TASK – 1

Accounting policies refers to a particular type of principle and strategy which are applied for the purpose of creating financial statements. It is a range of standards which forms the major basis for preparing the financial statements. These standards govern the applications of concepts like deprecation for non-current assets, calculation of Goodwill, calculation of research and development costs, calculation of inventory and while consolidating the parent and subsidiary's financial statements. Usually, the application of these policies will differ from one organization to another. However, all these policies belong to IFRS and generally accepted accounting principles. Since, the framework which governs these policies are flexible in nature, a company can opt any procedure from the given framework which suits their organization and produces efficient results. For instance, IAS 16 revolves around the plant and equipment. The two main criteria of IAS 16 is that the items belonging to property and plant can be recognized only if it assured that the benefits attached to the assets will arise in the future at a defined period of time and the cost of that particular item can be calculated in an efficient manner. Accounting estimates revolves around the calculation and estimation of this definite period of time. For example, in scenario B, the items office equipment and office building has been recognized in the financial statements only because it satisfies the above stated criteria. Also, the methodology of depreciation is different for both the assets. The company has adopted straight line methodology for one asset and diminishing methodology for another assets. The company is obliged to apply the opted methodologies throughout the life time of the business for the relevant classes of assets. If they want to change the methodology for any one class of assets then they have to recognize the effect of change and the reasons for the same in their annual report.

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Historical cost is the original monetary value of an item. The accounting method of historical cost is a technique used in balance sheet that values an asset acquisition or disposal, revenue or expenditure in its original cost or the real value at the time of acquisition. It is also called as cost accounting as it is the cost or the value of that economic item at the time it was incurred or at the time of the transaction.

The historical cost method helps to distinguish the original cost from the replacement cost or current cost or inflation or deflation adjusted cost.

Though historical cost accounts are still used in most of the accounting systems as it's advantageous in few ways, it has its amount of disadvantages. Most of the advantages of this accounting serves as major disadvantages.

Balance sheet will have both monetary and non-monetary items. While the monetary items are entered at current rates, non-monetary items are made at historical cost. The current value of the assets of the business is not indicated in this method. Financial statements under this method are a statement of historical facts. The changes in the price level are not updated. This makes it difficult in functioning of any organization as the financial position of the company is understated and difficult to obtain.

Historical cost accounts do not record the opportunity costs of the use of older assets, particularly property which may be recorded at a value based on costs incurred many years ago.

The fixed asset values are unrealistic as there is no consideration of price level changes.

Profits are overstated during inflation as the revenues are entered at current values where as expenses are made at historical cost.

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The loss of monetary assets due to inflation is not measured in this method.

Holding profits and losses must be differentiated from operating profit and losses in order find the real operating performance. But in historical cost method, the holding gains and losses could be mixed with operating gains and losses.Insufficient Provision for Depreciation

.The historical accounting method is also known as cost accounting method. In the historical method, the cost of the items in the balance sheet can be easily determined from the invoice. This method leads to stable and nonvolatile pricing. The historical cost method also helps in enhancing the comparability. As mentioned earlier, profit values are unrealistically high which may result in too high dividends in actual terms. The merit of enhancing the comparability is impossible after a period of time. The shareholders or debtors or users are more interested in the current values rather than the historic one, example of security on loans

AASB 18

It is the time period in which the revenue should be recognized and identified as the major basis in this standard. It is recognized when there is an assurance that the company will have an increase in economic benefits in the future due to this transaction. This provisional standard explains the situations in which this standard should be applied.

Scope:-

This accounting standard is used when there is a need to include the revenue in the books of accounts when the income is generated from selling goods, providing services and earnings through dividends and interest from other companies. The difference in this standard compared to other standard is that this does not deal with lease agreements, interest through investment adopted by equity method, insurance contracts, amendments in the assets or liabilities when sold,

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amendments in presence of current assets and amendments in biological items, recognizing the production via agriculture in the initial stage and extracting mineral and other related items.

