?

Operation profits are profits from business operations such as gross profits less or minus operating expenses before deduction of interest and taxes while non operating profits are profits or incomes such as gains or losses from sources not related to the typical activites of the business or organization. Examples of non operating profits are gains or lossess from investment, property or asset sales and dividents incomes.

2) What do you understand by “Grouping” and “Marshalling” of assets and liabilities?

The term Grouping and marshalling of assets and liabilities refers to process arranging assets liabilities in a certain chronogical order in the balance sheet. This means that in the balance sheeet , items of similar nature are put together under common heading.Eg Fixed assets are put together, current assets, short term liabilities, long term liabilities and capital are arranged in that way according to their similarity in nature in the balance sheet.

3) Write short notes on the following:

a) Outstanding of Expenses.

These are expenses which have been incurred during the ccurrent accounting period and due to be paid, however, the payment is not made and such items are to be treated as payable for business. Eg outstanding salary and wages, outstanding rent and subsciption.

b) Accrued Incomes.

These are incomes which have been earned but not yet received. Therefore; accrued incomes must be recognized in the accounting period in which it arises rather than in the subsequent period in which it will be received.

c) Intangible Assets

These are assets that lack pysical substance. These assets are usually very hard to evaluate. Examples of these assets are goodwill, Franchise Agreement, patents, copyrights and trade marks.

d) Fictitious Assets

These are assets created by an accounting entry and included under assets in the balance sheet that has no tangible existence but represent actual cash expendituer. These are written off as soon as possible against the firm,s earnings. Eg profits and losses, advertisement expenses and preiminary expenses.

e) Cost of Conversion

This refers to the term used in cost accounting that reprsents the combination of dirrect labourcost and manufacturing overhead costs. Dirrect labour costs and equipment depreciation.

f) Cost of Goods Sold

This refers to dirrect costs attributed to the production of goods sold in a company. This amount includes the costs of materials used in creating the goods along with the dirrect labour used to produce the goods.

g) Direct vs. Indirect Expenses

Direct costs are costs incurred while manufacturing the main product or service of the company.They become part of total costs of goods or services sold. Dircct labour, dirrect materials, commissions, piece rate wages and manufacturing supplies are dirrect costs while production supervision salaries, quality control costs, insurance and depreciation are indirrect costs.

What are the objectives of Accounting?

According to the Committee on Termology of America Institute of Certified Public Accountant AICPA, accounting is defined as the art of recordig, classifying and sumarizing in a significant manner and in terms of money, transactions and events which are in part at least of financial charater and interpreting the results thereof. The objectives of accounting:

To keep systematic records of business, accounting keeps systematic records of all finacial transations like purchase and sales of goods, cash reciepts and cash payment etc. It is used for recoding assets and liabilities of a business.

To ascertain profit and loss of the business, by keeping a proper record of revenue expenses of a business for a particular period, it helps in ascertaining the profit or loss of the business through the preparation of profit and loss account.

To ascertain the financial postion of business; the business is also interested to know the financial position of his businesss apart from operating results of the business during a particular period.

To provide accounting information to interested parties; apart from the owners there are various parties who are interested in accounting information. These are bankers, creditors, tax authorities and prospective investors.

Name the different parties interested in accounting

Information and state why they want it.

The different parties interested in accounting information and why they want it are:

* Owners or shareholders; these are the real owners of the company because they contribute the required capital and take risk of the business. They are interested to know the results of operations and financial position of a company or organization.
* Prospective investors; these are persons who interested in buying share of accompany or who want to advance money to the company would like to know how safe and rewarding the investments already made.
* Lenders; when business is going on, requires more funds. These funds are usually provided by bankers and other money lenders. By lending the money they like to know about the solvency of enterprise so as to satisfy themselves that their money will be safe and repayments will be made on time.
* Managers: accounting information is very much useful to managers. It helps them to plan, control and evaluate all business activities. They also need such information for making various decisions relating to the business.
* Government: The government may be interested in accounting of a business on account of taxation, labour and corporate laws.
* Employees: The employees of enterprises are interested in knowing the state of affairs of the organization in which they are working so as to know how safe their interests are in the organization.
* Researchers: The accounting information is of important value to researchers undertaking research in accounting theory and practices.
* Citizens: An ordinary citizen as a voter tax payer may be interested to know the accounting information to measure the performances of Government Company or public utility concern like banks, gas, transport, electricity companies etc.

4) Briefly explain the accounting concepts which guide the accountant at the recording stage.

Accounting concepts are defined as rules of actions or conducts which are adopted by accountants universally while recording accounting transactions. The accounting concepts which guide the accountants at recording stage are:

Business entity concept: According to this business is treated as a separate entity from its owners. Business transactions and business property are different from personal transactions and personal property.

Money measurement concept: This concept states that for every transaction made, has to be expressed in monetary terms. For examples, in India, it is done in terms of Rapees and in USA it is done in terms of US dollars so on.

Objective Evidence concept: This refers to being from bias or from subjectivity. Therefore, accounting transactions should be supported by evidenced documents such as invoices, receipts and cash memos etc.

History record concept: This concept states that we record only those transactions which have actually taken place in business during a particular period of time and not those transactions which may take place in future.