Under this standard, revenue is identified and adopted to each transaction which increases the complexity level. In some transactions, it has to be applicable for all the items. If the ownership is not transferred to the buyers then it is considered that the revenue is not recognized. Under this standard, revenue is not recognized when the organization is not assured that the revenue will flow to entity. There are some cases, where the organization is not sure until they receive it. Revenue and expenses are recorded at the same degree when the transaction is recognized. Sometimes the expenses cannot be measured reliably like shipment related duties. This creates a confusion in recognizing revenue as revenue can only be recognized when expenses are allocated. When the revenue can be recognized at every aspect of the service rendered, then the revenue will be recorded in the stage of completion . This type of revenue recognition is known as percentage by completion approach. The company can make accurate estimates under these conditions:-

- The rights and liabilities of all the parties should be performed on time according to the contract.
- The accurate value of consideration transferred.
- The rules and conditions applicable for the performance of contract.

There are various methods to identify and recognize the last stage i.e. completion based on the scale & process of the transaction :-

- History of the tasks completed.
- The number of services performed compared to the standards.

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- Comparison of actual cost with standards. Cost incurred to the services provided are included in the actual cost.
- The prepayments and advances are not included.

When services are done at irregular intervals throughout the year, then revenue is recorded at a straight line basis. However, with correct disclosures if any other method provides better efficiency then that should be adopted. The entity is required to disclose the following aspects of the financial report :-

- The accounting procedures and standards followed in respect to recognizing revenue
- The income generated through selling of goods, providing services, interest and dividends.
- The amount of income generated through exchange of goods and services.

The main aim of AASB 15 is to convey the scale, nature, value and uncertain aspects of the revenue generated from the customer in a contract. This regulation is applicable to all the customers in contracts excluding the following situations:-

- Lease contracts
- Insurance contracts
- Aspects of financial instruments.
- Non-monetary exchanges.

These are the standards which has to be met for identifying the contract under recognizing revenue:-

- All the parties in the contract have accepted to the conditions and the performance.
- The rights and duties of every party must be clearly explained

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- The mode of payment must be specified.
- There is a benefit arising from this contract
- The company will receive consideration on the condition of performing the subject matter of the contract.

If the company has not promised to perform the subject matter of the contract or there is exchange of consideration then it cannot be considered as a contract with customers.

This has a provision for combining all the contracts with the particular customer if the time is more or less the same. The conditions which should be met are:-

- All the contracts should have a similar aim
- If one or more contracts is related for checking the consideration or price.
- It is a single performance aspect of obligation.

A contract modification is an amendment in the objective or the subject matter of the contract with the approval of all the parties. It also amends the duties and liabilities of all the parties of the contract. It could be trough actual existence in writing, approval through communication or implied. The company's main responsibility is to assess the performance obligation i.e. goods in bulk or single good and single service or series of services. A contract with customer clearly states the performance obligation which must be initiated. A company shall recognize it as a contract modification if the objective of the contract increases due to addition of all distinct goods. If the price of the contract has shown a drastic increase due to stand alone selling price then it can be included in the amendment. The various parts of a contract are:-

- Selling of goods

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- Resale of those goods
- Transfer of rights through resale
- Performance of the subject matter of the contract
- Allocating rights and duties to various parties
- Allocating license

A company has to identify a particular point of time in which the revenue has been recognized if it is not satisfied over a period of time. These are the aspects which should be considered:-

- The entity has the right on the ownership of the asset
- There is a legal title to the asset.
- There is a transfer in the physical existence.
- The transfer of risks and liabilities has occurred.
- The acceptance and transfer

The entity will allocate the revenue according to the period of time in which performance obligation has been satisfied. The performance in transfer of consideration is an important key over here.

These are the methods for measuring progress:-

- Assessment of input and output methods.
- Not including the goods which will not be transferred.
- Monitoring the progress methods to represent in the outcome.

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TASK – 2

It is quite obvious that the company has to prepare various financial records and ledgers to prepare the financial statements. Books of prime entry is where all the transactions are initially recorded. In scenario A, when the company purchased an office equipment for 75000 OMR then the entry which would have been recorded in books of prime entry will be: -

Office equipment A/C…………………Dr

To Star Electronics A/C……………………..Cr

Hence, a separate ledger for star electronics will be created as well. The books of creditors will involve all the goods which are purchased on credit for the purpose of sale. The books of debtors will include the names of all those customers who have purchased the goods from the organization and has promised to pay the amount in the later date.

TASK - 3

The main purpose of financial accounting is to provide considerable data and information to all the stake holders so that they can make the right decision. For instance, the shareholders require information about the consistency of the profit levels. They won't invest in the company if the company is running in a loss. Debtors require financial information about the credit period which the company offers, reasonable rates and the quality of the products. Creditors require financial information for an assurance which implies that the company will be able to pay back the amount

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borrowed within stipulated time. Government requires financial information about the revenues earned by the company for the purpose of tax calculations. Hence, every user's requirements revolve around the profitability and liquidity levels which only the data from financial accounting can provide.

TASK – 4

- Comparability helps the various stakeholders of financial statements to understand between the homogenous aspects of different accounts/items/figures and the variance among different items. The stake holders' objective is emphasized when the variance and differences can be compared with another company of a same nature or with the different period of the same company. There is a wrong assumption among the majority stating that the aspects of consistency and comparability are alike. However, consistency means adopting the same methods for the homogenous items to initiate the comparison with the same or different periods. It is necessary for the company to disclose the related accounting procedures and regulations which will help the stakeholders to make accurate comparisons of different items for different degrees of time. If a company amends the accounting policies then the amendment should be instigated in a retrospective approach. It will help the stakeholders to identify and understand the financial results in a better way. However, comparability is achieved only with the help of the six features of consistency. Four features are used for the same accounting year. Two features are used for different accounting periods. These are the features which must be considered while formulating an opinion about comparisons and variances :-

    1. The nature of the accounting standards and regulations.
    2. The structure of the organization's report.

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3. The reason behind the formulation of different events, transactions.
4. Various comparability items like ratios

- Verifiability helps the stakeholders to understand the financial and economic feasibility of different items. It will enhance the trust in the stake holders from the view of faithful representation. It frames the opinion of the existence of negligibility of errors in the financial statements. It is necessary for the company to increase the importance on the financial items which emphasizes faithful representation. It is impossible for the company to make the entire report without bias as the business conditions are changing continuously with high degree of uncertain elements. It will help the stake holders to understand the different approaches adopted for measurements. The auditor will easily detect the unintentional errors when the disclosures in financial statements are clearly explained. It also links with the fact that the aim of the company is to not emphasis only on the optimistic events and ignores the pessimistic events. The overall condition is explained with various factors which influences the financial condition of the company.
- Timeliness refers to the delivery of financial statements to the stakeholders on time so that the decisions can be taken effectively and efficiently. This is an important factor which decides the degree of interest level for various stakeholders. If the financial reports are not delivered on time, then the company has to lose the benefit of the influence of various stakeholders. It is obvious that every aspect of a transaction cannot be published within time. But important aspects must be published which enables better understanding to the users. The best approach is to considers the needs of various stake holder

Understandability helps the various stake holders of financial statements to take better decisions for investment. Classification and using various financial degrees makes it easier for the users to

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understand the financial statements. Financial reporting is created for those stakeholders who monitor, review and assess the financial and economic feasibility of the business. Some aspects of the financial statement's inherent conundrum. Only those aspects of the difficult data which is easier to understand must be included in the annual report. The annual report should not exclude any important transaction which would influence the financial stability of the company. For instance, it's obvious for the company to include all lease periods while disclosing lease liability. It is not advisable for the company to disclose excessive amount of information than required. It will eventually reduce the interest of the stake holders. Inclusion of references other than many disclosures is considered to be the best opinion. Inclusion of mathematical representations like charts for enhancing better understanding among the users is necessary. The users must be able to identify notes to references and understand it in an easier way. It will not provide any benefit to the company if the transactions are difficult to understand. These characters decide the quality of financial statements which will be represented to the stakeholders of financial statements.

TASK – 5

(i) Depreciation majorly revolves around the matching principle. It is quite obvious that the depreciation reflects the wear and tear of the machinery, etc., But matching principle revolves around the concept that every revenue is matched/nullified with its expenses. Hence, the cost of the machinery is spread through out its life in the form of depreciation and is matched with the benefits which flows from the asset over that period of time.