Cost concept: Under this concept, fixed assets are recorded in the books of account at the price at which they are acquired.

Dual Aspect concept: This concept states that for every transaction that takes place, there are always two aspects, the debit entry, credit entry or giving or receiving aspects.

5) What do you understand by Dual Aspect Concept?

The term dual aspect concept refers to process in which transactions are recorded twice. This means that there is giving and receiving sides for every transaction. This concept observes the principle of double entry system of recording transactions.

Explain the accounting implications.

According to MA Fekrat 1998, multinationality, the financial accounting implications assert that US and International accounting Standards differ in the interpretation by different companies. This predicts that standards will be forced on accountants by markets.

6) Explain the role of Management Accountant in a modern business organization.

The role of management accountant is perform a series tasks to ensure their company’s financial security handling essentially all financial matters and this helps to drive the business’s overall management and strategy. The role of management accountant in modern business is:

Financial Data management; one of the primary roles of accountant usually involves the collection and maintenance of financial data as it relates to company or firm.

Analysis and advice; as analyists, accountant may perform certain types of analysis using financial data that is used to assist in decision making in business.

Financial report preparation; management accountant typically prepares statement that may inclde monthly and annual accounts based upon the financial information that is complied and analysed.

Regulatory and reporting compliance; an accountant may also be responsible for ensuring that all financial reporting deadlines are met internally extenally.

External business affiliation; oftenly, accountants must work with financial professionals from the four major fields of industry such as public, management, internal auditing and government accounting.

7) What are the accounting concepts to be observed at the reporting stage? Explain any two in

Detail. A ccounting concepts are postulates or conventions that observed by accountants when dealing with financial transactions. Any two accounting concepts to be observed at reporting stage are:

Consistency concept; the principle of consistency means that accountantshould be consistent during reporting certain statements. It means that there should not be a change in accounting methods once used from year to year.

Matching concept; this is based on accounting period concept. This concept is also called matching of costs against revenues concept. Therefore, to ascetain profit made by the business during particular period, the expenses incurred in accounting year should be matched with the revenues earned during that period.

8) Discuss in brief the basic accounting concepts and fundamental accounting assumptions.

Fundamental accounting assumptions are accounting concepts that have been considered and followed while recording financial information. The basic accounting concepts are:

Going concern; this means that the life span of a bsiness is defined.

Consistency concepts; this means once accounting method is used then it should be maintained.

Money measurement concept; this states that all the transactions or financial dealings should be recorded in monetary form.

9) Why do accounting practices be standardized?

There are some basic reasons as to why some countries do standardize accounting practices as follow;

Individual transanctions; these transactions such as approval of payables, issuance of invoice or posting of a cash reciept.

Batch transactions; these occure when an accounting depatrment processes multiple transactions as a group such as payroll and checkruns.

Data management; which occure simultaneous with individual and batch transactions which include updating general ledger accounts, adding new vendors,customers or employees’s master file. The order to maximize efficiently and accuracy, all of these processes require accounting practices to be standardized.

What progress has been made in India regarding standardization of accounting?

The progress that has been made in India regarding standardization of accounting practices is;

The Institution of Charterd Accountants of India ICAI in 2006 initiated the process of shifting towards the internal financial reporting standards IFRS. This body issued 32 accounting standards to be observed by both private and public institutions for accounting reporting.

10) Is it possible to give a true and fair view of a company’s position using accounting?

information? Explain.

Yes, it is possible to give a true and fair view of a company’s position using accounting information due to the following reasons;

Managerial decsion making; management is continuously confronted with the need to make decisions. Some of these decisions may have immediate effect while the others have in the long run.Eg price of a product, buying the product or drop it out and expanding the areas operations.

Managerial planning, control and internal perfomance evaluation; managerial accounting plays an important role in the planing and control. By assisting the management in the decision making process, infromation is provided for establishing the standard.

11) Explain the following:

i) Accounting equation.

This is the equation which expersses the equivalence of two exprssions of assets and liabilities. This states that the total assets will be equal to total liabilities or claims.

ii) Convention of materiality

This means that relevant and material information must be disclosed.

American Accounting Associationdefines the term materiality as an item that regarded as material if there is reason to believe that knowledge of it would influence the decisions of infromed investors.

iii) Accounting standards

These are generally accepted accounting principles which provide the basis for accounting policies and for preparation of financial statements.

v) Accounting process

This is a process which consists of five stages;

Recording the transaction when it occurs in a business.

Classifying the transaction

Summarzing the transaction when it is bulky.

Interpreting the transaction or results to make a decision.

v) Branches of accounting.

There mainly three branches of accounting namly;

Financial accounting; this is a recording, classifying and sumarzing the transaction in a financial character.

Cost accounting; this is a process of accounting for costs.It includes the accounting proceedures relating to recording of all incomes and expenditure.

Management accounting; this is a process of identifying, measurement,accumulation, analysis, preparation and interpretation of all financial information used by management to plan, evaulate and control within an organisation and assume appropriate use of and accountability for it resouces.

1. Accounting a source of financial information.

According to American Accountin Association AAA defines accounting as a source of financial information as the process of identitying, measuring and commuicating economic information to permit informed judgements and decisions by users information.