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(ii) Straight line method: -

Depreciation for one year = 200,000-20,000/5 = 36000 OMR

Hence, depreciation for 3 years = 36000*3 = 108,000

Reducing balance method: -

Depreciation for 1st year = 30,000

Depreciation for 2nd year = 25,500

Depreciation for 3rd year = 26,175

TASK – 6

The capital expenses revolve around the expenses incurred in obtaining capital assets /non-current assets which improves the producing capacity of the business. Purchasing a office machinery, equipment is a capital expenditure. Capital expenses are capital in nature. Hence, those expenses are not incurred in income statement. Revenue expenditure are revenue in nature. It is directly connected with the production and sales of the business. Rent, salary, power, etc., are revenue expenditures. These are the expenses which are required to be incurred on a regular basis for running the business in an efficient manner. Hence, Capital expenses are related with fixed capital management and working capital are related with working capital management.

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TASK - 7

INCOME STATEMENT

PARTICULARS	NOTE	AMOUNT (in OMR)	AMOUNT(in OMR)
REVENUES			
Sales			800,000
EXPENSES			
Cost of goods sold	1	545000	
Depreciation Expenses	2	63250	
Advertisement Expense		14000	
Interest on Loan		15000	
Salaries	3	101000	
Rent	4	18000	
Bad Debts		1000	
Utility bill expense		8500	
Other administrative expense		20400	-786150
Net income			13850

STATEMENT OF FINANCIAL POSITION

Assets			
Non - current assets			
Office building at cost		500,000	
Accumulated depreciation for office building	5	-75000	425000
Office equipment at cost		300,000	
Accumulated depreciation for office equipment	6	-83250	216,750
Current assets			
Inventories		90000	
Trade Receivables		50000	

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Cash in hand	20200	
Bank Balance	32600	
Prepaid Rent	18000	210,800
Total Assets		852550
Equity and liabilities		
Equity		
Capital balance	655400	
Add: Net profit for the year	13850	
Less: Drawings	-10000	659250
Non-current liabilities		
10% Long term loan		150,000
Current liabilities		
Trade Payables	30000	
Outstanding Salaries	13,300	43,300
Total Equity and Liabilities		852550

NOTES TO ACCOUNTS

NOTE 1

Cost of goods sold = Opening stock + purchases – closing stock

C.G.S = 35000 + 600000 – 90000 = 545000

NOTE 2

Depreciation = 25000 + 38250 = 63250

NOTE 3

Salaries include outstanding salary of 13,300.

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NOTE 4

Rent does not include the prepaid rent of 18000

NOTE 5

Accumulated depreciation = 50000 + 25000 = 75000

NOTE 6

Accumulated depreciation = 45000 + 38250 = 83250

APPROPRIATION ACCOUNT	Hasmin	Salman	Zayed	Total value
Profit for the year				90000
Interest on capital	14400	9000	7200	30600
Salaries		10,000	10,000	20,000
Interest on drawings	1500	1200	1000	3700
Residual profit	17240	17240	8620	43100

Dr.	Cr.
	90000
30600	
20000	
	3700
RESIDUAL PROFIT:-	
43100	

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CAPITAL ACCOUNT – HASMIN

Particulars	Amount	Particulars	Amount
To balance c/d	160000	By balance b/d	160000
	160,000		160,000

CAPITAL ACCOUNT – SALMAN

Particulars	Amount	Particulars	Amount
To balance c/d	100,000	By balance b/d	100000
	100,000		100000

CAPITAL ACCOUNT – ZAYED

Particulars	Amount	Particulars	Amount
To balance c/d	80,000	By balance b/d	80,000

80,00080000

HASMIN CURRENT A/C

PARTICULARS	DR	PARTICULARS	CR
To drawings	30000	By balance c/d	50,000
To interest on drawings	1500	By interest on capital	14400
		By salary	
To balance c/d	50140	By profit and loss appropriation	17240
	81640		81640

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SALMAN CURRENT A/C

PARTICULARS	DR	PARTICULARS	CR
To balance b/d	8000	By interest on capital	9000
To interest on drawings	1200	By salaries	10000
To drawings	24000	By profit and loss appropriation	17240
To Balance c/d	3040		
	36240		36240

ZAYED CURRENT A/C

PARTICULARS	DR	PARTICULARS	CR
		By balance b/d	25000
		By interest on capital	7200
To interest on drawings	1000	By salaries	10000
To drawings	20000	By profit and loss appropriation	8620
To Balance c/d	29820		
	50820		50820

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